Dr B C Roy

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India and I M F

IT would be idle to deny that there is an under-current of anxiety in the public mind about our position vis-a-vis the International Monetary Fund in particular and the members of the Aid-India Club in general. By appearing to hesitate to approach the Fund until now for credit, New Delhi has, unintentionally perhaps, given cause for anxiety. The recent changes in monetary policy do have the appearance of further trimming the strength of our need for assistance; following, as they do, stringent restrictions imposed on foreign travel, further tightening of the restrictions on foreign studies, and so on. And further cuts — all *ad hoc* — can be a little bit discriminating on maintenance imports which have already been cut down to bare bones. All these have an appearance of advertising to the outside world that our situation is very desperate and that we are doing all that we can so that others may not question our *bona fides*.

There is no necessity, however, or there should not be any, for window dressing if the object is to strengthen our case before the Fund. Under the Articles of the Fund, India can draw to the maximum of $ 677.5 million which is equal to her full quota of $ 600 million plus her gold subscription of $ 77.5 million. India has already drawn $ 250 million which means that she has exhausted her gold tranche and the first credit tranche (25 per cent of her quota) and a part of the second credit tranche. If allowance is made for service charges of about $ 17 million, India should still be entitled to the balance of the second tranche, viz another instalment of $ 110 million, provided she has sufficient grounds which, of course, she has. It is only when India reaches the third tranche, that is, if she wants more than $ 110 million, that she enters the delicate area of the Fund's discretion. The Fund may waive any of the conditions prescribed in its Articles for borrowing beyond the second tranche; it may waive, but it may ask questions and impose conditions regarding monetary and fiscal policies.

It is all left to the discretion of the Fund and there is nothing in the Articles, of course, to prevent India from getting a further assistance of $ 300 million, that is, to the full extent of her quota.

India's hesitation, if any, to approach the Fund for this entire amount of $ 410 million to which she is entitled is, nevertheless, not difficult to understand. The Fund was set up for most laudable purposes—among others, to contribute "to the development of the productive resources of all members as primary objective of economic policy". It is precisely on such development that India has bent all her energies. The full development of her productive resources requires considerable foreign aid. In the present international economic situation with stagnant or very slowly rising demand for agricultural and primary or semi-processed goods, it is not possible for India to make a big break-through in the export field until the programme of industrialisation which she has launched on can be pushed through to a successful conclusion. This is a problem common to all developing countries, the problem of emerging Japans, which is knocking at the doors of the West for a solution. If the Monetary Fund has to carry out the

purposes for which it was established, it has to modify its Articles and also to strengthen its resources for the kind of assistance which may be called balance of payments support until the developing countries have finally emerged. India's balance of payments problems are not of the seasonal and cyclical variety which is usually narrowly interpreted as limiting the sphere of the Fund's assistance.

Not that the Fund has not changed with the times. That it has, and in a dramatic manner too, when, after the successful reconstruction of Europe and return of international stability, a new threat appeared of impairment of the international monetary system, in the shape of violent movements of short-term capital among the leading financial centres. The Fund was not wanting in boldness and energy in rising to the occasion and in evolving arrangements by which it strengthened itself to meet this danger. It secured the general agreement of the major industrial countries to lend to the Fund up to the equivalent of $ 6 billion, should this be necessary to forestall or cope with a threat of impairment of the international monetary system.

The special balance of payments problem which must afflict all developing countries, however, does not yet seem to have registered with the Fund authorities. Their conception and attitude, we are naturally afraid, and with good reason too, are unduly narrow and short-sighted. The Fund is often suspected of being under the blinkers of the monetary problems and policies of the developed countries. It is high time that it were made to realise much more clearly than it has done so far that this world organisation will cease to be effective and defeat the purpose for which it was set up if it continues to fix its gaze on the developed West and to ignore or remain unaware of the legitimate demands of the member countries which are doing their best to attain the very objectives which are enshrined in the first Article of the Fund which defines its purpose.

The task before India is clear: to take her stand as a developing country and press her legitimate demand and not be apologetic or hesitant about it.

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Coordination in Air

THE Indian Airlines Corporation has produced a good report. It will be given kudos for 'envisaging' operating profits of Rs 81 lakhs in 1962-63 and for closing the last financial year with a loss lower than had been expected a year ago. It is not, however, the report of a business concern. Set out in the proper style of Government budgets, the IAC has made revenue estimates for the coming year, as also estimates of expenditure along with revised estimates of both for the year that has closed. If the expectations are realised, coming in the wake of two successive years of operational losses, the performance of the IAC will naturally be played up and any one who has the temerity to suggest that with a completely sheltered market and spiralling demand for air travel, long queues on the waiting list, and rising air fares, it would be difficult for an undertaking which had the technical competence to keep its planes flying not to make profits. In fact, such criticism will be resented as being too carping and downright unfair.

Now an air service cannot make profits unless its aircraft is able to get sufficient payload and idle capacity is brought down below a certain point. Given technical efficiency in running services, the rest depends on the load factor which is another way of saying on the amount of paying traffic which the service is able to get. It is not only higher fares, it will be readily conceded, which are reflected in the financial results. Fuller utilisation of capacity is also essential and this has been achieved in large measure.

That little idle capacity is left led to a significant change in the Government's policy in regard to nationalised airlines. After the airlines were nationalised, no private air operator was allowed to run any scheduled service. All these years those operators who still wanted to remain in business after the takeover could do so only by running chartered flights, mostly cargo. The relaxation was perhaps warranted by the sheer economics of it as brought out sharply by the experience of the nationalised operation of the regular air routes. IAC could not serve them all or take up all the new routes for which there was a felt need for air transport. So this firm principle of public sector operation, after being adhered to rigidly all these years, was finally relaxed a little and the Act was amended accordingly. This, however, did not come with the grace with which policies are expected to be modified in the light of experience, as they should be. The change first came through the backdoor, but the Transport Ministry found itself in such hot waters after licensing a private operator on a scheduled service, for reasons wholly unconcerned with the economics or rationale of socialised aviation that it was forced to retract its steps and legalise the situation. This it did by throwing open new airlines in which the IAC would not be interested to such private operators as were prepared to come in. Thus, a sorry interlude in the history of nationalised aviation came to a close. But, among other things, it also clearly showed the mounting pressure of demand for air travel and the inability of the IAC to cope with it which, incidentally, automatically ensures fuller utilisation of aircraft which it is in a position to deploy on the various routes.

If the modification has been made in the Act and new routes not wanted by IAC thrown open to private operators, what would one say of the obstinate and wholly irrational opposition of the IAC, upheld by the Ministry of Transport, to rationalising the operations of the two nationalised undertakings in order to secure optimal utilisation of capacity? Granted all the advantages of having two separate statutory corporations to run the international and domestic air lines, why should these twins not be on speaking terms, so to say, after so many years of working? There is much talk of co-ordination in the air, but like charity, should it not begin at home, in the very departments of Government which are in some respects the worst offenders? The single strongest argument in favour of nationalisation of air services was the economies and advantages of unified operation. This is not in question. In fact, it can hardly be disputed and this basic principle of rational operation is not violated but strengthened by allowing private operators to fill in the gaps.

But why should the IAC persist in its dog in the manger policy by refusing the Air India to lift even such passengers on the domestic routes as the IAC, because of its shortage of aircraft, is quite unable to carry? Let us forget for the moment what the travelling public suffers in consequence. On the domestic routes, all the Air India planes fly with half or even less of the load which they can conveniently carry at no additional cost. Day after day, booking is denied to a large number of passengers on the trunk routes. Incidentally, this enables the IAC to penalise and profiteer on those who are unable to utilise the seats they have booked and paid for. That is a trifling affair (more of which later) compared to the wastage of capacity and under-utilisation of capital which is implicit in forcing the Boeings with their huge carrying capacity and even the few remaining Constellations on the international services to forego a paying load which they could easily carry.

People naturally look askance at non-utilisation of capacity in industry which has been built up at heavy capital and foreign exchange cost, in a country desperately short of capital and foreign exchange. All the factors which account for such unutilised capacity are not easily removable. There are transport bottlenecks which, in spite of best efforts, cannot be broken straightaway, shortages of imported raw material which cannot be met, labour troubles, inefficiency of management, inadequacy in demand, unbalanced or obsolete plants, none readily remediable. But what holds up fuller utilisation of aircraft capacity in our two nationalised undertakings? Has the Communications Ministry or for that matter anybody in the Government or any of the watchdogs of the nation in Parliament taken notice of and given any thought to the deliberate, persistent and wasteful under-utilisation of capacity in our colossal foreign exchange costing Air-India aircraft on the domestic lap of their flights? This is something which calls for immediate action and what is holding up action is just sheer cussedness on the part of the IAC, aided and abetted by the utter incapacity and thoughtlessness on the part of the Ministry of Communications.

It it not ironical that the profits envisaged by the IAC for the current year should be based on heavy capital investment of Rs 9 crores for buying jet planes for the domestic airlines while bigger and better jets of its sister concern should fly half or more empty on the major domestic routes?

A small and neglected offshoot of excess demand is the impunity with which I A C penalises air passengers who are unable to avail of their bookings and yet are in no position to cancel their reservation 24 hours before the 'scheduled time' of the flight. They have to forego 50 per cent of the fare if they cancel their reservation 12 hours before the scheduled time of flight, any cancellation within 12 hours means that the entire fare paid is forfeited.

No one has yet questioned the propriety or challenged the legality of this fantastic regulation. Any rules may be framed by the I A C but like the bye-laws of the railways, surely they would not necessarily be upheld by the courts? To penalise passengers to the full extent of fares offends commonsense. And certainly in those cases — and they are today the most common—where the I A C sells chance tickets to others and where, therefore the seats booked, paid for but not utilised, do not go empty and involve the IAC in no loss, the legality of the rules cannot go unchallenged. The I A C would be fully justified in demanding to be compensated for any extra labour involved by deducting a reasonable percentage from the fares when making a refund. The railways deduct no more than 10 per cent on a ticket which is surrendered well in time to ensure that the ticket was not actually used by the passenger concerned. Besides extra cost, there may be another element —the need for some disincentive against passengers changing their mind too often or too thoughtlessly, by making them pay for this luxury as a deterrent. Couldn't the experience of the railways, another nationalised undertaking with much longer experience, be profitably drawn upon and deductions at a comparable, even at a slightly higher, rate made in the case of air tickets?

Mid-Year Special Number

The Mid-Year Special Number of *The Economic Weekly* will be out on July 21, 1962. It will be a 180-page issue bound in art cover and will be priced at Rs 3 per copy. Registration and postage charges will be Re 1.

The Special Number will be supplied free to subscribers. Agents are requested to place their orders in advance.

In view of the Special Number, there will be no issues on July 14 and 28.

A FERNANDES
Business Manager

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A Big Man Goes

NOT one, or almost no one, dies without putting out a candle in some heart. When on his 81st birthday last Sunday, Dr Bidhan Chandra Roy departed from the Bengal scene the loss, as a Calcutta daily aptly put it, was of a dimension — not merely of an outstanding personality, a considerable leader and a brilliant physician. It may be some time before his immediate mourners, the Bengalis, begin fully to realise the magnitude of their loss; to the rest of the country, which is not the richer because of the disappearance of Dr Roy, the realisation may be even more belated. Fifteen years ago, when almost every Indian was paying just tributes to Lord Mountbatten for his services to the people of this country, it was left to Chakravarti Rajagopalachariar to compliment the last Viceroy on his services to his own country and people. How came it, C R argued, that on the morrow of Independence the Indians and the British became so friendly — except for Lord Mountbatten? If West Bengal is the least intolerant of States, if Calcutta continues to be dominated by British and Marwari business with only occasional and harmless grunts and whimpers from Bengalis, well, it was largely Dr Roy's work.

Private gossip has it that Dr Roy was not very pleased when, on his replacement of Dr P C Ghosh as Chief Minister of West Bengal almost 14 years ago, a Calcutta newspaper wrote a leading article entitled "A Good Man Goes". Had not another good man, perhaps a better man, come in? This was the undying child in Dr Roy protesting. There is no universally acceptable definition of goodness; and it may be that, by fits and starts and in particular phases of his life, Dr Roy, like the rest of us, strove to be "good". That was not, almost certainly, his primary passion — as it was with Mahatma Gandhi, for instance. It is not by paying false tributes, just for the accident of his recent death, that we will honour Dr Roy. Let it be said, then, that, while the quality of his medical advice was almost invariably excellent, it was quantity that fascinated Dr Roy the more. That this is not said in derogation of the man will be clear from this writer's thesis that nobody begins to understand the problems of this country unless he gives pride of place to numbers and thinks in terms of quantity.

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Let it be said, too, that Dr Roy was no moralist. Is this another left-handed compliment to a man just dead? Quite the contrary. In this writer's view the curse of Indian political thinking through the ages has been its moral bias, that great obscurer of a clear vision. This is not a surrender to *Realpolitik*, far less a propitiation of cynicism. It is just that anyone who begins to improve the world without knowing the world as it is does the world more harm than good. In Dr Roy, politics was perhaps a continuation of medical practice by other means. Diagnosis was its basis; and he never forgot that, much like the human body, his country and his people were imperfect. He made concessions; he made compromises (sometimes with evil); and if on Sunday many in Calcutta were able to drink, in sorrow, a toast to the rounded life of Dr Roy, why, that was because of Dr Roy too. I am not being frivolous, for the fanatical-pursuit of Prohibition epitomises all that is worst in Indian political, social and economic thinking today. In that arid desert of barren orthodoxy and living in the past, West Bengal was a little oasis of sanity. All because of Dr Roy.

To paraphrase what Keynes said of Churchill: only he was great enough to have the great vices he had, only he was great enough to make the great mistakes he made. Here one must add a French proverb: he had not a defect to which was not attached an equally great virtue. As a doctor he earned prodigiously; he spent as generously. Earning and spending are not an economic activity alone; they represent deliberate choices guided by one's philosophy of life. Dr Roy was often criticised, rightly, for his superb indifference to audit objections; some 30,000 of them are believed to remain unanswered. Just like Dr Roy: he did not measure his "life with coffee spoons". Think, rather, of an enormous ladle. Some waste? Inevitably. But nobody is going to solve the problems of West Bengal with a coffee spoon; and long before the World Bank made the discovery Dr Roy had been telling everybody, New Delhi in particular, that Calcutta's problems were in a very real sense India's.

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The large industrial complex painfully coming up in Durgapur will perhaps one day bear Dr Bidhan Chandra Roy's name. He was among the not many politicians in India who could think in terms of an Indian Ruhr. He was justly criticised for his many expensive experiments which did not pull off. Deep sea fishing is a joke; the mention of an underground railway for Calcutta (or monorails) evokes laughter; and reclamation of the Salt Lake produces salty tears. Even this part of the ledger needs to be properly evaluated, for the things Dr Roy did not finish are precisely the things that will have to be accomplished some day — by, alas, somebody else — if West Bengal with Calcutta is not to die on its feet in our lifetime.

Dr Roy "thought big" because his vision of West Bengal was not that of a small State resigned to its smallness. Dr Roy was not one of those saints to whom the leadership of this country comes naturally, explaining its poverty which is often glorified. In this he was a total departure from the Indian tradition; and his acceptance of the machine was complete — which can be said for few Indians. In spite of the dams and factories going up here, there and everywhere, it is still far from certain that the Indian people will not again reject modernism, the machine and the scientific outlook. That day will see Dr Roy's second death, with perhaps not much left of India. It is no use lamenting deaths like Dr Roy's, without recognising that these people were ardent subverters of the Indian tradition, worshippers of things totally alien to the native ethos. Hard work such as Dr Roy did to the last of his days is almost an un-Indian activity; and it is an unflattering commentary on what is called the Indian heritage that the greatest Indians of our time — Nehru, Roy — are, in a very real sense, non-Indians except by birth.

— Flibbertigibbet

Weekly Notes

Dr B C Roy

Our Calcutta Correspondent writes:

ALTHOUGH Dr Roy had been ailing for a week, his death on July 1 came as a shock, made the more poignant by coinciding with his 81st birthday. Only on Friday he had presided over a Cabinet meeting; on Saturday he was still busy with State papers and was summoning officials and colleagues for discussions. On Sunday morning he was dissuaded with difficulty from meeting some of those who had come to convey birthday felicitations.

The milling crowds outside his Wellington Street residence on Sunday afternoon were indicative of the regard in which Dr Roy was held, even by those who frequently disagreed with him. As the Communist Party daily, *Swadhinata*, noted in an editorial, he had the sense of realism to rise above narrow party considerations to reach a compromise with political opponents when the State's interests so required.

Whatever might be the assessment of Dr Roy's role in the post-Independence history of West Bengal, no one can deny that he was one of the most forceful personalities in the country's political life. This was, in no small measure, a reflection of the eminence he had attained outside politics as an outstanding physician, an able administrator and an educationist. Partly it had also something to do with his age — he was, for instance, a friend of Pandit Motilal Nehru and was not beyond treating Jawahar in an avuncular fashion. There were remarkably few people in West Bengal whom he did not address with the familiar "thou".

Apart from his undoubted intellectual attainments, his self-confidence was buttressed by his remarkable, and almost legendary stamina. For years he slept no more than three or four hours, with the rest of the long waking day taken up by a consuming passion for work. His long hours at the Secretariat — he was there from 9 a m to 6 p m every day with only a short lunch break — must have been a trial to men much younger.

His towering build, his loud and resonant voice, his firm gait and sure grasp all conveyed a sense of power. Forthright and outspoken, sometimes uncomfortably so, Dr Roy remained to the very last a force to be reckoned with.

West Bengal Congress, like the party in any other State today, has its warring factions — the two major ones being headed by P C Sen, the senior-most Cabinet Minister who is also the Legislative Party's Deputy Leader, and by Atulya Ghosh, the P C C President. Higher political ambitions have undoubtedly stirred in their breasts but Dr Roy's stature ruled out altogether any overt bid. Atulya Ghosh made an attempt to enter the Assembly in the 1962 election but was firmly excluded by the High Command and told to take himself to the Lok Sabha. A straight fight between Sen and Ghosh is now quite on the cards though the situation is a little complicated by Union Law Minister Asoke Sen's reported keenness to come back to the State and make a separate bid for the West Bengal *gaddi*. Asoke Sen has no great party following but his strength lies in the backing he may be able to get from the High Command which is conscious of the need to find once again a good administrator to guide this troubled State.

As long as Dr Roy lived, no faction in the party had much of a chance—his imperious will prevailed in all matters. Hence, his ability to take an unpopular stand when he thought such a step was necessary. At the height of the agitation over the States' reorganisation, he and the late Dr Srikrishna Sinha, another father-figure who presided over Bihar's destinies, mooted a proposal for the merger of the two States — an impractical suggestion, but one that had a certain grandeur, recalling Churchill's plea for an Anglo-French union on the eve of France's collapse in World War II.

Dr Roy is no more. Uppermost in many minds now is the thought that no other leader will be able to press Bengal's case with the Centre with the force that Dr Roy could. This assumes of course that such pressure is, and will continue to be, necessary. Whatever the validity of this premise, a weak leadership will aggravate the sense of frustration and bitterness, not surprising in a State where population pressure, aggravated by refugee influx, has brought the economy to a breaking point. Bitterness may generate tensions within the State, particularly in the multi-lingual metropolis of Calcutta retarding a solution to its grave problems.

These were the problems that preoccupied Dr Roy more than anything else during the last months of his life. Around his sick bed, three days before he was struck down, he had held a Conference with Dr Douglas Ensminger of the Ford Foundation on its work under the Calcutta Metropolitan Planning Organisation. It is impossible to conceive of a plan to rehabilitate Calcutta which does not involve a head-on clash with vested interests — a task now made immeasurably more difficult by the passing away of Dr Roy.

Dr Radhakrishnan, who counted Dr Roy as a personal friend of over 40 years' standing, appropriately said that his death had left West Bengal "desolate". Such sentiments are no more than customary on an occasion like this, but in this case this corresponds closely to the truth of the Bengali situation.

Independent Algeria

EIGHT years of sacrifice have borne fruit and Algeria is again free after more than a century of French colonial rule. The Algerian struggle for independence has more than one claim to being called epic. Not only have the losses and sufferings the Algerians have undergone in it been colossal, the fight has fashioned a nation out of tribes that never before in history could unite against a common foe. They now have a history, their myths, their songs and their legendary heroes; they are a nation today as good as any; they are masters of their destiny. Good enough reasons for the wild scenes of rejoicing witnessed in Algeria.

Things there seem to be working at high pressure. The Algerian National Liberation Front that led the people to victory and has long foiled French attempts to divide it had been showing signs of cracks even before the country became

free. Not that the Front could hope ever to remain united. Sooner or later it was bound to divide itself into various units. A front is by definition a unity of diverse elements each of which, with the attainment of the common objective, is expected to go its way. But in Algeria this process may set in much earlier than was expected till now. It looks as though the differences between Mr Mohammed Ben Bella and some of the leaders of the partisan army on the one hand and the rest of the Provisional Government on the other are growing into something more than the divisions between the extremists and moderates of a movement that is fast transforming itself into a party. As this transformation gathers speed so will the differences grow and ultimately the different wings will no longer be held together. How soon this will happen or whether this is already a fact, it is difficult to say. This much is certain that things are moving fast, even for Algeria.

She may with difficulty withstand a peaceful separation of the two wings of the Provisional Government. But a civil war among the nationalists now can only mean disaster. The tasks before the Government are stupendous: Half a million refugees and nearly two million "regrouped" people to be returned to some kind of normal existence; the repair of the ravages of the war and of the Secret Army: and, on top of this, the long-term development of the country. Assimilation of the *colons* poses yet another problem that will tax a good deal of the resources of the Government.

If the schism between the "hards" and the "softs" stem at least partly from differences over the methods of repair and recreation and the Evian agreements which, to some extent, govern them, the immensity of the tasks ahead may act as a unifying force. The rival protagonists are mature people ripe in wisdom, if not in years; they are likely to think, not once or twice but many times, before they really and finally make up their minds to part. And other Arab countries will do their best to smooth matters for the two wings to work together.

Central Loans

THE three new Central Government loans aggregating Rs 250 crores announced this week will complete the borrowing programme of the Centre for this year as provided in the Budget. Last year the programme was completed in two instalments, but easier money conditions during the current slack season have made a single sweep operation possible. That, however, is not the main feature of the new loans. It is their maturity and yield which deserve notice. Of the three loans, one is repayable in 1968 and carries interest at 3¾ per cent, the second in 1972 at 4 per cent and the third in 1985 at 4½ per cent. The first two are offered at a small discount while the third is at par. The rates of interest are appreciably higher than the yields on comparable securities, particularly in the case of the 1985 issue. The gross redemption yields on the first two issues are 3.9 and 4.10 per cent against 3.78 and 3.98 per cent respectively on past issues maturing at the same time. No loan in the existing series matures in 1985 but the 4 per cent 1981 loan offers a yield of 4.08 per cent only against 4½ per cent on the new 1985 issue.

The issue of a 23-year loan after a long time is very welcome. At present one-third of the combined debt of Central and State Governments is due to mature within 5 years, and another one-third in 5 to 10 years. Apart from the conversion loan payable in 1986 or later, there is practically no Government paper of more than 20 years maturity in the market. This is the result of the past policy of excessive pandering to bankers' tastes and reluctance to offer adequate yields on long-dated paper on the flimsy ground that it would upset the interest rate structure. Consequently, at the end of March 1961, up to which data on ownership of public debt are available, even such traditional long-holders as insurance bodies and provident funds held a fairly large part of their investments in relatively short maturities as the Table below shows.

Holding of Government Debt by Maturity

Maturity Period (Years)	Insurance	Provident Funds
	(Percentage of Investment in Government Securities)	
0–5	24	14
5–10	33	23
10–15	17	35
Over 15	16	23
Non-terminable	10	5
Total	100	100

Source : Reserve Bank of India *Bulletin*, April 1962, p 512.

The terms of the issue, together with the simultaneous revision of the Reserve Bank's rates of lending, indicate Government's acceptance of a higher structure of interest rates and the need to attract funds into Government bonds by offering higher yields. The poor contribution of banks to Government securities during the Second Plan period did underscore the desirability of inducing the banks to strengthen their portfolio. The Reserve Bank does not seem so confident any more that this could be done by raising the liquidity ratio even by statute. Would raising the bank rate help? One wonders if that may not be in the offing. The higher rates on new bond issues would make the official bank rate of 4 per cent look more and more of a curiosity.

Shipping Headaches

IF one is to believe Indian shipowners, shipping has ceased to be a hazardous industry; for in hazard at least there is some chance of winning, in shipping there is none. The dismal scene of a further slump in the international market, and the last balance sheet of the Bharat Lines have undoubtedly shaken the confidence of the most optimistic shipowners.

There is a strong feeling that the Government by a large number of tactical moves has held the initiative against shipowners; but equally there is a general lack of policy which cannot be substituted by a series of *ad hoc* measures to improve the present situation. At home, for instance, coastal shipping did not expand by a single ton last year. Everyone was waiting for the Abhi report, but when it came, it failed to inspire shipowners to augment their tonnage. The main difficulty that faces coastal shipowners is their total inability to obtain full load cargoes on bulk commodities like coal. So long as they continue to leave Calcutta with ships only half full there is bound to be a pressure for an upward revision of freight rates. The Government has been repeatedly asked to consider uptopping at Vizagapatam but no solution has as yet emerged; the only other answer is to speed up the scheme for developing Haldia. The country cannot afford to wait five years while the Port Commissioners acquire land in a leisurely fashion and eventually build a port.

Meanwhile, however, the problem is fast becoming acute and going out of control. The Bharat Line has almost come to a standstill, and has sustained the most devastating loss for the last several years. The company's financial position is so unsound that it is having difficulty in repaying Government loans. Although this is the worst that can happen, the trend cannot be allowed to continue; or, if Bharat Lines' balance sheet is any reflection of the general trend in coastal shipping, we shall soon find ourselves with no coastal fleet worth the name; and not all the brave words of Shri Malaviya will help to restore the position.

But coastal shipping is not the Government's only headache. India Steamship has just completed its financial year, and although their balance sheet is not yet out, one doubts if they have had a happy year in their overseas trade. Now at last the Government can take some positive measures; there is no reason why strict measures should not be adopted to ensure that Indian vessels come full with cargo. This is purely an organisational problem which could be solved by insisting on control of shipping of our cargo imports by the chartering committee in Delhi. Such a move would have the double advantage of rendering redundant a large section of our embassy staff in both Washington and London, and also of increasing the cargo available to Indian shipping.

Meanwhile the Government has decided to reopen the agreement arrived at by the Indian companies in the Karmahom conferences. The original scheme of 30 per cent cargo for Indian ships rising upto 40 per cent by 1970 is now considered unsatisfactory because Pakistan has managed to get almost identical terms as India. The Indian Government feels that in view of their considerably better performance in the past, they are entitled to very much better terms. Although the argument is reasonable, it is hard to imagine that the Conference will accede to India's request of 40 per cent share immediately, rising to 50 per cent by 1970; the now accepted pattern of agreements between two Governments seems to be 40 per cent each for the two national lines and 20 per cent for foreigners. If the Karmahom Conference agrees to a 50 per cent share for India, it will be much to the Government's credit.

Sweeter Cane?

THE decision to link the price of cane to the recovery of sugar is a sound one in principle. However, the main obstacle to the success of the scheme is that the cane growers will get prices not on their individual performances, but on the quality of all cane crushed by the factory; the final price will be determined by the recovery achieved by the mill on all cane crushed throughout the season. Each mill is supplied by anything up to 7,000 farmers and the individual performance of any one farmer will not make a substantial improvement in the average recovery of the mill. A farmer is unlikely, therefore, to be induced by the present scheme to improve his cane. He will continue instead to concentrate on increasing quantity.

The only country where payment is made on the basis of the quality of cane is Australia. But the conditions there are very different as there are only a few large farmers.

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In India this is just not possible as most farmers can at best supply no more than two tons a day, while the average mill will crush anything up 40 tons an hour. Mills are, therefore, forced to crush many farmers' cane together. Judging the quality of cane of any individual farmer is therefore, impossible.

It may, however, still be possible to link the quality of cane to its price. One idea that could be tried out is to treat a village or a group of villages as one farm; the cane from that village could be analysed with samples and the prices could be determined on that basis.

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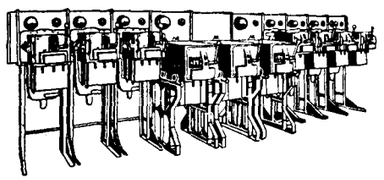
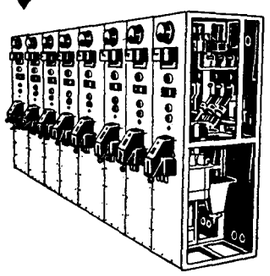


L.V. Industrial Cubicle Type Switchboard.



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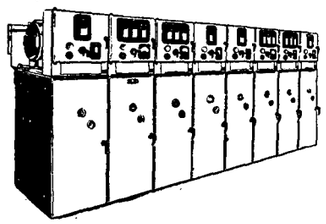

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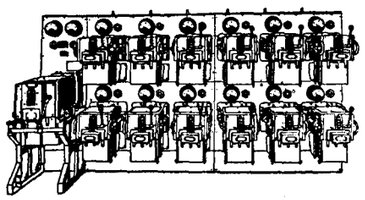

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Capital View

Kashmir Realities under Debate

Romesh Thapar

DELHI is preparing to go to sleep for a couple of weeks. Finance Minister Morarji Desai is away in Europe lost in the labyrinth of foreign aid talks. The Prime Minister too is in Kashmir for a much-needed holiday. Home Minister Lal Bahadur Shastri, supposed to officiate in the absence of Nehru and Desai, has gone South. And, to top it off, the weather is conducive to sleep. But the Congress chieftains are worried, worried about the political and military situation in Kashmir.

It is not generally known that one of the reasons which prompted the Prime Minister to return to Kashmir for a second holiday is his rather belated desire to press on Bakshi Ghulam Mohammad the need to clean up the corruption so rampant in his State, particularly in high places, and to make it clear that from now on the Government of India will not tolerate the crude and open suppression of democratic liberties in the valley of the Jhelum.

Criticism Permissible Now

The Prime Minister's well-known reluctance to entertain any criticism, no matter how valid, of Kashmir affairs has now broken down. The first signs were visible during the recent general election when, despite a suspicious number of uncontested returns in favour of the National Conference from constituencies in the valley, Bakshi Ghulam Mohammad's so-called 'peace brigades' did not hesitate to beat up and blackmail opposition elements. Active workers of the Praja Socialist Party documented these facts and presented them to the Prime Minister.

At this stage, several leading Congressmen found the courage to speak up about the corruption prevalent among Ministers, their close relations and friends. Business houses, attempting to find agents who would market their goods in Jammu and Kashmir, were compelled to deal with the ruling establishment. Even vegetable and meat contracts for the army posted on this critical frontier were cornered by these elements. Moreover, evidence was advanced to prove that the considerable developmental funds going into the State were also being misused.

Reports also began to percolate through the Income Tax Department that vast fortunes had been declared in the wealth tax returns of close relatives of leading members of the Government and administration in Jammu and Kashmir. One gentleman, who did not have much to his name in 1947, was now the proud possessor of Rs 90 lakhs!

Closer Integration

It was about this time that the Prime Minister took his first holiday in Srinagar after his recent illness. In the course of his talks with Bakshi Ghulam Mohammad, he made it abundantly obvious that he was most unhappy about the corruption and demoralisation in Kashmir. In the presence of Bakshi Ghulam Mohammad's colleagues, he called for urgent steps to remedy this deplorable state of affairs. In an atmosphere heavy with flattery and polite conversation, which touches the outskirts of problems, this kind of intervention from the Prime Minister acts like a catalytic agent. Now, the Government of India has more material evidence in its possession to indicate that internal Kashmir affairs cannot be allowed to drift.

Home Minister Lal Bahadur Shastri's suggestions about integrating Kashmir more closely with India and his emphasising the necessity to revise some of our notions about the 'special status' of this strategic region, has caused irritation among the leading elements of the National Conference. They seem to imagine that this is a disguised 'Jan Sanghi approach' to the problems of the State. But in Delhi, Shastri is known to reflect the Prime Minister's mind.

This second holiday of the Prime Minister is going to be no holiday for Bakshi Ghulam Mohammad if the present trend of thinking in the Capital continues. The opinion is dominant that the only possible way of normalising the situation in the valley is to encourage independent political activity in the State by the various Indian parties. The lack of this activity is seen as the cause of the deterioration in the administration headed by Bakshi Ghulam Mohammad.

Of course, this unleashing of healthy political activity is not without its dangers. Whereas in Jammu the communal Parishad is fairly active, in the valley there is every likelihood that other communal groups will show their hand. The Praja Socialist organisation is broken and disorganised. As for the Communist Party, it has for so long been in an opportunist alliance with the National Conference or its leftist section that it will take some time to recover from the insidious infection of such contacts. Perhaps, the leftists in the National Conference can be persuadeed to stir themselves.

It will be interesting to see what stand the Prime Minister will take. He is now so used to accepting the inevitable 'strong men' to run the States that it will be embarrassing for him to discriminate against Bakshi Ghulam Mohammad who is no worse than some whom we have come to regard as the pillars of our Republic. Yet, he has to act — particularly after the recent developments over Kashmir in the United Nations.

Back in Delhi, another vital aspect of the Kashmir situation is keeping at least one ministry awake, while the rest sleep. Defence Minister Krishna Menon has returned from the USA more than ordinarily troubled by the thought that Pakistan might attempt to activise the Kashmir front. Information reaching Delhi makes clear that the military regime in Rawalpindi believes that it now has powerful international backing — even from China in the Communist bloc! Adventurers could be led to believe that this is the time to strike, and then to appeal to the General Assembly to 'save the peace'.

Are we in a position to meet this threat? Ever since our Ambassador in the USA, B K Nehru, publicly admitted that our armed forces are ill equipped, enquiries made at the highest levels have elicited evasive answers. However, those correspondents who made it a point to study the effectiveness of the Goa operations claim that in respect of supplies and equipment the position was quite serious. In fact, certain items were 'mobilised' only by depleting vital reserves.

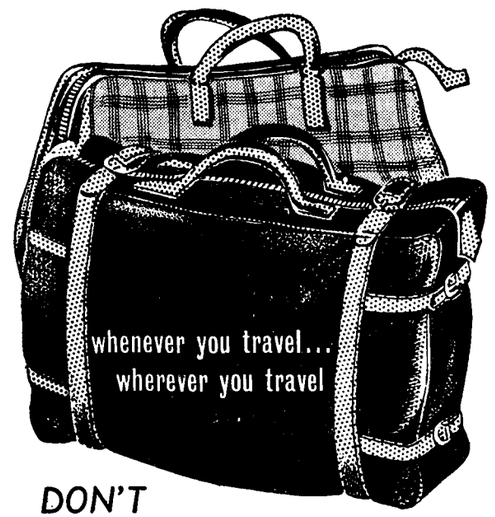
Re-thinking on Defence

The stories now circulating in the Capital are disturbing, to say the least. It is maintained that although plane, tank and truck manufacture has been boldly undertaken, it appears that apathy has prevailed in those sections of the defence production organisation entrusted with the supply of ordinary but essential equipment. A confusion in priorities, bottlenecks in the supply of raw materials, lack of coordination between the private and public sectors and mistaken perspectives are advanced as the reason for this state of affairs.

If these reports are correct, then the Defence Minister, facing the possibility of prolonged border tensions in the East, the North and the West, will have to give his immediate attention to resolving these problems, particularly where they concern the needs of the army and air force. In the process, perhaps, the very principles on which our defence forces are organised will come in for closer scrutiny. The old and pertinent question whether a few very expensive supersonic jet squadrons are more effective in the sky than militia units on land, armed with light, highly destructive weapons, will have to be answered more cogently than in the past. We cannot forever treat as sacrosanct the notions of defence which we inherited from the British with the transfer of power if these notions prevent us from making proper use of our limited resources.

Despite what his determined opponents have to say, the Defence Minister has the flexibility of approach to spark some fundamental re-thinking on the concepts which condition India's defence system. The pity of it is that he has delayed this re-assessment for so long.

The Capital will continue to debate the repercussions of recent Kashmir developments for some time. These may prove more far-reaching than is imagined at present.



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Our Delhi Letter

Assam Oil Royalty Dispute

THE Centre-Assam oil royalty dispute has reached a complete deadlock. While the Assam Government is demanding that the matter be referred to the Supreme Court, the Minister of Mines and Fuel hopes to persuade the Prime Minister to intervene in the matter. Oil royalty is one of the major sources of revenue of the Assam Government. Oil has been exploited in Assam since the eighties of the last century. The terms on which it was done during British days were manifestly weighted in favour of the Assam Oil Company, an English concern. The A O C paid only five per cent of the well-head value of crude oil as royalty, though the prevailing rate throughout the world varied between 15 to 20 per cent.

Following Independence, the rate of royalty for new concessions under the Petroleum Concession Rules, 1949, was raised to 10 per cent of the well-head value, which was defined as the published price of crude oil of similar type and quality in a substantial free market in any part of the world. Till 1953 the only published prices were those of Oklahoma (Kansans, U S A) crude, which was considered to be the nearest in quality to Assam crude. On the basis of the Oklahoma price, the rate of royalty was fixed at Rs 10.59. Meanwhile, a substantial free market had developed in the Middle East and British Petroleum first published prices for Middle East crude in 1953. Though the Middle East crude was nearer in quality to the Naharkatiya crude, the Assam Oil Company was asked to continue to pay royalty on the basis of the posted prices of the Oklahoma crude which were substantially higher than those of the Middle East crude. The Oil India Limited, a joint concern of the Assam Oil Company and the Government of India, followed the practice.

Revision of Royalty Rate

The Petroleum Concession Rules, 1949, (were revised in 1959, and the Petroleum and Natural Gas Rules, 1959), were promulgated which fixed the rate of royalty at 10 per cent of gross value at well-head, but did not define the well-head value and left it to be settled between the Central Government and the lessee. Under the new arrangement, the well-head price was fixed at Rs 72 per ton. Later, in July 27 last year, the second supplementary agreement was executed between the Central Government/BOC/AOC/OIL which laid down a new method of arriving at the well-head value. Under this method, from the market price of crude, transportation costs from Calcutta to the Assam oil fields were deducted to determine the value of crude at the well-head. This reduced the well-head value to Rs 48 per ton and consequently the royalty to Rs 4.80 per ton. The loss of revenue to the Assam Government on account of the reduced rate of royalty will be Rs 1.50 crores per annum.

Naturally, the Assam Government reacted sharply to the new proposal, and has refused to accept the revised basis of determination of royalty. According to the Fuel Ministry however, if the royalty rate was maintained at Rs 10.59 nP per ton it would mean that the well-head value of the crude would be Rs 106 per ton, whereas the sale price of the crude at the well-head would be only Rs 48 per ton. It was pointed out that "It would be anomalous to accept a higher well-head value than the actual market value of the crude oil merely in order to enhance the revenue of the Assam Government." The Fuel Ministry also argues that even if the royalty is to be calculated on the basis of the Petroleum Concession Rules, the equivalent crude for fixing the well-head value would be the Middle East crude and not the Oklahoma crude. Since the posted price for the Middle East crude is Rs 65.80 per ton and as an allowance must be made for transportation cost in order to arrive at the well-head value in Assam, the difference between the well-head value arrived at under the second supplementary agreement and the posted price of an equivalent crude in a free market would not be substantial.

Compensating Benefits

The Fuel Ministry has also pointed out that the loss to the Assam Government as a result of the reduction in royalty would be more than offset by a number of advantages that would accrue to the State from the exploitation of oil and gas resources. By the end of the Third Plan production of crude oil in Assam is expected to increase to 4 million tons per annum from 250,000 tons at present. This would mean a substantial rise in Assam's income. The Burmah Oil Company and the Government of India will invest a sum of Rs 88 crores in Assam for the development of oil industry. The State would benefit directly and indirectly from this development activity. With the discovery of natural gas, the Centre is to set up a fertilizer plant and a cement factory. Besides, a number of projects would be set up in the private sector based on natural gas. The Centre also claims to have persuaded O I L to supply natural gas for the Naharkatiya Power Station at 25 nP per thousand cu ft whereas the field price of natural gas at Naharkatiya is at present estimated at 50 nP per thousand cu ft. The power station to be set up by the Assam Government would require 13 to 18 million cu ft of natural gas per day. The State Government will also have another source of revenue — the sales tax on crude oil. It has also been offered "sizeable equity participation" in the Gauhati Refinery.

Royalty Rate Rise Proposed

The Assam Government has made it clear that it is not joining issues with the Centre on the question of well-head price as 50 per cent of the profit accruing from a higher well-head price would go to the foreign partner in O I L. But to maintain the royalty per ton at the earlier level, the State Government has proposed that the rate of royalty be raised from 10 per cent to 16 per cent of the well-head value. Its argument is that since Naharkatiya crude is assured of a market a higher rate of royalty is justified. Moreover, even a 16 per cent rate would still be less by 4 per cent than the royalty rates in other parts of the world.

The Assam Government feels that the A O C is complicating the issue

and hindering a settlement. The representatives of the A O C have been trying to bring the dispute to a head. The A O C has claimed that it need pay royalty for Digboi crude (which is 5 per cent of the well-head value) on the price of Rs 48 per ton on the ground that the price of crude could not vary between Naharkatiya and Digboi, which are only 22 miles apart. However, the A O C ignores that

(i) the 1960 agreement does not cover the Digboi field;

(ii) the well-head price at Naharkatiya has been lowered by deduction of transport charges which are not involved at Digboi, the consuming refinery being situated also at Digboi; and

(iii) the 5 per cent rate of royalty which the A O C pays was fixed under the 1943 agreement which also stipulates a minimum royalty of 11 annas per barrel or Rs 6.60 per ton.

Having failed to settle the matter at the conference table, both the State and the Centre are asserting their Constitutional rights. Under the Constitution the State has proprietory rights over natural resources, crude oil included, and thus, the Assam Government argues that the right to determine and fix the quantum of royalty is the State's. On the other hand Entry 53 of List I of the Constitution vests the responsibility of regulation and development of natural resources, oilfields included, in the Central Government. The Ministry's case is that the quantum of royalty that has to be paid would to a great extent affect the development of oilfields and that, therefore, the power to determine the quantum of royalty lies with the Central Government. However, in the interest of smooth Centre-State relations, it may be decided to have the opinion of the Supreme Court on this legal question.

Irrespective of the merits of the case, the Assam Government has lost much of sympathy by trying to obstruct the oil development programme. Already because of the dispute nothing could be done in one complete field season. The extent of loss from this can be judged from the fact that the import of one million tons of crude oil costs Rs 7 crores in foreign exchange.

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Letter from Andhra

Opposition to Land Revenue Bill

LAST week the Andhra Pradesh Legislative Assembly considered the controversial bill for the revision and enhancement of land revenue in the State. The bill, mainly a measure for raising much-needed finance, proved to be one of the most keenly debated legislative measures in recent years, with opposition groups in the Assembly — the Communists, Swatantrites and Independents — employing their debating skill and voting strength to good purpose against it. The bill had to be referred ultimately to a select committee.

The State Revenue Minister, Shri N Ramachandra Reddi, made out both while introducing the Bill and during the discussion, a strong case for the measure on financial, economic and other grounds. Apart from the fact that land revenue assessment in the State had remained unaltered for the last 30 to 40 years, during which time much water had literally and figuratively flowed down the rivers in the State into the fields, and many developments had taken place in the general economy, particularly the rural and agricultural economy, there was the widely acknowledged need for augmenting the revenue resources of Government. There was besides the finding of the third Finance Commission that rates of land revenue in operation "have not been reviewed in the last 30 to 60 years, resulting in a chain reaction of undertaxation on the one hand and avoidable increase in public expenditure on the other". The finding is couched in general terms but is applicable to a number of States including Andhra.

Minister's Defence

In addition to these broad arguments, other points the Revenue Minister made were: the imposition of a graded income tax on agricultural incomes would not yield any substantial income because the size of land holdings had been reduced under the ceilings legislation so that few holdings would come within the ambit of any income tax, the existence of a confusing multiplicity of taxes on land such as the general land tax and the tax on lands on which commercial crops are raised, along with the surcharge on the land tax on the one hand and the diversity in the rates of assessment of different categories of land in the Telangana and Andhra area on the other were not conducive to efficient administration or facility of calculation and only confused the cultivator; the standardisation and rationalisation of the structure of land taxation and bringing about of uniformity in the rates throughout the State would therefore, be advantageous to the tax-levying as well as tax-paying sections; and the minimum and maximum rates of assessment for dry and wet lands, as proposed in the bill, would facilitate adjustments in the extent of the levy in relation to the productivity of the different categories of land.

Shri Reddi also pointed out that the enhancement in the rate of levy would not be, as was made out, 100 per cent but would be somewhere between 30 to 40 per cent and 70 per cent and that it was wrong to say that Andhra Pradesh was the only State to increase the tax burden on the agricultural sector as similar taxation had already been imposed or would have to be imposed in the near future in other States also, as directed by the Planning Commission.

Some Changes Necessary

The Opposition parties, despite their vigorous attack on the bill, could not advance any convincing argument against the revision other than that it would press hard against the cultivator and that if prices of agricultural land had gone up and agricultural produce was fetching a much higher price than some years ago, the expenses of cultivation had also gone up correspondingly.

These were not, however, arguments against the bill as such; they were merely a plea for moderation in the increase in tax rates and for exemptions and concessions in the levy of the tax in respect of certain classes of cultivators.

Obviously, some changes in the detailed provisions of the bill, relating to the rates of taxation and the class of land which would have to bear the enhanced rates can be proposed and discussed in the select committee — in which the various parties are well-represented. It is possible that considering the strong opposition which the bill in its original form has aroused and the repercussions it may otherwise produce, the Government may come forward with amendments to some of the more drastic provisions, particularly those pertaining to the rates of assessment. One such amendment which seems imperative is that small cultivators with holdings of less than 5 acres, will be exempted from the incidence of enhanced rates; another amendment may be a reasonable reduction in the minimum and maximum rates of tax.

Lignite Deposits in Kutch

INVESTIGATIONS carried out by the Geological Survey of India during the last several years have revealed the possibility of lignite deposits in the Kutch area, it is learnt. The estimates of lignite in the upper seam of the Umarsar areas are of the order of 1.22 million metric tons. The lower seam is estimated to contain 9.65 million metric tons with additional probable reserves of 4 to 4.3 million metric tons. The Government of Gujarat is considering the question of exploiting these deposits.

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From the London End

Clashing Cotton Interests

THE debate on the cotton textile industry in the House of Commons last week has highlighted, once more, the difficulties that Indian textiles are likely to meet in future, both in the U K and the Common Market. Although it is recognised that trade is one of the best means of assisting developing countries and that the need of the moment is for the industrialized countries to open their doors to exports from the developing countries, vested interests in the U K cotton textile industry are carrying on a fierce campaign to reduce imports from Asian countries. This, despite the recent agreement under the GATT to take in more textiles from these countries.

The recent stand taken by the Common Market countries, in insisting that Britain must apply 30 per cent of the Common External Tariff on textiles as soon as she joins the Common Market, and a further 30 per cent within eighteen months, has given fresh hope to the textile interests in Britain. The Common Market statement on cotton textiles was, however, sugar-coated with the promise that should Britain join the Common Market, the Six would sign a comprehensive trade agreement with the Asian members of the Commonwealth, taking into account the development plans and financial problems of these countries. It remains to be seen how far the 'Six' will go to help the developing countries.

Textile Action Group

In advance of the debate in the Commons, the Textile Action Group, as part of its plan to put pressure on the Government to cut imports from Asian countries, sent a six-man delegation to Brussels to persuade Common Market textile leaders to oppose British entry into the European Economic Community, unless the Government agreed to full protective external tariffs. Thus: "Before terms are finalized, it is hoped to impress on our Continental counterparts the danger to their own markets if the U K is admitted to membership without accepting in full the Common External Tariff under the terms of the Treaty of Rome..... There is no alternative available; failure to secure agreement on these lines can only lead to the easy access of Asian textiles into the Continental markets with the resultant chaos and eventual breaking up of the E E C textile industry". In a statement aimed at the European cotton trades, the Action Group said that the future of 270,000 British workers employed in textiles was in jeopardy. "Unrestricted cheap textile imports would have the same effect on you, resulting in mass unemployment in your own country".

The latest quarterly report of the Operative Spinners Amalgamation points out that if after Britain joins the Common Market the industry has still to compete with products from the Asian countries imported as now duty-free, and at the same time to open its markets, by lowering tariff, to the countries of the E E C, it could do serious damage to the Lancashire industry. It should not be overlooked that the textile industry would still have to compete with products from Asian countries which would remain lower in price, even after the addition of the 13½ per cent tariff, than goods produced in the U K. It is also pointed out that joining the Common Market and adopting a Common External Tariff would mean the end of the preferential tariffs for Lancashire goods in Commonwealth countries. At present, almost two-thirds of Lancashire's exports go to these markets, and anything which would cause a sharp reduction in this trade cannot but be a matter of concern for Lancashire.

Labour Party's Stand

Last week, in advance of the Commons debate on a labour censure motion calling for "positive steps to promote the stability and prosperity of the industry", six labour MPs, four mayors from Lancashire cotton towns, five pipe and brass bands and 4,000 cotton workers marched two miles through London. This group was demonstrating against imported yarns and cloth. A pamphlet which it handed out to passers by said: "No single industry can stand up to such unfair and withering competition, and as a result, two-thirds of our cotton mills have closed down since the war and over 250,000 people have left the industry."

The main line taken by the opposition in the debate in the Commons was that the Government had let the industry down by allowing imports from Asia. The industry had responded to Government inducements to modernise and become more efficient, but everybody knew that whatever it did, it would be unable to withstand competition from low-cost Asian countries. The Government should, therefore, urge other participants in the Geneva talks to liberalise their imports in keeping with the objectives of the Geneva arrangements. The strongest obligation was the United States. During the course of the debate, Mr Anthony Greenwood said: "I am sick of watching the steady murder of the cotton textile towns in East Lancashire. The Government's acceptance of the 1961 ceilings is the final blow." He also warned that if the Government persisted in its present policy, not one single Tory would be left representing the textile towns after the next election. With unemployment in his own constituency now standing at 7.1 per cent, he said that the 1952 slump now looked like a time of prosperity. Even the Conservative members from the cotton towns came out against the Government's policy, one member, Sir John Barlow, saying that while he was a very loyal person to his party, he must "very reluctantly" vote against the Government at the end of the debate. "Why should the textile industry be the first and probably the greatest industry to be sacrificed?" he asked. Ultimately, however, the opposition motion was defeated by 266 votes to 189 and the Government amendment was carried by 258 votes to 185.

Inefficiency — Lancashire's Problem

It is perfectly understandable that labour MPs from textile towns should take a strong line to protect the interests of their constituents, but no long-term solution to

the textile industry's problems will be found by attempting to restrict exports from Asian countries. In the long run, surely, it is only those sections of the British industry that can really stand up to competition that can be expected to survive. The general feeling of pessimism in the industry reflects the misconception that the industry cannot hope to compete effectively with imports from low wage countries. This view is shared by Continental and American cotton industries.

The real problems that beset Lancashire are, however, different. During the debate the President of the Board of Trade pointed out that if the cotton industry modernized itself, it could exploit better its large home market and win back lost export markets. It should be remembered that in 1960 and the early part of 1961, there was a high demand for cotton textiles. As a result, this led to rising prices and lengthening delivery dates as the cotton industry could not meet this demand. Naturally, producers in other countries took advantage of the situation. Since imports from the Asian Commonwealth countries were already restricted, imports came in from other sources. The Board of Trade President pointed out that no other manufacturing industry in Britain had the same definite safeguards. India and Hong Kong had already agreed to continue with the present ceilings to the end of 1965 so that the industry now knew where it stood in relation to imports for the next 3½ years, subject only to possible changes upon Britain joining the Common Market.

Lancashire's Inefficiency

The relative inefficiency of the British textile industry can be judged from the slow introduction of shift work and the astonishingly few hours a week that spindles work as compared with other countries, and the low output per worker. The President of the Board of Trade pointed out that in 1960 spindles worked for 104 hours a week in Belgium, 100 in Holland, 86 in France, 78 in Germany and only 50 in Britain.

Against the obviously propagandist arguments put up in the House of Commons, it is refreshing to turn to the Congress held last week at Deauville by the International Federation of Cotton and Allied Textile Industries. It was pointed out that in a world context, the future of the textile industry lay in the elimination of surplus capacity, combined with the highest possible productivity. It had to be borne in mind that more textile mills would be built in many countries where at present none existed and that existing textile industries would continue as an integral and basic part of their national economies. Since more and more textile industries would be catering to the needs of their domestic markets, a structural change had to take place. The problems of competition created by this would have to be solved by a new approach to international trade policies. The Congress hoped that the long term arrangements on international trade in cotton textiles under the GATT would be ratified by all the Governments concerned.

Even more encouraging was the belief expressed at the Congress that "there is considerable scope for growth in the textile industry, provided that the industry remains within the structural limits which are justifiable in the context of the world economy as a whole, and provided that within these limits, it seeks to attain the highest possible degree of rationalisation". It was estimated that an increase of 25 per cent to 30 per cent was likely during the next years in textile consumption in the Common Market countries, but even this would barely bring Europe to the level of U S consumption in 1939. There would therefore be further opportunities for expansion, especially as Common Market income and spending was rising faster than in the U S.

The Congress believed that the campaign against imports from cheap sources was taking too pessimistic a view of the cotton industry's prospects of survival. Imports into U K are at present running at an annual rate of 330 million square yards, against the agreed ceiling of 422 million square yards from Hong Kong, India and Pakistan. On the basis of the agreed ceilings and taking into account imports from non-Commonwealth sources such as China, Japan and Spain, total imports from low wage countries could be contained at a figure of 500 million square yards. On this basis, the Lancashire industry should be able to operate fully and profitably in the home market and in its now relatively small export trade. Home consumption of cotton cloth in the UK runs to about 1,850 million square yards, and if 100 million square yards are added for export, the trade needs an annual supply of 1,950 million square yards. Placing the output from the Lancashire mills at the optimistic figure of 1,450 million square yards, it will be seen that this falls short of requirements by about 500 million square yards — roughly the same figure as that of imports from low wage countries.

Barbara Castle Speaks Out

An eminently sane note was sounded by Barbara Castle in last week's *New Statesman*. While recognising the problems of Lancashire, she emphasised the problems of the developing countries and the need to reconcile this clash of interests. The Labour Party, she points out, has been urging for many years that the only way to integrate imported textiles into the home market, without totally disrupting the cotton industry, is by putting the import trading in textiles in the hands of a Government sponsored import commission. This, according to her, is the only way of ensuring that the voluntary limitation of their cotton exports to the U K by India, Pakistan and Hong Kong, is not nullified by the action of Manchester merchants, who up to now have merely filled the gap by increasing their cheap imports from other sources such as Formosa and Spain. She concluded: "Certainly the traditional solutions of quotas and tariffs, designed to meet purely Western needs, provide no remedy. Nor can the West salve its conscience by promising to increase grants and loans. To offer aid instead of trade is to condemn the under-developed countries to be perpetual remittance-men. Somehow, some time, the world must work out a trading partnership."

Letter from Calcutta

New Look in Coal

WHEN Shri K D Malaviya took coal, the private sector had some misgivings because of the Minister's known socialist convictions. Gradually, the industry is beginning to realise that a pink minister is preferable to a colourless one, if the former can bring to his tasks decisiveness and a sense of purpose. The industry, long-stalled by New Delhi's indecisiveness, acknowledges that at last things are beginning to move, if not always in the direction it wishes. The meeting of the Coal Council held in New Delhi last week enhanced Malaviya's reputation as a go-getter because of his obvious impatience with official agencies making excuses for short-comings. At one point, he apparently told off the distinguished representative of the Central Water and Power Commission when this official gave the usual excuse that emergency plans to augment power supply in the coal areas were still "under consideration."

Clearly, the seriousness of the power shortage in the Bengal/Bihar fields had not been fully realised by Malaviyaji until this meeting. All that his predecessor had done was to appoint a working group headed by the Planning Commission Adviser, N C Shrivastava, to look into this question. Its report, which was considered at the Council meeting, revealed no more than what was already known from the findings of the Sachdev Committee that the power situation will get worse in 1963/64 and 1964/65 before it begins to get better at the end of the Third Plan. In fact, there has been a further set back since the Sachdev Committee reported. Supplies of equipment from the Soviet Union have been delayed and this will postpone the completion of the Pathratu project in Bihar.

There was general agreement at the Council that the only practical solution was to arrange for imports of small generating sets from wherever available. The foreign exchange costs may be met from the World Bank loan for coal development, in the private sector. A modification of the terms of the loan will not be difficult to negotiate since the development of productive capacity cannot proceed without emergency measures for augmenting power supplies.

Rihand-Hirakud-DVC Link Up

There have been some talks of feeding Rihand power to the DVC grid since consuming units in U P have not yet come up. There are, however, two snags. A link between the two systems has yet to be established. Malaviyaji's impatience may speed up work on this, so that a link is established in another eight to ten weeks. But even if it is, Rihand will offer only a short reprieve because there will be no surplus to divert to DVC from early 1963. This short-term expedient may not be even worth trying because no new activity can be obviously started with the certainty of closure in a few months. Another possibility now being looked into is to obtain power from Hirakud's Chiplima station which, it is hoped, will be in operation by the end of December. At this stage it is no more than an idea and Malaviyaji is understood to have directed the CPWC to examine the possibility in consultation with Orissa Government on a priority basis. Rihand now, and Hirakud from 1963, could together enable the coal belt to tide over the worst period of shortage.

The meeting of the Coal Council will also be remembered for the clear stand it took on the siting of thermal power stations. Location seems to have been decided in the past without taking into account the problems of moving coal to the power stations. Bandel, a 300,000 kw station which the West Bengal State Electricity Board is putting up about 35 miles from Calcutta, is a notorious example. This will need 1½ million tons of coal per year, posing a transport problem of considerable magnitude which could have been lightened had the power station been located nearer to the coal belt. Obviously, it is easier to transport power than coal within the distances involved in the case of Bandel.

Bandel, however, is not the only defaulter. The 75 kw generating plant which West Bengal wanted originally to put up at Azimganj has now been moved to Katwa but even this site will involve serious transport problems. In the UP, Obra power station based on Madhya Pradesh's Singrauli coal is 30 miles away from the mines but could just easily have been built right in Singrauli itself. These instances led the Council to make a unanimous recommendation that the already overextended railways should be saved from such unnecessary strains that wrongly located power plants impose. Although the resolution did not say so, in so many words, that considerations of prestige often warp the judgement of State Governments in these matters, the consequences were deplored by the Council in unmistakable terms.

Malaviyaji may have taken up the idea of moving coal by river barges more for its demonstration effect than for its practical value. But it is being realised more and more that a switch to means of transport other than rail must be actively pursued if a complete breakdown is to be avoided. Today, the problem of movement is confined to just over 50 million tons of coal. In another five years, the quantity will have gone up to nearly 100 million and in ten years to almost 200 million tons. Experts looking into the possibility of moving coal by waterways have come up with a plan for a national navigation grid. This will, of course, involve a big and sustained effort over a long period of time to forge the missing links and improve the navigability of the waterways. On Malaviyaji's urging, a short-term plan should begin to emerge soon, focussing on such urgent needs as the movement of coal from Raniganj to Calcutta by the Durgapur Canal., This Canal is expected to be opened for traffic in October, but its transport potential is still very uncertain.

Though its immediate benefits may not be much, Malaviyaji has nevertheless made a distinct contribution by drawing attention to the role which inland waterways can and should play in the country's

future transport system. At the moment, his hopes of moving substantial quantities of coal are based on the promise of assistance from the Defence Ministry through the loan of barges and heavy trucks. Another Minister may not have so readily been able to enlist this support from Shri Krishna Menon. In this case at least, political ties may operate to advantage of the economy.

Side by side with waterways, Malaviyaji is pushing a road building programme in the Bengal-Bihar fields involving widening of existing highways, building of pucca feeder roads, strengthening of bridges and the like. Here again, he is banking on the support of the Defence Minister, to provide large truck-trailer combinations. Those now complaining about the high costs of road transport will change their views once the 30/40 ton combinations come into use to provide direct transit from mine to consumers, saving loading and handling costs at a number of points. This change may not make road transport cheaper than rail but it will certainly narrow the difference sufficiently to meet the current complaints halfway.

Also in view are pipelines, ropeways and conveyor belts where large quantities have to be moved to consumers located fairly close to the mine. Washeries, steel plants and generating stations should in future have their own built-in transport facilities making them independent of rail or road networks. The first step in this direction is being taken by Indian Iron under its present colliery expansion programme which envisages transport from the fields to the washery and from there on to the steel plant direct by ropeways.

To the extent that Malaviyaji succeeds in easing the transport problem, the handy alibi of transport shortage will no longer serve to explain shortfalls on the production front. The producers, of course, stoutly deny that the marginal price increase recently announced offers any incentive at all, and that even increases in production costs since 1959 have not been neutralised. They appreciate nevertheless that Malaviyaji showed some political courage to put through even a marginal increase without the rigmarole of a formal price enquiry. Their hope now is that he will be able to find other, less politically difficult, ways of granting them additional relief. What they have in mind is an increase in subsidies granted for stowing and mining under difficult conditions. These increases can be put through by executive order and will not therefore constitute major issues of policy on which the Ministry has to obtain the concurrence of all others before it can act. At least, so mining interests argue.

Great interest attaches, therefore, to the visit of the Fuel Minister this week to the Bengal-Bihar coal fields. Here he will be confronted with the problems at first hand. Even if he has no ready-made solution to offer, he should undoubtedly be able to reaffirm the assurance that he has already given that nothing will be allowed to stand in the way of achieving the country's coal target.

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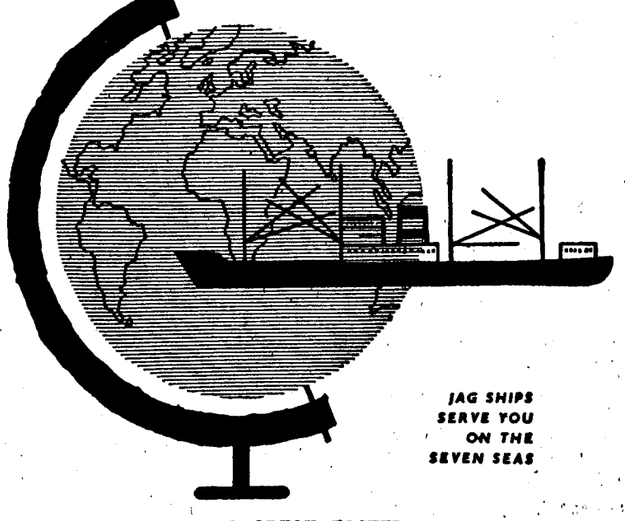

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Official Paper

No Further Curbs

Report of the Company Law Committee (Chairman Rt Hon Lord Jenkins), H M Stationery Office, 1962. Pp 223, price 12s 6d.

THE long-awaited recommendations of the Jenkins Committee on Company Law Amendment were published last week. Those who had hoped for radical reform have been disappointed. The report is essentially a technical and businesslike document concentrating mainly on matters of detail rather than on basic principles. There are in all 300 recommendations in its 223 pages. According to the report, the existing Companies Act of 1948, has, on the whole, worked well. The Committee does not, therefore, consider fundamental changes in the present law necessary. Here lies its main difference with the Cohen Committee on whose deliberations the Companies Act of 1948 was based.

In the context of the genesis of the Jenkins Committee — born as it was out of the Jasper scandal and the repercussions of the British Aluminium takeover, at a time when there was a good deal of public concern over the inadequacy of the law to protect the investor and the social implications of take-over bids —the recommendations are bound to come as a disappointment to those who had felt that, under the present law, companies and their management are largely irresponsible both to society and their shareholders and that shareholders have little control over the companies they "own." The levers of power are in the hands of top management, who operate through a combination of self-appointment and ploughing back profits and are accountable to no one. The Cohen Committee Report had emphasised the "illusory nature of the control theoretically exercised by the shareholder." The gap between ownership and management has if anything further widened in recent years.

The trend of modern business is towards formation of big, diversified groups of companies which, in the past, would have been operating as separate businesses. Therefore, now more than ever before, Company Law ought to lay down compulsory accounting standards to ensure that shareholders know what is going on in these amorphic groupings. Ironically, the Consolidated Accounts, the innovation of the 1948 Act, conceal more than they reveal. Companies have invested shareholders' money in trade or associated companies without the shareholders having any idea of the worth of the assets until a take-over bid is made. How many of the shareholders of Imperial Tobacco, for instance, realised that the company had 42½ per cent holdings in Gallahers? But for the I C I take-over bid, many of the shareholders of Courtaulds would have been ignorant of the real value of the company and the basic changes in the group's business.

In the Jenkins Committee Report there is a basic contradiction between the broad philosophy of shareholder-control which the Committee as a whole expresses at the beginning of its report and the majority decisions that it reaches when it faces up to what are admittedly awkward issues. The timidity of the report is conspicuous on such questions as non-voting shares, exemptions to banks and publication of turnover figures.

Non-Voting Shares

The Committee has not recommended the enfranchisement of non-voting shares. It states that the case for the abolition of the voteless share has not been established and argues that it will be too drastic a step. This seems to contradict the excellent section in the report in which control by shareholders of their company is discussed and the need to strengthen this control is stressed. The Committee's recommendation, on the other hand, perpetuates the weaknesses of the shareholders' position. Apparently, on this question there was a sharp division of opinion and the Minority Note Of Dissent draws attention to the lack of consistency, emphasising that voteless shares establish *de jure* the severence of ownership from control which is, to some extent, inevitable as a result of the indifference of shareholders. The Note points out that several other countries have banned voteless shares and argues that the increasing issue of such shares should be stopped in Britain.

The Committee has also recommended that the exemption from full disclosure for banks and discount houses should continue. This decision also perpetuates the shareholders' ignorance about the position of their company. There has been widespread disappointment that the Committee should have dealt so tenderly with the banks and discount houses. There are at present 107 British and other banks and discount houses who, before striking public accounts, can make undisclosed transfers to and from reserves; lump reserves, provisions and liabilities together in their balance sheets, conceal the market value of their investments and not disclose the basis for valuing their fixed assets. With powerful advocates like Sir Oliver Franks putting the case for the banks, the traditional argument that because their stability is a matter of national importance, banks must be treated as a special case, won the day.

The Report, however, holds that shipping companies come under a different category and should disclose all their accounts. It has, therefore, suggested that shipping companies should lose the right now conferred on them by the Companies (Shipping Companies Exemption) Order. This is a step in the right direction. On the exemptions allowed to banks, there is a strongly-worded Minute of Dissent. The City reacted immediately and while shipping shares were marked up, banks and insurance shares were marked down.

Nominee Shareholdings

Since a company ought to know the identity of someone who may be buying for control and since a substantial holding can block a spe-

cial resolution, it is important that more information should be available on nominee holdings — a system which, it has been held, has great administrative advantages. The Cohen Committee recommended that beneficiary owners of one per cent or over of the capital of a company should declare the fact but the Jenkins Committee recommends that beneficiary owners of 10 per cent or over of the equity capital of a company whose shares or any class of them are quoted should declare their identity and report the transactions in such shares.

On the question of disclosure of turnover figures, the Report is disappointingly timid. Although it recommends that annual accounts should be required to disclose turnover and group accounts should show group turnover, by allowing exemption from these requirements to a company if its directors believe disclosure of turnover would be harmful to the company, it nullifies the effect of its recommendation. The provision for exemption provides a very useful escape hatch for companies not willing to disclose turnover figures.

The Jenkins report has nothing to say about the broader social and economic implications of takeover bids. In the introduction to the report it is pointed out that the Committee's terms of reference limited the field of its enquiry to the duties of directors and the rights of shareholders involved in take-over bids. Its general line is that take-overs, mergers and amalgamations "are an essential feature of economic growth and development." Broadly speaking, it sees no objection to anybody issuing a take-over circular, provided that certain rules of procedure are followed and certain minimum information is given. It proposes that the Board of Trade should have powers to make rules for take-overs.

Among the reforms suggested by this cautious Committee are protection of the rights of minorities, more stringent definition of the duties of directors and closer circumscription of the activities of share dealers and advisers. The Board of Trade is to be given new and important powers to regulate prospectuses, take-over bids and unit trusts.

By and large, the Jenkins Committee has suggested no drastic or dramatic reforms. Its report is a competent but pedestrian document and its recommendations, if implemented, would lead to investors being slightly better informed and to a tightening of Company Law here and there. Some of the abuses that have emerged since the 1948 Act was framed would also be curbed. But they certainly do not measure upto requirements in the context of current company practices.

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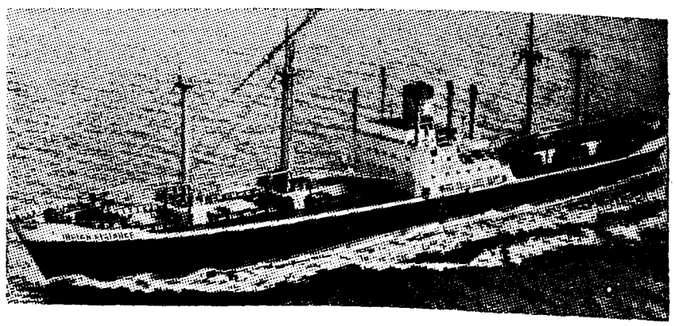

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Formulation of a State Plan

Rajasthan : A Case Study

Yoginder K Alagh

"The State Plan is a mere collection of a number of schemes, which neither satisfy any condition of balance nor are based on any basic programme of long term development of the State. There are no well worked out policies underlying them, and the nature of schemes often reveals gross ignorance and misunderstanding of local conditions on the part of whoever is responsible for their formulation." ("Planning at the State Level," The Economic Weekly, *Special Number,* June 1960. P 903.)

The following case study of the formulation of Rajasthan's Third Five Year Plan fully corroborates the above statement.

RAJASTHAN'S case evokes more than ordinary interest, because Rajasthan is one of the States which has implemented the scheme of democratic decentralisation somewhat quickly, and it has been claimed that Rajasthan's Third Plan was formulated from 'below', and that it is, therefore, a "people's" plan. It has been stated, for example, that "Judged from the standpoint of the goal of securing people's involvement in development programmes, Panchayati Raj institutions have made a good beginning. The realisation that planning should start from below so as to conform to the felt needs and available resources was responsible for associating Panchayat Samities in the formulation of development programmes". (B Maheshwari, "Two Years of Panchayati Raj in Rajasthan," *The Economic Weekly,* May 26, 1962. P 848.) Rajasthan's case is interesting because it has formulated its Third Plan in the context of the Panchayati Raj setup and the pattern that it has set may be followed by other States in the Fourth Plan.

Towards the close of 1958, certain papers were circulated by the Perspective Planning Division of the Planning Commission indicating the early thinking on the Third Plan. The State Government was then asked to initiate its work on the formulation of its Plan. The State Government's Planning Department prepared a tentative frame work of Rajasthan's Plan and published it on January 26, 1960. (Column 2 in Table 1 indicates the allocations provided in this plan framework and the other columns the changes in these allocations with successive reformulations, till the Plan took its final shape).

The tentative Plan-frame envisaged an outlay of Rs 279 crores, excluding an expenditure of Rs 49.5 crores on the Rajasthan Canal. Top priority was given to social services, irrigation and power and agriculture. This tentative plan largely consisted of projections for the Third Plan period of the various developmental programmes of the Government's Departments.

Working Group's Reports

In the first half of 1960, 18 working groups appointed by the State Government for the various sectors submitted their reports, as also a sub-committee of the State Planning Board which put up specific suggestions for development in the different sectors without discussing Plan outlays. It is interesting to note here that "The working groups in the State receive a lot of guidance from the corresponding Central Ministries and Central Working Groups" and also that "The groups get little guidance from the Planning Department of the State Government." (*Ibid, The Economic Weekly,* Special Number, June 1960. P 309.)

By June 1960, the State Planning Department did not have with it even tentative indications from the Planning Commission regarding the likely allocations to be made available to Rajasthan during the Third Plan. However on the basis of informal discussions in the National Development Council and with officers of the Planning Commission, the State Planning Department estimated that at best about Rs 207 crores and at worst about Rs 190 crores may be made available to the State for the Third Plan, excluding the outlay on the Rajasthan Canal. It was felt that the construction of Rajasthan Canal may be staggered and on that basis an expenditure of Rs 30 crores was visualised on this project in the Third Plan period. The Planning Department now reformulated its allocations. As Table 1 shows, as compared to the tentative Plan-frame, Irrigation and Power was given the same priority (although the expenditure on Rajasthan Canal was cut by Rs 19 crores) while a higher priority was given to agriculture and community development and to industries and mining. This was done at the cost of social services, and transport and communications. At various stages of the process of planning in the State the expenditure on agriculture, community development and irrigation was steadily increased at the cost of social services and transport.

The State Planning Department now took the plan through the process of "planning from below". The State Plan was divided into three sections — the Panchayat Samities Plan (for schemes transferred to Panchayat Samities), the Departmental Plan (for schemes administered by the Departments) and the Municipal Plan. The Panchayat Samities were asked to "prepare" their plans — but they were to work within these limitations: "The Departments indicated to the Panchayat Samities the allocations under each head of development . . The important social and economic objectives and important targets to be achieved under each head of development were also indicated to the Panchayat Samities . . . The Departments specifically indicated those schemes to which priority was desired to be given by the Panchayat Samities in view of the national and State objectives . . . The Departments *worked out the allocations*

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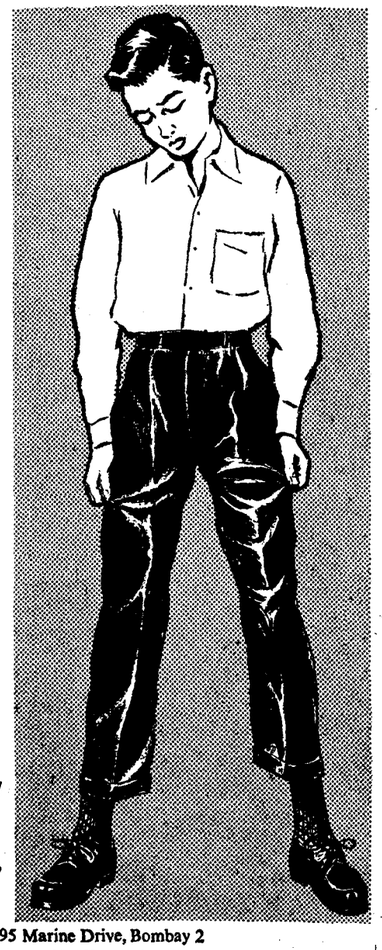

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for each Panchayat Samiti under various heads of development and sent these to the Planning Department which consolidated these allocations and communicated to the Panchayat Samities." (Government of Rajasthan: Third Five Year Plan, pp 20-21. Emphasis added.)

25 Days to Frame the Plan!

The pattern of financial assistance for each scheme was also communicated to the Panchayat Samities (this, as a matter of fact, is decided by *Central Ministries*, excluding the State Government's "Free Fund" Schemes). Thus the nature of each scheme and the amount allocated to it was already decided by the State Departments, and the Panchayat Samities could only advise the Government regarding the location, etc, of these schemes and not on their content. Even for tendering such advice, the Panchayat Samities were given a period of only twenty five days. On June 20, 1960, the Planning Department sent the allocations under each sector to every Panchayat Samiti and the Samiti was required to submit its "*Plan*" for approval by July 15, 1960. Thus the Panchayat Samities got exactly *twenty five days* to "formulate" their respective Third Five Year Plans. These 'Plans' were to be prepared in consultation with the Block Officers and even the Panchayats and Gram Sabhas. They were then forwarded to the Zila Parishad through the Collector and the district level technical officers. The Zila Parishads scrutinised these Plans and sent them to the concerned heads of departments who further "scrutinised these proposals and prepared their final proposals", which were in turn sent to the Planning Department "for final scrutiny before submission to the Planning Commission."

Thus even the limited degree of participation of the Panchayati Raj bodies in the formulation of the Plan was subjected to repeated administrative checks, scrutiny and reformulation. Almost a similar procedure was followed for the municipal plans. The Zila Parishads were given an advisory role in the formulation of Departmental Plans also. Planning from below is thus an illusion. Plan formulation, or the selection of schemes to be administered or sponsored in each Plan, is still a centralised operation. Most of the Plan schemes are centrally sponsored and controlled. The sectoral allocations are made by the State Planning Department, although here also the Planning Department is continually in touch with the central organisations, and, as we will see below, the last word on the size of the Plan and even the sectoral allocations lies with the Planning Commission. The Panchayati bodies have a very limited role of an advisory nature and cannot even determine the content of the Block Plan, leave alone affect its size and the overall priorities.

State's Final Proposals

The State Planning Department then prepared its final proposals to the Planning Commission, on the basis of the three types of schemes submitted to it and the various reports it had received. A plan of Rs 212 crores was visualised, excluding the expenditure on Rajasthan Canal. (In Table 1 we have included Rs 30 crores for the Rajasthan Canal to maintain comparability). The Plan proposals now prepared were more or less identical with the those submitted to the Panchayati bodies except for a further minor shift in emphasis from social services and transport and communications to irrigation and power. (See Table 1). Table 1 also shows how the process of Plan formulation within the State led to a considerable shift in priorities. Sixteen per cent of the total expenditure was allocated to agriculture and community development in the tentative framework. This was increased to 22 per cent in the Plan as submitted to the Planning Commission. The allocation on industry and mining was also increased from 3 per cent to 6 per cent in the final proposals. There were cuts in social services (from 27 per cent to 23 per cent), and transport and communications (from 11 per cent to 7 per cent).

Table 1: Evolution of Rajasthan's Third Five Year Plan

(1)	(2) Planning Department's Framework		(3) Planning Department's Upper Limits		(4) Revised Plans Lower Limits/		(5) Plans as Submitted to Planning Commission		(6) Rajasthan's Third Five Year Plan	
	Rs crores	Per cent	Rs crores	Per cent	Rs crores	Per cent	Rs crores	Per cent	Rs crores	Per cent
Agriculture & C D	52	16	52	22	45.80	21	52.90	22	44.80	19
Irrigation & Power	136	42	93	39	91.00	41	99.20	41	121.00	51
Industries & Mining	11	3	12	5	12.00	6	12.00	6	8.95	4
Transport & Communication	35	11	18	8	16.30	7	18.28	7	13.20	6
Social Services	91	27	58	25	52.80	24	56.84	23	45.95	19
Miscellaneous	3	1	3	1	2.80	1	3.00	1	2.10	1
Total	328	100	237	100	220.70	100	242.22	100	236.00	100

Sources: 1 Government of Rajasthan, Planning Department: "The Tentative Framework of Rajasthan's Third Five Year Plan", 1960. This includes an expenditure of Rs 49 crores on Rajasthan Canal which has been added to the total outlay of Rs 279 crores envisaged in the tentative framework to maintain comparability with the final Plan outlay which includes expenditure on the Rajasthan Canal.

2 By June, 1960, the State Planning Department was estimating that at best Rs 207 crores and at worst Rs 190 crores would be available to Rajasthan (excluding the Rajasthan Canal for which Rs 30 crores may be provided in Third Plan period). The figures in the Table above include the expenditure of Rs 30 crores on Rajasthan Canal (estimated in June 1960) to ensure uniformity and allow comparison. These figures were made available by the Government of Rajasthan.

3 This includes a sum of Rs 30 crores as estimated expenditure on the Rajasthan Canal, to ensure uniformity. Otherwise the Plan as presented to the Planning Commission was for Rs 212.22 crores. See Government of Rajasthan: "Rajasthan's Third Five Year Plan Proposals" (as presented to the Planning Commission), 1961.

4 See Government of Rajasthan: "Third Five Year Plan". The total outlay includes an expenditure of Rs 38 crores on the Rajasthan Canal.

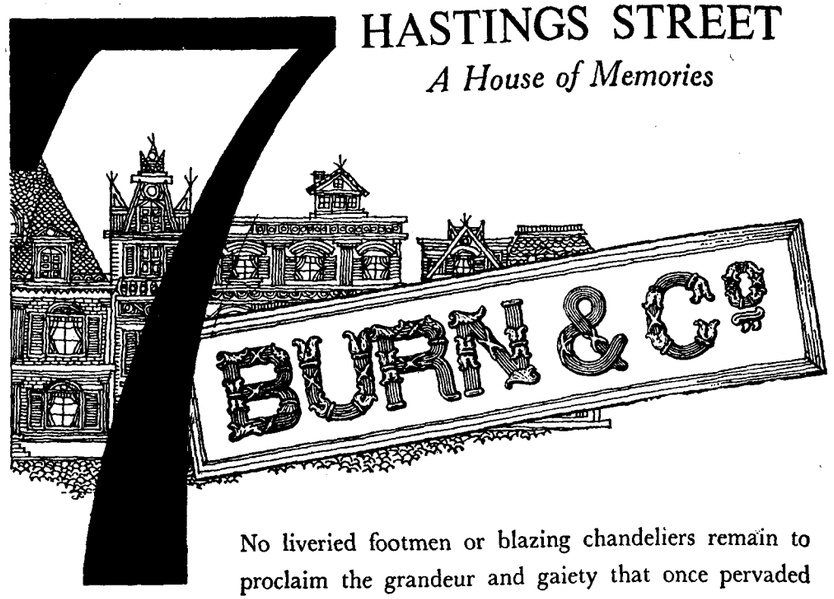

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Table 2 : Phasing of Plan Expenditure in Rajasthan in the Second Plan : Actual and as Originally Envisaged

(Percentage of Total Expenditure)

	Phasing Originally Envisaged	Annual Plan Allotment	Actual Realised Expenditure
1956–57	23.5	17.88	11.99
1957–58	20.5	18.83	14.86
1958–59	22.5	17.59	20.24
1959–60	19.5	21.04	21.93
1960–61	14.0	24.66	30.98
Total	100.0	100.00	100.00

Source : Government of Rajasthan : "Progress Report for the Second Five Year Plan", p 27–28.

The Planning Commission finally approved a Plan of Rs 236 crores for Rajasthan including an allocation of Rs. 38 crores for the Rajasthan Canal. However, it made significant changes in the scheme of priorities that the State planners had presented. Increased emphasis was placed on Irrigation and Power, particularly on implementation of the centrally sponsored multi-purpose projects and the Rajasthan Canal. The outlay on irrigation and power increased from 41 per cent of the total outlay in the State's proposals to 51 per cent in the Plan as approved by the Planning Commission. There were corresponding cuts in all the other important sectors of the Plan; a reduction of 4 per cent in social services, 3 per cent in agriculture and community development, 2 per cent in industries and mining and 1 per cent in transport and communication.

Some of these reductions were particularly unfortunate. The outlays on social services and transport and communication were cut in each successive reformulation of the Plan inspite of the fact that Rajasthan is at a low level of development in both these sectors. The already meagre allocation for industry and mining was further cut by the Planning Commission, although Rajasthan is industrially backward and very rich in largely unexploited mineral resources. The outlay on power, another bottleneck to Rajasthan's development, was also reduced from Rs 45 crores in the Plan proposals to Rs. 35 crores in the Plan as approved by the Planning Commission. "Local need" has, therefore, not been one of the criteria in making the allocations. The Planning Commission gave overriding priority to Centrally sponsored schemes in irrigation, even though this meant completely distorting the priorities which the State planners had suggested. As a matter of fact, apart from irrigation the allocation for every other sector is below the "lower limit" of the Planning Department's Revised Plan. (See column 4 in Table 1). These "lower limits" were regarded by the State planners as a sort of "irreducible minimum" for the development of each sector, but the Planning Commission made further cuts in them, to suit the high priority accorded to Centrally-sponsored irrigation schemes.

Annual Phasing — on Paper

The Plan, once formulated, is not a rigid strait-jacket. Some sort of annual phasing of the Plan expenditure is originally envisaged, but it is never adhered to in practice (See Table 2). The annual plans are "operationally" more significant. The Planning Commission has an even more important role to play in the allocations made to each State (total as well as sectoral) in each 'annual plan'. These allocations are made on the basis of 'discussions' between the Planning Commission and State officials, but it is well known that in these 'discussions', the planners lay down the law. Ultimately it is the State administration which has to execute the 'annual Plan', and at least in Rajasthan, the annual expenditure has not followed the total annual allocations very closely (see Table 2). In some years there have been shortfalls and in others over-fulfilment. Thus it is admitted that "the phasing of the plan expenditure could be maintained neither as envisaged originally under the plan nor as it emerged through annual plan allocations". (Government of Rajasthan, "Progress Reports of Rajasthan's Second Five Year Plan", P 29.) It is perhaps for this reason that no annual phasing of plan expenditure has been provided in the original document of Rajasthan's Third Plan. Finally, no perspective planning for long term development is done by the State Planning authorities.

To conclude, the formulation of a State's Plan is a fairly centralised bureaucratic process. The State planners, even when they are collecting the departmental schemes which go to make the Plan are constantly in touch with the Planning Commission, the Central Ministers and the Working Groups. 'Planning from below' is, more or less, an illusion. Even in Rajasthan, which has implemented the scheme of democratic decentralisation, the Panchayati bodies have only a very general advisory role and cannot significantly influence the size and content of the plan. The Planning Commission, of course, is the final authority to prune and reallocate the State outlays.

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Concentration of Production in Mining

S Narayanaswamy

This paper attempts to show how production is concentrated in the mining industry. We have studied the production of the principal minerals, viz manganese ore, iron ore and mica, which cover a major proportion of all mines, for the year 1960.

DURING 1960 there were 573 manganese mines, 243 iron ore mines and 720 mica mines. The production of manganese ore in the year was 1.2 million tonnes, iron ore 10.7 million tonnes and mica 29,000 tonnes. Table 1 shows the number of mines, total production, average production and the percentage of mines producing below average for all India and for some of the important States. The number of mines which reported no production during the year 1960 owing to suspension of production activities only for reasons of prospecting work, mines development, disposal of stocks, unmarketable nature of ore grade etc were taken into account, but separate figures excluding such mines were also worked out and are shown in bracket in Table 1.

It is seen from Table 1 that the percentage of mines falling below the average in respect of manganese ore was 84 per cent for all India and this varied between 75 per cent to about 88 per cent among States. In case of iron ore the percentage of mines which produced less than the average was 86 per cent for all India and the corresponding figure for Bihar was 93 per cent which was the highest. As regards mica the all India figure was 75 per cent.

Table 1 (a) : Manganese

	No of mines	Total production	Average production (Tonnes)	Percentage of mines producing less than average
All-India	573	1,198,765	2,092.1 (2,534.3)	84.1
Maharashtra	136	187,353	1,377.5 (1,629.1)	87.5
Madhya Pradesh	120	219,064	1,825.5 (2,086.3)	86.6
Orissa	83	346,876	4,179.2 (5,506.0)	74.6
Mysore	144	302,216	2,098.7 (2,437.2)	81.2

Table 1 (b) : Iron Ore

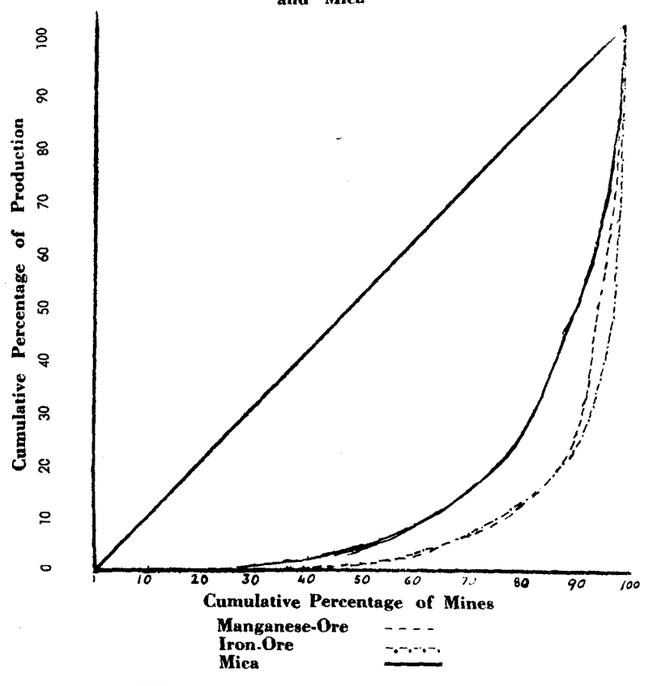
	No of mines	Total production	Average production (Tonnes)	Percentage of mines producing less than average
All-India	243	10,683,291	43,964.2 (50,156.3)	86.3
Mysore	118	1,872,006	15,864.4 (16,714.3)	75.6
Orissa	46	3,734,756	81,190.3 (91,091.6)	78.2
Bihar	45	2,847,204	63,271.2 (94,906.8)	93.3

Distribution of Production

The mine-wise production figures in respect of manganese ore, iron ore and mica were arranged in ascending order and the decile points of the distribution of mines and the cumulative percentage of quantity produced were worked out. The decile points are the size of mines below which 10, 20, 30 etc per cent of mines lie. For the sake of comparison similar figures for some of the important States were also worked out and are given in Table 2.

Concentration Curve for Production in Mining Industry

Figure 1 (a) : All-India Production of Manganese Ore, Iron Ore and Mica



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It is observed from Table 2 that the share of production of the lower 50 per cent of mines in India in respect of manganese ore was only 1.4 per cent and lay between 1 to 4 per cent in different States. On the other hand 40 per cent of mines lying above the 6th decile produced 96 per cent of the total production; 30 per cent of mines above the 7th decile produced 93 per cent of total production; 20 per cent of the mines above the 8th decile produced 88 per cent of the total production and finally 10 per cent of the mines above the 9th decile produced 76 per cent of total production. Moreover, one feature common to all the States was that in each State the upper most 10 per cent of mines produced 60 per cent or more of the total production which means more than three-fifths of the total production was accounted for by only one tenth of mines.

In case of iron ore the upper 30 per cent of mines in India accounted for 93 per cent of the total production; the upper 20 per cent accounted for 88 per cent of the total production and the upper 10 per cent accounted for about 78 per cent of total production. Hence nearly four-fifths of the total production is accounted for by one-tenth of the mines.

As regards mica the upper 30 per cent of mines in India accounted for 85 per cent of total production and the upper 10 per cent accounted for about 53 per cent of total production, which means that more than half of the total production of mica in India was accounted for by one tenth of the mines.

The concentration curves are drawn in figures 1 (a-d). Figure 1 (a) shows the concentration curves for all India in respect of all the minerals, viz manganese ore,

Table 1 (c) : Mica

	No of mines	Total production	Average production (Tonnes)	Percentage of mines producing less than average
All-India	720	29,182	40.5 (41.8)	74.5
Bihar	424	14,716	34.7 (37.9)	70.8
Rajasthan	230	7,282	31,7 (34.3)	75.2
Andhra Pradesh	58	6,973	120.2 (129.1)	73.0

Concentration Curve for Production in Mining Industry

Fig — 1 b (Manganese Ore Production of Maharashtra, Mysore and Orissa)

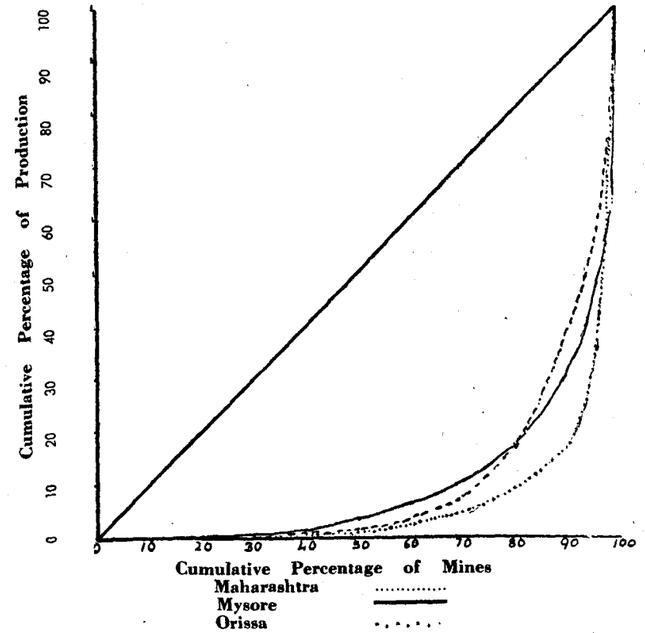


Table 2 (a) : Manganese Ore

Order of Decile Points	All-India	Maharashtra	Mysore	Orissa
	Cumulative Percentage of Production			
1st	0.0	0.0	0.0	0.0
2nd	0.0	0.0	0.1	0.0
3rd	0.2	0.2	0.7	0.1
4th	0.8	0.5	1.8	0.6
5th	1.4	1.1	3.6	1.6
6th	3.7	2.4	6.4	3.6
7th	6.8	4.7	10.5	7.8
8th	12.2	9.4	17.7	17.1
9th	24.0	16.9	31.6	39.1

Table 2 (b) : Iron Ore

Order of Decile Points	All-India	Orissa	Mysore	Bihar
	Cumulative Percentage of Production			
1st	0.0	0.0	0.0	0.0
2nd	0.0	0.0	0.3	0.0
3rd	0.3	0.5	0.8	0.0
4th	0.8	1.9	1.7	0.0
5th	1.8	4.0	3.8	0.4
6th	3.6	7.8	6.9	1.1
7th	7.0	12.4	12.1	2.6
8th	12.5	22.4	22.3	5.2
9th	22.2	41.7	39.2	10.2

Table 2 (c) : Mica

Order of Decile Points	All-India	Bihar	Andhra Pradesh	Rajasthan
	Cumulative Percentage of Production			
1st	0.1	0.1	0.2	0.0
2nd	0.4	0.5	1.1	0.3
3rd	1.2	1.4	2.7	1.1
4th	2.6	3.1	5.1	2.4
5th	5.0	5.4	9.4	5.1
6th	8.8	9.5	15.4	9.2
7th	14.9	15.9	23.9	15.0
8th	25.3	26.6	38.0	25.3
9th	47.5	47.5	59.6	49.4

iron ore and mica. It is seen from the diagram that in case of iron ore the concentration of production is the highest and manganese ore ranks next. The figures 1 (b), 1 (c) and 1 (d) show the concentration curves of manganese ore, iron ore and mica respectively for some of the important States.

Sulphur from Gypsum

SULPHURIC acid is an essential chemical for a wide range of industries like fertilisers, steel, rayon and staple fibres, petroleum refining and sulphates and inorganic salts. Indeed, the Third Plan considers the expansion of output of sulphuric acid "a major barometer of industrial activity." The Plan target for sulphuric acid is set at 1.75 million tonnes against which a capacity of 1.35 million tonnes has been licensed and a further capacity of 0.70 million tonnes has been recommended.

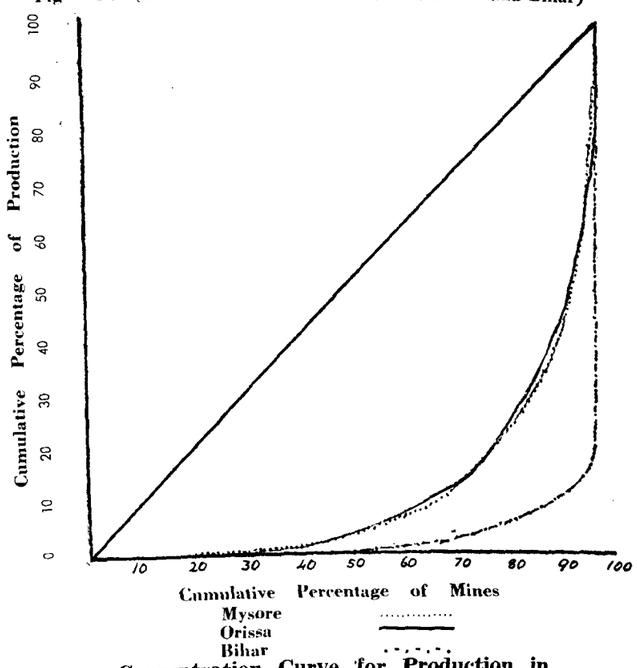
However, the main obstacle in the way of expanding the output of sulphuric acid is that the entire quantity of sulphur, the main raw material, has to be imported as there are practically no indigenous reserves. This has encouraged efforts to recover sulphur from other minerals more abundantly available in the country. A process for the production of sulphur from the pyrites deposits in the Amjor area in Bihar has already been perfected and a public sector company has been set-up as subsidiary to the N I D C to exploit pyrites deposits for production of sulphur.

A press note issued by the Press Information Bureau last week announces the development of a process at the National Chemical Laboratory, Poona, for the production of sulphur from gypsum and sewage sludge.

Prospects of commercial exploitation of the new process are, however, uncertain since the cost of gypsum-produced sulphur is much higher than that of sulphur produced from pyrites. Yet, according to the press note, the process is of "potential value in times of emergency, particularly in view of the fact that India depends entirely on imports for her requirements of sulphur."

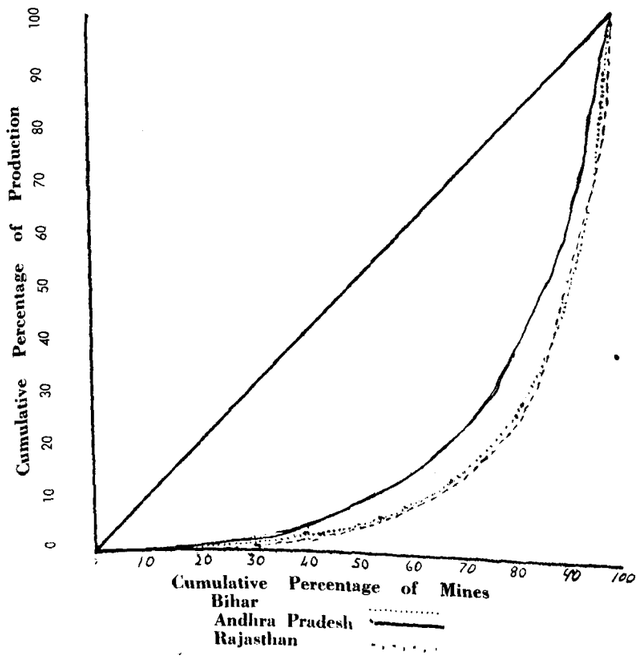
Concentration Curve for Production in Mining Industry

Fig — 1 c (Iron Ore Production of Mysore, Orissa and Bihar)



Concentration Curve for Production in Mining Industry

Fig — 1 d (Mica Production of Bihar, Andhra Pradesh and Rajasthan)



10 JUL 1962

Economic Growth and Inequality Revisited

A Reply

Ramgopal Agarwala

IN his article "Economic Growth and Inequality Revisited" (*The Economic Weekly*, April 28, 1962) Mr Hugh T Patrick criticises my suggestion about compulsory loans for financing the plans (*The Economic Weekly*, September 4, 1961) and puts forward an alternative.

Mr Patrick accepts that a compulsory loan scheme may be politically more acceptable and that it may have less of a work disincentive effect. But he thinks that "compulsory loan may be at the expense of private voluntary saving, individuals simply substitute compulsory for voluntary saving so that the total proportion of saving to their income remains the same." While there may be some substitution of compulsory loans for voluntary savings, it should not be forgotten that the compulsory loans, because of their non-negotiable character, will not be perfect substitutes for voluntary savings. Further, the main point of a scheme of compulsory savings is to make non-savers save and in their case the question of substitution does not arise. Again, because of the lesser disincentive effect the compulsory loan programme can be carried farther than the taxation programme. The effect on private investment of compulsory loans cannot be studied on the assumption that all the loans are employed in investment in public sector. Government may give out a part of the loans to private enterprise. Besides, my suggestions covered compulsory saving through issue of bonus shares and provident fund contributions which will increase the capital available to private firms.

As regards the effect on income and wealth distribution, Mr Patrick thinks that the tax technique is at least as efficient as the compulsory loan programme and very likely is more efficient. However, if it is accepted, as Mr Patrick does, that the compulsory loan scheme will reduce consumption of the poor relatively more than the consumption of the rich, does it not follow that it would increase savings (and thus wealth) of the poor relatively more than those of the rich? The poor would in any case have been made to sacrifice consumption in real terms (because of inflation and/or taxation) but would have had no corresponding title to wealth.

Impact on Ownership of Wealth

Nor is it correct to argue that "the build-up of assets is illusory in any real sense." The loans are expected to be utilised for productive purposes and when these investments mature, the supply of real goods will increase, and the payment of loans by currency creation need not generate inflation. Even if the repayments are made by proportional income tax it is not true that "the receipts of each family will be exactly equal to their tax payments". The receipts of each family will be in proportion to the sacrifice made at the time of building up the capital-structure whereas the tax payments shall have to be made in proportion to the income in the present and the two need not coincide. Furthermore it is possible to think of repayments in terms of equities of the public companies to a certain extent and to that extent there would arise no question either of currency creation or taxation for repayment. Repayment of loans raised on a progressive basis need not increase disparity of wealth; for this will only make up for the more than proportionate reduction in potential private savings of the rich at the time of raising the loans. But for the loan scheme the poor man would not have had any wealth in his possession though he had been made to make sacrifices for the creation of the capital.

The alternative suggestions advanced by Mr Patrick are not likely to be effective. Any additional tax on financial assets held for non-speculative purposes or on income thereon, will be positively undesirable. Bonds are already at a disadvantage because of the inflationary tendency and the problem is to make them popular by allowing tax reliefs (as is being done on a number of savings certificates) or making their value index-based and not to impose further taxation on them. Similarly as regards equities, the problem is to make them more popular and in any case equity holders do not belong to the rentier class. Increased taxation on land and land rent will not be undesirable in principle, but there are political problems involved here and in any case with the abolition of zamindary system, there is not much of land and land rent in the hands of the rich and these taxes cannot raise much revenue without being inequitable.

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(ii) Economic Assistants in the Economic Department : Rs. 175-12.50-300 EB 20-440.

Note : Candidates for the Probationary Assistants' posts possessing exceptionally good qualifications and experience of value to the Bank may be given a higher starting pay in the prescribed scale.

In addition to pay, the selected candidates will be eligible to draw local pay, house allowance and dearness allowance at the rates prescribed by the Bank from time to time.

(B) QUALIFICATIONS :

(i) *Probationary Assistants* : Applicants should have a good academic record and a first or high second class Master's degree of a recognised Indian or foreign University with Economics, Banking, Commerce or Accountancy as a special subject and should also have some proficiency in drafting. The educational qualifications may be slightly relaxed in the case of candidates who possess a good degree in law. Preference may be given to those who have passed the Institute of Bankers' Examinations.

(ii) *Economic Assistants* : Applicants should possess a first or high second class M.A. or M.Com. degree in Economics or Commerce of a recognised University, as also a thorough knowledge of economic analysis and have specialised in Economics. Preference will be given to those who have practical experience of research in Economics.

(C) AGE LIMITS AS ON 1ST JULY 1962 :

(i) *Probationary Assistants* : Between 21 and 25 years.

(ii) *Economic Assistants* : Between 18 and 24 years.

The maximum age limit is relaxable but not beyond 30 years in the case of :

(i) candidates possessing special qualifications and experience of value to the Bank;

(ii) ex-employees of banking institutions whose services had to be terminated for reasons of economy or as a result of the banks going into liquidation;

(iii) personnel retrenched from Government offices after at least one year's service applying through Employment Exchanges; and

(iv) candidates belonging to the Scheduled Castes or Scheduled Tribes.

2. Candidates who wish to apply for more than one category of posts must submit *separate* applications accompanied by separate application fees and *should clearly indicate the post for which they have applied.*

3. Applicants for the posts of Probationary Assistants must remit with their applications a fee of Rs. 7.50 by cheque or Bank Draft on a Scheduled Bank or by Postal Order, payable at Bombay. Applicants for the posts of Economic Assistants must remit a fee of Rs. 2.00. *The application fee is in no case refundable.* Bonafide refugee candidates *not in employment* applying through Employment Exchanges are exempted from payment of application fees while in the case of candidates belonging to Scheduled Castes/Tribes, the fee will be reduced to one-fourth.

4. Applications in the candidate's own handwriting in the prescribed form obtainable from the Reserve Bank's offices at Bombay, Calcutta, Kanpur, New Delhi, Nagpur, Madras, Bangalore, Lucknow, Hyderabad, Trivandrum and Patna accompanied by copies (*originals should not be sent*) *of certificates regarding age and educational qualifications, statements of marks secured in the Graduate and Post-Graduate degree examinations and copies of at least two testimonials* should be forwarded to the Secretary, Central Recruitment Board, Reserve Bank of India, Central Office, Post Box No. 406, Bombay No. 1 so as to reach him on or before the 31st July 1962.

5. Candidates already in service will be required to produce a proper discharge certificate from their employer in the event of their being selected, at the time of their appointment in the Bank's service.

6. Candidates belonging to Scheduled Castes/Scheduled Tribes should mention this fact prominently in their applications and also enclose a copy of a certificate to that effect from a competent authority.

7. Candidates must be prepared to serve in any office of the Bank in India and to undertake tours when required.

8. Selected candidates for Probationary Assistants' posts will have to appear for interview/s before the Selection Board at any of the Bank's offices. Selected candidates for the Economic Assistants' posts will be required to appear for a written test which will be held at the abovementioned offices of the Bank. Candidates should clearly state on the top of their applications, the office of the Reserve Bank at which they desire to appear for the test, if called. Those successful in the test will have to appear for an interview at Bombay.

9. Appointment will be subject to candidates being found medically fit for service in the Bank by the Bank's Medical Officer.

10. If any candidate desires to have his application acknowledged, he should send it by "Registered Post — Acknowledgement Due". Apart from those who may be specially called, interviews will not be granted to candidates nor will the Bank enter into correspondence with them.

11. Canvassing will be regarded as a disqualification.

Around Bombay Markets

Weather Ideas Dominate

Thursday, Morning

MARKET sentiment last week was guided essentially by weather ideas. And Tuesday — 3rd July — was the most exciting day of the week in that cotton and oilseeds futures scored further gains and made new highs in the recent upward move, while the stock market suffered a sharp break with several counters declining to new low levels for the year. It all happened because of the weather. Commodity futures were marked up on the idea that if the dry spell continued for some more days, the crops, especially cotton, would not only be late but the production also would suffer a substantial setback. In the stock market, bulls seemed to have been scared by the prospect of a fall in industrial production in the event of power cut resulting from failure of the monsoon. Madras has already enforced a drastic cut in power consumption even for industrial purposes. And the Tata group of power companies have also hinted at the possibility of a 20 per cent cut because of the precariously low level of water in the Mulshi lake. The prospect of a poor monsoon is indeed frightening. A bad harvest can not only upset price stability with all its disturbing consequences but make nonsense of all Plan targets. This underlines the supreme need for strengthening the agricultural base of the economy: this has become all the more urgent because of the drastic import cuts necessitated by the critical foreign exchange position. Fortunately, the latest reports indicate a distinctly favourable turn in the weather.

Cotton

Futures Spurt

COTTON futures — March 1963 contract — which could be had at around Rs 721 on 29th June touched a high of Rs 731.50 (per 3 quintals) on 3rd July. Since the preceding rise had been fairly steep and the contract had come very close to its previous top of Rs 734.75 recorded on the very first day of its opening on 9th June, a technical setback was only to be expected. But apart from technical considerations, favourable weather reports also imparted an easier tendency near the weekend and the contract receded to around Rs 726 in Wednesday's kerb dealings. Moglai, Ahmednagar District and Vidarbha — all these areas are reported to have had sufficient rains for sowings and it is still not very late for a normal crop provided, of course, the weather continues to oblige in the future. It is quite premature to talk of the new crop outlook. All that one can say at the moment is that in view of the record low carryover at the end of the current season and unencouraging import prospects, the 1962-63 cotton crop will have to be really a good one to take cotton prices well below the old ceiling prices. Judged by the prices over the past several years, the current quotations for the futures contract are certainly on the very high side. But it will have to be conceded that while the production of cotton has virtually stayed put for the past many years, consumption has been going up and it is expected to go up still higher due to increased spindleage. Cotton futures might find it difficult to record a further big rise if weather conditions remain satisfactory. But no serious fall seems likely until the new crop is known to be definitely a bumper one.

Meanwhile, turnover both in futures and spot markets continues to be on a restricted scale. The import quota of 2.25 lakh bales of U S cotton and the 42,000-bale quota of Pakistani cotton are reported to have been virtually exhausted. Bengal Deshi prices have firmed up due to increased Japanese inquiry. Out of the current Bengal Deshi quota of 70,000 bales — the established shippers' share is 66,500 bales — barely 5,000 bales remain unsold. The trade is pleading for a further quota of 60,000 to 75,000 bales because of the considerable exportable surplus and satisfactory Japanese inquiry for August-September shipment. The Government would be well-advised to accept the trade's plea, not merely because of the pressing need for maximising foreign exchange earnings but because Deshi cotton is really in surplus and its supply has no bearing on the overall supply position of cotton. Reports from the Punjab show that the cotton crop is making satisfactory progress and if the weather remains normal, the Punjab crop should yield around 4.5 lakh bales of Deshi cotton. Indian consumption of Deshi cotton rarely exceeds 2 lakh bales a year.

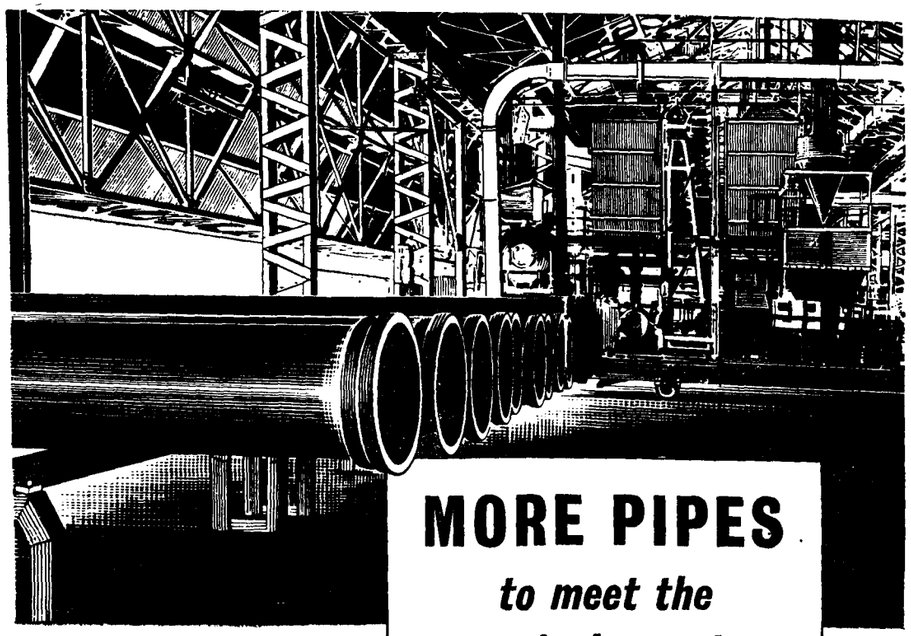
Oilseeds

Prices Rise and React

GROUNDNUT September which could be had at below Rs 216 (per 250 kgs) on 30th June were bid up to Rs 221.50 on 3rd July but were down again at around Rs 217.50 the next day. Other oilseeds seemed merely to follow groundnut. Castor September shot up from Rs 160.12 to Rs 166 to ease later to around Rs 163.37. After easing from Rs 40.75 to Rs 39.87 linseed September rose to Rs 40.65 (per 50 kgs) but drifted lower again to around Rs 40.12. Cottonseed September were marked up from Rs 105.50 to Rs 109.50 but later receded to Rs 107. Earlier improvement was caused mainly by nervous short covering on account of the continued dry spell in the groundnut producing areas. But reports of beneficial rains touched off considerable selling on Wednesday, erasing most of the gains recorded on the previous two days. With the price pattern moulded primarily by the unpredictable weather, it is difficult to say how the market will behave in the immediate future. The latest reports about the weather are, however, quite encouraging and this should make possible timely sowing of groundnuts. Weather apart, last week's improvement in castor futures was also attributable to reports of substantial export business in castor oil, estimated around 1,000 tons. Russia and Poland were said to have purchased about 600 tons of castor oil B S S and the U K took another 400 tons or so. The U K quotation for Commercial

was mentioned around £ 105/10-6 per ton.

It was not really groundnut or castor futures which really made news last week. Developments in respect of groundnut extractions and expellers were far more exciting, with spot prices shooting up by about Rs 40 to Rs 50 per ton in a matter of days. The hectic buying in extractions and expellers followed the barter deal involving the sale of some 50,000 tons of groundnut extractions to certain Continental countries against the purchase of fertilisers and certain machinery. The spot quotation of Rs 400 per ton for groundnut expellers is probably an all-time high. Overseas prices also recorded sizable improvement. The quotation for July shipment was bid up to £ 34-5 and August to £ 34-10. September/November position was



IISCO

With the addition of a second plant at the Kulti Works of The Indian Iron & Steel Co. Ltd., the production of spun iron pipes has increased from 60,000 to 150,000 tons per year. Besides helping to satisfy India's growing demands for large diameter pipe mains, the increased tonnage saves India many crores of rupees annually in foreign exchange. Employing latest techniques, the Kulti Works of IISCO is the first to produce 3" to 30" diameter spun iron pipes in the country.

THE INDIAN IRON & STEEL COMPANY LIMITED

Sales Department

Martin Burn House, 12 Mission Row, Calcutta 1

Managing Agents:

MARTIN BURN LIMITED

Martin Burn House, 12, Mission Row, Calcutta 1

Branches at: NEW DELHI BOMBAY KANPUR PATNA

Agents in South India: THE SOUTH INDIAN EXPORT CO. LTD., MADRAS 2

IIC-818

mentioned around £ 34-15. These prices are about £ 2 higher than the prices which prevailed about a fortnight earlier.

No fresh business was reported to have been put through by the State Trading Corporation in groundnut oil and/or linseed oil. Not only that. Inquiries with shippers indicate that the overseas buyers are thoroughly dissatisfied with the way the S T C has been handling the export of groundnut oil. The Corporation, it is said, has not been able to fulfil its commitments; Shipments have not been according to schedule. About 8,000 tons of groundnut oil are reported to be unshipped against the May/June contracts. In the absence of timely supplies from the S T C, importers abroad have been experiencing great difficulties in fulfilling their own commitments to the local customers. Unable to meet its outstanding obligations, the Corporation is reported to have suspended fresh export business in groundnut oil for the time being.

Stock Exchange

Downtrend Resumed

THE rally in equities which began with the panicky sell-off on 15th June has proved to be an extremely short-lived affair. The downward trend has been resumed and the market has already fallen below the Goa crisis low recorded in December. Vyapar's equity share index which was at its year's best of 149.96 on 3rd May declined to 138.67 on 15th June. After rallying to 142.82 on 22nd June it drifted lower to stand at 140.19 at the end of the previous week. But last week the index fell to a new low of 136.74 on Wednesday and the week-end closing was only a little better at 137.42. The lowest point recorded in December was 137.10. Last week's decline which takes the index fairly close to its August low of 134.29 was caused by renewed bear pressure and tired bull liquidation. Fresh support was virtually absent. Losses were heavy and widespread and they were not confined to speculators' favourites. The performance of cash scrips and new issues was no less disappointing. Vyapar's index for new issues showed a net loss of 2.77 over the week at 81.65.

The disquieting political situation due to unhappy relations with China and Pakistan, tight foreign exchange position which has led to drastic cuts in imports, unencouraging aid outlook and the slump on Wall Street — all these factors had already brought about a marked deterioration in the trading sentiment on the stock market. And last week sentiment was further unsettled by fears of acute power shortage due to delayed monsoon. Madras has already enforced a drastic cut in power supply even to industrial consumers. Calcutta and Bombay also propose to reduce the supply of power. Industrial production will naturally suffer as a result of reduced power supply and corporate earnings depend on production. It is difficult to assesss the impact of power cut on industrial production because the cut might soon be restored unless the monsoon fails miserably. Latest reports about the weather are, however, quite encouraging. Fear of power shortage was not the only factor which induced heavy selling in equities last week. The terms and conditions of the new Central loans were also taken as an indication of a change in Government's interest rate policy. Indirect credit curbs through the raising of the penal rates on borrowing by scheduled banks from the Reserve Bank acted as an additional damper. Reports that Shri T T Krishnamachari had suggested further cut in imports because of the tight foreign exchange situation accentuated the bearish feeling in the market. With the trading sentiment very much unsettled, prospects of a marked and sustained recovery in prices in the immediate future are discounted.

Government of India

3¾ PER CENT. NATIONAL PLAN BONDS—FIFTH SERIES (3¾ PER CENT. 1968) ISSUE PRICE Rs. 99.20 PER Rs. 100 (NOMINAL). REPAYABLE ON 12TH MAY 1968.

4 PER CENT. LOAN 1972 ISSUE PRICE Rs. 99.20 PER Rs. 100 (NOMINAL) REPAYABLE ON 1ST AUGUST 1972.

4½ PER CENT. LOAN 1985 ISSUE PRICE Rs. 100 PER Rs. 100 (NOMINAL) REPAYABLE ON 12TH JULY 1985.

Subscriptions to the above bonds and loans will be received simultaneously and will be limited to a total of Rs. 250 crores (approximately). Subscriptions may be in the form of (i) cash/cheque or (ii) securities of the 2¾ per cent. Loan 1962 or 3¼ per cent. Bonds 1962 which will be accepted for conversion at Rs. 99.50 and Rs. 100 per Rs. 100 (Nominal) respectively.

Interest on 2¾ per cent. Loan 1962 tendered for conversion will be paid upto 11th July 1962. Interest on 3¼ per cent. Bonds 1962 tendered for conversion will be paid for the full half-year ending 15th July 1962.

Interest on the new bonds and loans will accrue from 12th July 1962. Interest on the 3¾ per cent. National Plan Bonds—Fifth Series (3¾ per cent 1968) will be paid on the 12th November 1962 for the period 12th July to 11th November 1962 and thereafter half-yearly on the 12th May and 12th November. Interest on the 4 per cent. Loan 1972 will be paid on the 1st August 1962 for the period 12th to 31st July 1962 and thereafter half-yearly on the 1st February and 1st August. In the case of 4½ per cent. Loan 1985 interest will be paid half-yearly on 12th January and 12th July.

Subscription lists will open on 12th July 1962 and close on 14th July 1962 or earlier without notice.

Applications for the bonds and loans will be received at :—

(a) **Offices of the Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi;**

(b) **Branches of the Subsidiary Banks of the State Bank of India conducting Government business; and**

(c) **Branches of the State Bank of India at other places in India.**

For full particulars apply to any of these offices or branches.

Company Notes

Mukand Iron

THE sharp fall in supplies of billets has not affected very much the working results of Mukand Iron and Steel Works during the year ended March 31, 1962. While the decline in receipts of billets from 74,366 tonnes to 42,580 tonnes is reflected in a reduction in turnover from Rs 6.37 crores to Rs 4.73 crores, there has been no corresponding set-back in gross profit, as a result of the increase of Rs 36 lakhs in sales of steel castings following a better performance of the foundry. The gross profit has declined by only Rs 1.49 lakhs to Rs 61.43 lakhs. Consequently, the ratio of profit to sales has risen from 9.8 per cent to 13.0 per cent.

The net profit has dropped from Rs 28.18 lakhs to Rs 24.91 lakhs, but the dividend has been maintained at 12 per cent, the old shares receiving Rs 1.20 per share and the new shares a proportionate distribution of Rs 1.05 per share, on account of the cut in the appropriation to the gratuity reserve from Rs 6.50 lakhs to Rs 1.50 lakhs and to the general reserve from Rs 10.00 lakhs to Rs 7.55 lakhs. There has, however, been an increase in the allocation to the development rebate reserve from Rs 1.70 lakhs to Rs 4 lakhs.

The current year holds promise of better billet supplies. The allotment made in the first two quarters is 100 per cent of the entitlement and that for the third quarter is expected to be maintained at that rate. The special rolling mill installed in the last quarter of 1961-62 is better equipped to produce lighter sections which fetch a higher price. The order position in respect of steel castings is very satisfactory.

The prospects for the current year thus appear to be better, but there are certain adverse factors which bid fair to increase the cost of production and reduce the profit-margin. The excise duty of 5 per cent *ad valorem* levied on steel castings weighing one tonne and over will, according to the directors, increase the company's cost by Rs 50,000 per annum at the projected level of output for the next year. The increase in power rates and electricity duty is estimated to cast an additional burden of Rs 2 lakhs.

The higher costs may to a large extent be offset by the larger turnover when the expansion programme is completed. The expansion of the steel foundry at Kurla is expected to be completed as scheduled. The company has received an industrial licence to expand the cast iron foundry to produce 300 tonnes per month. The Kalwe project is estimated to cost Rs 3.70 crores, of which the foreign exchange component amounting to Rs 1.60 crores will be met from loans from the ICICI, Bombay, and the Commonwealth Development Finance Co. Ltd, London, the applications to whom have been processed. The rupee finance will be met by retained earnings and additional capital.

Tata Oil Mills

THE preliminary results of Tata Oil Mills for the year ended March 31, 1962 fully vindicate the directors' recommendation to maintain the dividend at Rs 5.75 per share or 23 per cent. This is the third year in succession for which the dividend is being repeated. While the turnover has recorded a great improvement from Rs 10.27 crores to Rs 11.19 crores, the profit (after depreciation) has not shown any improvement. On the contrary, it is a shade lower at Rs. 38.80 lakhs, compared to Rs 39.26 lakhs earned in 1960-61. The net profit after tax is Rs 23.03 lakhs, against Rs 23.16 lakhs —the tax provision being Rs 15.77 lakhs against Rs 16.10 lakhs provided last year.

Burn and Company Limited

NOTICE

NOTICE is hereby given that the Annual General Meeting (being the sixty-eighth Ordinary General Meeting) of the Company will be held on Monday, the 30th July, 1962, at 11 a.m. at the Registered Office, 12, Mission Row, Calcutta, to transact the following business :

1. To receive and adopt the audited accounts for the year ended 30th April, 1962 and the Directors' and Auditors' Reports thereon.
2. To declare a dividend on the Ordinary Shares. The dividend, if declared, will be paid on or after the 1st August, 1962, to the Shareholders whose names are on the Company's Register of Members for Ordinary Shares on the 30th July, 1962, or to their mandatees.
3. To appoint a Director in place of the retiring Director. In this connection notice is hereby given that Special Notice as defined in Section 190 of the Companies Act, 1956, has been received by the Company under Section 261 of that Act to move the following resolution as a Special Resolution :

   "That Mr K L Ganguly, the Director retiring by rotation, who is an associate of the Managing Agents of the Company, be and is hereby appointed a Director of the Company."
4. To appoint auditors and fix their remuneration.

The Ordinary Share Register and Transfer Books of the Company will be closed from the 21st July, 1962, to the 30th July, 1962, both days inclusive.

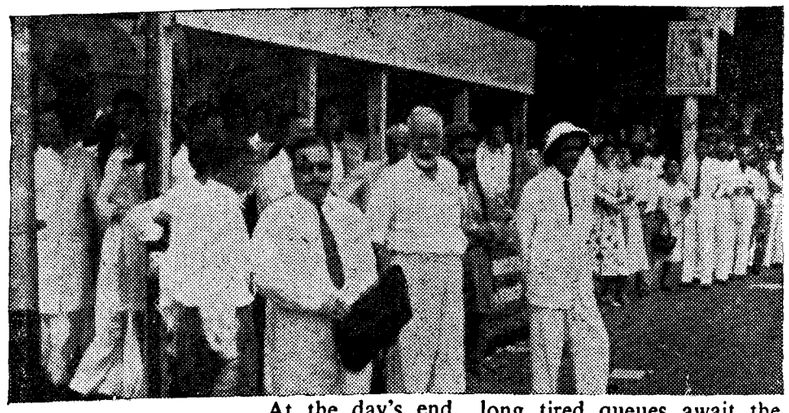
A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and a proxy need not be a member.

By Order of the Board
MARTIN BURN LIMITED
ROMEN MOOKERJEE
Director
Managing Agents

Registered Office
12, Mission Row
Calcutta–1
4th July, 1962

An Explanatory Statement as required under the Companies Act, 1956 has been forwarded to the members of the Company.

The transfer to the development rebate reserve has been raised slightly from Rs 2.85 lakhs to Rs 3.50 lakhs, but the allocation to the plant modernisation and development reserve has been cut slightly from Rs 2.50 lakhs to Rs 2.25 lakhs and that to the general reserve from Rs 53,000 to nil. The distribution on the ordinary and preference shares absorbs Rs 17.46 lakhs, or over 75 per cent of the net profit. In view of such a large dividend liability in the face of a declining profit margin, the company has not been able to strengthen the reserves very much. In fact, with the proposed allocation from the profit for 1961-62, the total reserves of the company do not stand at more than Rs 61.32 lakhs, against a paid-up capital of Rs 99.96 lakhs.



At the day's end, long tired queues await the journey home. Among them are *your own employees*, men and women who travel to and from your office in crowded buses, trams and trains. People whose loyalty you value and whose lot you want to make happier.

HOMEWARD EMPLOYEE The Life Insurance Corporation has two Schemes which every employer will do well to know:

GROUP INSURANCE SCHEME offers low-cost Life Insurance protection to your staff under one Master Policy.

SUPERANNUATION SCHEME is the cheapest method of providing retirement pension, with or without life insurance benefit.

MORE ABOUT THESE SCHEMES:

* For tax purposes premiums on both Schemes are treated as normal business expenses
* Under certain Schemes attractive tax-relief is allowed to the employees
* Employees get the benefits of these Schemes at lower cost
* They can often be instituted at no extra cost to the employer
* Administratively, they do not involve your office in anything but minor clerical work
* It is being increasingly realised that these Schemes go a long way to increasing staff productivity and length of service

When next an Insurance man calls on you about these Schemes, give him a few minutes of your time—with no commitments of course.

Life Insurance Corporation of India

ASP/LIC-8 20

CURRENT STATISTICS

BANKING RETURNS

(*Rs.. crores*)

Reserve Bank	Jun 29	Jun 22	Jun 1	Jun 30 '61
1 Note circulation	2076.68	2097.04	2112.61	1933.41
2 Rupee coin	116.24	114.44	114.04	120.52
3 Deposits				
(a) Central Govt	53.36	69.77	50.95	59.68
(b) Other Govts	25.48	4.71	13.07	15.18
(c) Banks	98.70	98.62	89.38	94.73
(d) Others	149.65	151.27	150.28	115.27
4 Foreign securities	91.68	92.68	92.68	103.01
5 Balance abroad	5.64	9.66	8.82	10.78
6 Rupee securities	1794.31	1813.23	1823.19	1636.93
7 Investments	282.27	194.03	192.66	189.49
8 Loans and advances to Govts	34.89	124.51	103.79	34.30
9 Other loans and advances	134.93	122.13	122.19	130.41
Scheduled Banks	**Jun 22**	**Jun 15**	**May 25**	**Jun 23 '61**
1 Aggregate deposits (net)	2005.54	1990.99	1983.24	1766.15
Demand (net)	772.83	766.18	783.25	707.04
Time (net)	1232.71	1224.81	1200.00	1059.11
2 Cash in hand	52.92	55.86	52.15	47.34
3 Balance with Reserve Bank	90.91	85.37	85.85	75.06
4 (2)+(3) as % if (1)*	7.17	7.09	6.57	6.93
5 Borrowings from Reserve Bank	2.59	8.12	4.70	11.59
(a) Against usance bills and/or promissory notes	.94	3.64	2.55	8.48
(b) Others	1.65	4.48	.97	3.11
6 Advances	1223.53	1229.08	1212.05	1088.26
(a) State Bank	273.07	276.04	277.25	248.31
(b) Others	950.46	953.04	934.80	839.95
7 Bills discounted				
(a) Inland	150.45	157.29	166.96	132.02
(b) Foreign	44.21	44.98	45.69	45.59
(c) Total	194.66	202.27	212.65	177.61
(i) State Bank	16.54	16.87	17.01	14.17
(ii) Others	178.12	185.40	195.64	163.44
8 (6) + (7c) as % of (1)	70.71	71.89	71.99	71.67
9 Investment in Govt Securities	583.36	575.01	586.91	543.36
10 (9) as % of (1)	29.09	28.88	29.41	30.77
Cheque clearance	**225.05**	**178.49**	**216.08**	**200.08**

* Prior to April 6, 1962, the ratio of cash balances, investment in Government Securities and bank credit was related to 'aggregate liabilities'.

Bombay Money Rates

(*per cent per annum*)

	Jun 22	Jun 15	May 15	Jun 23 '61
Call Money from Banks	3.40	3.55	3.65	4.30
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	3.50
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	July 5	Jun 28	Jun 7	July 6 '61
Gold (per 10 grams)				
Spot	125.95	125.15	125.15	120.90
Forward	124.45	123.80	122.60	119.45
Silver (per kilogram)				
Spot	215.10	215.10	215.15	201.20
Forward	216.10	216.10	215.90	202.45

INDEX NUMBER OF WHOLESALE PRICES

(*Base* : 1952-53 = 100)

	WEEK ENDED			
	16.6.62	9.6.62	19.5.62	17.6.61
Food Articles	**124.1**	**124.6**	**125.0**	**121.0**
Cereals	105.2	104.7	104.0	102.7
Pulses	101.9	102.2	99.1	89.7
Edible Oils	152.1	152.2	151.8	164.2
Sugar & Gur	134.6	134.2	131.5	126.5
Liquor & Tobacco	**98.7**	**99.3**	**102.4**	**99.5**
Tobacco	95.1	95.8	99.1	96.0
Fuel, Power, Light & Lubricants	**124.2**	**122.2**	**122.3**	**123.3**
Industrial Raw Materials	**135.9**	**136.0**	**134.3**	**148.2**
Fibres	127.3	127.6	125.0	146.9
Oilseeds	150.8	150.8	149.4	163.0
Minerals	93.8	93.8	93.8	95.2
Manufactures	**128.8**	**128.4**	**127.2**	**126.1**
Intermediate Products	**139.7**	**139.5**	**137.4**	**141.0**
Finished Products	**127.0**	**126.5**	**125.5**	**123.6**
Textiles	126.9	126.3	124.7	125.0
Cotton	129.6	129.5	128.8	127.4
Jute	118.5	116.1	112.2	122.7
Woollen	127.5	127.5	127.5	123.7
Silk & Rayon	130.9	130.9	129.0	116.5
Metal products	158.6	158.6	158.2	161.6
Chemicals	113.5	112.5	112.6	109.3
Machinery & Transport Equipment	117.6	117.6	117.6	112.8
All Commodities	**126.8**	**126.9**	**126.5**	**126.3**

Working Class Cost of Living Index

(*Base adjusted to* 1949=100)

	Bombay G	Madras G	Kanpur G	Delhi G	Calcutta G	All-India (average) G
1962 : Jan	141	149	107	129	114	128
1961 : Dec	142	149	104	130	117	128
Nov	141	149	106	129	119	128
Oct	141	149	104	127	119	128
1961 : Jan	136	149	107	129	114	128
1960	137	143	99	120	113	124
1959	134	133	98	120	110	121
1958	129	124	98	113	110	116
1957	120	116	94	114	105	111
1956	115	111	89	109	98	105
1955	110	99	78	99	92	96
1951	108	108	04	108	104	105

G = General

Source : Central Statistical Organisation, Cabinet Sec-

Coal Production and Despatches

(Monthly Averages or Calendar Months)

('000 *metric tons*)

	Raisings	Despatches	Stock at Pit heads*
1962 : Jan	4,978	4,330	—
1961 : Dec	4,897	4,265	—
Nov	4,605	4,270	3,167
Oct	4,285	4,142	3,323
1961 : Jan	5,137	4,197	3,886
1960	4,390	3,865	3,548
1959	3,892	3,513	2,729
1958	3,838	3,416	2,808
1957	3,683	3,190	3,331
1956	3,340	2,960	2,810
1955	3,236	2,789	3,685
1951	2,245	2,474	2,824

Source : Coal Controller, Ministry of Steel, Mines and Fuel, Government of India.

* At or about the end of each period.

Trends in African Trade

Africa's Trade with Selected Countries

(*In millions of U S dollars*)

Countries	Imports into Africa		Exports from Africa	
	1958	1959	1958	1959
United States	609.8	647.2	561.3	596.8
Canada	68.0	75.5	29.5	33.5
Total North America	**677.8**	**822.7**	**590.8**	**630.3**
United Kingdom	1,393.1	1,285.3	1,071.3	1,170.0
Belgium-Luxemburg	236.5	186.2	277.8	329.1
France	1,871.4	1,769.6	1,525.1	1,230.9
West Germany	455.2	498.6	467.4	525.4
Italy	207.6	202.1	231.5	268.4
Netherlands	181.9	181.0	177.0	202.9
Austria	25.7	30.9	36.6	24.6
Denmark	22.5	26.5	6.6	11.4
Finland	16.6	13.2	5.9	7.1
Norway	41.6	36.4	28.7	46.1
Portugal	102.7	100.7	82.8	81.6
Sweden	84.6	91.9	42.7	52.2
Switzerland	67.9	69.8	51.1	52.7
Spain	45.5	46.8	42.7	39.2
Yugoslavia	27.1	23.1	19.0	20.0
Greece	5.8	3.6	12.6	13.5
Turkey	1.2	3.2	3.5	1.0
Total Western Europe	**4,786.9**	**4,569.0**	**4,082.3**	**4,076.1**
India	87.9	91.0	105.0	113.5
Japan	415.1	409.8	83.7	128.4
Singapore	17.3	22.0	7.4	5.6
Hong Kong	36.6	36.3	22.4	27.3
Pakistan	15.9	26.9	1.2	2.9
Indonesia	1.8	2.1	22.3	6.4
Thailand	4.8	6.3	0.2	0.5
Australia	25.7	34.5	36.6	38.7
Argentina	8.1	6.0	17.2	8.2
TOTAL	**6,077.9**	**5,926.6**	**4,969.1**	**5,037.6**

Trade of Selected African Countries

Countries	Percentage change in trade between 1958 and 1959		Exports as percentage of imports	
	Exports	Imports	1958	1959
Sudan	+53.8	— 4.0	73	117
Rhodesia and Nyasaland	+37.7	— 4.7	86	125
Togo	+37.7	— 0.6	84	116
Congo and Ruanda Urundi	+21.0	—14.4	112	159
Nigeria	+20.6	+ 7.5	81	90
Cameroun	+10.1	—10.2	108	132
Union of South Africa	+ 9.6	—12.0	70	88
Ethiopia	+ 9.6	+ 5.6	77	80
Ghana	+ 8.7	+33.6	111	91
Ivory Coast	+ 7.4	+23.8	156	115
Kenya, Uganda, Tanganyika	+ 4.1	+ 0.05	101	105
Mauritius	+ 0.2	— 4.1	91	98
Tunisia	— 7.5	— 1.1	99	93
UAR (Egypt)	— 5.8	— 6.9	71	72
Angola	— 2.7	+ 0.9	98	95
Senegal, Mali, Mauritiana	— 0.6	+ 0.6	66	65
Morocco	— 0.5	—13.6	86	99

Source : Economic Commission for Africa, Addis Ababa, Ethiopia.

Principal Exports from Africa

(*Index Numbers*)

	Quantum		Value	
	1958	1959	1958	1959
Agricultural Products :				
[1953-55 (Average) = 100]				
Grains	147	75	111	59
Vegetable oils and oilseeds (edible)	125	126	114	117
Beverages and tobacco	114	129	117	108
Agricultural raw materials	103	125	92	104
All agricultural products	115	123	110	106
Minerals				
[1952-55 : (Average) = 100]				
	Quantum		Value	
	1958	1959	1958	1959
Gold	—	—	130	150
Copper	114	139	76	116
Phosphates	124	133	124	133
Diamonds	—	—	160	180
Zinc ore	100	101	116	139
Asbestos	122	127	156	159
Tin ore	66	68	63	69
Cobalt	72	96	67	87

Index Numbers of Value of Imports of Major African Countries

	Index Numbers Average 1953-55 = 100		Percentage of Total African Imports	
	1958	1959	1953-55 (Average)	1959
North Africa				
Algeria	180	180	10	16
Libya	285	335	1	2
Morocco	82	68	8	5
Sudan	120	116	2	2
Tunisia	89	88	3	2
U A R (Egypt)	130	121	8	9
West Africa				
Cameroun	111	89	2	1
Former French Equatorial Africa	147	134	2	2
Former French West Africa	123	102	6	5
Ghana	109	146	4	4
Nigeria	140	150	6	7
South and East Africa				
Angola	143	144	2	2
Congo & Ruanda-Urundi	97	83	6	4
Ethiopia	125	133	1	1
Kenya, Uganda, Tanganyika	98	98	6	5
Malagasy Republic	98	92	2	2
Mozambique	135	144	1	2
Rhodesia and Nyasaland	124	118	6	6
Union of South Africa	124	109	21	19

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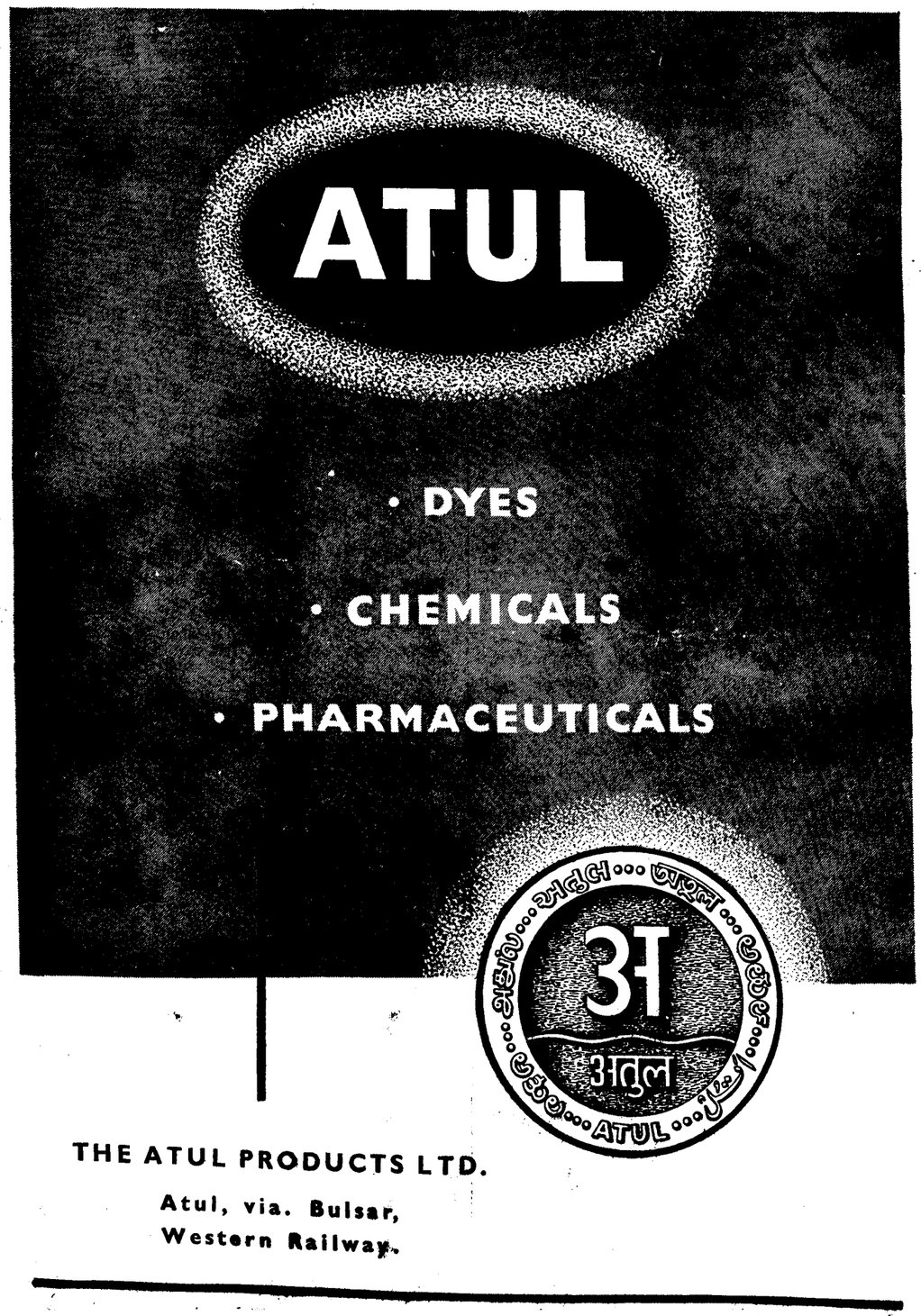

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Western Aid and India

IT is no longer a secret that India and the rest of the world, particularly the Western world, do not see eye to eye on external aid for development. The difference is not just one of magnitudes; if that were so, it could be resolved by a set of ingenious technicians or even civil servants. What is involved is something much more fundamental, an understanding on both sides of the common interest in banishing poverty from the greater part of the world, without impairing peace and independence. In a world riven by ideologies and prejudices, this may be asking for the moon. But when science can make nonsense of that idiom, there is no reason why statesmanship should not.

But it looks as if the nineteen-sixties will not take us much nearer that goal than the previous decades did. In international relations, at any rate, the dross of political short-sightedness has not been burnt away by the nuclear mushrooms. And in consequence, foreign economic policy has failed to achieve any firmness of direction. We are, virtually, back where we were in the early fifties, when economic assistance was no more than an aspect of the cold war. The criterion then was not what support economic aid gave to the rate of growth of the recipient country's economy, but what support the recipient country gave to the political strategy of the aid giving country.

There was a period a couple of years ago when it looked as if the natural relation between capital imports and economic development had at last come to be recognised as important in itself. Overtly, at any rate, it was accepted that developmental aid, to be effective, should be immunized from temporary factors and geared to a long-term programme. It was in this climate that the Aid India and Pakistan Clubs were formed, the IDA and the Development Loan Fund pushed into being. From India's point of view, it seemed as though the long-awaited shift from annual appropriations to five-year

commitments had in principle been accepted by the capital-exporting countries. The formulation of the Third Five Year Plan was influenced very considerably by this reading of the situation, and the programmes were built around anticipations of not only massive but continued assistance.

In the last few months aid for India's development plans has run into such heavy weather that it requires an extraordinary measure of self-deception to go on as if the old positions still held. That they no longer obtain is evident from the manner in which the Consortium has been postponing decision on the commitments for the second year of the Third Plan, let alone the remaining years. Whatever the political nuances in this, the ostensible reasons for putting off commitment are two: firstly, the worsening of the balance of payments position, which casts doubt on the reliability of the original estimates of the foreign exchange needed for the plan period; and secondly, the persistence of other bottlenecks within the Indian economy, which lends support to the view that all is not well with plan implementation.

That India's balance of payments position is precarious, and that bottlenecks exist are both factually indisputable. Nor can it be denied that certain adjustments in current policy may be required to mitigate their impact on the course of economic development. Here is a situation in which it is easy but dangerous to be naive. Superficially, it can be argued that both these are instances of excess demand, and therefore the first thing to do is to cut demand wherever possible. But where does this stop? Should it turn out that any major reduction in import requirements is possible only with a sizeable cut in plan expenditure, do we just scrap large parts of the Plan? The Third Five Year Plan may not be an absolutely delicately balanced one; but it contains, nevertheless, enough of deliberate linkage to prevent one part to be cut off without injury to all the rest. And in reality, if the cut in plan expenditure is to have impact on the balance of payments immediately, it is that part of the plan which most depends on external resources that will have to be cut. In concrete terms, it is on coal, transport, power, steel and machinery that the axe will have to fall. But these are the very areas in which bottlenecks prevail; and, according to the information available, it is projects in these sectors that account for the bulk of aid already committed. That is to say, the pruning of the plan expenditure on such projects does nothing to improve the balance of payments position immediately, since it will not release any foreign exchange for other purposes. On the other hand, it can only intensify the shortages in strategic supplies.

To make any economic sense of this approach, it will have to be argued that the indirect effects of these expenditures are such as to constitute the main element of excess imports. Is this really the case? Within the existing coal-steel-transport-power complex, the demands each of them makes on the others are very substantial. They also draw on the outputs of a variety of other industries, which may need imported inputs. With the severe restrictions already imposed on consumer goods and inessential imports, the indirect effects on imports of factor payments made by these industries is very small. Curbing imports through reducing plan expenditures on these major industries therefore amounts to saying that productive capacity somewhere else, possibly in the private sector, ought to be allowed to remain unutilised.

This certainly will cut down the demand for power, transport and so forth, and looks like an answer to the question of bottlenecks also. But in the process, two major elements will have been lost, both of which will make even the reduced level of imports too large to be balanced by the country's exports. In the first place, it will no more be possible to relate the export programme to a long-term programme of an annual increase of ten to twelve per cent in industrial production. And secondly, it will become unrealistic to talk of significant diversification of exports, or enlarged import substitution, since both of these would depend on major changes in the structure of production, particularly in the manufacturing industries sector.

Will a cut and the unbalancing of a Plan in that process help the balance of payments through larger exports? To think that it can, is to assume that it is domestic demand which is holding up exports which would be equally naive.

It seems that in the frantic search for quick remedies, these basic issues are being forgotten. When the Third Plan was formulated, it was obvious that there would be a balance of payments maladjustment for a considerable period. It was also obvious that the country's own foreign exchange reserves were barely adequate to the ways and means demands of foreign trade. Against that context, there was little reason to believe that if the payments position became tight, it would be responsive to short-term measures on the demand side. The basic philosophy was that development itself involved substantial drafts on the rest of the world; and the justification for providing this was that over a period, the economy would grow sufficiently to make it less reliant on foreign assistance. If everything that is now done contributes to a slowing down of the growth-rate, what happens to that basic premise? A slower rate of growth is surely no answer to the payments difficulties of a developing country.

All of this does not however mean that India can be satisfied with the way things have been going. Most certainly, whether we get foreign aid or not, we have to take all the steps necessary for deriving quick and maximum benefits from the investments undertaken. It is no excuse to say that delays or inefficiencies are the result of a hundred different things trotted out regularly. No matter what the rest of the world chooses to do, India has certainly to bear firmly in mind that waste and inefficiency have no place in planning for development. But when all is said and done, and assuming that we use available resources most efficiently, it will still be the growth rate that we achieve which can solve the balance of payments problem. It serves little purpose to confuse the issue by saying that India's Plan is too large for her needs or capabilities. To cut the Plan to please somebody will be a gesture with neither sense nor profit.

Emerging Afro-Asia

THE Afro-Asian group of nations has emerged as a force to contend with in the forum of United Nations. This position they have attained not because they are homogeneous in terms of culture, race or anything. On the contrary, they are widely dispersed geographically and, stemming largely from their historical past and the circumstances in which they gained freedom, their political development and cohesion vary widely. Even their economic problems are often quite different though all of them have almost the same degree of poverty and suffer from economic stagnation. It is this poverty and the common desire to come out of it by collective effort, and above all their determination for this very reason to keep out of too much involvement with either of the cold war blocs which bring them together and maintain some sort of cohesion among them in the deliberations of the United Nations. They have generally taken up a firm stand on neutrality or non-involvement which makes them a powerful force in favour of world peace. It is again their firm adhesion to neutrality and non-involvement which tilts their choice in favour of a pattern of economic development which may be vaguely called socialistic. It will be equally true to say that because they are firmly convinced that it is only the socialistic pattern of development which can enable them to achieve the quickest results in eliminating their poverty and raising the living standards of their people that they have been so determined to maintain their neutrality and resist involvement.

Not that the attempt is always easy or successful. This can be seen all over Latin America. Superficially it may seem that attitude to political involvement and the pattern of political development desired or aimed at, are determined by the power structure of the peoples concerned. But had it been so, what happened in Cuba, could not have happened at all and Cuba could not have the impact which it is having — much to the concern, embarrassment and chagrin of the U S State Department. Nor would South East Asia witness the struggles within and the precarious position of such of these countries as have become the actual theatres of the cold war.

The presence of U S military power in some Asian states, the smaller ones, and the ramifying U S military pacts and arms aid has prevented the dawn of peace in South East Asia though political freedom came to this part of the world much earlier than in Africa. U S commitment to a non-communist Viet Nam is enforced by the presence of U S troops. In Thailand, there is a direct involvement. Though the neutralisation of Laos and Cambodia has at long last been formally assured, the embers of the cold war have yet to die down. It is only Indonesia, Burma, and Ceylon which remain outside the military guarantees of the West. Despite the presence of the U S forces, it is difficult to say what has made the spread of communist influence difficult, the failure of the Chinese Great Leap Forward, Chinese military aggression to cover it up or U S forces?

And what about the states within western influence? Notwithstanding the aid they have been receiving, they are getting economically less viable and politically more unstable. Thailand, with food exports dwindling, has to have a military dictatorship. And Field Marshal Sarit does nothing to hide the character of his dictatorship. His firing squads are active. In Pakistan Ayub has made a show of reinstating Parliamentary Government, but the politicians are proving non-compliant and too assertive for the President's taste and the country may again be plunged into political chaos. And if Pakistan gets Sabre Jets, can India do without MIGs? Military pacts and arms aid help neither neutralism nor economic development. The Phillipines which has both and gets U S aid, is plagued by inflation. President Macapagal, at the head of a corrupt administration has found it necessary to distract the people's attention by laying a claim to British North Borneo.

South Viet Nam is run like an ancestral estate by President Diem and members of his family. It has absorbed several millions of dollars without any apparent benefit to the country. The Government now needs U S troops to resist the Viet Cong communists who dominate the country-side.

President Sukarno of Indonesia is more concerned with liberating West Irian than with ameliorating the condition of his 100 million people. The capital, Jakarta, is getting ready for the next Asian Games with Soviet funds. MIGs crack the sound barriers overhead, while Indonesian University students who should be training for work at home enlist as volunteers for the liberation of West Irian. Aggressive nationalism covers up much irresponsibility and corruption.

The countries of Africa seem to have escaped so far the tensions and struggles of a theatre of the cold war. This, is because so far it is the west which has exercised an unchallenged sway over the whole of Africa south of the Sahara. The Lumumba episode is by now forgotten. Katanga has been fully reinstated in a neo-colonial status and the United Nations, despite Secretary General U Thant's well meaning but ineffectual move for unification of the Congo, have now well nigh given up the pretence of going on with the mission which had dragged them into this misadventure.

Except in Congo where the Belgians left a complete vacuum, most African nations have so far shown promise of some sort of political order. Most of them have adopted some form of parliamentary Government. None of them south of Sahara had a military caste or the legacy of an indigenous feudalism and the break from the native reserves into the urban centres appears to effect an easier transformation of the people and attainment of a social homogeneity which is surprising and which would be quite inexplicable, except perhaps for the high degree of urbanisation in many of these very backward countries.

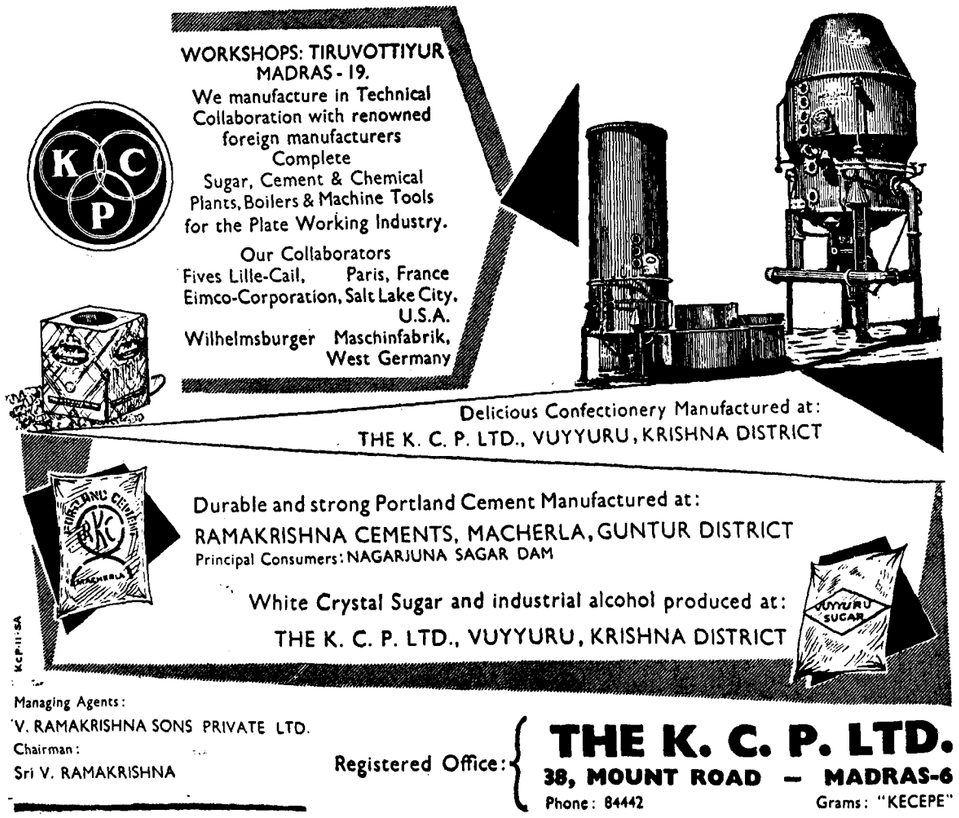
Though cold war has not penetrated into Africa yet, it must not be forgotten that political struggles were

started in most of these countries as a fight against the white settlers and so long as South Africa remains the bastion of apartheid, this will remain the unifying force and the most potent political factor in the development of these countries. While some of the new states show signs of an exuberance which is only a symptom of immaturity, the urge for federation and pan-Africanism is not just euphoria. It is mainly inspired by the remaining outposts of colonialism such as South Africa, Rhodesia and the Portuguese Colonies of Angola and Mozambique, which shows that colonialism may be a receding force elsewhere but not so yet in Africa or Latin America. Goa could have been the *coup de grace* to Portuguese colonialism in Africa, had the Western backers of Salazar not decided to prolong this bloody struggle.

The economic pattern in the newly freed countries is still very largely metropolitan oriented, particularly in those in which the old administrative framework remains and it is on this base that Western Europe is building the new complementaries to its fast developing economy. The large outflow of West European capital into Africa has been a remarkable development, and integration of many of these economies to the Common Market through the creation of 'associated territories' is the culmination of a planned programme that started with the establishment of the European Economic Community.

North Africa, however, is very different, both in its character, social structure and past history. But now that Algeria has at last won its freedom, it will also help to consolidate the pattern that is emerging south of Sahara, for Algeria is sworn both to neutrality and socialism.

India must look to Afro-Asia for strengthening and widening her foreign economic relations. For this she will need a firm political base to operate from, and a properly designed economic strategy. Free India has held fast to neutrality and has not deviated from it even under the most trying circumstances. Despite many failures, she has also been persevering in her pursuit of economic development on socialistic lines. This is what casts India in the role of a bridge-builder between the emergent nations of Africa and South East Asia, who share the same faith in neutrality and socialism. India is in a stronger position than most others to resist the bandishments of those who are only prepared to tolerate neutrality as a mere *pis aller*, while waiting and watching for a chance to end it. Even as a safeguard against encroaching entanglements of the cold war power blocs, Afro-Asian political cohesion will need an economic frame to the erection of which India can contribute so effectively.



External Balance

BECAUSE of late the Aid-India Club has been showing distinct signs of cooling off and, in consequence, the prospects of getting the aid which had been assured, promised or hoped for, have receded, apprehensions in the public mind have deepened that the Third Plan may not be implemented at all or at best that it will be only partially implemented. The Third Plan has still some four years to go. Whether the targets are hit or missed and how much of the Plan is implemented or how adequately, the reckoning will come some years later. Wavering aid prospects have hit the public, here and now, for with the receding hope of aid is associated the sudden and sharp tightening of exchange restrictions on foreign travel, on students going abroad for study, and drastic cuts in import licences and postponement of those, the issue of which was taken for granted. All of a sudden, a foreign exchange crisis of far greater severity experienced at any time in the past has been precipitated.

Neither the dire prospects of non-fulfilment of the Third Plan nor the sudden clamping down of severe exchange restrictions from which no early relief appears to be in sight, can be ascribed yet to a capricious change in the mood on those who had promised or encouraged us to bank on aid. On the contrary, a tentative assessment of the foreign exchange situation today, and the Planning Commission's revised estimates of foreign exchange requirements leave no manner of doubt that even if *all* the promised or hoped for aid is received, no more than 75 per cent of the Plan would be implemented to the extent that implementation depends on availability of foreign resources and, of course, if we do not get all the aid we formally asked for or discussed, the performance will fall short of this 75 per cent pro rata. This is, of course, leaving out of consideration that performance depends on many things besides aid and that between the commitment of aid and the spending of it there is an uncertain and unconscionable time lag.

Now the Plan, however loosely knit or technically deficient it may be, does not, after all, consist of a number of detachable pieces and so when one tries to take a shot at how much of the Plan would be put through, except in terms of the actual, as compared to the estimated expenditures, one is really entering into imponderables. Even such an exercise is subject to the proviso that a commensurate increase in non-aid imports will be somehow forthcoming. Otherwise the posited measure of partial fulfilment will not be realised. Whichever way one may look at it, and even after making due allowance for the widest possible margin of error, the results of the following assessment of the prospects for foreign balances in the Third Plan period will be found to be frightening. Much can be said about the need for thoroughly overhauling the Plan and its execution and one would not know where to begin, what the assessment brings out powerfully is not so much the failures of the Plan but the fundamental fallacy of tieing up aid with the import-content of selected projects. And this fallacious principle has been extended to private investments also, so that India gets no free foreign exchange from the flow of such investments, which are held up as *the* solution to the country's balance payments problem. Aid tied to specific projects cannot even be utilised, not to speak of being utilised to the country's best advantage, without substantial supplementary or indirect imports, which are not covered by any aid.

The restriction of choice of such equipment to those manufactured in the aid giving country, starts off another tale of woe.

And add to this the disastrous impact of non-fulfilment of Plan projects, or their failure to come up on schedule, or our inability to secure aid for some essential project all of which have to be offset by imports, not covered by any kind of aid. How disastrous the short fall in the steel programme alone has been, and will be, for the balance of payments, can be readily seen from addition it makes to the import bill. Whether this is due to inefficient execution, procedural delays in the disbursement of aid, or our inability to get the needed aid committed, — the result is the same: an addition to the import bill of Rs 500 crores, at a time when our industrial capacity cannot be utilised for lack of imports costing much less of free foreign exchange.

The country has a balance of payments problem, apart from the problem of inadequacy of savings. The second may be solved, at least partly, by our own efforts. But what about the first? This is today the more intractable. The premise on which the technique of western aid is based has been demonstrated by the developing situation to be unworkable, how unworkable will be seen from the magnitude of the prospective payments deficit.

The correlative of aid, of course, is remittance payments, the servicing of loans and repayments that fall due. Such remittances on aid contracted earlier alone would amount to a fifth of our current rate of exports by the end of the Third Plan and yet it will be many five years, if at all, before India can hope to arrive at the stage of development where attainment of external balance by her own efforts could be a reasonable possibility.

It may be asked, as it has been asked, even by those who should know better, which country ever pays its foreign debt and when did America start repaying or how did India turn into a creditor of Britain almost overnight after accumulating British debts for a century or more? Such rhetorical questions call for no answer, but a balanced, objective assessment of the payments position, as it appears today, and the prospects that the country will have to face at the end of the Plan, will shock those who had been led to believe and accepted it on faith that the technique of aid evolved by the west could provide a solution to the underdeveloped world which has been trying to come up, led by India, which is often held up as a model to the other underdeveloped countries. Is it no more than cynicism to hope that the crisis may awake a sleeping nation from its torpor, make it

take stock of the present and rethink its future?

It is good to be heroic and to resolve that we will export all that is needed and more. But export where, what and how much? In this issue, a number of contributors have surveyed several aspects of the problem of external balance. Some have fixed their sights on the next 10 years for India, some explored the problem from a wider angle and opened up new vistas which should shake us out of the narrow groove along which we have been moving. But no one has ventured to suggest a ready solution for us, which will work, here and now. Even to suggest that there can be such a solution, is to assumed way the entire complex of underlevelopment and all the 'lacks' in terms of which underdevelopment can be summed up — lack of a self-adjusting economy, and of the interchangeability and mobility of factors which can also be expressed in terms of inelasticities of the supply function.

The attainment of external balance is the end-point of a long and painful process of development. No fundamental solution to the problem can be expected at the end of any one or two five year plans. And ours are neither the best ever conceived nor are they models of execution. Indeed the foreign exchange trap built into them which is coming more and more into light kills the hope that even a succession of such plans can ever lead the country to external equilibrium. It is good for the morale of a nation to hitch its wagon to the stars, but star gazing is no way of picking one's path through the tricky terrain, over which lies the road to development and economic viability, of which external balance is only one of the aspects.

Foreign Exchange Prospects
— A Reassessment

THE payments and receipts expected during the Third Plan period have been brought together in Table 1. From this, it will be seen that the estimated foreign exchange earnings during the Third Plan would just cover the needs of maintenance imports at the rate provided for in the Plan, and will not help to meet any part of the capital out-go, though exports have been taken at an average level 20 per cent higher than in the Second Plan period. For maintenance imports, the Plan has provided a total of Rs 3,650 crores for the five years; the actual needs are much higher, and would be of the order of at least Rs 3,800 crores, if not more, if the industrial capacity in the country, built up at such a heavy cost, is to be utilised reasonably well and the economy is to be kept lubricated. Thus external resources would be needed for meeting the requirements of development imports, food imports (in addition to those included under maintenance imports) and capital repayments of some Rs 550 crores which will fall due in the five years of the Third Plan.

The total external assistance required as estimated in the Third Plan is of the order of Rs 3,200 crores. Excluding assistance from U S A under P L 480 of about Rs 600 crores, the direct and indirect requirements of external assistance were expected to be of the order of Rs 2,600 crores. During the Second Plan, Rs 927 crores of external assistance was utilised and the draft on foreign exchange reserves amounting to Rs 598 crores made up the rest.

The greater part of the external assistance we asked for has been already committed or assured. There is a spill over of unutilised aid from the Second Plan of the order of Rs 417 crores. P L 480 assistance worth Rs 600 crores has been received. The Aid-India Consortium has promised or assured or given reasonable hopes of giving Rs 1,069 crores ($ 2.2 billion) for the first two years of the Plan, of which the share of the United States is Rs 497 crores and that of the World Bank and its affiliate, the International Development Association, about Rs 190 crores. Of this total for two years, Rs 569 crores ($ 1.2 billion) worth of assistance has been authorised so far (exclusive of the Italian ENI credit). The U S S R had earlier authorised two

Table 1 : Expected Payments Position during the Third Plan

(Rs crores)

	Annual Average: Second Plan	Annual Average: Third Plan	Total for the Second Plan	Total for the Third Plan
Exports	610	740	3053	3700
Invisibles (net) (excluding official donations)	84*	Nil	420*	Nil
Capital transactions (net) (excluding fresh receipts of official loans and private foreign investment)	— 34	— 110	— 172	— 550
Foreign exchange resources available for imports	660	630	3301	3150
Imports of machinery and equipment for Plan projects	965	380	4826	1900
Components, intermediate products etc, for raising production of capital goods		40		200
		730		3650
Maintenance imports				
Total imports**	965	1150	4826	5750
Net surplus (+) or Deficit (—)	—305	— 520	—1525	—2600
External assistance** (including drawings on I.M.F.)	185	520@	927	2600@
Draft on foreign exchange reserves	120	Nil	598	Nil

* Includes reimbursements from the U S A for freight expenses on P L 480 imports initially incurred by India.

** P L 480 imports are excluded from both sides — about Rs 534 crores for the Second Plan and Rs 600 crores for the Third Plan.

@ Represents external assistance required.

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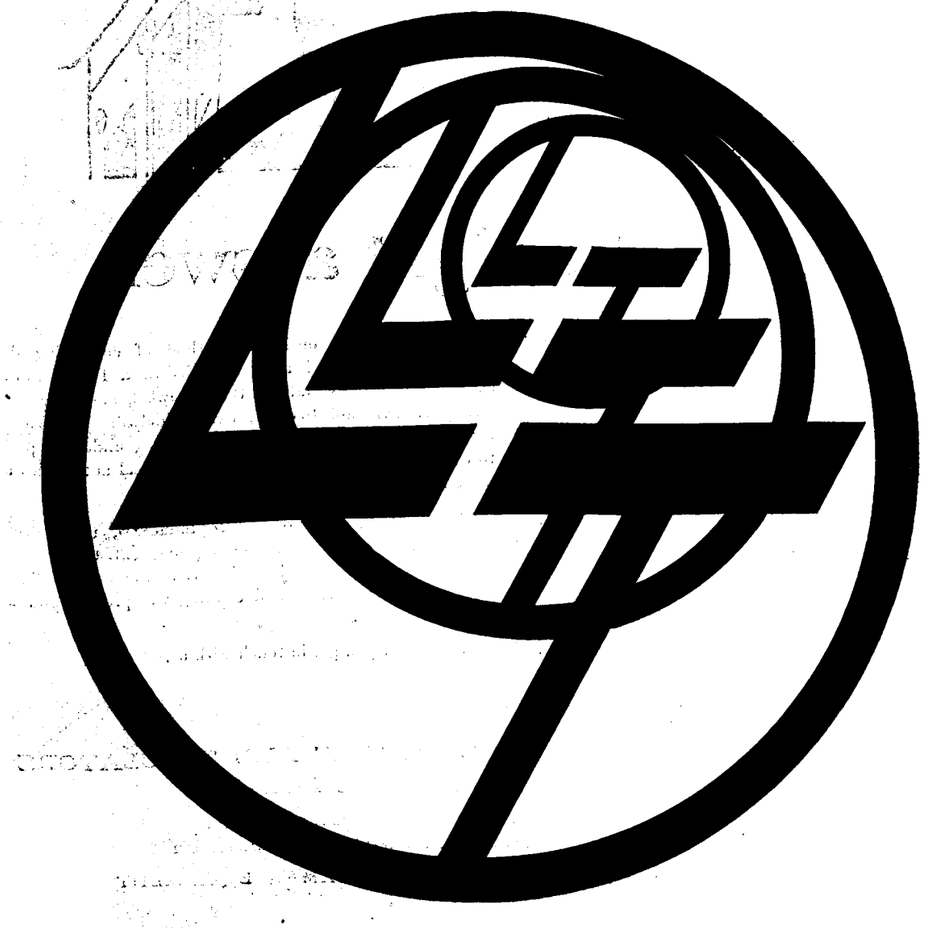

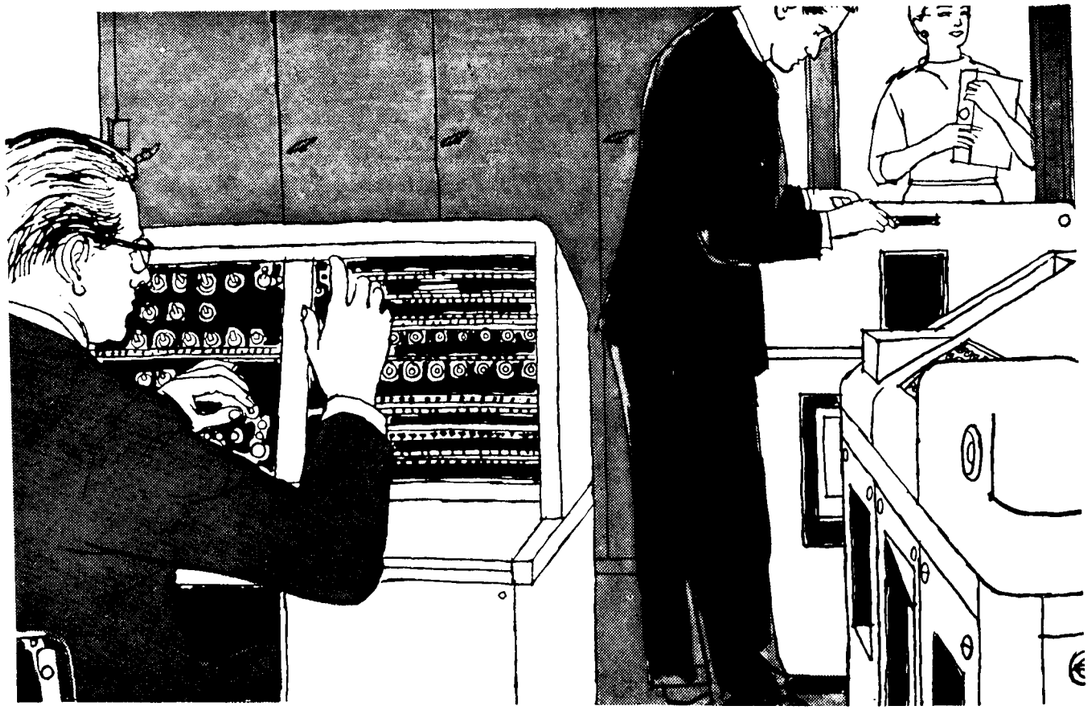

Finding the right answer

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credits amounting to Rs 238 crores for Third Plan projects. Yugoslavia and Czechoslovakia have committed assistance of the order of Rs 19 and 23 crores respectively. (Poland's credit of Rs 14 crores and Switzerland's Rs 11 crores form part of the unutilised aid carried forward from the Second Plan). There are others; the complete statement will be found in Table 2.

Table 2 : External Assistance Available for the Third Plan

	(*Rs crores*)
Assistance unutilised as at the end of March, 1961	417
United States : P L 480	598
Other	240
United Kingdom	103
West Germany	69
Japan	52
I B R D & I D A	93
Canada	12
U S S R	238
Yugoslavia	19
Czechoslovakia	23
Aid promised by the Aid-India Consortium but not authorised	500
Total	2364
Aid required to be obtained	836
Total external assistance required for the Third Plan (As indicated in the Plan)	3200
Additional aid required for spill-over into Fourth Plan (approximate)	417
Total additional aid required (13 + 15)	1237

The aid authorised so far and the spill over from the Second Plan taken together amount to about Rs 1,864 crores (Table 2) and the Aid-India Consortium has still to authorise the balance, about Rs 500 crores for the first two years. Assuming that the balance is authorised in the near future, the aid required for the last three years of the Third Plan would be of the order of Rs 836 crores. However, since the implementation of some of the Third Plan projects will extend over to the Fourth Plan, aid tied to these projects will remain unutilised at the end of the Third Plan. Thus a large carry over of aid to the Fourth Plan is to be expected, and the amount may be of the same order as that at the end of the Second Plan.

Taking this into account, the actual requirement of further external assistance according to Third Plan figures would be Rs 836 crores plus the expected spill over, say, of Rs 417 crores into the Fourth Plan, that is Rs 1,253 crores.

We may still be able to get this amount of aid, subject, of course, to the usual procedural delay between authorisation and actual disbursement. Since the promised aid of about Rs 569 crores by the Aid-India Consortium for the first year of the Plan was authorised only during this year, it is nothing surprising that the aid promised for the second year should still remain to be authorised. The several stages through which aid negotiations have to pass — promise, authorisation, agreement, firm commitment and final disbursement —are time consuming processes and upset the schedule of the Plan. This time consuming process of aid authorisation has been responsible so far for some of the delays which have occurred in the implementation of the Third Plan projects, though not for *all*.

The time lags built into aid-commitments, however, are not the only shadows which darken the prospects for the Third Plan. The figures recounted above do not tell the full story. And this for several reasons:

(1) The need for maintenance imports has been seriously underestimated in the Plan. True, they have been taken at about 20-25 per cent above such imports in the Second Plan, but industrial production during the Third Plan is expected to go up by 70 per cent. Surely, apart from everything else, so large an increase in industrial output will call for a corresponding increase in inventories which, incidentally, have always been a very weak point in the Plan estimates. The inventories of imported goods may not increase at the same rate as the total of inventories; but even assuming that they increase at a rate half of that of industrial production i e, by 35 per cent, maintenance imports would still be needed at an annual rate of Rs 810 crores as against the level of Rs 730 crores estimated in the Plan. This alone would raise import requirements, over the five years of the Third Plan, by about Rs 400 crores.

(2) As the Planning Commission has indicated, a recent revision of the estimates has shown that the *direct* import-content of the Third Plan projects (particularly the railways and coal projects) would be higher by about Rs 200 crores.

(3) The estimates of 'invisibles' fall far wide of the mark. The Third Plan expects *nil* net receipts from this source. Even rough calculations of the interest liability on loans already secured and of the expected interest-earnings on sterling balances will show that instead of receipts and payments cancelling out, there is likely to be a deficit of Rs 200 crores or so under this head. Further, remittances of profits on foreign private capital invested in the country are also likely to be higher by about Rs 10 crores per year. Neither are other items of the invisible account likely to show any net receipt. Thus, the net payments under invisibles are likely to be of the order of Rs 200 crores over the Third Plan or Rs 40 crores per year. The balance

Table 3 : Balance of Payments : 1961-62

			(*Rs crores*)
	First Three Quarters	1961-62 (Estimated)	1960-61
1. Imports	709.4	980.0	1100.5
2. Exports	500.0	670.0	630.5
3. Trade Balance	—209.4	—310.0	— 470
4. Invisibles (net, excluding official donations)	— 6.5	— 12.0	+ 36.5
5. Current Deficit (3 + 4)	—215.9	—322.0	— 433.5
6. Capital Movements			
(a) Private (net)	— 7.7	— 4.0	+ 15.6
(b) Banking (net)	— 18.1	— 17.0	+ 13.3
(c) Official (net)			
(i) Loans	+262.0	+325.0	+ 238.9
(ii) Amortisation	— 40.1	— 55.0	— 32.4
(iii) Miscellaneous	+ 15.8	+ 40.0	+ 102.9
(iv) Official donations	+ 27.7	+ 42.0	+ 46.4
7. Errors & Omissions	— 10.6	— 10.6	— 10.7
8. Change in Foreign Exchange Reserves	+ 25.7 (— 32.3)*	— 6.3 (— 64.3)*	— 59.3

* Excluding I M F assistance of Rs 58 crores during 1961-62.

of payments position during the first 9 months of the first year of the Plan now available clearly shows that the era of net payments in place of net receipts under invisibles has already begun (Table 3). In fact, almost the entire decline in the foreign exchange reserves during 1961-62 (if I M F assistance is excluded) is explained by the reversal in the trend of invisible receipts from a positive figure during 1960-61 to a negative one during 1961-62.

Far from the figure mentioned above, being an over-estimate, if net payments under invisibles are to be kept within this figure of Rs 200 crores, profit-remittances on foreign capital would have to be carefully checked. This does not mean withdrawing the facilities to remit profits but a careful scrutiny and expert screening of foreign collaboration agreements. There are well established grounds for assuming that the collaboration agreements deny us the use of *free* foreign exchange and raises the rate of profits on the private foreign capital invested in the country unduly. This aspect of the problem demands urgent attention. Also, the obvious leaks in the investment account should be closed. One such is that of discounting export bills in the London market which could be readily taken care of by the Reserve Bank. There are so many others ranging from smuggled gold, Swiss watches and American cigarettes to under-invoicing of export bills and over-invoicing of import bills.

(4) As the implementation of the major Third Plan projects e g steel, fertilisers and heavy industries will all fall far behind schedule, one of the consequences would be non-utilisation of the aid which is earmarked for these projects. Not much harm would be done by carrying forward the unutilised aid to the extent that some spill over is implicit, even in the normal phasing of projects. But unconscionable delays in the execution of projects are no part of rational phasing or planning and naturally the consequences would be disastrous for the Third Plan. For, at least a part of the domestic output, expected and taken credit for in the Plan will have to be met anyhow from imports, especially of key materials like steel or fertilisers and these imports would be outside the Plan and their cost will have to be met entirely from current exchange earnings.

In consequence of the failure of the planned output of steel, fertilisers etc to come up on schedule, the so called maintenance imports estimated at Rs 730 crores on average, and revised upwards to Rs 810 crores to allow for a more realistic figure in (2) above will have to be raised even further, to an annual level of about Rs 900 crores. These imports being absolutely essential, the foreign exchange cost will have to be met by stepping up exports and saving on invisibles. The above exercise should help to convey a more accurate idea of the magnitude of the task facing the country than had been officially advertised so far. It does not help to blink at facts, however dismal they may look.

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From the London End

The Great Debate: to Join or Not to Join ?

Dominating the U K scene is the issue of Britain's association with the Common Market. As the date for the announcement of final terms draws nearer, more and more people are beginning to realise the true implications of the Rome Treaty and the repercussions that it is likely to have both politically and economically on Britain.

In the early days of the negotiations, when few of the real facts were known and a great deal of publicity was given to the Common Market cause, it was the fashion to be in favour of British association.

Even as recently as January of this year, Sir Roy Harrod had protested: "There has been too much of the band wagon in recent attitudes about the Common Market and too little precise reasoning. When a cause becomes fashionable, arguments become nebulous."

It was not until June of this year that the Government made available an English translation of the full text of the Treaty of Rome. As more and more of the true facts of the situation become known, the opposition to British association is mounting.

THE political implications of Britain joining the Common Market have now been made abundantly clear. The British Government itself has never been in any doubt about them. In February 1959, Reginald Maudling said in the House of Commons : "We must recognise that for us to sign the Treaty of Rome would be to accept, as the ultimate goal, political federation of Europe, including ourselves".

American backing and hectoring is based on the belief that it will provide a Western European bastion against communism — a point underlined by Dr. Adenauer's statement after his meeting with De Gaulle in July. In this statement he said that West Germany and France had agreed that neither would ever side against the other by coming to an agreement with Russia. "With this political power, we need a political dam in Europe against the pressure of Soviet Russian communism. I see as one of the most important results of these days of reconciliation the fact that we have such a political dam."

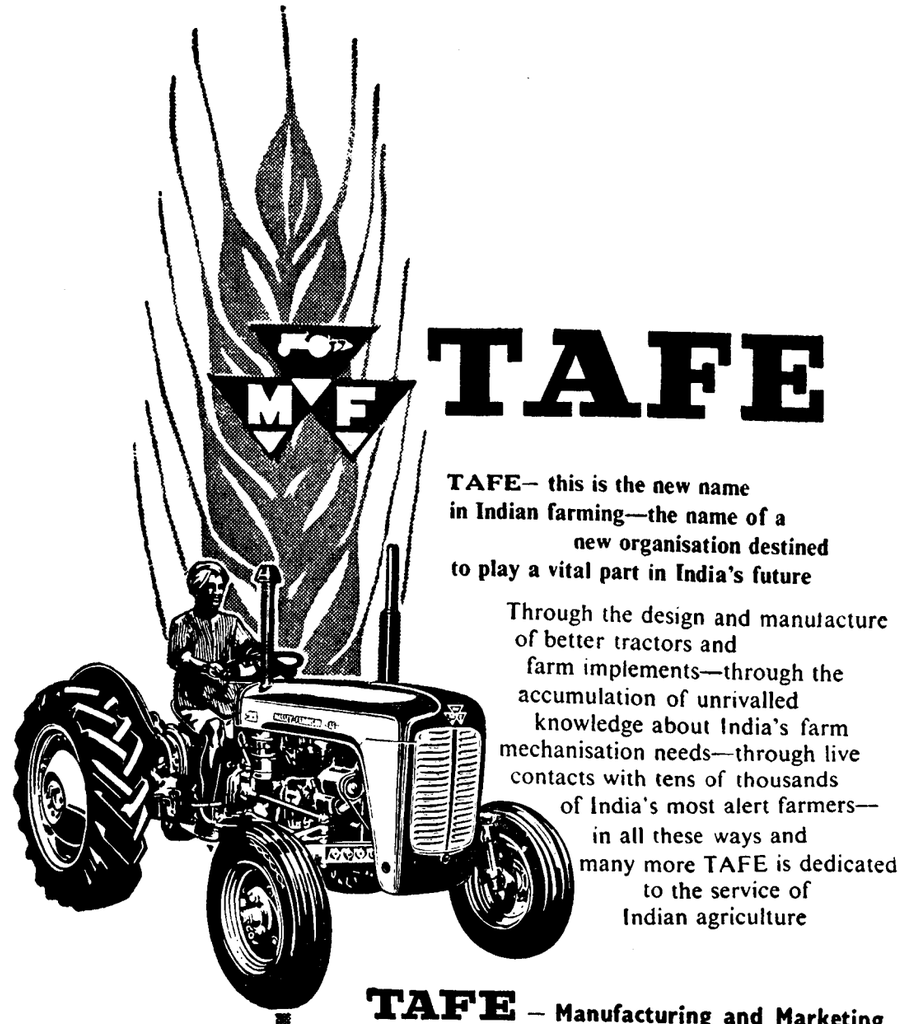
At this meeting it was also agreed that plans for the political union of Western Europe under the control of France and Germany, should continue without waiting for Britain's entry into the Common Market, thus presenting Britain with a fait accompli on the political front. A summit meeting of the Six is to be held in Rome, probably in September, to push ahead plans for a political union. In French Government circles, the main uncertainty is about Macmillan's ability to sell the terms agreed upon to the British Parliament and public. Britain will have to agree to join a political union on the same date that she enters the Common Market.

Economic Reasons Not Compelling

Many distinguished economists agree that the economic reasons for joining are not compelling. Sir Roy Harrod has gone further and said that if the terms on which Britain is able to secure admission to the Common Market involve a switching of her purchases, whether of food or manufactures, from the developing countries to the Common Market countries, this will be a most retrograde step to take. Sir Donald MacDougall came to the conclusion that it did not make much difference whether Britain stayed out or went in. Indeed, entry might possibly aggravate Britain's economic difficulties. The direct gains from the removal of tariff barriers between U K and the Six may turn out to be surprisingly small. Britain will certainly gain from a large two-way expansion of trade between Britain and the Continent, but increases in trade should not be confused with gains in income. Professor Meade has calculated that if, as a result of joining the Common Market, an extra 25 per cent of British output were diverted from the home market and sold to Europe in exchange for imports, the gain would be only about 2½ per cent of the U K's national income—equivalent to only one year's growth at her present limited rate of expansion. This takes no account of possible losses in trade with non-Common Market countries. Assuming that Britain would send 40 per cent of her exports to the Six—about 2½ times the present percentage—this would represent little more than 6 per cent of her national output. If Britain stayed out, prices might have to be brought down by about one-eighth, so that the total sacrifice would be no more than one-eighth of 6 per cent of the national income — i e substantially less than 1 per cent.

The Fabian pamphlet "Not with Europe", holds that Britain's entry would do nothing to narrow the growing gap between the rich and the poor countries, and that the Common Market is "irrelevant to the principal requirements of the age" and destructive of the Commonwealth. Curiously enough, while most politicians want to join the Common Market for economic reasons, most economists seem to think that the principal considerations are political.

It is now generally agreed that if Britain joins, the food bill of the average British family of four would rise by £1 a week. Retail food prices may be expected to rise by 9 per cent over a transitional period of six years if Britain adopts the Common Market system of agricultural supports, according to



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a detailed study by Derek T. Healey of the Institute of Commonwealth Studies at Oxford University.

Commonwealth Issue

Responsible Commonwealth statesmen have all rejected the terms so far suggested as far from satisfactory. Mr. Hare's admonition that Commonwealth countries were "behaving in some respects like children" did not go down well in Britain, although it may well reflect the actual views of the Government. On the Commonwealth issue the Government is now hoist on its own petard. In statements made in the U K the Government has emphasized safeguards for the Commonwealth on every conceivable occasion because it saw in this a means of silencing potential opposition. As it became increasingly clear that the Government is prepared to sacrifice Commonwealth interests in order to come to terms with the Six, many even of the Government's own supporters are understandably upset. They are certainly not reassured by statements like those made by the Secretary of State for Commonwealth Relations in Parliament in July, when, in reply to a question he said: "I do not know that any Commonwealth Government is satisfied with the proposals now before the Six, but that is what one would expect at this stage of the negotiations".

Pro-Common Market Campaign

Although the Government itself is unable, as yet, to launch its full-scale campaign in favour of the Common Market, influential organs like the **Economist** and **Financial Times** continue to speak up in favour of British association. In July, the **Financial Times** brought out an annual review on the impact of the Common Market on British industry. It claimed that most of the groups which would be most directly and immediately affected by British entry into the Common Market have tended to come out more and more strongly in favour of membership. Only the electrical industry has voiced any real anxiety. According to this review, most industrialists seem convinced that a new Europe would present them with exciting possibilities.

As the crucial discussions continue at Brussels at a snail's pace, doubts are now arising whether the suggested timetable can be met. Will it, in fact, be possible to achieve an agreement in general terms by the end of July? After his meeting with De Gaulle in July, Adenauer made it clear that neither he nor the French President are in any hurry over British association. He also added: "It would be in nobody's interest, not even in the British, if Britain were to come in on conditions calculated to hamper the working of the Common Market". This was an unmistakable reference to the difficulties in Brussels over the future trade with the Commonwealth.

In July, the Prime Minister indicated that it might not be possible to draw a definitive picture of the results of the Brussels negotiations until the beginning of August. Therefore, it may not be possible to present Parliament with hard news of an outline plan before it adjourns for the summer recess on August 2 or 3. Parliament may have to be recalled in September after the Commonwealth meeting.

It is true that the range and complexity of the problems that still have to be worked out necessarily imply considerable delay. But this delay is also a matter of tactics. As the **Statist** has pointed out, bargaining will deliberately be carried on right up to the eve of the Prime Ministers' meeting in London, although both sides know quite well the type of draft outline agreement that is to be presented to the Commonwealth Prime Ministers and what it will contain.

"The purpose of the increasingly hectic discussions which are planned for the next two months will be to wrap this — to Commonwealth eyes undoubtedly immodest — package in as many veils of verbiage and ambiguity as possible. The presentation of each of these veils to Mr Heath will be stoutly resisted by the French for sufficiently long to enable Mr Heath to show them off as prizes of substance when they have been conceded, and the whole process will take long enough to ensure that the Commonwealth Prime Ministers have no time to prepare their assault before they assemble in London."

Brussels Package Deal

There is now little doubt that the system of Commonwealth preferences will have to end by 1970 and that Britain must impose about 30 per cent of the Community's Common External Tariff on entering the Community to goods coming in from the Commonwealth and the full amount in stages by 1970. In the negotiations on Commonwealth preferences on temperate foodstuffs, the French have insisted that the gradual replacement of Commonwealth by Community preferences between now and 1970 was absolutely essential and that any promise to make arrangements for Commonwealth countries in the absence of world agreements would make it impossible to reach such agreements. In the end, the French were persuaded to accept a formula by which there would be discussions with third countries, "and particularly the Commonwealth", about foodstuffs for which world agreements had not been reached by 1970, provided these countries were not deemed to have blocked the conclusion of such agreements.

The chances of Britain improving these terms are slight. The French went out of their way to publicise the speech delivered by Monsieur Fisani in Brussels in July when he pointed out that it was unrealistic to believe that Commonwealth trade could be left untouched. "Either Britain will abandon the link which she has with her suppliers or she does not want to enter Europe except after having ruined it. For there is a fundamental contradiction in the present world market situation between the requirements of Great Britain and a respect for our own structure". Britain should enter as a seventh country in the Europe of the Six, without re-opening the fundamental principles of the Treaty of Rome, without endangering the agreement made on common agricultural policies.

Three Choices before Britain

In these circumstances, the British Government is faced by three possible choices:

(a) It could join the Common Market by distorting the Community's basic character.

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(b) It could join the Common Market by cutting loose from the Commonwealth.

(c) Or it could participate in devising world commodity agreements before it joined. These commodity agreements would have the effect of increasing the world prices of grains (and presumably meat and butter too) so as to guarantee to Commonwealth and other traditional suppliers the same income from a reduced volume of exports, and would involve organising the disposal of surpluses in the form of aid to countries like India and Pakistan which could not afford to pay for them.

If the British Government were to follow course (c), it would first have to swallow its qualms about the increased foreign exchange bill, and also to agree to a delayed entry, since world commodity agreements would take months if not years to draft, and this approach could well delay British entry into the Common Market until 1964 or beyond. This seems to indicate that if Britain wishes to join soon, some sacrifice of Commonwealth interests is essential.

The main Commonwealth countries to be affected by the decision on temperate foodstuffs are Canada, Australia and New Zealand. The British, in presenting their case to these countries, will probably point out that the position of many of these countries' most vital exports would be safe. Australian wool would enter duty free and Canadian hard wheat would be safe because it is protected by consumer preferences. The British would also hope to make adequate arrangements for New Zealand's vital exports of mutton and lamb, and Canada's exports of woodpulp and newsprint. For the rest, the British will plead that these countries still have seven years in which to adjust themselves and find additional markets. The enlarged Common Market has now given them a promise of world-wide agreements which will offer them comparable earnings if not comparable outlets. New Zealand's position, which is recognised to be particularly vulnerable, will probably be covered by massive financial help — of which there is now much talk — to enable her to convert her economy.

African Commonwealth Countries as Associates

As far as most of the African Commonwealth countries are concerned, the British firmly believe that the interests of these countries will be covered by a formula of association which will grant to these countries similar rights to those of the present Associated Overseas Territories.

The British will try to dispose of objections, which are bound to be raised by the Asian members of the Commonwealth, by pointing to the new "comprehensive" agreement which the enlarged Common Market is prepared to sign with them in 1966. British and Continental authorities in Brussels are showing considerable satisfaction with the draft agreement on the treatment of exports from India, Ceylon and Pakistan which has been reached by the Ministers' Deputies. Their enthusiasm, quite understandably, is not shared by the countries concerned. The agreement, as typified by the arrangement for cotton textiles, lays down that on entry, Britain is to impose 30 per cent of the Common External Tariff on cotton textiles from Asian countries, and a further 30 per cent in eighteen months time. If during this period it is found that exports have suffered, the Commission will examine the case and make recommendations which, if not followed by the Six, will leave Britain free to take what steps she considers necessary to make up for this loss.

Outlook for India

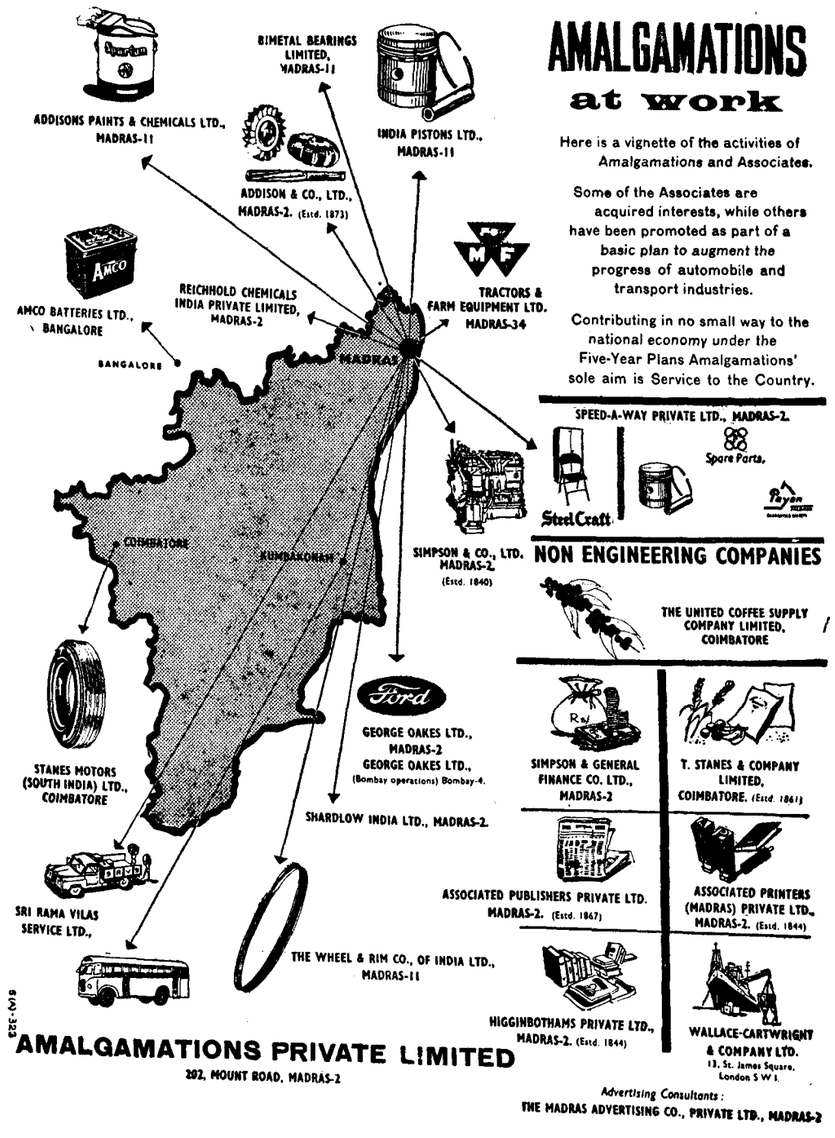
As the Indian delegation pointed out with considerable logic, the setting up of tariffs is hardly the best method of encouraging trade, and that for developing countries trying desperately to industrialise their economies, the maintenance of the **status quo** is quite inadequate. What they want and what they feel they have a right to expect, is scope to increase their sales. The package deal also holds out some prospects of increase in sales to Europe through the relaxation of European quota restrictions under the GATT Cotton Textile Agreement, but as has been pointed out by the Indian delegation, the promise of increased quotas for their cotton textile exports to the Continent, is quite inadequate without a reduction in tariffs as well. It must be appreciated that as far as cotton textiles are concerned, and also jute textiles, the British Government is unlikely to make any further concessions because of the pressure from their own domestic industries. It realises that the more generous the terms obtained for India and Pakistan are, the more difficult it will be to muster the votes of members from Lancashire and Dundee.

One of the points which is being pressed for is the immediate conclusion of a Trade Agreement guaranteeing India's present sales to Britain and allowing for an increase in Indian exports to the Community. So far, this proposition has been turned down and the chances of translating the so-called "constructive disposition" of the Six towards under-developed countries, into harder provisions — such as the enlargement of quotas and the reduction of some tariffs — do not look bright. The line that the British will try to put over is that with the promise of a comprehensive trade agreement in 1966 with the enlarged Common Market to look forward to, the Asian members of the Commonwealth have got much more than they could hope for if Britain stays out of the Common Market — when their markets in the U K would be curtailed by force of circumstances.

Reception Awaiting Macmillan

The general position which the Government will take will be that no better terms could possibly be negotiated for the Commonwealth countries, and that it would not be really worth sacrificing all the advantages which British membership of the Common Market will offer to the Commonwealth for the sake of a few problem cases.

There is little in these terms to satisfy the general needs of Commonwealth countries. All the present auguries are that the Government in the last resort will attempt to ride rough shod over the objections of the Commonwealth. One commentator has suggested that if a package deal like this is presented to the Commonwealth Prime Ministers in September, Mr Selwyn Lloyd's unhappy experience in Accra last summer will be an idyllic memory by comparison with the reception awaiting Mr Macmillan in September.



Capital View

Clouds—and No Silver Lining

Romesh Thapar

THE dry and scorching heat, the dust-laden and coppery sky, the atmosphere which even in the air-conditioned centres of power slows down thought and action, has changed overnight with the arrival of the rains; as expected they arrived in defiance of the weather forecasters. Now, we are getting used to the mugginess during the day, the swarms of insects during the night — and the snakes, for this is their mating season. One cannot help wondering at this time of the year whether the climate will always be against us in our 'forced march' into the future.

The special trains, longer than anything we have seen, which were organised by an obliging Railway Board to take thousands from the plains to the hills in every direction, are now returning to the Capital over-crowded with those who have been on holiday. The circle must complete before Union Ministers K. D. Malaviya and Swaran Singh can begin to think of moving vitally needed coal by rail. What they intend to do next year about this 'summer mobility' between north and south, east and west, between town and village, is anybody's guess.

Summer Exodus: The New Class

Astonishment is frequently expressed at the 'kind of people' who now take holidays annually in the hills. They belong, increasingly, to the lower middle classes — and the question is asked as to how they manage to afford this luxury. Where does the money come from? This, too, is anybody's guess. The hill-stations have never had it so good. They were packed through the season, and are now looking forward to a more select clientele in September.

The Prime Minister returned from Kashmir looking refreshed. Now he has set off on a strenuous trip to the South. While in Kashmir he had long sessions with Bakshi Ghulam Mohammed, but nothing is known of what transpired. Probably he decided at the last minute not to stir the bee hive, at least for the moment. But many in the Capital have convinced themselves that there cannot be two Prime Ministers in India, that Prime Minister Bakshi Ghulam Mohammed will soon be just another Chief Minister. This may be the long-awaited signal for the clean-up of a rather corrupt and heavy-handed administration.

More than any other, the return of Finance Minister Morarji Desai is awaited with bated breath. All foreign exchange licences including newsprint which we cannot hope to produce at short notice, are held in abeyance. Collaboration agreements, finalised some months ago, have also been shelved. The Development Wing of the Ministry of Commerce & Industry, where businessmen from all corners of India hang around for weeks to be 'obliged' or to 'oblige', wears a deserted, forlorn look. This situation certainly pin-points the 'depth' of our planning processes!

Common Market Shadow

Of course, there are the sophisticated who will tell you that it is incomprehensible why Indian policy-makers should panic, that the Kennedys and Adenauers cannot but give India the aid she needs to fulfil the Third Five Year Plan, that these gentlemen know perfectly well that the alternative is an India allied to the communist world. 'They'll come on bended knee', it is even suggested.

Some protagonists of the European Common Market among the foreign community here share this view, although in a modified way. They explain that although the ECM idea was started by the U S A politically to consolidate West Europe against the Communist bloc, today ECM is an economic threat to the U S A despite US 'take-overs' and 'tie-ups' in Europe. Whether Britain enters the Market or not, they maintain that the U S A will have to do everything in her power to find and establish new markets. This means that she must strengthen her friendship and cooperation with Asia and Africa. India, in this respect, is a major commitment. That is why it is argued, the 'Aid-India Club' is not over-anxious to 'match' the aid which the USA is offering. But though India is a major commitment, the greater the U S commitment in India, the less her capacity to interfere with the ECM penetration into Africa.

According to information reaching the Capital, both Kennedy and Khrushchev are uncertain about the future of ECM and how it will affect the balance of power. Certainly, in Washington and Moscow no one opinion is being expressed on the subject. May be, we are entering the phase of three blocs, each with a surplus to offer. If this is so, the reaction of those who rule the non-aligned, aid-hungry world should be favourable.

Planned Unpreparedness

In the midst of our present crisis, we may tend to consider such talk as irresponsible. Yet it must be faced that for too long and too readily we had assumed that the European Common Market wouldn't affect us either way and that we have done no real thinking yet on the wide political implications of its growth and expansion. European diplomats are amazed at our lack of understanding of these new developments just as they had been amazed earlier at our indifference to the E C M. Indeed, one of them happened to raise these issues in the Ministry of External Affairs and was told to take his questions to the Ministry of Finance!

That this should have happened at a time when the economics of neutrality are under serious investigation (at the Cairo Conference of Under-developed Countries sponsored by the U A R and Yugoslavia) and the possibilities of trade and aid among under-developed countries are dominating the Geneva meeting of the U N Economic and Social Council, is a pointer to the unpreparedness of our Ministry of External Affairs. It is also possible, however, that the unpreparedness is planned; we are anxious to secure our foreign resources without becoming involved in regional or collective approaches to the nations which have an econo-

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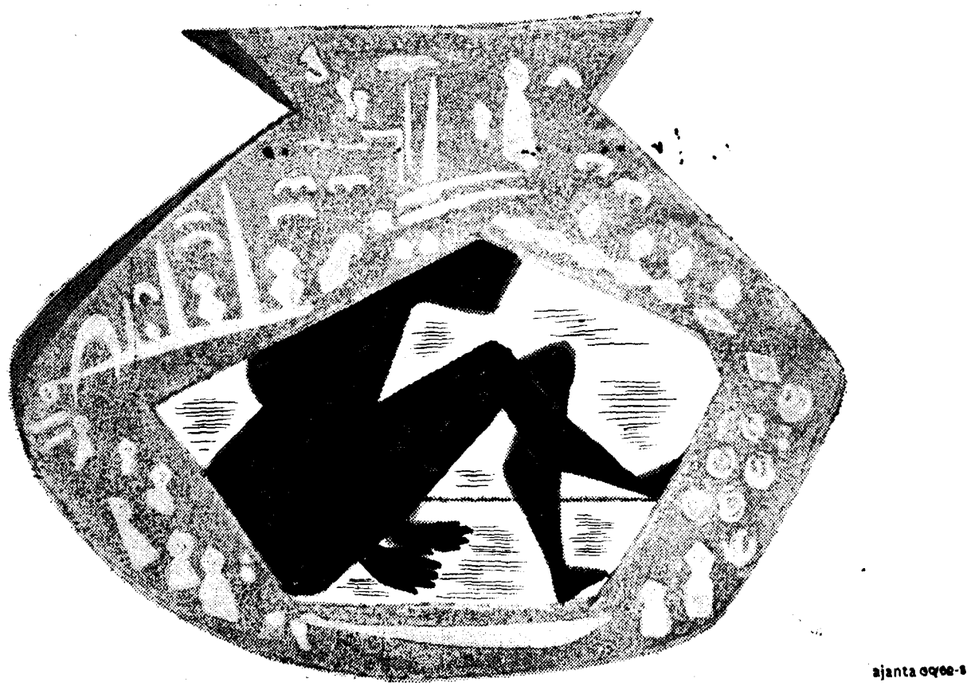

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mic surplus to offer. Our attitudes before and during the Cairo Conference, notwithstanding the presence of Union Minister Manubhai Shah, certainly seem to confirm this suspicion.

Increasingly the demand is being raised in the non-aligned under-developed world that ways must be found for economic cooperation among these countries. That until now they have not been able to produce mutually exchangeable goods is as much a reflection of their under-development as of their metropolitan orientation. The economies of these countries, until recently, had been oriented entirely towards the metropolitan countries with which they are still tied by long-established trade, shipping and exchange banking arrangements. Economic cooperation it is maintained, could be fruitfully begun to their mutual advantage by setting up personnel and raw material 'pools' — a first step which would encourage our economists to break new ground.

Political Speculation — Old Style

These issues, it has to be admitted, have not even begun to engage the attention of our foreign service. The External Affairs Ministry prefers political speculation in the old style. And one such subject, which is providing considerable satisfaction, is the current situation in Pakistan.

The Ministry's experts consider that President Ayub's experiments with democracy are recoiling and will weaken our neighbour's capacity to create trouble for us. Yet, those who independently study Pakistani developments believe that profound changes are taking place, changes which may seriously upset our notion of the balance of power in this region.

These students of Pakistani affairs claim that it is not just the controversy over democracy but also President Ayub's attempt to blackmail the USA which, in conjunction, sparked the upsurge in Pakistan. The opponents of the military regime, an odd assortment by any standard, felt that this was the psychological moment to strike. The rapid build up of mass pressure against the regime, it is felt, will release new political demands and attitudes. These could force Pakistan out of the defence system created by the USA and her allies.

No New Angle on Pakistan

Will Delhi show far-sightedness, helping the process by attempting to sketch the kind of association a non-aligned India and Pakistan could forge, or will we continue to imagine that the present eruptions are internal family quarrels without any real substance? Even on the basis of the limited franchise granted by the military regime, there have been sharp, vitriolic scenes in the Assembly, a spate of adjournment motions with government only able to muster small majorities, walk-outs and wrangles whether in special committees or outside, and all this has encouraged the public at large to express its resentments.

Significantly, the usual anti-India slant is more or less absent in the debate now joined in Pakistan. And even the pet theme of Kashmir has not dominated the thinking of the vocal sections. True, in the background, is a feeling of despair that Pakistan's alliance with the powerful West has not paid the dividends which were expected. It is, therefore, even more necessary for us to prevent this frustration from taking on the usual overtones of hostility towards 'the politicians of Bharat' who are generally accused of being behind every Pakistani misfortune.

Even though the Prime Minister is more sensitive than most of his colleagues to any healthy trend in Pakistan, he is reluctant to do or say anything which might be interpreted as interference. Perhaps the new complications in the border situation between India and China may persuade him to become more energetic in assessing the present trends in Pakistan.

Chinese 'Straight Line' Frustrated

The tension in Ladakh is causing some anxiety, but not to the extent that the daily press would have us believe. The Chinese attempt to cut off one of our forward pickets in the Galwan Valley is, in a sense, a clear confirmation of the success of our tactics. The Chinese have been trying to push southward in order to claim more areas as entirely under their control. They have built roads and supply depots. But they have been frustrated in their effort to establish what might be described as a 'straight line of occupation' from one point to another; the Indian army, despite tremendous odds, has been most active patrolling these areas, often establishing pickets and outposts well behind the farthest Chinese positions on our territory. Peking's aggressive posturings and threats prove that this policy has had effect.

Whether the Chinese intend to destroy our forward positions or to merely use this encircling strategy to 'prove' that we have moved into territory which is not ours remains to be seen. Their withdrawal in the Galwan Valley, however, despite superiority of numbers, suggests that they are merely flexing their muscles — but one can never be sure of Peking's moods.

This business of Indian and Chinese patrols closing in on each other is obviously going to be a marked feature of the situation in the Ladakh area — and the sooner we get used to it, the better. The alarmist reporting in the daily press, and the incapacity of Government spokesmen to explain this situation intelligently, is one of the sad facts which have to be recorded.

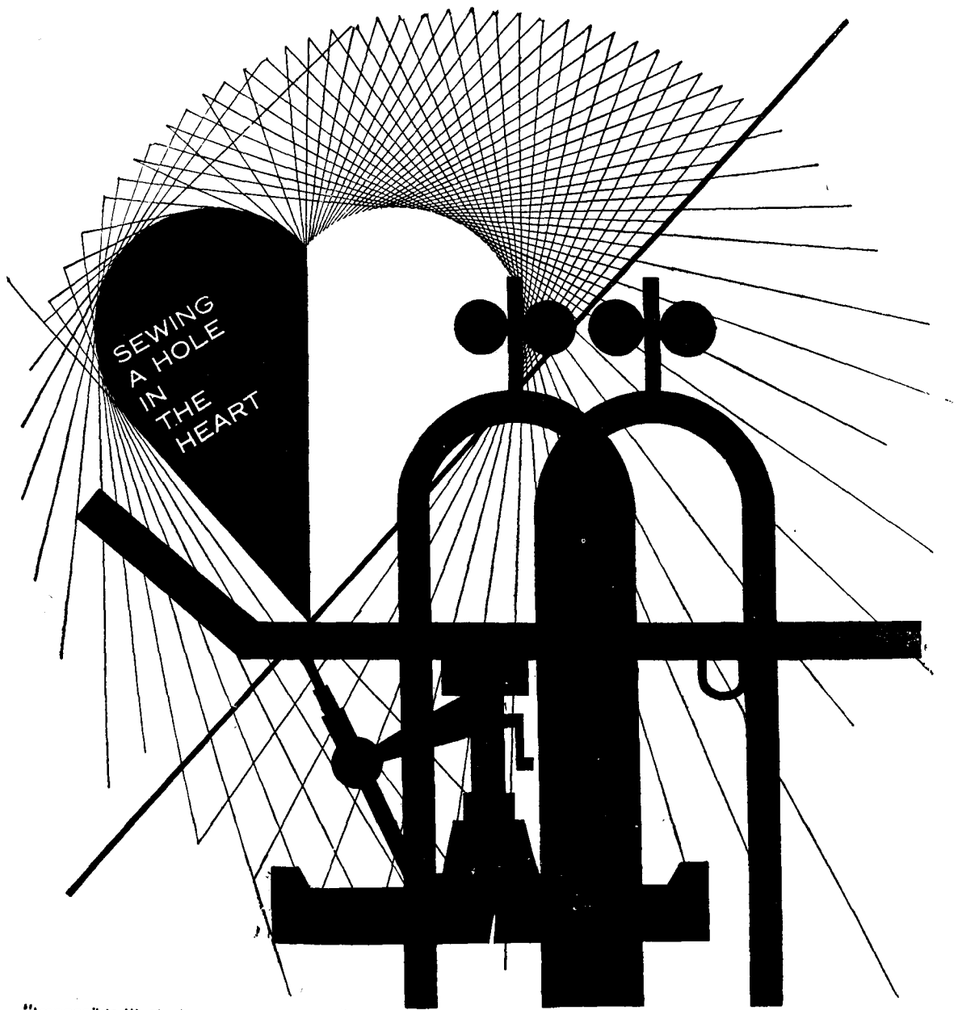
Traditional Solution to Modern Problem

If you were in Delhi, you would not notice the reported 'alarm' in official circles which are more concerned with how Finance Minister Morarji Desai is progressing with his foreign aid negotiations in Europe.

The situation has a lighter side too. The airlines, which at one time thought that they would be flying empty planes from India, are realising that the prospect is not totally gloomy — so long as the international gatherings, seminars, lecture tours and 'seed' conferences continue to multiply. For example, one of the largest delegations to the World Disarmament Conference in Moscow is from India. Indeed, the foreign exchange crisis may have one positive effect on the ruling elite — purposeful holidays at the expense of other governments and peoples, and a sharp competition between various dedicated groups to arrange them!

The housing shortage in the Capital has also given rise to another interesting development. Senior officers, both civil and military, are taking recourse to the strategem of offering their 'honorary' services to the Government on retirement. Of

THE BIG HURRY IN THE WORLD OF SURGERY



"Impossible !" all the surgeons said. "You'd have to still the heart to repair the damage". And stilling the heart would kill the patient ! ■ Thus the problem remained for a long helpless decade, till in 1958, a brilliant English surgeon invented the "heart and lung" machine. Now it could be done ! ■ The machine temporarily took over from the damaged heart the massive yet delicate business of blood-circulation while the surgeon sewed up the hole. ■ Oxygen was on the scene. It always is on the scene when the best surgeons of the world perform such surgical feats, making the "impossible" operations of yesterday a common-place occurence today. ■ But today is always a day too late when countless lives are at stake. ■ We of Indian Oxygen are alive to our responsibility of keeping Indian Medicine and Surgery supplied with medical gases, and will continue to try and keep pace with the big hurry.

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course, an 'honorary' status entitles you to a house, a telephone, a **chaprasi** and, possibly, a car. In money terms this is equivalent to anything between Rs. 1,500 to Rs. 2,000. And it is tax free, for all you get from government is Re. 1 per month. Add this to a pension and you have the answer to both inflation and taxation!

Again, this practice of 'honorary' service is not confined to 'retired officials'. It embraces all categories of 'political sufferers', from defeated ministers to disappointed minor politicians reduced to the role of contact men and cheer leaders. In this manner, Housing Minister Meher Chand Khanna has his work cut out for him. The developed Indian intellect, proud inheritor of a centuries-old philosophy, can still find the perfect traditional solution to the most complicated modern problem.

Even More Bewildered Opposition

Against this rather ramified background, Economic Coordinator T T Krishnamachari made his first public appearance in the Capital to speak on an essentially controversial theme: Economic Development with Social Justice. Addressing a sizeable audience, with the diplomatic corps out in strength to get an impression of what is in the offing, TTK succeeded in being highly non-controversial on what he proceeded to call a 'humdrum' subject. He rambled over economic history, current problems, the tribulations of democracy and the world's attitudes to India in such a way as to show that he has a well kept liberal mind but is certainly not the radical go-getter he has been described to be. Even question-time proved singularly unrewarding.

Not surprising, really. In the Capital these days, little else is expected from a bewildered ruling party and even more bewildered opposition groups who are not getting the support they expected from agitations against the tax burden. Communists, Jan Sanghis, Swatantras, Socialists and Praja Socialists despite joint fronts as in the Punjab, are unable to stir the mass of the people. So why shouldn't the Congress Party feel smugly content, oblivious of the clouds which have no silver lining.

Our American Letter

Kennedy Plays "Touch Economics"

Rostow Plans Foreign Strategy

While the Gallup polls and society columns claim the President's popularity to be at an all time high, there is considerable irritation among the influential circles, always lurking in democratic societies, that largely shape the course of events.

The near-monopoly of the front-page headlines by the Kennedys has failed to guarantee stock-market confidence, labour-management peace, businessmen's tolerance of Keynesian policies and the tractability of the inertia-ridden leaders in the Congress.

Nor have matters been helped by Messrs Billy Sol Estes, who has made millions on cotton and grain deals buying off high-ranking politicians and officials, and Edward Gilbert, who fled to Brazil after borrowing $ 2 million from E L Bruce & Co to operate in a shaky stock-market.

All this has been super-imposed on a more or less stagnant economy uneasily facing an impending recession with 4 million already out of jobs and the steel industry operating at half its capacity.

FOR more than a year, Kennedy has played the successful game of confusing his adversaries by several skilfully compromising actions that won partial support of the Republicans. Discounting the oratory, no major measure has come to a head until the recent showdown with the steel giants on holding the price-line of this key commodity. Kennedy's success, perhaps the only major one since he took office, has brought forth reactions that threaten to consolidate his opponents into a solid wall of obstruction against the alleged "anti-business", "socialistic" Administration.

In his speech at Yale, Kennedy called on the businessmen to "smoke the clay pipe of friendship", to debate economic policy dispassionately and to get rid of cliches and myths about balanced budget. The hostile reaction of the business to the speech has further confused and puzzled the Administration bent upon easy compromise rather than determined leadership. To dispel the anxieties of businessmen, the Administration has asked the Justice Department to slow down its trust-busting activities. After the major successful indictment of electrical industry executives, the Department is presently content with routine cases against "industries" like venetian blinds, kosher frankfurters and touring ice shows.

The palpitating and sinking stock market reflects the disappointment of the investors in Kennedy's promises to get the economy moving once again. Over the past months, on an average, the stocks have declined by 44.90 points and the market has been bearish for almost six months. While the administration spokesmen have generally shrugged off the stock-market gyrations as adjustment to a non-inflationary situation, the signal of a recession seems to be apparent to several observers. Even so there is no evidence of strong measures by Kennedy and the tax-cutting is not supposed to come off till next year.

Many Setbacks in Congress

The deterioration of Kennedy's relations with the business is only one source from which his troubles stem. In the political arena, both in and out of the Congress, the President is facing many setbacks. The defeat of President's farm bill proposing curbs on production and acreage was a serious blow to Kennedy's legislation programme. The Administration has constantly underscored the problem of the mounting surplus valued at $ 5.5 billions —the cost of storage alone being

$ 1 billion annually and the cost of price support amounting to $ 2.5 billions annually. The three remaining major items of the programme — tariff reduction, tax reform and medical care of the aged — are seriously threatened by the failure of the President to unite the Democratic Congressional majority behind him. The barrenness of the 1962 session of the Congress is reflected in the fact that the only major new-frontier piece of legislation enacted was a $ 435 million retaining programme for the unemployed.

Outside the Congress, Eisenhower has joined forces with Goldwater to launch a frontal attack on the administration. The former President has displayed a curiously short memory when he contends that every dollar of deficit finance weakens the nation, after his administration had clearly outspent the Truman administration! The distinguished Senator for Arizona has vocally advised the President to replace some of his advisers with hard-headed businessmen to spur a revival in the economy. He also propounded a novel theory maintaining that the country must avoid the experience of Austria, which triggered the greatest depression the world has ever known by adopting policies that would accelerate the rate of capital investment!

Such a preposterous level of debate on national economic policies is no excuse for the present situation, aptly described by Eisenhower, even though for opposite reasons: "This administration is floundering — thrashing aimlessly and a bit desperately about — in the surging financial, fiscal and economic currents of our times".

After one and a half year in office, the Kennedy administration has continuously tried to placate conservative businessmen and Republican politicians and in so doing has compromised its goal of providing strong leadership. At every allegation of desiring "a managed economy", the Administration has recoiled from acting resolutely. When serious problems facing a slugging economy cry for strong action, to use a recent press crack, Kennedy touches everything and tackles nothing — but "Touch Economics", just like touch football, provides no more than a juvenile outlet for youthful energy.

Attack on Build-up of Presidential Powers

The closeness of the election has had a decided influence on the Kennedy style. While building an image of himself as a respectable and respected President (instead of "a young genius" that Eisenhower once called him), he has sought an occasion to mobilise the bits and pieces of power at his disposal to attempt some dramatic success or other. In the Congress the Presidential lobby with various means at its disposal got the trade bill voted in the House but the farm bill was doomed. The 72-hour battle with the steel executives, including the use of FBI phone calls at 3 a m, was a grand triumph. But the Cuban debacle was the unkindest cut of all, which raised serious doubts about Presidential judgment. No consistent pattern has so far emerged regarding Presidential power and prestige in the political arena; it is generally recognised that while Kennedy's popularity has grown by leaps and bounds, he has yet to demonstrate and exercise his leadership. Skilful operation and manipulation by White House hardly compensates for bold and courageous policy consistently formulated and honestly executed.

Both Senators and Representatives after a period of wait and watch are becoming stubborn and defiant and "Kennedy's 500 proposals which would increase Presidential powers" will be fought against at every step. The press-honeymoon that blossomed during the campaign is fading out and the childish row ending with the cancellation of the *New York Herald Tribune* subscription by Kennedy will hardly help. Finally, the Republican Party ridden with dissensions is showing signs of unity enabling Eisenhower and Goldwater, Nixon and Rockefeller to stand on the same platform and crow the same tune.

Foreign Policy "Idea Men"

In foreign affairs Kennedy's performance may be described as that of a weak and vocal crusader and even for the Americans, the U S foreign policy is frighteningly confusing. (The cooling-off of U S attitude towards India is particularly puzzling. There are many and complex reasons for the failure of this country to understand India's position on Goa and then on Kashmir and then on the rumoured MIG deal but part of the blame must be placed on the utter inefficiency of the Indian Embassy to present the Indian point of view to the Government, leaders and people of this country). One may get some clues to the foreign policy, or rather to the series of measures and pronouncements in the international field by sizing up the "idea men" around Kennedy, the doyen of whom is Professor Walt Whitman Rostow.

Rostow has carefully operated in the background avoiding publicity as much as he can. He had access to the White House even in Eisenhower times and the "Open Skies" offer was attributed to him. Not long ago it was rumoured that Rostow had a good deal to do with the CIA-sponsored abortive invasion of Cuba. Presently, he is the Chairman of the State Department's Policy Planning Council and has become the subject of a heated controversy over a confidential paper prepared by him. He came out successfully after being subjected to questioning by the Senate Foreign Relations Committee that wanted to determine how far did Rostow's ideas serve the Communist purpose!

Rostow as Theoretician of Strategy

A reporter on the *Chicago Daily News* disclosed the "5-dimension" Rostow thesis which underlies the confidential and controversial paper. One of the dimensions stresses the need for closer ties with the industrial nations of Europe. This was apparent from the pre-mature oratory of the President on Independence Day calling for a Declaration of Interdependence among the Western nations for a "concrete Atlantic partnership" between the United States and the united Europe. Even before the political structure of the Common Market countries has been clarified and even before agreement is reached between France and the U S on the weapon system that will be shared, the President's speech appeared as unpractical as the dreams of Clarence Striet and Wendell Wilkie.

The second dimension of Rostow strategy has to do with the "revolution of modernisation" in underdeveloped countries with particular emphasis on Latin America. The great Punta del Esta Charter of an Alliance for Progress of the Americas has still to go off the ground. The Kennedy visit to Mexico, more in the spirit of a ficota rather than a State visit failed to make the Mexicans denounce Cuba. The Washington-sponsored "comprehensive" planning in Latin America, blessed by Ed Masons and Harvey Perloffs, will tax the credulity of the most primitive of economists from these countries, not to speak of Raul Prebish whose hopes in the new administration appear to have been dashed.

Furthermore, Rostow's thesis calls for "the building of north-south tie in which the industrialised nations of the north will replace the old colonial ties with a new relation of co-operation and partnership". Such a doctrine will enable the U S to offer weak and occasional support to an anti-colonialist movement, like Angola and at the same time maintain friendship with Portugal.

A country, ever on guard against the Communist enemy and relying heavily on a growing military arsenal cannot afford a foreign policy strategy free from a heavy military component. However, from the "massive retaliation" the policy-makers have moved to making a direct Communist assault "grossly unattractive and unprofitable". The explicit character of this policy was made clear by Secretary of Defence McNamara. "Our principal military objectives in the event of a nuclear war stemming from a major military attack on the alliance, should be the destruction of the enemy's military forces, not of his civilian population .... If nuclear war should occur, our best hope lies in conducting a centrally-controlled campaign against all of the enemy's vital nuclear capabilities, while retaining sufficient reserve striking power to destroy an enemy society if driven to it".

Counter-Guerilla War

This is not all. Rostow has also established the American strategy of counter-guerrilla war centering on South East Asia which has won the author of "A Non-Communist Manifesto" the title of "the theoretician of anti-guerrilla warfare". Thus we see Kennedy's chief adviser matching wits with Mao Tse Tung and Che Guevara at the graduating class of the U S Army Special Warfare School at Fort Brogg, North Carolina, June last year.

Finally, the fifth and the last dimension of the foreign policy strategy calls for co-operation with Communist countries in specific areas of common interest only if such countries demonstrate present and potential independence from the Moscow grip.

Within such a global strategy, in Rostow's own words, "We are trying to see if we can anticipate crises. Sometimes you can't head them off. But we are trying to look around the corner". Such a role may be necessary but it is also dangerous, particularly when this job falls to the lot of a professor trying to do too much too quickly. Whatever grandiose scheme Rostow may have conjured up for Kennedy, the preoccupation with touching, tinkering and looking-for-crises in the spirit of a crusader makes the President particularly vulnerable to attack abroad as well as at home.

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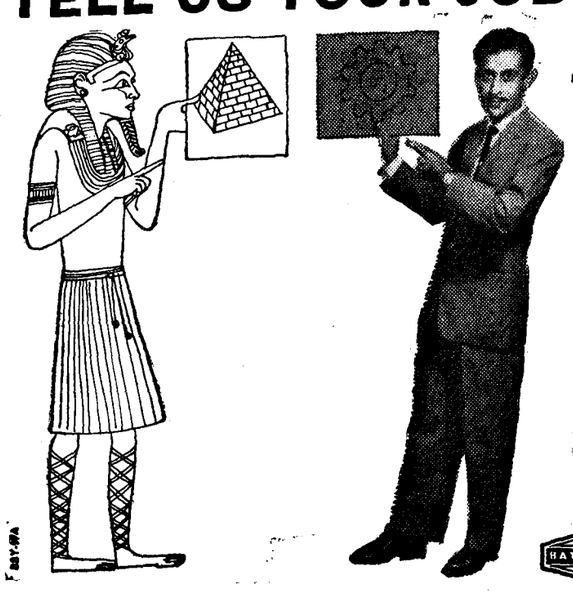

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The Take-Off Election

Rajni Kothari

The pace of political development in India has been quickening as a result of the interaction between (a) the ideological orientation of a leadership keen on modernising the country; and (b) a growing struggle for power in a democratic constitution. This was how the political scene was viewed by the author on the eve of the third General Elections in the last Annual Number.

An attempt is made below to assess the significance of the Third General Elections in the light of the above process of political change.

BY political change we mean a change in the governing elites, a change that involves movement between parties or factions. Such an institutional interpretation of political change is easier to comprehend and it provides a yardstick for measuring both the intensity and direction of change. And yet something more is involved in political change in a developing system, and something less. Less, because for quite some time to come, there may not be a complete break in the government leadership. More, because certain basic changes take place in a developing system, changes that are already a matter of recorded or unrecorded history in the more developed nations. In other words, there are certain pre-requisites that have to be fulfilled before political change becomes a matter of a simple choice between alternative sets of leadership.

Two such pre-requisites are considered here: (1) the organisation of society on the basis of political and secular values and its impact on the structure of decision making, and (2) increasing assimilation of groups that were kept out of the ambit of power till now, thus placing political authority on a broader social base and a larger consensus.

What light do the third General Elections throw on this process of change in the basic elements of our political system?

I

Political Organisation in a Traditional Society

A significant development which the elections brought into light was the manner or extent to which political organisation and social forms were drawing closer. On the surface, it appears to some as an intrusion of caste in politics. In the idiom of politics usually employed in this country at a certain level, which is that of parliamentary government, this is dubbed by commentators as retrograde and undemocratic. However, the criterion of political behaviour behind such judgments clouds our understanding of the processes of the change occurring in the country's political as well as social life.

There has traditionally been a vast distance in this country between political authority and social organisation. This has also naturally been reflected in the organisational developments of political parties even in the years after Independence. The Congress party, for example, had an organisation going way down to the smallest towns and from there, influencing the villages. But, for the most part, this chain of relationship had been set up through men who constituted a distinctive tribe known as 'politicians' or 'Congressmen'. Their interaction with the prevailing bases of social organisation was very limited. It was not even necessary to try to narrow or bridge the gap; the good relations that normally existed between Congressmen and leaders of the dominant groups in the villages made this superfluous. There had been no need to penetrate further than the village elite.

Society and Politics Draw Closer

Certainly until the first General Elections and even, in a large part of the country, till the second, this state of affairs continued. Getting votes was a simple function of the organisational lead that the entrenched leadership in the Congress (and in a few pockets, the C P I) had over other groups. Also, the possibilities or the need to influence the course of national and state politics had not yet been fully realised by the leaders of the different social groups.

Around the beginning of the 'sixties', however, a change began as a result both of the growing struggle for power among political parties and within the Congress party and of the slow impact of development programmes — and what they meant in terms of benefits — on the leaders of society. Politicians needed new bases of support while caste and community leaders were anxious to have a greater say in the allocation of jobs and funds. This was vividly reflected in the third general elections.

The call given by the national leadership to keep away from 'casteism' was wholly unrealistic, and it was completely ignored by the party machine which went the opposite way. A study of the part played by caste and local loyalties in the selection of candidates makes this very clear. So does the election strategy of the different parties in which far more attention was paid to influencing community leaders and 'key men' than to public meetings and mass propaganda. 'Deals' were struck, promises made and prolonged 'negotiations' carried on, often resulting in the passing of formal resolutions by caste conferences or 'advice' given by caste panchs and religious leaders. Even the dominant village leaders were often by-passed and bargains were struck with leaders of different castes or, more often, of factions within each caste. While full significance of this change will be examined below, it would be enough to say here that this election strategy radically changed the whole basis of political organisation, making it more broad-based and bringing authority nearer the grass-roots of society. The loci of power had begun to move downwards.

This process has been noted by keen observers of the political scene who have not, however, always

drawn the above conclusion. Selig Harrison's graphic account of Kammas and Reddys in Andhra and F G Bailey's painstaking study on Orissa politics are two outstanding examples of the latter. There are others. Most of these studies seem to suffer from an outdated anthropological bias, viz that social cleavages 'enter' politics and turn politics into a mere replica of these cleavages. The emphasis has been almost entirely on the impact of caste on politics, little attention being given to the impact of politics on the caste structure of society.

Yet the most significant development overtaking Indian society, one that was brought out so prominently by the elections, is the modification of the traditional structure. On the one hand, the elections gave rise to new cleavages that cut across existing ones; on the other, they forged new unities between hierarchically 'placed' strata, thus jumping over distances that had the sanction of tradition and long usage.

II

'New Classes' in Politics

The political transformation of Indian society assumes a more definite form and meaning when we pass from a general examination of the relationship between politics and society to a more precise question: Who constitute India's political community? It is a question vital to our understanding of the developing political process. It concerns not simply the problem of political change but also that of political stability.

For a long time after Independence, Government and politics had two characteristics: first, the scope and extent of their functions were rapidly expanding, but their base continued to remain narrow. The political process was limited to a few and, although welfare concepts were very much in the air, political rights were largely exercised only by the urban upper caste and economically well-to-do classes of society. The concentration of power in a few competent hands was matched by the apathy and lack of enlightenment of the large masses of people.

System Gets Legitimised

The first two elections took the political parties to the masses and the countryside but except in a few areas, found the masses docile and 'amenable'. For a party to gain power, it was enough to capture the dominant group. Where the latter was divided, parties could fight. But in general, there was hardly any need to directly approach the low-placed and under-privileged sections of society.

The third elections brought to the fore symptoms of a vast change in the power relations of society that was finding expression through the political process. More than the results, it is the process that is important here. It was found in several parts of the country that whole sections of people who had hitherto considered political power to be the exclusive preserve and concern of the higher-ups and who were, consequently, denied a share in public affairs, were asserting themselves through their own — and not the old established — leaders and becoming conscious of the power they wielded through the ballot box.

The fact that the benefits of this awakening often went to the parties labelled as 'rightist' as it happened in Gujarat, Rajasthan and Tamilnad, is only a reflection of certain solidarities in society that cut across political and even interest divisions. The existence within the Swatantra party or the D M K of large sections of the under-privileged and low-placed is, nevertheless, to be welcomed, for these sections will form the basis of a radicalism which is bound to influence policy in the long run. They will perform the same function in these parties that the rich and landed classes perform in the Congress. Such differences within a party have a moderating influence on political controversy, they help to broaden the base of political parties and tend to bring opposing parties closer in their respective programmes and policies.

The entry of these "new classes" on the political arena also enlarges the basis of the political system as a whole. An important test of the stability of a political system is the extent to which it becomes acceptable to wider and wider sections of the people, who not only feel a stake in the system but also begin to consciously participate in it. Moreover, as conscious acceptance of political authority by society becomes more general, the danger of resort to extra-constitutional and violent methods for bringing about change would decrease. This process of acceptance has just started in India but the transition to full acceptance may well be turbulent. That the transition can be turbulent was evident in the General Elections which generated considerable tensions in society. This was the result both of resistance and intimidation by entrenched power groups and of too self-conscious and wild a display of power by the newly-enfranchised. These tensions will increase after the elections, especially in the sphere of local politics. The transition may not be easy. But it is a necessary phase in the growth of a national political community based on the consensus of large sections of the people. The take-off to it has started.

III

Descending Pattern of Politics

The growing organisation of society along political and secular lines as shown by the activisation of local social groups and the assimilation of new and hitherto left out sections of society into some form of political participation, along with the shift of governmental authority downwards within the framework of democratic decentralisation and the known shift of power within the ruling party to lower tiers — these are remarkable changes, and they have been taking place almost simultaneously, and giving rise to a descending pattern in Indian politics and releasing powerful forces for good or for evil. Much would depend on the extent to which the pary system can contain these forces.

In this situation, the rise of a political 'right' in the Swatantra party and the Jan Sangh and the consolidation of the democratic left in the Congress may lead to a polarisation of parties which, whatever the differences on day to day policies, agree on the fundamentals of the Constitution. On the other hand, a too radical orientation of the Congress towards socialism and an extreme reaction to the 'right' may pave the way to a complete break and emergence of totalitarian politics or even chaos.

Economists and the Government

A K Das Gupta

The Government should get a group of young economists formed round the Planning Commission for working out problems and for suggesting lines of investigation.

The members of the group are not to be bound to any routine work. On the contrary, they must be allowed to get on in their own way, keeping their allegiance to their respective universities.

And yet it should be more than what the Panel of Economists has come to be. It should be a closer group than the Panel and unlike the Panel, it should be associated with the Economic Advisor's Directorate rather than with the Ministers or Members of the Planning Commission.

The idea of having a group like this attached to the Planning Commission has been in the offing for some time. It is difficult to believe that choice of personnel is the hindrance; given the will, the operation of Gresham's Law can surely be avoided in a controlled economy.

The hindrance, one suspects, is 'vested interest'. How long can that be permitted to operate?

SPEAKING in 1934 before a London School of Economics audience (of which the present writer happened to be one), Professor Pigou gave a piece of warning to students of economics which deserves special notice today in our country. It is possible, he said, for a student of economics to construct arguments for whatever policy he would want to support. He may thus have the temptation to make slight adjustments in his economic view in favour of the policies and methods of one political party or the other, for that way lies his chance of playing a part in the great affairs of the state. A political party, be it the Government or the Opposition, does not have patience with a truth-seeker. It needs advocates, and in its scale, that economist weighs more who can find arguments in support of the policy to which it is wedded.

Professor Pigou cites an incident from his own experience. On a piece of economic legislation in his country he happened once to write a note in **The Times**. The Prime Minister of the day, thinking that it lent support to his policy, made a public acknowledgement of it in which he hailed its author as "the great Cambridge economist". In truth, however, the note did not favour the Government policy, and like a true scientist the Professor pointed this out. Wrereupon in the estimation of the eminent Prime Minister, he came down as a "mere academic theorist". It is not always easy to put up with such vicissitudes of career; the temptation to seek public recognition is great. But for the social scientist to yield to such temptation is, Professor Pigou warns, "to sell his birthright in the household of truth for a mess of political pottage." (**"Economics in Practice"**, p. 10).

Academic Aloofness at a Discount

As it is, economics in India centres on planning, and in this area there is quite a large scope for the economist to push 'opinion'. Gone are the days when an economist could find comfort in his cloistered abode manipulating curves and symbols and showing 'tendencies' under assumed conditions. Academic aloofness is at a discount in the economists' market these days. The economist must come out in the open, must act, if he is to be anybody in society. Up to a point this is good. In an economy which is in a state of transition, where big changes are taking place in every field of activity, there must occur stresses and strains which the economist cannot afford to overlook. We have seen a lot of these during the operation of the Second Plan, and we are up against some again as the Third Plan is proceeding. In the circumstances involvement in immediate problems is unavoidable for the economist. Planning does seem to indicate a revival of Political Economy.

The trouble with us is not that we do political economy. The trouble is that political economy has often a tendency to degenerate into crude propaganda. Professor Pigou's warning is directed against this latter. Political Economy, let us remember, is the art of shaking out, under prescribed norms, the implications of theory for policy. And in so far as policy is embedded in theory, it has been in the best tradition of economic thinking to lay it bare. Professor Pigou's own practice upholds this tradition; economic science, he insists, must be 'fruit-bearing', and not merely 'light-bearing'. "Let it be granted to the economist that, in his science as in others, from a diligent pursuit truth will not fly. But, if the final justification of his work is the fruit of practice, benefit through knowledge to human welfare, to find truth is not enough. Somehow the truth must be carried from the study to the market-place. Somehow it must be brought to the mind and utilised in the work of those persons who guide affairs." (**Op. cit.**, pp. 24-25)

Temptation for Economists

But it is one thing for the economist to use his special knowledge in a disinterested way, for guiding public policy, it is an entirely different thing for him to twist economic propositions in favour of this or that political party. In a society such as ours which is obsessed by politics, where to be a politician is the surest way to public applause, surer even than to

be a film star, and where the worth even of a scientist is measured by the number of committees that he serves and the frequency with which his name appears in newspapers, the danger that your economist should succumb to the temptation of using whatever abilities he may have for political ends is great indeed.

The danger is enhanced by the fact that, on the one hand there is yet insufficient awareness of the responsibilities of a citizen in the country, on the other hand we do not have anything like a leadership among economists. In an environment like this it is often easier for an economist to prosper as a critic of the Government than as its supporter. If you are a known supporter of Government policy, you have more chance of being on Committees; if you systematically oppose Government policy, you are made a hero. It is one of the tragic paradoxes of our democracy that our vocal public are, if anything, anti-Government. Nothing delights our audience in an assembly more than when the speaker runs down a Minister or the Government in general, even though the same audience might have been responsible for the ruling party being voted to power. Over the years we were taught to 'fight' a foreign Government; perhaps the inertia still remains, and the leaders who gave us the schooling now stand to bear the brunt.

Atmosphere against Scientific Attitude

Thus today, even as used to be the case before independence, a person catches public imagination more by writing a note of dissent than by signing an agreed document, however well-drafted the document might be. And if on top of this he can carry the foreign press over to his side, his position as an economist is assured. Without him no Seminar is complete, no Association respectable. Even Universities run after him offering distinction. For has he not shown a 'courage of conviction' and an 'independence of spirit' such as so many others have not shown? Amusing, yes! For one surely wonders in the present political set-up of the country what is it that one has to show courage against or to be independent of. The Government, as we have it now — and there is no reason why this tradition should not continue — does not punish opponents, it cajoles them, if only to preserve the reputation of being democratic. On the other hand, contrary to common belief, the economist today has better financial prospect outside the Government than within it. The critic does not suffer even if he is not "bought up" by the Government.

The atmosphere, if the picture drawn of it is true, is inimical to the growth of scientific attitude among economists. And yet it would be ungenerous to believe that there are not those among us who would be anxious to preserve the sanctity of our science, to go forward in their search for truth regardless of personal gain. Where will such men derive strength from? In the present race for "the limelight and the applause", what is their position to be and to whom will they turn for sustenance and comfort? They will not go out of their way to please Ministers, nor will they seek popular approval. "Evil is with them," they will say to themselves, following Alfred Marshall, "when all men speak well of them." Must, then, they be left to themselves,—each weaving his own net? One wishes they were. But there again the fear is that there will be a tendency to the building up of independent "schools" of economic thinking. With one's experience of the fantastic novelties that some of our academicians are propagating in the University centres in the name of "theory" (one gets a glimpse of these novelties mostly in examination answer-books), one does feel that the fear is a real one.

Economists to Help Planning

In the intellectually mature societies the problem is solved, even if in a rough and ready way, by the scientists themselves. In his Presidential Address to the American Economic Association Professor Paul Samuelson refers to the "Happy Few" whose applause an individual economist seeks, expecting that the ideas which get churned within that charmed circle would find their way willy-nilly to those that directly guide policy. Some day somehow we shall have that here, too. Some kind of a leadership is bound to evolve among economists, as economic studies proceed along rigorous lines. Much of course will depend upon the behaviour of the younger generation who have yet to taste publicity. In the meantime, however, the Government may perhaps help the process. Even as it is, picking and choosing the right kind of economists should not be too difficult; one obvious test is publication in the internationally recognised learned journals. A cautious method of selection would surely yield results. Having done that, the Government may get a group formed round the Planning Commission for working out problems and for suggesting lines of investigation. The members of the group are not to be bound to any routine work. On the contrary they must be allowed to get on in their own way, keeping their allegiance to their respective universities. And yet it should be more than what the Panel of Economists have come to be. It should be a closer group than the Panel as it is constituted today, and unlike the Panel it should be associated with the Economic Advisor's Directorate rather than with the Ministers or Members of the Planning Commission who, after all, are not economists.

The idea of having a group like this attached to the Planning Commission has been in the offing for some time. It is difficult to believe that choice of personnel is the hindrance; given the will, the operation of Gresham's Law can surely be avoided in a controlled economy. The hindrance, one suspects, is 'vested interest'. How long can that be permitted to operate?

Marxist Re-thinking on Economic Crises

Mohit Sen

There has been spectacular speculation about the controversy in the international Communist movement.

This speculation has, naturally enough, focussed almost exclusively on the big themes of the debate — the definition of our epoch, war and peace, the new dimensions of peaceful co-existence, national democracy and the like.

What has tended to be missed is the very serious re-thinking that has been going on in the international Communist movement on themes which, if not so spectacular, are at least as basic. Moreover, this re-thinking has been quite openly conducted in the pages of the World Marxist Review *— the English edition of the journal of all the Communist parties of the world.*

AMONG the themes are: the composition and structure of the working class; the approach to sociology and its relation to historical materialism; the path of advance of the newly-independent countries, etc. Perhaps, the longest and most fruitful discussion has been on the nature of the post-war economic cycle of capitalism.

This particular discussion was begun in the July 1961 issue of the **World Marxist Review** and has been temporarily and provisionally concluded only in the May 1962 issue. The participants were drawn from a number of countries but the biggest contingents came from the Soviet Union, Italy and France.

One of the more interesting sidelights of the discussions was the frank disagreement between the delegate from Italy and his French and Soviet colleagues. While all were agreed on the need to modify the classical Marxist four-phase model of the capitalist cycle, it was clear that Antonio Pesenti from Italy wanted far more radical modifications than he could get the others to agree to.

Before outlining some of the modifications suggested to the classical Marxist model, it is necessary to emphasise that none of the participants put forward the view that post war capitalism had solved the problem of crises. As a matter of fact, the discussion contained polemics against what was termed Social-Democratic illusions on this score.

Permanent Modifications

Another fundamental point of departure in the discussion was the concern of all the participants that the understanding of the modifications was essential for the struggle to finally modify capitalism out of existence!

Now for the modifications themselves. All the participants seemed to be agreed that the classical manifestation of the economic crisis — the 1929 crash — was no longer the norm nor even very likely. Taking the post-war U S economy as the example, it was felt that the downturns while far more frequent than in the pre-war period were also less severe and that both the prolonged depression phase as well as the headlong boom phase seemed to be eliminated.

Attention was drawn to the slow rate of growth, the enormous undercapacity operation and the accumulating problem of the unemployment of workers in the sphere of direct production.

At the same time, it was pointed out that in West Europe and in Japan the post-war period had been one of a prolonged boom with rather short and minor recessions. This fact itself entailed the abandonment of the concept of the necessary synchronisation of crisis throughout the world capitalist system.

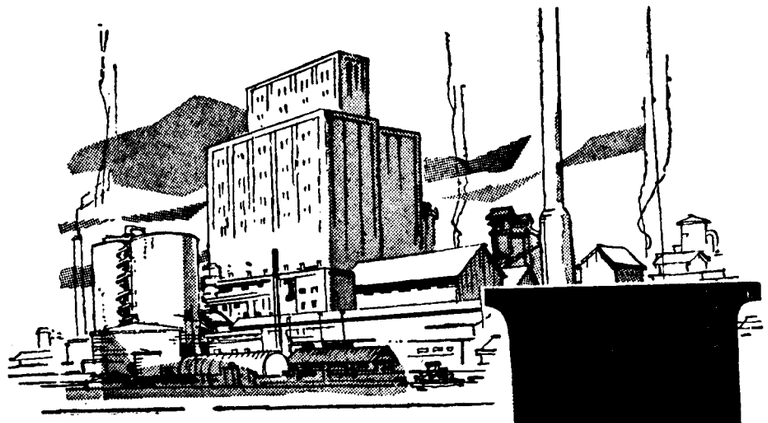
It further meant that the previous estimate of the degree, to which the economies of France, Italy, Japan, West Germany and the U K had become dependent on the U S economy, needed revision. The U S sneeze no longer could be said to be as contagious as previously imagined.

Of course, the connections and relationships that existed did give rise to a certain unity in the timing of the economic fluctuations in different capitalist countries e g 1948-49 and 1957-58. The words of the Soviet economist S Menshikov accurately sums up the general feeling of the participants: "Following the course of capitalist reproduction after the Second World War, you invariably come to the conclusion that not only has the operation of temporary factors favourable to the continuation of the upturn dragged out but that the mechanism itself of cyclic reproduction has changed.... Heretofore, this question was analysed almost exclusively in connection with the aftermath of the Second World War and the militarisation of the economy. But the farther things go, the more the force of other quite essential factors mounts, factors which do not permit complete return to the previous picture of cyclic development and determine the stability of the modifications that have taken place in the mechanism of present cycles".

Growth of World Socialist System

What were the factors that had brought about this "permanent modification"? **First**, the growth of the world socialist system. Menshikov approvingly quoted Joan Robinson to the effect that "if in the past economic storms raged in the boundless ocean of capitalism, at present, with the ocean being surrounded on all sides by socialist land, the storm naturally becomes weaker. A storm in an ocean is always more violent than one in a lake and certainly more so than a storm in a tea cup".

The impact of the socialist world on the capitalist system took the following forms: (i) economic competition, leading to an extension of the sphere of state control and striving to use its levers to step up the rates of growth; (ii) restricting the sphere of operation of the laws of capitalism; (iii) offering a huge and expanding market; (iv) exerting in



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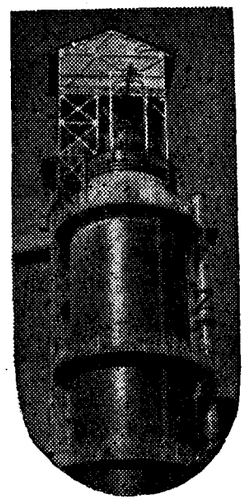

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fluence on world prices of strategic commodities, e g oil; (v) cheapening international credit, e g the competitive co-existence on aid to underdeveloped countries.

A Sobolev summed up the discussions on this point: "the long and short of it is that the socialist world system will exert a growing influence on capitalist reproduction by sharpening its contradictions and modifying the traditional form of their manifestation".

Emergence of Afro-Asia

The **second** factor producing the modification is the collapse of the colonial system and the emergence of the independent states of Africa and Asia.

Characterising these states as "an autonomous part of the world capitalist economy", Yoes Barel and S Menshikov stated in a joint paper submitted to the discussion: "The underdeveloped countries remain an important part of the capitalist world economy and as such are forced to participate in the cyclical ups and downs. But the growth of state capitalism in these countries introduces its own regulators, making it possible to some extent to modify the effect of the fluctuating world cycle. In these countries the internal causes which give rise to cyclical crises have not yet matured....

"The softening effect of state capitalism will increase as time goes on, helping to overcome trade crises in underdeveloped countries and, in turn, this will alter the course of the development of the world cycle still more".

The attempt at industrialisation of these countries has a big impact on the world equipment market. It was estimated by one participant that 50 per cent of the equipment exported by the developed capitalist states goes to the underdeveloped countries.

The discussion revealed that the concept, advocated by some over-enthusiastic advocates of Leninism, that the winning of independence by the vast colonies would mean the automatic collapse of the metropolitan economies, needs to be discarded.

State Capitalism

Thirdly, much attention was devoted to the evolution of capitalism in the advanced countries to the stage of what is called state-monopoly capitalism.

Striking facts were produced to illustrate the degree to which the state intervenes in the economy, not merely through fiscal measures, but through direct ownership, subsidies, guaranteed markets and investments. Spontaneously functioning capitalism is today more than ever a myth.

At this point a sharp controversy developed between Pesenti of Italy on the one side and H Claude of France and A Rumanystev of the Soviet Union (he is also the chief editor of the **World Marxist Review**) on the other.

Pesenti was of the view that a distinction had to be drawn between indirect state intervention in the economy (taxes, subsidies, guaranteed markets etc) and direct state intervention in the form of ownership.

While the former invariably operated to the benefit of the monopolies, "genuine state capitalism, i e state ownership of the means of production, together with structural reforms could be an important means of modifying the capitalist cycle. It can do so because it is not motivated by the need to subordinate itself to the law of profit under all circumstances, and in some cases can even counteract it .... under certain circumstances, therefore, state-owned enterprises can operate in an anti-monopolist direction".

He backed up his contention with an impressive analysis of the difference between the functioning of the Italian economy under fascism and in the post-war period.

Henri Claude, with an equally impressive analysis of the functioning of the post-war French economy, demonstrated that "the capitalists have in the state sector a docile customer and an accommodating supplier". He showed how "in many instances government property has become the joint property of the dominant groups of finance capital" and how "subordination of the state sector leads to the transfer of surplus value to the latter through the mechanism of prices and tariffs".

He sums up: "The French experience of 1947-1961 shows that state monopoly capitalism is an entity, and it would be incorrect to think that one could, without being in power, use some of its elements to combat the state's general policy".

The controversy was not resolved nor toned out through the use of elastic escape-conclusions.

Technological Revolution

Fourthly, it was pointed out that "capitalist reproduction is now proceeding in the conditions of the present revolution in science and engineering where obsolescence of fixed capital has reached a rate without parallel in the history of capitalism".

This above all, had led to a colossal expansion of what Marx called Department I (production goods industry) as well as enormously increased the range of durable consumer goods.

As a result Department I had for a time relative independence of Department II (consumer or wage goods) and a shifting of a crisis in the latter to the former has become far more prolonged and difficult.

Simultaneously, the change in the structure of the working class in capitalist countries (growth in the unproductive sphere, services, the salariat etc) had led to the development of a numerically large and growing strata whose earnings are only to a certain extent associated with the fluctuations in the sphere of capital goods production. Therefore, the mechanism of a transference of a crisis from Department I to Department II has also weakened.

Moreover, technological progress retards the tendency of the average rate of profit to fall and actually considerably enhances the profitability of investment in fixed capital. It also engenders the tendency towards long-term planning of investment, which has become a noticeable feature of capitalism.

One form of technological advance has been the very rapid growth of information media and market surveys. As Arab Ogly pointed out, this considerably reduces the anarchy of production and is far removed from the period when capitalists learnt about the condition of the market only through price fluctuations. He was of the opinion that crises today would, therefore, tend to manifest themselves more in the form of undercapacity operation rather than over-production.

Class Struggle Not Dulled

Fifthly, the Marxist economists who had gathered together, naturally enough, discussed at length the reciprocal relations between the class struggle and the modifications in the capitalist cycle.

Two points emerged. One was that economic growth had not dulled the edge of the class struggle and that mass actions did not need the compulsion of an economic crash.

As Pesenti pointed out:

"The Italian Communist party has never looked for the outbreak of a crisis but has taken advantage of the contradictions particular to each phase of the capitalist cycle. It registered big success even in 1960, a year of rapid growth of production and one hailed by the capitalists as the 'Italian miracle'. And this is understandable. Capitalist development is full of disproportions and contradictions, both old and new, and it can never satisfy the broad sections of the people. We point to these contradictions, draw public attention to them and offer our solutions, which meet the interests of the working people".

The second point brought out was that the sphere of the economic and political struggle of the working class has considerably extended in the post-war period, compelling the capitalists to make concessions. "This promotes growth in output, expansions of the home market, and, in a number of instances, may serve as one of the factors hampering to some extent intensification of crises of overproduction", stated Menshikov. The very struggle of the working class against capitalism, while modifying it, also stabilised it!

Two Conclusions

The prospect of peaceful coexistence and of the competition between the two systems does not rest on the wish for peace nor only on the horrifying nature of the weapons of mass destruction which impel the building of powerful peace movements.

This prospect is founded on the material base of the modified nature of capitalism, no less than on the fact that socialism today is already an advanced and developed system. A convulsive capitalism and a struggling socialism may far more readily clash with weapons than a stagnant but growing capitalism and a buoyant and advanced socialism. Here, to reverse Marx, the criticism of weapons may well be replaced by the weapon of criticism.

Secondly, the modifications in the Marxist view of economic crises -- which is one of the cornerstones of Marxist economic theory -- and the abandoning of dogmatic prejudices not only opens up great vistas for the development of Marxism. It equally facilitates the coming closer of the Marxist economists and the left Keynesians who no doubt will, in time, also do some rethinking. This would appear to be of particular importance in our country.

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Democratic Decentralisation

Some Political Consequences

W H Morris Jones

Good things can be done for poor reasons. Panchayat Raj may fail to produce the wondrous results the framers had in mind; it may, nevertheless, lead to less easily observable consequences of a beneficial kind which no one intended. Such at any rate is the hunch around which this article is written. It is a hunch concerned entirely with the consequences for India's political system. It can be expressed in the form of three hypotheses.

In the first place, the new institutions will constitute a new political outlet for the increasing competitiveness of Indian rural life.

Secondly, the most likely consequence of democratic decentralisation for the fortunes of political parties is a strengthening of the Congress party in rural areas.

Finally, there may surely be some consequences of interest on the internal life of the Congress party. In the local bodies there is provided a real job of work for local partymen.

If evidence comes to support the above hypotheses, panchayat raj will have been worthwhile not merely in spite of the hopes of the founders but, in part at least, precisely to the extent that those particular hopes for communitarian togetherness are dashed.

IT is now nearly three years since democratic decentralisation was launched with fanfares in Rajasthan and Andhra. That these reforms could be regarded as a continuation of the tortuous story of local government in India begun in 1882 seemed much less important than that they were to be the solution to most of the difficulties encountered in the programme of community development. It is therefore not surprising that such examination as has been undertaken of the working of the new local bodies should concentrate on whether or not they are having the desired effects in rousing effort, enthusiasm and initiative in the people.

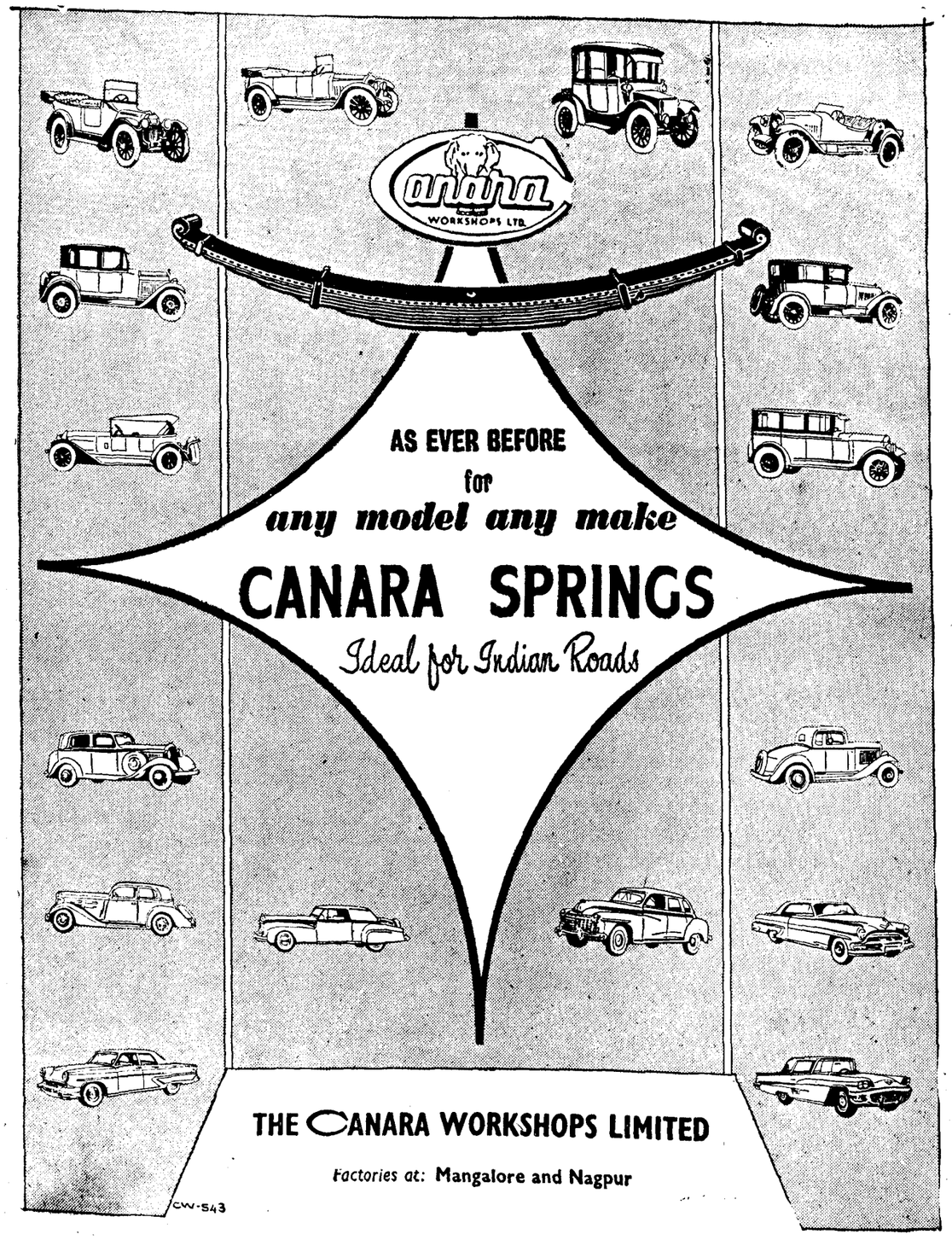
This is the point of view from which the two most useful reports issued by the Association of Voluntary Agencies for Rural Development (AVARD) approach the matter. In fact AVARD measures the achievements of panchayat raj by the highest and most exacting standards — as indeed is only fitting for an organisation presided over by J P Narayan. The task to which local democracy is to make its contribution is described in one place as rousing the people to enthusiastic and purposeful activity, and the instrument for the job is "a body of selfless individuals dedicated to the cause of national service". The communists are to be beaten at their own game of sacrifice for the cause: "We must search for and find a democratic counterpart to this great urge which makes people shun the pleasures and comforts of a routine life and makes them plunge headlong into a life of sustained and creative effort". (AVARD, "Report of a Study Team on Democratic Decentralisation in Rajasthan", 1961, p 28).

Misplaced Vision

My own interest in the development of panchayat raj is different. I have not yet been convinced that inspired activisation of India's rural people is either necessary for economic development or useful for community-building or desirable in itself. Economic development in the Indian situation may call for an effort to increase agricultural productivity, but there are surely many simpler sticks and carrots than the conquest of the peasant's mind by the doctrines of communitarianism.* Actual community-building, on the other hand, is probably (the caution comes from uncertainty about what the term really means) one of those things which—as J S Mill said of happiness—comes less surely from frontal attack than "by the way" while in pursuit of something else. As for activisation, this can be both good and bad: it will depend at least on the kind and spirit of activity induced. Headlong plunges and dedication to causes, for instance, are activities in respect of which in this totalitarian century we would do well to be wary and of which we have perhaps seen enough. Hard ships may be unavoidable but there is something to be said in favour of calling them hardships. The sugar of sacrifice on the pill of suffering is more an affront than a help to the impoverished peasant. Activisation may, at the other end of the scale, entail building up great hopes. This is just as hard to approve. If, as seems probable, rural poverty is not by any means to be quickly alleviated, it appears humanly cruel as well as politically idiotic to stimulate hopes that cannot be realised. For reasons like these, I have not shared the enthusiasm with which the high vision of panchayat raj was introduced into the real world of Andhra villages and I shall not have to share the disappointment that comes when the shortfall is measured.

But this is not to imply that we should turn our backs on the facts of panchayat raj. These institutions are now in being and they are too big to be ignored as insignificant. They are bound to have

* If it be said that incentive schemes would cost a great deal, it must be answered that the Community Development Ministry and its programme is presumably far from cheap. The salary payments to all the members of this "parallel bureaucracy" must amount to a substantial sum. It could be, of course, that that Ministry's biggest and most distinctive contribution to the alteration of India's economic problems is made through its reducing the numbers of educated unemployed by increasing its own payroll!



effects and these need to be examined. Nor should we prejudge their influence. Good things can be done for poor reasons. Panchayat raj may fail to produce the wondrous results the framers had in mind; it may nevertheless lead to less easily observable consequences of a beneficial kind which no one intended. Such at any rate is the hunch around which this article is written. It is a hunch concerned entirely with the consequences for India's political system. It can be expressed in the form of three hypotheses.

Outlet for Competitiveness

In the first place, the new institutions will constitute a new political outlet for the increasing competitiveness of Indian rural life — a competitiveness partly between social (i e, usually, but not always, caste) groups, partly between rivals for leadership within these groups (especially between young and old), partly between individuals seeking external avenues for personal advancement. Such a consequence has already been noted by some observers and has been almost invariably deplored: it is held to increase divisiveness and it is in this connection that the blessed doctrine of consensus is appealed to; uncontested, sense-of-the-meeting choices of members are applauded. The opposite view is here proposed. The divisions in rural society are the inevitable accompaniments of change and provision of open political outlets is helpful. The consequences of pressing the no-contest idea will be practically to exclude any challenge to the existing established leaders. This might have been politically manageable if community development and panchayat raj had come in quietly, without fanfares and without philosophy. As things are, however, such a barrier to free political competition is bound to increase the frustration of the have-nots.

Apart from that, however, the provision of challenge and competition may have great value. What is to be hoped for is neither the protection of the established leadership nor its wholesale overthrow and replacement, but rather a sifting of its ranks and the political education of members who prove, by their ability to survive, to be the fittest for the new political world. From one point of view then, it is a question of fitting a valve on to the bottle of rural politics — refusing, that is, either to cork it up completely or to spill out its contents by turning it upside down. But from another, it is more than a negative holding operation. Institutions are patterns of behaviour and fresh institutions mean new ways of behaviour. That part of the rural leadership which can cope with the new roles, new procedures, new techniques will be changed in the process of doing so. To say that panchayat raj will be captured by the rural establishment is bound to be too simple: for (a) some of them at least will be defeated by newcomers, and (b) those who win will have acquired a new style. These bodies may therefore be a new instrument for selective political recruitment and training.

Congress Likely to be Strengthened

Secondly, the most likely consequence for the fortunes of political parties is a strengthening of Congress in rural areas. (This, of course, supposes that parties behave as parties, that they do not refrain from entering the arena, that they ignore preachers who praise the nobility of non-partisan politics.) For one thing Congress is more amply present than other parties. There is also the consideration that at this level of politics tangible material benefits are an even larger part of the purpose of political activity than at higher, ideologically more susceptible levels. Since the source of assistance is the Government, the identification of the three elements — Congress Party, local bodies and Government — will become more and more perfect. This does not necessarily mean that 'Congress candidates' will be successful but rather that successful candidates will become Congress representatives; for not to do so will seem to leave the exercise uncompleted. This identification of Congress and Raj is, of course, nothing new; opposition parties have protested against it for years; to be associated with Congress meant that one had some access to the ears of the local administration. But now the perfected identification means that to be associated with Congress is to be part and parcel of the local administration. As the bureaucrats come down a step or two, the party moves up. Who will decline a lift?

The picture must not be overdrawn, however. Panchayat raj puts good new cards into Congress hands but this is not to say that the player must win every game. It would be surprising and dismaying if other parties wrote off this area as hopeless territory. The Communists, and even the P S P, should be able here and there to exploit the resentments and aspirations of the landless, and they could achieve successes wherever established local leaders prove too unresponsive, too conservative, too incompetent in the new techniques, too obviously concerned to protect the position of a few. At the other end, a party like Swatantra may in some areas (the general elections suggest Gujarat, Rajasthan, Bihar and even Andhra as possibilities) be able to exploit sentiments of fear near the opposite pole of rural society. Their chances will be best where men of (relative) substance feel apprehensive about a "stream of leftward tendency" being pushed downwards too strongly from the Congress top or where they feel the need for a tougher line of resistance to local radical pressures from below.

Opportunity for Local Partyman

Finally, and not least in importance, there may surely be some consequences of interest on the internal life of the Congress Party. Here in the new local bodies there is at last provided a real job of work for local partymen. The party's constructive work side was always there, it is true; but that was for devoted social workers, not politicians. Politicians can want to do good, but they want the doing of good to do good for them — which, by any appropriate standard, is fair enough. Panchayat raj offers positions of influence and clear local prestige, at once far superior to party committee work and far more accessible than the heights of Pradesh or State politics. This 'filling out' of the Congress base may thus have several interesting by-products. One will be the simultaneous drawing in to these new levels of quite different kinds of men. There will be those who have tried and not quite succeeded in obtaining satis-

factory positions at State level; they may well reckon that the new bodies offer adequate scope in themselves as well as providing firmer stepping stones for a second assault at the State level. There will also be successful Pradhans of the Samitis, and even Sarpanches of Panchayats, who didn't realise how good they were at leadership; they will be drawn in and upwards.

Again, this set of institutions seems capable of easing the Congress headache of the tussle between Government and organisational wings. For that tussle has been partly the result of inadequate outlets for political energy; Mandal and District were important mainly as leading to State; and at State the competition became at times intolerable. Now there will be something for the unsatisfied party customers to do; they need not spend their time plotting in the P C C how best to throw out the Ministry. To put the matter at the very lowest, they will be able to see that a good way to their end is to get to work through the local bodies. With luck, some of them will become satisfied on the way and forget what their goal had been. Of course, it is possible that new tussles will develop — for instance, between District Congress Committees and Congressmen on Zila Parishads. But this may also be no bad thing: it is not conflict and competition as such which have to be avoided but only their over-concentration.

If evidence comes to support the above hypotheses, panchayat raj will have been worthwhile not merely in spite of the hopes of the founders but, in part at least, precisely to the extent that those particular hopes for communitarian togetherness are dashed. And then we shall be able to copy E M Forster and say "Two cheers for democratic decentralisation".

No Objection to "Good Politics" in Panchayats !

WHILE politics could not be completely kept away from Panchayats, there should be a concerted effort to safeguard village democracy from the pressures of power politics, according to Shri S K Dey, Union Minister for Community Development, Panchayati Raj and Cooperation. He was addressing a two-day study camp for Members of Parliament organised in New Delhi recently.

Shri Dey admitted that it was going to be very difficult to isolate Panchayat work from the activities of political parties. "What we want to avoid is power politics," Shri Dey said, and added that there could be no objection to "good politics"!

The Third General Elections

Studies in Voting Behaviour

I Introduction

Myron Weiner

We begin in this issue a series of first hand studies of individual constituencies analysing some of the important factors which influenced voting behaviour in the third general elections.

The series has been planned and organised by Myron Weiner and Rajni Kothari and will run as follows :

I	Introduction	Myron Weiner
II	An Industrial Labour Constituency : Kanpur	Paul R Brass
III	Religion and Caste in the Punjab : Sidhwan Bet Constituency	Baldev Raj Nayar
IV	Voting Behaviour in Poona	V M Sirsikar
V	Traditionalism and Modernism in U P : Faizabad Constituency	Harold A Gould
VI	The Decline of the Left in Calcutta : Muchipara Constituency	Robi Chakravorti
VII	The Decline of the Left in a Calcutta Suburb : Behala Constituency	S N Roy
VIII	Community Loyalties in Baroda East	Rajni Kothari and Tarun Sheth
IX	Village and Party Factionalism in Andhra : Ponnur Constituency	Myron Weiner

The study of Kanpur by Paul Brass follows Myron Weiner's Introduction. The other studies will appear in subsequent issues in the above order. — Ed.

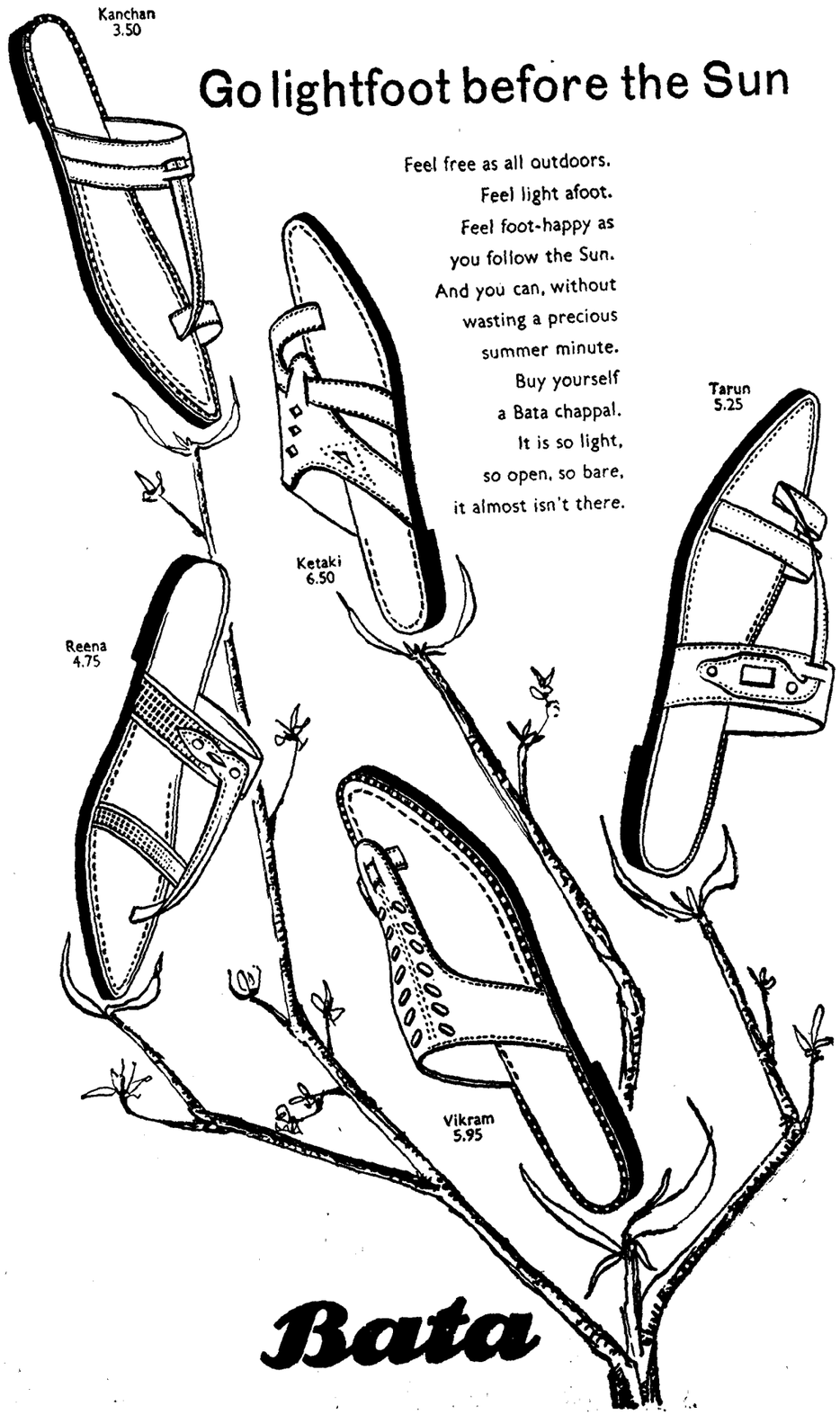
THE Indian general elections provide a rare opportunity to systematically examine voting behaviour, one very important aspect of political behaviour, in a developing country. In the articles which follow, the authors explore in some detail the voting patterns which they observed, each in a single Parliamentary or Assembly constituency in the 1962 general elections. Though in no sense an exhaustive study of India's complex voting patterns, these reports provide us with valuable information on how particular groups in rural and urban India voted and what role political, social and economic issues, ethnic and occupational loyalties, party affiliations, the local power structure, and other factors played in the elections.

In his study of the Parliamentary constituency in the industrial city of Kanpur, Paul Brass traces the strength of the successful Communist-supported candidate within each of the major occupational and ethnic divisions within the city. He reports that the failure of the Congress party to nominate Congress labour candidates for either Assembly or Parliamentary seats proved to be an important factor in the voting of the industrial labour force for the Communist-supported candidate. He reports too that the major minorities within the constituency, the Scheduled Castes and Muslims, are gradually shifting away from the Congress party. Finally, Brass argues that voters of all communities were strongly influenced by the candidate's attacks against the Government administration. The performance or rather lack of performance of administration seemed to influence voters more decisively than any abstract consideration of public policy. Brass's article on Kanpur thus throws light not only on the problems encountered by the Congress party in industrial areas generally, but also suggests why the position of the Congress party among the voters in U P has been continuously declining since 1952.

Changing Loyalties

Baldev Raj Nayar writes on the victory of an Akali Dal-supported Scheduled Caste candidate in a rural constituency in the Punjab. He shows the powerful influence of religious loyalties in the voting behaviour of both Hindus and Sikhs and the important role played by the **gurudwaras** for the Akali Dal candidate. But he suggests too that many other factors cut into religious loyalties. Conflicts among Jat-Sikh factions within the villages and kinship ties were among the more important factors which led a number of Sikhs to vote for the Congress rather than for the Akali candidate. And loyalty to the Republican party, which in this constituency worked closely with the Akali Dal, led many Scheduled Caste voters to support the Akali Dal rather than vote for Congress as they did in many other constituencies. Loyalties to caste, religion, faction, kinsmen and party were thus all present; the voter had to make a choice among his conflicting loyalties, and the skill of the successful candidate lay in his ability to build a coalition of diverse loyalties.

The changing pattern of loyalties is well demonstrated by V M Sirsikar's study of the elections in Poona where the Congress Parliamentary and Assembly candidates easily defeated the Samyukta Maharashtra Samiti. Sirsikar shows that with the creation of a unilingual Maharashtra, voters are now influenced by caste, religious and party loyalties, not by language. He shows too that Brahmin and non-Brahmin sentiments, which have played such an important role in Maharashtra's political past, continue to be important in voting behaviour in parts of Poona city.



Go lightfoot before the Sun

Feel free as all outdoors.
Feel light afoot.
Feel foot-happy as
you follow the Sun.
And you can, without
wasting a precious
summer minute.
Buy yourself
a Bata chappal.
It is so light,
so open, so bare,
it almost isn't there.

Faizabad constituency in U P provides a dramatic picture of the changing distribution of power in rural India. Harold Gould describes the unsuccessful efforts of a traditional Kayastha leader, an ex-zamindar, to defeat the sitting Congress Assembly candidate. He shows how the Kayastha leader, turning to local Rajputs and landless labourers, was able to provide Jan Sangh with a sizeable urban vote, but was unable to prevent Congress from winning the support of the smaller cultivating land-owning classes which have been rising politically and economically in recent years.

Improved Congress Organisation

Robi Chakravorty, in his report on a Calcutta constituency, is particularly impressed with the part played by an improved Congress organisation in defeating the sitting Communist-supported candidates. He shows that the local Congress party organisation was able to bring out a larger proportion of the pro-Congress vote — particularly among the non-Bengalis in the constituency — than ever before. He concludes that the Congress victory came primarily by obtaining the votes of those who had not voted in 1957.

The importance of local party organisation is also stressed by S N Roy in his report on an Assembly election in a south suburb of Calcutta. Although Congress again lost the seat, it increased its vote in a predominantly middle-class Bengali constituency. The Communist vote declined considerably among the Bengali middle-classes but continued to be high in the working-class areas. Roy believes that leftist control over the municipal corporation was an important factor in the size of the vote the Communists received in the general elections.

In another urban area, Baroda, Rajni Kothari and Tarun Sheth weigh the relative impact of ethnic loyalties, organisational factors, the candidates' personalities, ideology and money on voting behaviour. Though they stress the importance of ethnic factors, they note that few communities vote as a bloc and that the Congress party, which won the Assembly seat, was able to take advantage of leadership and factional conflicts within ethnic groups. Moreover, the Congress party was able to use its access to patronage as a means of influencing important leaders within various ethnic communities.

A report from Ponnur, a rural constituency in the delta of Andhra, notes the way in which village factions bargain with candidates of various parties and with factions within the Congress party to improve their own power position within the village and their contact with those who have power in Government and local administration. It is possible to so bargain because factional loyalties within the Congress proved to be greater than party loyalties. It is only through a close examination of this bargaining process, both by groups within the village and by groups within the Congress, that one can understand why split voting was so prevalent that Congress overwhelmingly won the Assembly seat, while a Communist overwhelmingly won the Parliamentary vote. Village castes and factions are thus not passive agents of outside political leadership but are closely related to struggles within and between the political parties.

Role of Public Issues Negligible

It would be unwise to make any all-India generalisations on the basis of studies in only a handful of constituencies. These studies do, however, mirror reports from other parts of the country — that in the main Congress does better in the rural than urban areas, that the Communist hold on the working-class continues, that factionalism within the Congress often leads the party to select tactically poor candidates, and that skill in organisation and financial resources play an increasingly important role in the elections. In the realm of voting behaviour, these studies raise more questions than they answer. In general, they suggest that debate over issues of public policy play a negligible role in the election campaign and presumably in affecting the way in which individuals vote. The "public" does, however, seem to be more influenced by the character of the local administration than by policies being pursued by Government. In the main, Indian voters are still more oriented towards administration than to broad policy.

All the reports dwell at length on the role of caste, religious, linguistic, kinship and factional ties in determining the way in which individuals vote. Some of these loyalties do, of course, play a role in other ethnically divided societies, not only in Asia and Africa, but in Belgium, the United States, Canada and other western countries as well. But it would be a mistake to assume that such loyalties merely constitute sentiment. There are often practical, hard-headed reasons for a linguistic group to want a State of its own, or a village faction or caste to ally itself to a faction within the Congress party, or for a particular community or kin group to associate itself with Jan Sangh. As in any hierarchical society, considerations of status and prestige are politically important. But the growing power of panchayats, municipal bodies and Legislative Assemblies also means that those who control representatives to these bodies have access to things of material importance: licences, permits, contracts, registration of land rights, enforcement of taxation, development projects, etc. While, of course, it is possible and common for parties and candidates to make emotional and irrational appeals to voters on the basis of primordial attachments to caste and religion, one should not always assume that voters are merely passive instruments of others.

Floating Vote

In this connection, it is striking that voters have changed their party from one election to another and in doing so have often changed their ethnic identification. In Poona, for example, caste and party loyalties replaced language loyalties which were so intense in 1957. In Faizabad kinship and caste differences were also manifestations of fundamentally divergent attitudes toward political authority. And in Ponnur village multi-caste factions were often the "nuclear" voting unit and a complicated number of factors, not merely ethnic loyalties, determined how a village faction allied itself in the general elections.

Almost all the reports suggest that many factors cut into ethnic loyalties. In none of the elections described here does one find that a candidate won merely because he had the support of members of his own community. In some constituencies the political cohesion of ethnic groups was high, but in others

factional and leadership conflicts within the community made it possible for candidates of many parties to win some support. Virtually all the reports, but particularly those from the Punjab, Andhra, Faizabad constituency in U P and Baroda, note that voters, as individuals or as members of groups, simultaneously have attachments to parties, kin groups, factions, castes and individual leaders, and that rather than be burdened by traditional attachments, the individual has many loyalties to choose from. Under these circumstances, it is very difficult for parties or community leaders to simply "herd" their voters to the polls. Indeed, the bargaining, bribery, intimidation and the promises must continue until the eve of the elections. It is this complexity of social loyalties in which both sentiment and material considerations play a role that makes it difficult for any party to consider any seat "safe" and which added a strong note of uncertainty to virtually all the constituencies reported here.

New Power Group in Villages

Reports from the rural areas suggest that neither the large landowners nor the landless labourers play a decisive role in the outcome of the elections, the former because their power has been limited by recent legislation and the latter because they are often economically dependent upon others. The reports from the rural constituencies in U P, the Punjab and Andhra, all suggest that the self-cultivating land-owners, who have a great personal stake in local administration and local development activities, have a keen and often decisive interest in the elections. But while economic independence makes it possible for some groups to play a particularly important role in the elections, it is also true that even low caste and economically backward voters cannot be ignored if only because their numbers are large. The introduction of universal adult suffrage along with the expansion of local Government has often brought about a change in the local distribution of power.

Finally, all these election reports suggest that the dispersion of power in India has made control of local bodies an important factor in deciding who wins Assembly and Parliamentary seats. In Ponnur, Swatantra rarely carried a village if it failed to have the support of the panchayat president. In Faizabad, Jan Sangh was able to make a substantial dent in the Congress vote because until recently it controlled the Municipal Board. Control over other local institutions of power, such as the **gurudwaras** in the Punjab and trade unions in Kanpur, was also an important element in the outcome.

Many more detailed studies of the elections in particular constituencies around the country will be necessary before many of the hypotheses suggested here can be verified. Moreover, there are many questions — such as the precise effect of development activities on voting behaviour — which have scarcely been touched in these reports. The need and the opportunities for further field investigations directed at a precise exploration of the factors which affect particular groups of voters are very great indeed.

Studies in Voting Behaviour

II An Industrial Labour Constituency: Kanpur

Paul R Brass

KANPUR, with a population of 947,000 according to the 1961 census, is the largest city in Uttar Pradesh and one of the major industrial cities in the Indian Union. Second only to Bombay as a textile centre, Kanpur has also a wide variety of large and small factories in almost every sphere of industrial production — the most important in ordnance, leather goods, iron and steel, chemicals, metal products, engineering, and food and tobacco. In 1953, there were 273 factories in Kanpur, providing employment to 68,832 workers; the textile industry provided the bulk of the industrial employment, 28 mills providing employment to 51,084 workers.[1] In the earning population of the city, industrial workers constitute the largest category, accounting for 22.25 per cent of the total workforce. Manual workers in general, both industrial and non-industrial account for 30.02 per cent of the earning population. The next largest category of earners — 20.64 per cent — are those engaged in trade and commerce — 13.43 per cent as petty traders and hawkers and 6.57 per cent "with a considerable business turnover". Also included in the commercial population of the city are the middlemen (2.48 per cent) and the shop assistants (4.95 per cent). Other important economic categories in the city are the white collar workers — scribes, typists, and stenographers— (8.81 per cent), the liberal professions (5.16 per cent), artisans (11.92 per cent), and the "executive, managerial, and technical" class (2.59 per cent).[2]

Composition of Electorate

Ethnically, the population of the city is predominantly Hindu, although Muslims constitute a large minority, with over 20 per cent of the population. Scheduled Castes are only a little over 5 per cent according to the 1951 census. A large proportion of industrial and manual labour comes from the Muslims and the Scheduled Castes. Among caste Hindus, Brahmins predominate, with Banias, Thakurs and Rajputs, Kayasthas, and Khatris following in descending order.[3] Banias and Khatris, of course, provide a large proportion of the shopkeeping and trading class, but no generalizations can be made about other castes. The caste composition of the majority community is not relevant to the present analysts, since most of the castes are spread over the city and do not dominate any particular geographical area; only some Khatris and some Thakurs live in geographically compact areas. The same is more or less true of the Scheduled Castes, but there are large concentrations of Scheduled Castes in a number of industrial areas of the city. The Muslim population of the city is partially scattered; but, in many areas, Muslims are in an overwhelming majority and in others they constitute a very large minority. Kanpur has also a highly localized population of Sindhi and Punjabi refugees in two or three areas of the city.

Kanpur City, with its extended area, forms one discrete electoral unit, comprising one Parliamentary and five Assembly constituencies. The city is further divided into thirty-six wards for Corporation elections. Below the wards are the various mohallas or chaks, each with its own special character and most dominated by one or another of the important sections of the population of the city — labourers, shopkeepers, wholesale dealers, the educated middle class, Hindus, Muslims, Scheduled Castes, or refugees.

Parliamentary Constituency Has a Separate Personality

Kanpur lies on the southern bank of the Ganges River. The main concentrations of factories and industrial workers stretch from the northern part of the city on the bank of the river to the central-western and south-western portions of the city; these areas comprise three of the five Assembly constituencies. Here also are concentrated a large proportion of the minority communities and "depressed classes" of Kanpur—Muslims, Scheduled Castes, and refugees. Industrial labour forms an important part of a fourth of the five Assembly constituencies also — the central-east constituency, the heart of the city, containing the central business section. This is a mixed constituency, partly industrial, partly business; here also, Muslims form a large percentage of the total population, both of industrial workers and businessmen (shopkeepers and wholesale dealers). The last Assembly constituency, in the south-eastern section of the city, is also a mixed constituency, but of a different sort. This constituency extends from the eastern business section of Kanpur out into the countryside, including a large number of villages of Kanpur tehsil which are included within the limits of the Kanpur Municipal Corporation. This constituency is, thus, a primarily non-industrial, partly urban business, and partly rural constituency.

My concern in this article will be with the Parliamentary contest in Kanpur City. However, to gain a better understanding of the motivations of groups of voters in Kanpur and of the interrelationship between the Parliamentary and Assembly contests, references to the Assembly contests will also be necessary. Although it is true, as one local political leader in Kanpur said to me, that five Assembly constituencies do not make a Parliamentary constituency and that the Parliamentary constituency has a personality of its own, it is still impossible to understand the nature of the forces at work in the Parliamentary contest without knowing what is going on in the Assembly contests. Moreover, to the extent that the Parliamentary contest develops a character of its own the behaviour of various groups of voters will vary in the two election contests,

[1] D N Majumdar, "Social Contours of an Industrial City : Social Survey of Kanpur, 1954-56", Asia Publishing House, Bombay, 1960, pp 51-52.

[2] *Ibid*, pp 111-114.

[3] *Ibid*, p 67.

Has Seen Five Contests

That the Parliamentary constituency in Kanpur City has developed a "personality" of its own cannot be denied. The city has seen five Parliamentary contests since the first general election in 1952 — three general elections and two bye-elections. The history of these five elections has given the Parliamentary contest a character of its own, setting loose forces which do not operate at all in the Assembly contests. For reasons which will be explained below, the Parliamentary contest has, in the last three elections — the second bye-election and the 1957 and 1962 general elections — resulted in a thoroughgoing polarization of the Congress and anti-Congress sentiment, with disastrous results for the Congress. This polarization was maintained in the 1962 election despite the same fragmentation of opposition forces in the Parliamentary contest as in the Assembly contests, where no polarization has yet developed. One of the important things that has to be explained is how this polarization has developed in the Parliamentary contest in isolation from the opposite tendencies in the Assembly contests. A glance at Table 1, which gives the results of the five Parliamentary contests and the percentage of votes polled by the Congress and the main opposition candidate, will give an indication of the development of this polarization. Although there has been a decline in the percentage of the total vote polled by the two main candidates since the second bye-election, none of the other four candidates polled significantly in 1957 and only the Jan Sangh candidate polled significantly (7.86 per cent) in the 1962 election, although not enough to distract attention from the main contest and not enough to retain his security deposit.

In the 1952 election, the Congress candidate was the late Hariharnath Shastri, one of the early leaders of the labour movement in Kanpur and a respected and popular figure in Kanpur politics. With the death of Hariharnath Shastri, the Congress lost a very popular Parliamentary candidate and a great deal of its hold over the labour vote in Kanpur. The Congress hold on the labour vote was seriously weakened in the first bye-election, when, against two strong opposition labour leaders — Raja Ram Shastri on a P S P ticket and Sant Singh Yusuf on the Communist ticket — the Congress set up one of the leading cloth merchants of Kanpur, an active and important Congress leader of Kanpur, but one with no record of work in the labour movement. Although there were four candidates in this bye-election, the fourth received an insignificant number of votes; for practical purposes, the contest was a triangular one. The runner-up was Raja Ram Shastri, the P S P candidate, who polled 32.1 per cent of the total vote; the Communist candidate, Sant Singh Yusuf, polled 22.1 per cent. Together, the two defeated candidates polled 55.2 per cent of the total vote. The first bye-election taught the leftist opposition a lesson. In the second by-election (caused by the resignation of the Congress M P), Raja Ram Shastri ran again on the P S P ticket, with Communist support this time, and defeated the Congress candidate, Chail Bihari Dixit Kantak, by 14,000 votes. The Congress candidate in this bye-election also was not from the labour movement and had contested the 1952 election as an Independent, running third. The opposition alliance was maintained during the 1957 election, with the Communists, the P S P, the Socialists, and some disgruntled Congressmen supporting S M Banerji, who ran as an Independent. Banerji was then the leader of the Defence Employees' Union in Kanpur and had been dismissed from Government employment in 1956 for participating in a strike while in Government employment. Despite the fact that the Congress put up a candidate with experience in the labour movement this time, its percentage of the total vote declined still further.

Congress Candidate: Wrong Choice

Although S M Banerji ran as an Independent, he openly calls himself a Communist sympathizer, voted consistently with the Communists in Parliament, and participated in walk-outs only with the Communist group in the House. Banerji's sympathies were not unknown in 1957, but his persistent association with the Communists in Parliament and, on the other side, the growth of virulent anti-Communist feeling as a result of the Chinese aggression signalled the end of opposition unity in this last election in Kanpur City. Banerji was opposed by nine candidates — both the P S P and the Socialist candidates from the labour movement — and was left with the support only of the Communists. Banerji's Congress opponent was Vijay Kumar and an associate of Bhagat Singh. Sinha, an old revolutionary of Kanpur Sinha had been out of politics and out of Kanpur for over fifteen years and was brought into Kanpur to contest against Banerji largely on the recommendation of one of the important factional leaders of the City Congress. Despite the breakdown of opposition unity in this election and the existence of ten candidates in the field, the contest became from the beginning a straight fight, in which Banerji achieved an impressive victory, unexpected in its proportions — polling the highest number of votes and one of the largest majorities in Parliamentary elections in the whole of the State.

Banerji polled a majority vote in the constituency as a whole and in all five of the component Assembly constituencies. In the Assembly contests, no party received a majority vote in any constituency. The Congress lost one Assembly seat for the first time—to a Communist in the City South constituency, who won with a small plurality in a triangular contest.

Table 1

Comparison of Congress and Main Opposition Vote in Parliamentary Elections in Kanpur City

Per cent

Election	Congress	Main Opposition	Total	No of Candidates
1952	64.91	12.89	77.80	8
1st bye-election	42.92	32.10	75.02	4
2nd bye-election	43.70	55.30	99.00	3
1957	40.11	49.49	89.60	6
1962	30.97	53.21	84.18	10

Banerji could not have won this election without the support of the Communists, but the Communists could not have won this seat without Banerji. The Communists put up only three Assembly candidates in Kanpur and won only one Assembly seat. In the Assembly constituency in which the Communist candidate was successful, Banerji outpolled the supporting Communist candidate by 14,000 votes. Although Banerji had some workers from the Bank and Defence Employees' unions and a number of educated, middle class people, who are leftist independents, he had no real organisation of his own; his campaign was completely in the hands of the Communist Party. What Banerji brought with him in the contest was the admiration of most industrial workers, particularly in the ordnance factories, but not exclusively, for his service to the labour movement in the city; the attraction of a powerful personality; excellent oratory; a record of hard work and vigorous opposition in the Parliament, as well as accessibility to his constituents; and last, but not least, the image of previous success against the Congress, which drew to him all those from all walks of life who have become discontented with Congress policies or Congress administration or both for widely different reasons and who want to see an effective opposition in Parliament as a check on Congress rule.

Candidates and the Campaign

In an urban Parliamentary constituency, the personality and the oratory of the candidate are important factors. Banerji clearly had the edge throughout the campaign in both respects. Banerji has been active in the labour movement in Kanpur since 1946, particularly amongst ordnance workers, bank employees, and to some extent textile workers. He has been to jail twice since Independence for his participation in strikes and he was dismissed from Government employment for his participation in the famous 80 days' textile workers' strike of 1955 in Kanpur. In contrast, Vijay Kumar Sinha, although born in Kanpur and associated with the revolutionary movement and its leaders there in the late 1920's, has never been part of local politics and had been out of Kanpur and out of politics since his release from prison in 1945.

In addition to this advantage, Banerji had a real advantage in speaking ability over Sinha. Banerji is quite an impressive and eloquent speaker and holds his audience in rapt attention. Sinha, by contrast, is a very poor speaker and failed to hold his audiences. Banerji invariably drew larger and more attentive audiences throughout the campaign.

Banerji had the additional advantages of a well-nursed constituency and a reputation for accessibility to his constituents. As an example of his accessibility, both his opponents and his supporters pointed to the prodigious number of certificates he had signed in his five years as an MP There are a wide variety of applications, including applications for student concessions, forms certifying that a man is a member of a Scheduled Caste and is entitled to whatever privileges are being requested, attestation certificates for jobs, applications for the allotment of houses, and the like, which can be signed only by an MLA, an MLC, an MP or a gazetted officer. Banerji's detractors argued that he had no scruples about signing these applications and never bothered to inquire into the accuracy of their contents. His supporters claimed that he signed such applications without charging any fees, as others are alleged to have done. In either case, both his supporters and his opponents agreed on the great number of such applications which Banerji had signed and on the advantage which this gave him in the campaign.

The China Issue

One apparent disadvantage which Banerji faced in the campaign was the allegation against him that he was a "chupa hua" or crypto-Communist. In the early part of the campaign, Banerji and his supporters tried to emphasize the need for a strong opposition to the Congress to watch over the administration and to check corruption and they pointed to Banerji's record in Parliament in this regard. The Congress speech-makers answered by accusing Banerji of being over-critical and neglecting the real progress the country had made under the Plans. However, gradually the speeches, pamphlets, and posters began to concentrate more and more on the accusation that Banerji was a Communist and on its rebuttal. Banerji mentioned the charges against him in every speech and put himself in the same position as Krishna Menon in Bombay. He argued that those people who were saying that he and Menon were Communists were really themselves pro-American. Against the charges that a vote for him would be a vote for more Chinese aggression, Banerji claimed that his young son would be the first to go to the front in any war with China.

There is no way of measuring the impact of this kind of "issue" on the outcome of the campaign except through public opinion surveys. Given Banerji's popularity, it is likely, as one local Communist said to me, that the charge against Banerji had little effect on the campaign, but helped the Communist Party in general, since the people would reason that if Banerji was a Communist, then the Communists must be very nice people. Among the leftist, but anti-Communist, independents from the educated middle class, some rejected the charge as Congress propaganda; others argued that even if Banerji were a Communist, the need for an effective opposition to the Congress was so great that they would vote for him anyway.

Crack in Congress Organisation

During the campaign, many in the Congress camp were expecting a close contest in which the massive Congress organisation and its financial resources, combined with the breakdown of opposition unity, would neutralize Banerji's admitted popularity, leaving the decision to the "floating" voter. The organization remains massive and its financial resources infinite in Kanpur City, but most of its resources were concentrated in the Assembly contests. It was even charged that the dominant group was only luke-warm in its support for Sinha, considered a nominee of the opposing group. In contrast, the Communists concentrated most of their energies on Banerji and hoped that one or two of their Assembly candidates might come in on Banerji's coattails.

Neither the Congress nor the Communists were short of workers. If the Communists had fewer workers, they made up for the difference in numbers by the intensity of their

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campaigning. The Banerji camp was pinched for funds, but managed to maintain at least a visible equality with the Congress in posters and pamphlets: the Congress did have twelve cars to the Banerji camp's five and probably had more loudspeakers, but these disadvantages were made up by the differences in the allocation of resources between the Parliamentary and Assembly contests by the Congress and the Communists. Sufficient publicity is an essential element in this kind of constituency, especially for an Independent candidate who must make his symbol known, and Banerji had sufficient publicity.

Some argued that despite Banerji's successful meetings and processions, despite his posters and pamphlets, the whole campaign would fall apart on polling day because of the inability of the Banerji camp to put up "shamianas" or tents, outside every polling booth, with workers to help fill out the voter's registration card and, at the same time, give him the final and crucial push in the right direction. The Banerji camp did lack the resources to put up these tents in most polling booths, but the intelligence and subtlety of the urban voter was underestimated. On polling day, the Congress tents were, in most places, the busiest; but, obviously, a very large number of voters accepted the help of the Congress workers and voted for Banerji.

Disunited Opposition: No Handicap

The breakdown of opposition unity was considered still another disadvantage for Banerji. In 1957, Banerji had the support of the Communists, the Socialists, the P S P and several Independents. In some of the Assembly constituencies, he had the support of more than one candidate. Banerji was accused of double-dealing in this respect in 1957. However, an astute Assembly candidate, or his workers, do not have to have an electoral pact or expect reciprocal support, to ask for one vote for himself and one vote for a popular Parliamentary candidate. This is the Indian version of the coat-tail phenomenon and it cuts across party lines. It would be too much to expect of an energetic worker, canvassing for an Assembly candidate and observing a trend in favour of a popular Parliamentary candidate, not to try to cash in on the Parliamentary candidate's popularity in this way. A similar strategy is what the General Secretary of the Kanpur P S P called "pirating". The P S P Secretary's charge was that Communist workers in the two constituencies where the Communists had no candidate, were soliciting votes for the P S P Assembly candidates and then asking for a second vote for Banerji.

How much of this pirating went on is not known, but it was not needed, since Banerji outpolled both these P S P candidates even in their strongholds. A really effective electoral pact of this sort, whether formal or tacit, will reveal itself in the election results. One or two of these pacts were quite effective in 1957 in restricted areas; but, in 1962, Banerji's support crosscut the support of almost all Assembly candidates. Any benefits derived from such pacts were certainly mostly one way, that is, the benefit was to the Assembly candidate who attached himself to Banerji's coat-tails and not vice-versa.

Analysis of the Vote Muslims

The Congress and the Banerji workers knew throughout the campaign where their strengths and weaknesses lay. Banerji was known to have support among labourers generally and among Muslims and Scheduled Castes in particular, who make up the bulk of the industrial labour force of the city. In fact, Banerji's greatest strength was in the Muslim majority areas, among all economic classes of Muslims. Table 2 compares the vote for Banerji and the Congress in some of the Muslim majority areas of the city (selected at random). Banerji polled well above his average in the city as a whole in these areas; his poll in Begamganj, Anwarganj, Talak Mahal, and Butcher Khana in 1962 were among his best in the city.

Despite an already very high poll in most of the Muslim majority areas in 1957, Banerji's vote increased

Table 2

Vote for Banerji and the Congress in Muslim-Majority Areas of Kanpur City, 1957 and 1962.

Constituency	Chak No.	Name	Vote for Banerji '57	Vote for Banerji '62	Vote for Congress '57	Vote for Congress '62	%of Muslims*	Type of Area
IV	99	Begamganj	68	78	24	11	87	Labour & small shopkeepers
III	90	Anwarganj	61	77	31	14	78	Labour & leather market
III	97	Talak Mohal	71	76	33	12	91	Labour & white collar
III	44	Butcher Khana	73	72	21	18	91	Commercial
IV	88	Chamanganj	61	67	23	20	81	Labour; tannery area
III	89	Dalelpurwa	51	66	37	23	57	Labour
V	Civil	Faithfulganj	71	60	23	29	66	White collar factory
	6 & 11	Khapra Mohal						
I	20	Chatai Mohal	46	59	46	27	63	Mixed
III	39	Maida Bazar	59	57	33	30	53	Commercial
	40	Naya Chowk						
	41	Farrash Khana						
	94	Farrash Khana						
	42	Bisati Bazar						

*According to 1951 census.

sharply from 1957 to 1962. In only three areas in the sample did Banerji's vote decline and in only one area did it decline significantly; the Congress vote declined in all but one of these areas. The Muslim vote has been the subject of a great deal of speculation since Independence, particularly in U P where the Muslim League had a very strong base. The Communist Party in Kanpur still has a firm base of support in the Muslim areas, which it owes largely to its pro-Pakistan stand in the late '30's and early '40's. However, in most of the Muslim areas where Banerji's vote increased in 1962, the Communist vote in the Assembly contests declined; nowhere did the Communist vote or that of any other party approach Banerji's poll in the Muslim areas.

A number of campaign workers for both the Congress and for Banerji gave a simple formula to describe the voting tendencies of Muslims in the city. The formula is that if the Congress alone puts up a Muslim candidate, Muslims will vote for the Congress; if a leftist party alone puts up a Muslim candidate, then Muslims will vote for the leftist; if both the Congress and a leftist party put up Muslim candidates, then the Muslim vote will be split; finally, if there is no Muslim candidate at all, Muslims will vote leftist. The implication of the formula is that Muslims have a tendency both for bloc voting for candidates of the community and for leftist candidates generally, in about equal proportions. The formula reflects more accurately the voting in the Assembly contests in Kanpur than in the Parliamentary contest. In the Parliamentary contest, the only Muslim was the Socialist candidate, who polled insignificantly everywhere in the city, including the Muslim areas. It should not be assumed that leftism took precedence over communal voting in the Parliamentary contest. There is certainly a core of genuine leftism in the Muslim vote for Banerji, since many of the Muslims in the city are factory labourers living in some of the worst slum areas of the city; but this alone does not explain the high poll for Banerji. The alleged leftism of the Muslim voter is largely an expression of traditional anti-Congress sentiment which grew up during the tensions of pre-partition days.

Labour

It is not surprising that an active and popular labour leader should be able to sweep the polls in most of the predominantly labour areas against a non-labour candidate, as Banerji did in the labour areas of Kanpur (Table 3). What is more important is the question to what extent Banerji's success in the labour areas reflects only his personnal popularity or a real Congress weakness in the labour areas of the city. Banerji polled 50 per cent or better in all eleven areas in the sample in 1962 and in all but two in 1957. The Congress candidate in 1962 was not able to poll above 36 per cent in any of these areas; in 1957, even with a labour candidate, the Congress polled a majority in only one of these areas.

In general, the Congress position in the major labour colonies is poor, but no party has the influence which Banerji has personally in the labour areas. The trade union movement as a whole is quite weak in Kanpur, largely as a result of inter-party struggling and manoeuvring for position. Every industry suffers from triple to sextuple unionism and every major political party, except the Jan Sangh, has some following among the labourers. Banerji's success in mobilizing the labour vote generally to him in two successive elections and the Congress defeat in three successive elections suggests not only that the Congress is losing ground, but that the industrial labour force is capable of greater unity. Banerji's popularity is a great asset to the Communist Party in Kanpur and local Communists hope that they will be able to translate their electoral success this year into real organizational strength in the city's trade union movement.

The Congress has been digging its own grave with the labour vote by failing to put up labour candidates in the elections. Traditionally, with the exception of the two bye-elections, INTUC leaders have been given the Parliamentary ticket and one Assembly ticket; this year, INTUC was given neither. A Congress labour worker was being considered for one of the Assembly seats, but fell a victim to the factional quarrels of the City Congress. Both groups expressed the desire to give one ticket to a Congress labour worker — as long as the ticket given fell within the domain of the opposite factional group. Neither group was willing to give ground, with the result that INTUC was completely unrepresented this year. The selection of candidates created considerable discontent among Congress labour workers: Sinha's poor poll and the loss of the City South Assembly Constituency to a Communist are at least partially attributable to the non-cooperation of many Congress labour workers in the campaign.

Table 3 : Vote for Banerji and the Congress in Selected* Labour Areas of Kanpur City, 1957 and 1962

Constituency	Chak No	Name	Banerji '57	Banerji '62	Congress '57	Congress '62
			Per cent			
I	10	Khalasi Line	51	74	41	22
II	133	Juhi Hamirpur Road	62	69	24	18
I	12	Gwaltoli	62	61	28	28
I	17 & 18	Kursawan	**	60	**	30
II	121	Shastri Nagar	**	58	**	28
I	4 & 5	Purana Kanpur	52	58	33	25
III	85	Lakshmi Purwa	57	57	37	32
IV	103	Colonelganj	43	56	52	36
I	9	Macrobertganj	61	56	28	30
II	118	Kaushal Puri	37	52	49	31
II	119	Darshanpurwa	51	52	39	33

* Random selection, excluding Muslim labour areas.

** No correspondence between 1957 and 1962 polling stations in these areas.

Scheduled Castes

Scheduled Castes constitute a high percentage of the industrial labour force and are a large minority in most of the important labour colonies — particularly in the Khalasi Line, in the Juhi Hamirpur Road area, in Gwaltoli, Lakshmi Purwa, and Purana Kanpur. Only in Colonelganj, however, are Scheduled Castes in a majority. The vote for Banerji in this area increased from 43 to 56 per cent and for Sinha, declined from 52 to 36 per cent (Table 3). The vote in one chak does not provide sufficient evidence to distinguish the Scheduled Caste vote from the labour vote in general, but most Congress workers felt that the Scheduled Castes, particularly the Chamars, were not with the Congress.

The Republican Party, which is the political expression of militant anti-Congress sentiment among the Scheduled Castes, put up Scheduled Caste candidates in two Assembly constituencies. The Republican candidates polled poorly in both constituencies, but had pockets of strength in areas where Scheduled Castes are concentrated. In the Colonelganj Chak No 103, the Scheduled Caste candidate outpolled all other Assembly candidates, with 38 per cent of the vote against 33 per cent for the Congress candidate; in the Parliamentary contest in this chak, Banerji polled 56 per cent against 36 per cent for the Congress. A highly splintered Assembly vote was transformed into a majority vote for Banerji in the Parliamentary contest. With the Scheduled Castes, as with the Muslims, the vote for Banerji was an expression of anti-Congress sentiment which, in the Assembly contests, found only a parochial outlet.

Professional Middle Class

Among the educated, professional middle classes in Kanpur, the issues of the campaign had most importance. It was among these people that the question of Banerji's affiliations with the Communist Party was most hotly debated. To many, the idea that Banerji might really be a chupa hua Communist was unpleasant, but there was a strong feeling that the need for an effective opposition to the Congress was so great that Banerji should be given the benefit of the doubt. Among others, anti-Banerji feeling was virulent and some argued that Banerji was engaging in deception, which was considered worse than an open avowal of Communism. To these people, the Kanpur election was a miniature North Bombay and Banerji and Krishna Menon were lumped together as hidden Communists.

Thus, within the educated middle class, there was a real conflict between the desire of most to see an effective opposition to the Congress and the dislike of most for Communists and their sympathizers. A comparison of the vote for Banerji and the Congress in 1957 and 1962, however, indicates that most opted for effective opposition. The results of the poll in the middle class residential areas are given in Table 4.

Commercial Middle Class

Banerji's worst poll and Sinha's best generally was in the predominantly Hindu commercial and trading areas of the city — particularly in areas like Generalganj, where the big wholesale cloth merchants are located; in Hatia, a centre for steel trunks and utensils; in Collectorganj, a grain, cotton, and oilseeds market (Table 5). In the Generalganj area, Banerji's vote declined rather sharply from his 1957 poll. Banerji's drop had nothing to do with any of the issues in the campaign, but reflected purely organizational differences between the 1957 and 1962 campaigns. In the Generalganj Ward (Chaks 48, 49, 51-57) — the big wholesale cloth market of Kanpur — Banerji's vote declined from over 50 per cent to just over 40 per cent of the vote polled there in the two elections. However, Banerji's high poll in 1957 was due entirely to a particularly effective pact with one of the Independent candidates for the Assembly in this

Table 4 : Vote for Banerji and the Congress in Middle Class Residential Areas of Kanpur City, 1957 and 1962

Constituency	Chak No	Name	Banerji '57	Banerji '62	Congress '57	Congress '62
			Per cent			
I	14	Souterganj	51	53	40	34
I	11	Civil Lines	39	50	54	38
I	15	Civil Lines	38	50	54	38
I	16	Civil Lines				
	37	Mall Road	**	50	**	40

** No correspondence between 1957 and 1962 polling stations in this area.

Table 5 : Vote for Banerji and the Congress in Commercial Areas of Kanpur City, 1957 and 1962

Constituency	Chak No	Name	Banerji '57	Banerji '62	Congress '57	Congress '62
			Per cent			
V	48	Shatranji Mohal				
	56	Generalganj	51	43	41	39
V	49	Generalganj				
	51					
	52					
	53	Naya Ganj	51	41	41	44
	54					
	55					
	57	Sirki Mohal				
I	28	Filkhana	36	38	52	43
III	32	Purana Sabzi Hatia				
	47		**	34	**	47
III	73	Collectorganj	**	29	**	56

** No correspondence between 1957 and 1962 polling stations in these areas.

constituency (V), who had his stronghold in the Generalganj area, which he now represents in the Corporation. In some of the polling stations in this ward, the pact was incredibly effective — so much so that there were differences of less than ten votes and in some cases only four or five votes between the poll for Banerji and that for his ally.

Although Banerji's vote declined in the Generalganj area, the Congress vote did not increase in the same proportion; and, in Filkhana, where Banerji increased his vote only slightly, the Congress vote took a sharp drop. In both these areas, the Jan Sangh made up the difference. The commercial middle class is the pillar of conservatism and traditional values in North Indian cities and Kanpur is no exception. Even here, however, the Congress did not poll remarkably well; in only one of these areas did Sinha poll a majority vote. Although the Jan Sangh had some strength in these areas, the Jan Sangh candidate failed to distract attention significantly from the two main candidates in the Parliamentary contest even here.

Refugees

Kanpur City has a small, but highly localized, population of Sindhi and Punjabi (mostly Hindu, but some Sikh) refugees, concentrated primarily in the Govind Nagar and Kaushal Puri areas in the Kanpur City II constituency. It was only in these two areas and particularly in the middle class areas of Govind Nagar that the Jan Sangh was able to make a real show of strength in the Parliamentary contest, although much less so than in the Assembly contest. The details of the poll in the refugee areas in the Parliamentary contest are given in Table 6. In Kaushal Puri, where the refugees are predominantly factory labourers, Banerji polled better than 50 per cent of the vote; but, in the middle class areas of Govind Nagar, the vote was split three ways. The Jan Sangh appeal for the refugees is obvious; it is in these areas that the Jan Sangh has its cadres of RSS workers. But, again, as with the Scheduled Caste and Muslim labourers, the voting behaviour of the Hindu refugees in the labour areas was different in the Parliamentary contest; Banerji polled better than 50 per cent of the vote in Kaushal Puri, but in the Assembly contest there was a three-way split among the Communists (35 per cent), the Congress (30 per cent), and the Jan Sangh (29 per cent). A splintered vote in the Assembly contest became a majority vote for Banerji in the Parliamentary contest; and again, parochial and communal sentiments failed to make themselves felt in the larger constituency. In the entire Parliamentary contest, it was only in the middle class areas of Govind Nagar that the polarization seriously broke down.

Conclusion

As a result partly of a poor selection of candidates (at least tactically) against two popular labour workers, in successive Parliamentary elections in Kanpur City the Congress party has suffered increasingly heavy defeats. The Congress in Kanpur City, as elsewhere in U P, is partially paralyzed by factional politics. In this kind of situation, a tactically rational selection of candidates is prevented by the conflicting claims of factional groups, which must be accommodated if the Congress is to function at all. In Kanpur, INTUC is an important force in neither group in the Congress and thus had no say in the selection.

It would be a mistake, however, to attribute the loss of this Parliamentary seat only or primarily to organizational factors. There was a strong feeling, particularly among the educated middle classes, that the need for effective opposition to the Congress was acute; Banerji's record of hard and vigorous criticism in Parliament overshadowed the allegation against him that he was a Communist. Although this issue of the need for effective opposition to the Congress had a real impact on the campaign, Banerji made no frontal assault on Congress policies; he talked in his speeches about individual grievances and personal hardships, which resulted not from mistaken Congress policies, but from inefficient or corrupt administration.

A Personal Victory

Banerji's success was largely a personal success; in his work in the city's labour movement and in his five years in Parliament, he has created an image of himself as a hardworking and accessible representative from whom anyone in the city with a grievance might expect to receive sympathetic attention and active consideration. One of the major points in his campaign speeches against the Congress candidate was that the latter had been out of Kanpur for fifteen years and that there was no guarantee of his being in Kanpur if he were elected. It was this image of himself as an accessible and a sympathetic politician that drew to him those at the bottom of the economic and status ladder of the community — labourers in general and Muslims and Scheduled Castes in particular.

Despite the heavy defeat of the Congress in the Parliamentary election in Kanpur, the Congress is still the strongest force in the city. Both the Communists and the Jan Sangh have a base in the city as well. The moderate left declined sharply as a force in the city's politics, both in the Parliamentary and the Assembly constituencies. No party now has the kind of influence over the community as a whole that Banerji has as an individual. Banerji's victory represents less a victory for the Communist Party than a defeat for the Congress. However, Banerji's victory has not altered the basic disunity, which remains the dominant aspect of party politics in Kanpur City — in the form of factionalism in the Congress, in a fragmented opposition, and in a splintered labour movement.

Table 6 : Vote for Banerji, Sinha and the Jan Sangh in the Election Areas of Kanpur City, 1962* Election

Constituency	Chak No	Name	Banerji	Sinha	Jan Sangh
			Per cent		
II	118	Kaushal Puri	52	31	12
II	125	Govind Nagar	44	24	26
II	126	Govind Nagar	33	25	37

* No correspondence between 1957 and 1962 polling stations in Govind Nagar.

Metropolitan Landscapes of the 20th Century

Bert F Hoselitz

We have considered the typical metropolitan landscapes of three kinds of urban areas.

In the underdeveloped countries we have found metropolitan landscapes in which functional divisions between the various parts of a city are little developed; in the classical case of the European metropolis we found this functional division most pronounced; and in the American metropolis, especially in the newer urban areas of the western United States, we found again that the overall landscape has lost in sharpness of functional distinction and resembles in many ecological features the assemblage of coordinated and highly self-contained neighbourhoods of the cities in developing countries.

The reasons for these variations in patterns of metropolitan landscapes are quite different, and the future developmental possibilities of each of the three types vary a great deal, partly because of the different resources available to economically developed and underdeveloped societies, and partly because of the differences in laws, culture and consumer preferences.

THE study of the city is a child of the twentieth century. Although in antiquity the Greeks already wrote on the problems of the *polis*, and the Indians even published treatises on town planning and although Ibn Khaldun and Giovanni Botero laid down their thoughts on the greatness of cities in the fifteenth and sixteenth centuries, the genuine scientific study of the social, economic, and ecological aspects of urban centres and, in particular, of the metropolitan areas, begins with the twentieth century. This is no accident, for the really large city only began to emerge during the last hundred years. To be sure, we have some examples of urban giants going back to antiquity. Rome and Constantinople in the West, Kai-feng and Hang-chou in China were cities with several hundred thousand, and perhaps a million, souls. But these were rare exceptions, and so were even cities with more than 100,000 inhabitants. By 1950 the world counted more than 1,000 metropolitan centres of more than 100,000 inhabitants, and most of these are creations of the last few decades.

It is not surprising then if modern social scientists are profoundly concerned with the metropolis in its various aspects and if they study, often in great detail, the various relevant social and economic aspects of the metropolitan centres. What makes this study complicated is that the metropolitan landscape does not permit easy generalization and that with the growth of income in the economically more advanced countries and with the concentrated efforts to speed up the rate of economic growth in the underdeveloped countries, urban centres have not only grown in numbers and size, but new kinds of urban and especially metropolitan landscapes have developed.

The Classical Scheme

The classical works on metropolitan developments of the early years of this century paid little attention to urban landscapes. The internal arrangements of the central city were considered to be subject almost to natural laws of growth and development. In the early beginnings of the era of predominant urbanism there existed a sharp limit between city and country which was punctured only at main roads and railway stations. Slowly with the growth of suburban communities this sharp line became blurred but the metropolitan area itself showed quite regular and apparently immutable features. This classical picture describes the various localities in a metropolitan area as consisting of several more or less concentric circles. In the core of the city is located the central business district, the offices of Government and administration, and the centres of the cultural, educational, and religious life of the community. In cities with a long history this central district had to be partly rebuilt and enlarged to accommodate the new and wider functions, but the *Innere Stadt* of Vienna shows clearly the predominant pattern of the urban central core. In this part of the city are located the major public buildings, the main theaters, museums, the opera house, the ministries and the city hall, the university and the cathedral. Next to these buildings are found high quality stores, major restaurants and hotels, and other buildings catering to the needs and wants of the upper classes.

In the second ring around the centre are found the houses of middle class families, with retail shops and other service establishments along the streets which cater to the major needs of these families. Here we find also neighbourhood churches, libraries, elementary and secondary schools, cinemas, and some related establishments. There are few or no factories found in this ring around the central core. It is almost entirely devoted to residential use. Next to the second zone, is found an outer ring in which the major industrial functions of the metropolis are performed. Here the dwellings of the working men are found and, of course, also some shops and related establishments catering to their needs. The housing found there is often of much lower standard than that in the middle class residential districts, and, above all, the noise and the dirt from the factories make life less pleasant in these parts of the city. Finally, this ring of industrial establishments, railway switchyards and working class homes is surrounded by the suburbs where we find, on the one hand, the dwellings of cotters and market gardeners who supply the

city population with fresh fruits and vegetables, and on the other, the luxurious homes or country seats of some of the very wealthy who often can and do maintain more than one place of residence: One in the central part of the city and another in the suburb.

New Landscape Patterns

This was the classic picture of the metropolitan landscape and with some not very important exceptions, this picture was a rather accurate description of reality. If we look at Paris, we find the central city core close to the Seine in an area bounded by a ring of major boulevards. Around this we find the homes of middle class families; and in the ring which is already outside the more narrowly defined urban limits of Paris proper, especially in the East and North, we find the great industrial belt and the homes of the workers who labour there. The same picture is true of Vienna, of Hamburg, of Milan, and of many other metropolitan cities of the European continent. In fact, the classical picture of the metropolis has such a strong hold that it was the major image before those who rebuilt cities which were badly destroyed in the last war. Nowhere can this be seen more clearly than in Warsaw. This city was almost totally destroyed in 1945 and there were even some who suggested that it might be best to relinquish the old site of the city altogether and build a new Polish capital several miles away from its original location. But when it was decided to rebuild the city, the classical metropolitan plan was adopted. The central core with its public buildings, its main churches, the university, the chief hotels and major shops and department stores was reconstructed. Around it were put up the homes for the middle class — the intellectuals, officials, highly skilled workers, and clerical employees. And in an outer ring across the Vistula at Prague and north of the city and its main residential portion, new industrial complexes were created which are located conveniently close to working class housing. These same patterns were re-established also in Germany where the old city cores, which had been destroyed, were replaced, sometimes by more functional, but economically and politically identical central cores.

Yet there are signs that this classical picture of the metropolitan landscape is undergoing change. On the one hand, the recent rapidly growing urban areas of the developing countries, especially the countries of Asia and Africa, do not conform to this picture. On the other hand, in the United States and to a lesser extent also in Britain and other countries of western Europe, a process of urban decay is setting in which strongly modifies the internal landscape of metropolitan centres. Let us take a look at these two new landscape patterns in order.

The Asian City

The Asian city, particularly the city in South Asia, presents primarily for social and cultural reasons, an urban landscape which differs greatly from the classical European pattern. In part this is due to the fact that it is often newly founded by Europeans who have attracted migrants to the city as a result of the real or believed in economic opportunities which the city offered. In part it is due to the fact that the growth of urban centres was much more rapid than in Europe, and that funds for housing construction and the development of urban services were much too meager to provide adequate accommodation for the many immigrants that came to the city. Finally, it was due to the fact that the process of "urbanization" of the city dwellers was never fully accomplished; that persons who came to the city did not dissolve their rural ties and develop sentiments of loyalty and "belonging" to their new home. but that they preserved their original rural outlook and values. And the difference between the values and attitudes—and also the behaviour patterns — of traditional rural and rational westernized urban people is profound.

Recent urbanization in Asia and Africa took the following form: usually a European or a westernized native group established a central place at which a new economic activity was commenced. A port or a railway head, a factory or mine were the original reasons for the development of the urban place. If the site was well chosen or the resources in its surroundings favourable, the city grew, at first slowly, but gradually with increasing speed. Its growth attracted immigrants from the country who, as already stated, come in search of economic opportunities. Many of these prospective workers were young men who came alone, without their wives and families. They were poor and often little skilled; their future was uncertain, and for this reason they did not fully break their ties with their rural homes. When they came to the city they encountered the impersonal atmosphere of an industrial job — if they were fortunate in landing one — and the anonymity of the urban environment. What is more natural but that they should try to find contact with those who were more like them? And so there developed residential neighbourhoods inhabited by persons with the same regional, ethnic, or linguistic background. In India, for example, neighbourhoods are divided on lines of language, caste, religion, or regional origin of their populations. Each of these neighbourhoods developed their own community centres, often their local markets, and many of the residents in a community do not leave it often, except for some important tasks which must be performed outside.

Assemblage of Villages

But some cities of Asia and Africa, it will be said, have indigenous origins. What about them? In these cities the western observer is normally struck by the apparent absence of functional differentiation. It is true that a bazaar area, where it exists, is usually well defined, but this retailing area also is residential. As in the medieval European city, the various streets have merchants of the same trade or artisans producing competing commodities crammed closely together. Merchants and craftsmen live near or above their places of work, and one usually finds the wealthier and the poorer members of the trade or a craft side by side. But outside this relatively small area of the bazaar and its distributaries there is found the same pattern which exists in cities which do not have native origins. Community — religious, ethnic or national, linguistic, provincial, caste grouping — rather than economic

position or function is the major determinant of segregation. In Ahmedabad, the textile manufacturing centre of India, large blocks of buildings are inhabited often only by one caste and have a main street in the centre with gates at either end. Each such neighbourhood forms, in practice, a self-contained separate community. Similarly in Madras there are special neighbourhoods almost entirely self-contained in terms of overall human contacts of their members, which are inhabited exclusively by untouchables.

In short, the typical large metropolis of Asia is a vast assemblage of villages or *kampongs*. There is little functional differentiation in the metropolitan area, although, of course, a capital like Delhi has its Central Government centre and a large port like Bombay its central business district. But beyond this obvious functional specialization the vast majority of the metropolitan areas of India and other Asian countries are conglomerates of largely self-contained communities with little interaction and with many village features. And it does not matter whether the neighbourhood is a reasonably well-built quarter or whether it is a miserable slum. What distinguishes the two is not so much the social or even economic difference of the population, but mostly the quality of the housing.

There is little chance that this picture of the metropolitan landscape in the countries of Asia will change in the near future, and there is good reason for believing that as African cities grow larger they will exhibit many similar features. Also in parts of Latin America, for example, in Brazil or Mexico, some of these forms of metropolitan development — the growth of special self-contained neighbourhoods, the imperfect internal functional distribution of sectors of the city, the relative closeness between places of residence and places of work, and the resulting lack of intra-urban contacts — have been noted. In Latin America, they are somewhat less visible, mainly because of the somewhat higher level of income of the average citizen and because of the greater degree of penetration with western values and patterns of attitudes and behaviour of a large portion of the urban elites. But the slow growth of per capita income, and the rapid increase of city sizes all make for a maintenance of these "agglomerated" metropolitan areas, and as the speed of urban growth accelerates and the level of incomes remains low, the spread of slums and substandard neighbourhoods will tend to cover a larger and larger part of the metropolitan landscape. In extreme cases a city in a developing country will be a close assemblage of miserable villages with a few neighbourhoods with modern industrial, commercial, or Governmental buildings among them.

Urban Decay in the US

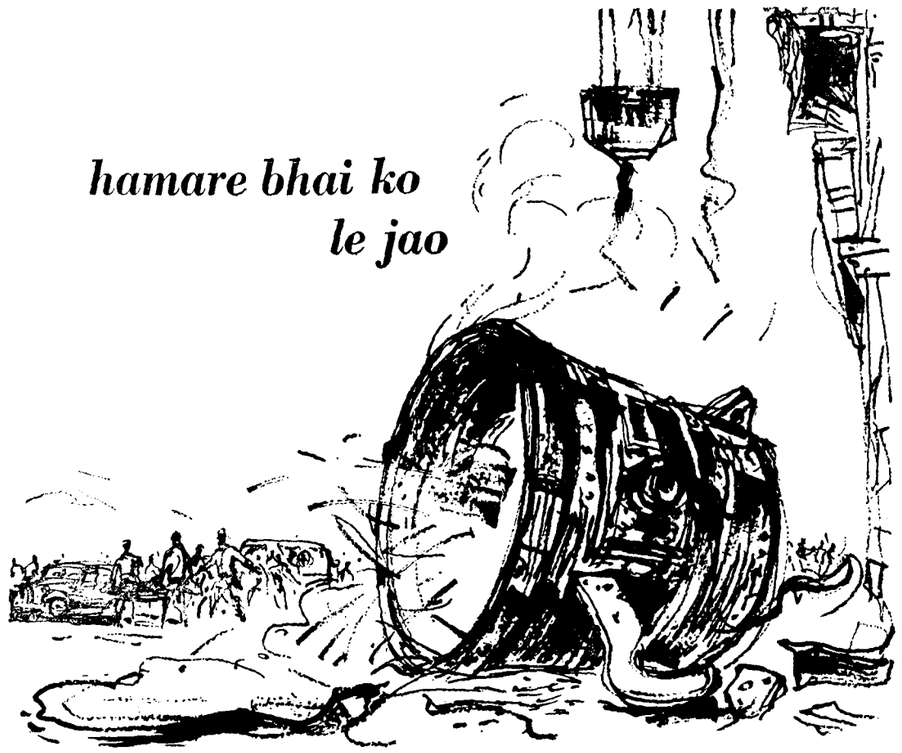
These developments may be regarded as one aspect of the decay of cities. But we now turn to a very different aspect of the decay of cities, due not to poverty, but rather to the growth of income; due not to the lack of emancipation from the village values and behavioural norms on the part of many urban dwellers, but rather the dissatisfaction with the absence of trees and gardens among the grey canyons of downtown skyscrapers. The decay of the central core of the city is as yet predominantly an American phenomenon, but its impact is beginning to be felt also in Europe. It is one of the chief problems confronting American urban planners and it is as yet uncertain whether it actually can be successfully dealt with in spite of much thought and ingenuity that is devoted to it.

The major visible feature of the process of urban decay in the United States is the growing separation of the homes of the middle-income groups in American metropolitan areas from those of lower incomes. This separation has been the main cause of the development of slums in the central parts of many American cities and it has seriously exacerbated the political tensions and conflicts between central cities and the suburban communities surrounding them. Though these conflicts have existed for a long time, they have become sharper and more frequent and they have taken on new acid undertones.

In the cities of the American eastern coast this process began in the latter part of the nineteenth century with the gradual withdrawal of the middle-income groups from their residential neighbourhoods in the central cities and their moving to the suburbs. The living space they had vacated was quickly filled by immigrants on a lower income level. Some previous residential neighbourhoods located favourably with respect to the business centre were converted into office and related buildings; some special sections, as for example, Greenwich Village in New York, developed into neighbourhoods where wealthy people settled. But the cities tended to conform more and more to the old cliche, which had been expressed about New York as early as the 1870's, that the central city had become "the home of the very rich and the very poor". At present, if we look at the large metropolitan centres in the United States — New York, Chicago, Boston, Philadelphia, and others — we find that the central business core has been maintained and has even become enlarged. But the ring around this core which was once the residential section of middle-income families has deteriorated and, in some instances, has degenerated into an area of slums. There are a few spots in the ring around the core which house the very rich — the so-called Gold Coast along Lake Michigan north of the centre of Chicago is one example, and others could be cited of other cities — but the main picture one gains as one walks through the former middle-income residential sections is one of physical and moral decline. Here are found the main red-light districts of American cities, the "skid-rows" inhabited by criminals and destitutes, and here one finds the slums increasingly inhabited in the major American cities by Negroes, Puerto-Ricans, and Mexicans.

New Home of the 'Organisation Man'

Around this ring of low class housing lies a ring of industrial establishments and factories; further



It happened some years ago in the steel melting shops at the Jamshedpur works. A large ladle, carrying 75 tons of molten iron, suddenly crashed to the ground with a deafening noise from an overhead crane. The spattering sparks and red-hot metal seriously injured a number of brick-layers working at what seemed to be a safe distance. The air was rent with the frenzied shouts of the men and the hissing of steam.

The first ambulance could remove only five of the injured to the hospital. General Manager Keenan could take only three more in his car. He chose the three who had a better chance of survival than the rest. One of these men, a Hindu worker, however, refused to go. "Do not take me away", he said. Disregarding his own agony, he feebly nodded towards a half-burnt Muslim colleague, and said : "*Hamare bhai ko le jao.*" As Keenan recalls, "The Hindu who was in pain and danger of death remembered, not that the Mohammedan was of a different faith, but that he was his brother."

This feeling of comradeship, born of the common bond of labour, is the spirit that characterises Jamshedpur, where industry is not merely a source of livelihood but a way of life.

JAMSHEDPUR
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out are the suburbs, where the middle-income groups have found a new home. These suburbs have become the new homes of the "*organization men*" who leave their houses or apartments in the morning and travel by swift non-stop electric trains or by car on express highways to the centre of the cities where they work. In their journeys they pass by or drive above the intermediate industrial and slum sections; for them the effective geography of the city consists of the central office and business district and the outlying suburbs between 15 and 30 miles from their place of work. But although most men are willing to undertake this long daily trip, their wives have become reluctant to do so. This has affected not only the demand for transport on suburban lines during other times than the rush hours; it has also affected the sales of the large centrally located shops and department stores. Hence these stores have established branches in the suburbs, clustering normally around certain predesigned spots, with ample parking facilities and easy access to the surrounding suburbs. The suburban shopping centre is a development of the last 20 years, and is an institution which is still growing rapidly.

Similarity to Asian Pattern

Thus the urban landscape of modern American cities differs from what we have called earlier the "classical model". The business core is enlarged, the ring around it is composed mainly of slums and low-income housing, interspersed with factories and warehouses, railway switchyards and truck loading stations. Beyond this we find a ring of lower middle class houses and beyond this the suburbs inhabited by the middle class. But each suburb or group of suburbs has begun to form a small, more or less compact, community by itself. Though the head of suburban households make their daily trips to the central part of the city, the remainder of the suburban population concentrates its contacts increasingly upon interaction with other persons in the same suburb. The women and children scarcely have any contacts outside the suburb or cluster of suburbs they inhabit. Here are the schools the children attend; here are the shops where the housewives purchase not only the food and other daily essentials, but — owing to the development of the shopping centre — also other commodities, such as clothing, durable household equipment, furniture, appliances, etc.

Perhaps the final point in this development of a metropolitan area is Los Angeles. The central section of this city has never fully developed and remains atrophied. If exception is made of the fact that some public buildings, a railway station, and a few offices are located in the centre of Los Angeles, its main significance is that it forms the centre of the express highway system of the Los Angeles area. Each suburb, or each separate cluster of suburbs has become a more or less separate community, with its own shopping and business centre, often with its municipal and public buildings, and with its own schools, clubs, neighbourhood facilities, and the like. The centre of Hollywood or Beverly Hills, of Pasadena or Santa Monica, of Glendale or Long Beach are as much centres of a metropolitan region as the "downtown" area of Los Angeles. Though the population enjoys a significantly higher level of income, and though the various residential-cum-business units are connected by modern highways and well-paved roads, though the houses are modern and well-built, and though golf-clubs, parks, skyscrapers and luxury buildings spot the landscape, the modern American metropolis is becoming similar in its ecological and functional patterns to the urban centres of Asia and and Africa. It has become an assemblage of largely self-contained, multi-functional "*kampongs*".

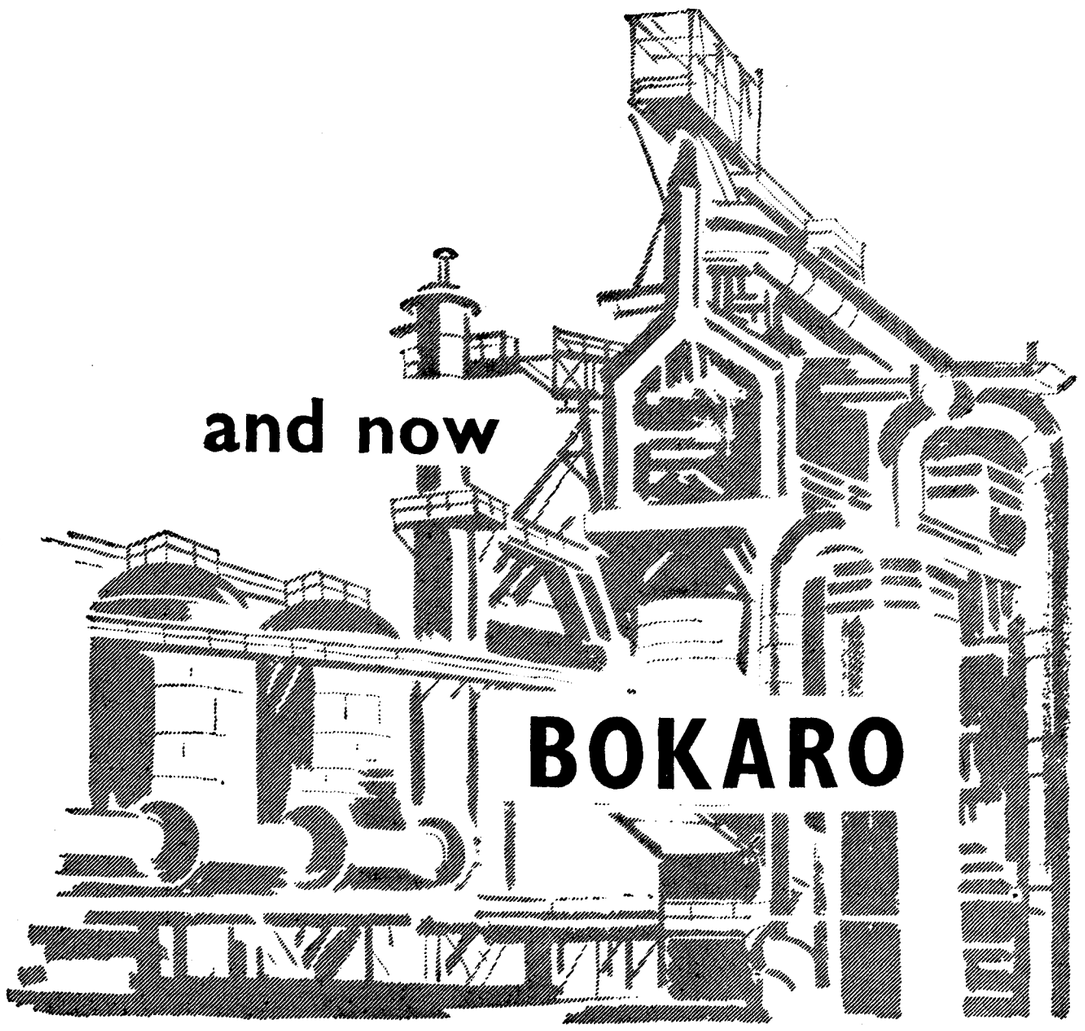
Search for New Housing

How did this development come about? What were the factors producing it? It is often said that the automobile and its widespread use in the United States is the main cause. For this made possible the easy access of suburbanites to the central city. And the improvement of transportation (not only the automobile but also the electric train) made possible the opening up of undeveloped space at the edges of the growing cities. But there were two added forces at work without which the decay of the central city and the rapid growth of suburbs could not have taken place. One was the decided rise in the level of average income of the American population, and the second was the spread between the general price level and the cost of housing and house construction. Let us look at each of these changes separately and see how they affect the movement to the suburbs and the decay of the central cities of the United States.

The rise in income has had the effect of producing in many American households the desire for new goods and the capacity to pay for them. The old-fashioned gas mantles were replaced by electricity; the earlier coal and wood burning fireplaces by central heating; the old-fashioned cupboards by modern kitchen cabinets; and the horse-drawn carriage by the automobile. This development of demand for new consumer goods, and especially for new durable consumer goods has made the house of each generation obsolete for that of their children and there has, therefore, been a constant search for new housing adapted to the new consumption habits of the people.

Exodus to the Suburbs

But although housing which was a generation old or older tended to become obsolete and though there would have been a tendency under way to replace it by new and better adapted housing, the cost of constructing new houses and the cost of converting old housing to the new requirements rose decidedly faster than the cost of other things. The reasons for this differential rise of construction costs are to be found in strong union resistance against labour saving and even



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material saving devices, the opposition by urban authorities to the introduction of new types of buildings, difficulties arising from zoning regulations and the reluctance of many builders to experiment courageously with new materials, prefabrication, and other innovations. In brief, technological progress in the construction industry has been slow and hence housing costs have gone up. If a middle-income family wanted to prevent the proportion of its income going to housing from rising, it had to search for a locality in which housing could be put up more cheaply, partly because of lower land values and partly because of less stringent laws and ordinances relating to materials, sizes, shapes, and arrangements of houses. The suburbs offered middle-income housing at prices well below those of similar accommodations in the older middle-income residential areas and hence the exodus to suburbs became attractive.

But once the exodus had started it had a snow-balling effect. For the owners of residential properties within the central cities responded by reducing the size of the apartments, by renting the smaller units to lower income groups, and by neglecting to maintain properly their apartment buildings. From the point of view of the owners of houses in neighbourhoods which turned into slums this development was a windfall. For with cutting down the size of apartments (from one eight-room apartment to four two-room apartments, sometimes with joint, staggered use of the kitchen and some joint use of bathrooms), and with neglecting the physical maintenance of their property, their net income from real estate increased substantially. The result was an urban slum, and — as already mentioned — an urban slum inhabited predominantly by Negroes, Puerto Ricans and Mexicans. But the threat of slum developments and the growing immigration of coloured people or people with Latin American lower-class backgrounds into what had previously been portions of the middle class residential areas only accelerated the exodus of middle-income families to the suburbs. The new arrivals threatened, in the view of the Caucasian middle class, the standards of schooling for their children, the security of the neighbourhood, its cleanliness, and its social compactness. As a result we find that in all the major metropolitan centres of the north-eastern and middle-western United States, central cities have begun to decrease in population size, whereas the total metropolitan area (central city plus suburbs) has increased or held its own. We also note that the racial composition of the central city changes rapidly, so that it may be expected that in the next one or two decades many central cities will have coloured majorities, though the suburbs are likely to remain predominantly white. A clearcut indication of this trend is the following two figures relating to the decade 1940 to 1950. In the central cities of the fourteen largest metropolitan communities of the United States, the Negro population increased by 67.8 per cent, whereas the white population increased by 3.7 per cent.

The Three Patterns

We could continue this discussion by pointing to prospective future trends and by examining various proposals and suggestions which have been made, mainly by city planners, but also by others, of how we can deal with the decay of the central cities. We shall refrain from doing this, and rather summarize the somewhat disjointed problems discussed in this essay.

We have considered the typical metropolitan landscapes of three kinds of urban areas. In the underdeveloped countries we have found metropolitan landscapes in which functional divisions between the various parts of a city are little developed; in the classical case of the European metropolis we found this functional division most pronounced; and in the American metropolis, especially in the newer urban areas of the western United States, we found again that the overall landscape has lost in sharpness of functional distinction and resembles in many ecological features the assemblage of co-ordinated and highly self-contained neighbourhoods of the cities in developing countries. The reasons for these variations in patterns of metropolitan landscapes are quite different, and the future developmental possibilities of each of these three types of metropolitan landscapes vary a great deal, partly because of the different resources available to economically developed and underdeveloped societies, and partly because of the differences in laws, culture, and consumer preferences.

Further Problems

Although we used the concept of landscape throughout, we have been concerned not so much with the geographical, but rather with the socio-economic — and to a more limited extent the political — landscape of urban areas. It goes without saying that this also affects the geographical landscape but in order to penetrate this aspect of the problem further we would also have had to discuss much more explicitly the overall functional characteristics of cities, i.e. whether they are industrial, administrative, transport, or commercial centres. We have omitted consideration of these factors chiefly because the urban areas which we had in mind were so large that they may tacitly be assumed to be multi-functional central places, in which administrative, commercial, industrial and transport functions are all of fairly equal significance. This allowed us to compare metropolitan patterns in very different parts of the world and among populations with quite different cultures and on extremely different levels of economic welfare. In this light the specific functional character of a city, its productive aspects become secondary and the urban socio-economic landscape can be judged from the viewpoint of the consumer. The metropolis is not only a place where people work, it is also a place where people live. And it is in this light that its geographical and, above all, its social landscape matters to all.

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Economic Development of Southern Italy

Pasquale Saraceno

The problem of economic development of Southern Italy should perhaps more appropriately be defined as the problem of the economic unification of Italy. It is a problem which can be solved only by bringing the whole country together in one single growth mechanism such that all workers seeking employment can be readily absorbed at current wage rates in the areas and in the skills in which they may legitimately wish to be employed.

This kind of economic unification is a necessary counterpart to the political unification, the first centenary of which we celebrated in 1961, and it simply cannot be postponed any longer.

What we have at present is a situation in which the growth mechanisms of the North and of the South are entirely different, largely because of the different position of industry in the two parts of the country.

In the North, industry has enjoyed, ever since the end of the last War, a phase of expansion which can no longer be regarded simply as a cyclical upswing. Clearly, we have to do with a much more long-term trend.

In the South, by contrast, we find quite a different mechanism at work. Insufficient industrialisation still deprives the economy of any kind of autonomous growth mechanism, such as would enable the region to raise its own income significantly without public intervention.

The Italian economy today is divided into two very unequal parts: in one of them, the market is an element of impulse and growth; in the other, the market as such provides no expansionary stimulus and always needs fairly large-scale public support.

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DURING the whole of the nineteen-fifties Southern Italy was the scene of considerable economic development, which brought in its wake profound structural changes.

According to the best available estimates, the percentage of the South Italian labour force which makes its living in agriculture dropped from 52 to 44 during that period. The part of the rural population which found employment in other sectors or emigrated either to other parts of the country or abroad, is estimated at 900,000 persons which means that the annual rate of outflow was some 2.5 per cent.

During the same period, the rate of increase of income in the Mezzogiorno was more than 5 per cent. This is a very high rate, not only in comparison with the expansion achieved during any other period of Italian history, but especially so in the structural context of the Southern economy, where industrialization has still not gone nearly far enough.

Yet, in spite of these impressive figures, the economic gap between the South and the remaining parts of the country, expressed in terms of absolute income or of the rate of increase of income, seems to have widened rather than narrowed. The Southern economy is still backward.

More forcefully than by mere statistics, this is shown by an analysis of the growth mechanism as it operates in this region. If Southern Italy, with its scant industrialization and hence low levels of income and saving, was able to achieve such significant income increases during the recent past, this was due to the aid the region received from the rest of Italy and, to a smaller extent, from foreign countries. This aid took the three forms of transfers of public and private investment capital, income redistribution through public spending, and remittances from emigrant workers; its weight can be gauged by the fact that the surplus of Southern imports over Southern exports amounted to 21 per cent of the region's disposable resources. Furthermore, since this percentage is higher — though only by a little — than investment during the same period, it follows that outside funds financed not only the whole of capital formation, but some part of consumption as well.

These figures show that investment in Southern Italy to all intents and purposes still draws only on outside resources. It is this circumstance which has enabled an essentially still underdeveloped economy to expand both investment and consumption at the same time — investment at the yearly rate of 9.2 per cent and consumption at the also rather considerable rate of 4.8 per cent.

The Economic Problem of Mezzogiorno

In the light of these observations, the problem of the economic development of the Mezzogiorno should perhaps more appropriately be defined as the problem of the economic unification of Italy. It is a problem which can be solved only by bringing the whole country together in one single growth mechanism such that all workers seeking employment can be readily absorbed at current wage rates in the areas and in the skills in which they may legitimately wish to be employed. This kind of economic

unification is a necessary counterpart to the political unification, the first centenary of which we celebrated in 1961, and it simply cannot be postponed any longer.

What we have at present is a situation in which the growth mechanisms of the North and of the South are entirely different, largely because of the different position of industry in the two parts of the country. In the North, industry has enjoyed, ever since the end of the last war, a phase of expansion which can no longer, as at first, be regarded simply as a cyclical upswing due, sooner or later, to reach a turning point. Clearly, we have to do with a much more long-term trend. The reasons underlying this impetuous expansion are, on the one hand, our industry's ability to conquer new export markets and, on the other hand, a conspicuous rise in the level of domestic consumption. Export and consumer demand have certainly been the most dynamic components of total effective demand so far as North Italian industry is concerned. This type of development has quite clearly conferred upon the industrialized parts of Italy the character of an affluent society, to use a fashionable phrase — that is, a society in which consumption is the impelling expansionary factor.

Beyond the Statistical Figures

In the Mezzogiorno, by contrast, we find quite a different mechanism at work. Insufficient industrialization still deprives the economy of any kind of autonomous growth mechanism, such as would enable the region to raise its own income significantly without public intervention. The Italian economy today is divided into two very unequal parts: in one of them, the market is an element of impulse and growth, in the other, the market as such provides no expansionary stimulus and always needs fairly large-scale public support. In this respect no appreciable progress at all was made in recent years; on the contrary, it may well be argued that the divergence between the two growth mechanisms in the North and in the South has in fact been aggravated by the very advances made by the North's industrial system.

Along this line of thought, we may go well beyond mere statistical figures and comparisons in assessing the real aspects of Southern backwardness. *It is quite obvious that the problem of the Mezzogiorno would be no less serious even if the South had achieved a still higher rate of development and had thus managed to narrow the gap which divides it from the North, so long as the two growth mechanisms remained the same as they are today. As a corollary, it may be said that the South's position would have been better, even with lesser income increments, if we had succeeded in calling forth a vigorous and autonomous flow of local investment, which alone could entitle us to hope, reasonably soon, for that economic unification of our country towards which we have, in all truth, not progressed very much in the hundred years of political unity.*

Linking Up with National Market

Three Pronged Attack in 50's

What needs to be done, then, is to link up the Southern economy with the national market. Let us see briefly along what lines this objective has so far been pursued and what results have been achieved.

By and large, we can distinguish three lines of approach, and three corresponding types of results, as follows :

(a) In some areas of the Mezzogiorno industrial ventures of some considerable scope have been started up, and this, apart from directly generating an increase in employment, has also helped, and will help in the near future, to create far-reaching and highly promising environmental changes. On the one hand, there are all the numerous induced economic effects which always accompany the establishment of large industrial plants, and, on the other hand, the introduction of a definitely non-agricultural type of activity in the South means a new departure in Southern society and faces the people with hitherto unknown prospects.

(b) In the land reform areas we have at last made a breach in a principle which the history of the Mezzogiorno had made to appear almost inviolable : the principle, that is, of the immutability of the structure of land ownership. This has helped to create a new and heightened awareness of their own function among the rural populations, if only because their efforts can now be directed to concrete objectives.

(c) Finally, public investment under Government auspices has created some of the indispensable premises for the development of more diversified and more productive activities than were traditional in the South.

No Bridge between Two Worlds

This three-pronged attack on the problems of the South was conducted throughout the fifties by means of institutions and methods which evolved gradually, as old problems came to a head and new ones made their appearance, and which owed much, also, to new currents of thought in other countries.

In this connection it may be said that we have learned to make a clear distinction between the forces of progress in poor and in rich countries. In poor countries — and this was the rule also in the whole Western world up to the early decades of this century — progress is seen in terms of the individual as a worker, or at any rate as a person habitually working and producing in the society to which he belongs. In mature or, as we say today, in affluent societies, progress is seen in terms of the individual as a consumer, it being taken for granted that each person is firmly established in a productive job. The difference between these two types of stimuli to progress is very great indeed, and the opposition between them, which defies resolution on the world scale, is evident also within the Italian economy. For this reason, development in the Mezzogiorno encounters, among many other obstacles, also the particular difficulty of having to avoid lines of approach which, while growth-promoting in the North, are growth-retarding in the South.

This is perhaps the thorniest problem in the whole Southern question. There just seems to be no

bridge of communication between the two worlds of thought and experience : the world which went through the industrial revolution of the nineteenth century up to the first world war, and that which was by-passed by this revolution. The latter world seems to have been able to start on the road of social and economic progress only after making a complete break; we witnessed, first, the secession of the communist countries and later that attendant upon the process of decolonization. Nothing so radical is, obviously, conceivable within the economy of Italy, but some pattern reflecting the above-mentioned distinction must be found if progress in the South is to become an integral part of national progress as a whole and not just to remain a by-product — however important it may be — of progress in Central and Northern Italy. The terms and conditions of Southern progress must be integrated into one unitary system of economic growth throughout the whole country. What the region needs, therefore, is not so much new institutions and new investment, as new attitudes, such as are absent from its traditional behaviour patterns because they derive from a whole class of experience alien to an underdeveloped economy. The problem of the creation of these attitudes must, perforce, be resolved within Southern society itself.

Future Lines of Approach : Southern Agriculture

It is in this light, too, that we should assess the true functions of the "Fund for Extraordinary Projects of Public Interest in Southern Italy" (for short, *Cassa per il Mezzogiorno*) and of other institutions specially concerned with the South. They act, among other things, as a sort of catalyst introduced into Southern society to bring to the surface urgent and often insufficiently appreciated problems and so to stimulate the emergence of a coherent body of thought and a new spirit of vigorous action, both commensurate with the problems which call for solution.

In the light of these considerations and of past experience, we can now define the necessary future lines of approach to Southern development.

It will be best to discuss the position of agriculture and of industry separately.

Southern agriculture, like the agriculture of Italy as a whole and of other countries, suffers, of course, from a general disability due to the existing gap between agricultural and industrial progress. But, apart from this general cause of distress, the Mezzogiorno's agriculture suffers also from an excessive fragmentation of farm enterprises, and often of land ownership, which is a great hindrance to any improvement in productivity levels. Furthermore, there is a serious shortage of various forms of technical assistance on which modern farming can normally count in our days.

Both these problems can be tackled rationally only in some limited areas of the Mezzogiorno, for the simple reason that, in the almost unanimous judgment of agricultural economists, the crop patterns in large parts of the territory are simply not capable of development and because any rapid conversion of land to more profitable uses and crops is precluded by the existing excess labour forces in the agricultural sector.

In Central and Northern Italy the further progress of industrialization promises to liberate agriculture fairly soon from its dominant problem of excess labour supply. Once the productivity of labour in agriculture and outside it has reached some sort of equilibrium, the problems of agricultural policy will, as is the rule in highly developed countries, be reduced to making sure that prices and outlets are stable enough to keep farming profitable. In Southern Italy, by contrast, the existence of excess labour supply will, for a long time yet, remain the predominant problem, even if it may be expected to become less acute and less widespread than in the past.

Network of Medium and Small Industries

Now, demographic pressure in rural areas cannot be relieved at all quickly without adequate industrial development. This is why industrialization is the essential condition of any general improvement in the Mezzogiorno's standard of living, not only through the creation of new sources of income in addition to agricultural income, but also because this is the only way of enabling agriculture itself to adopt more rational patterns and so to increase its own income.

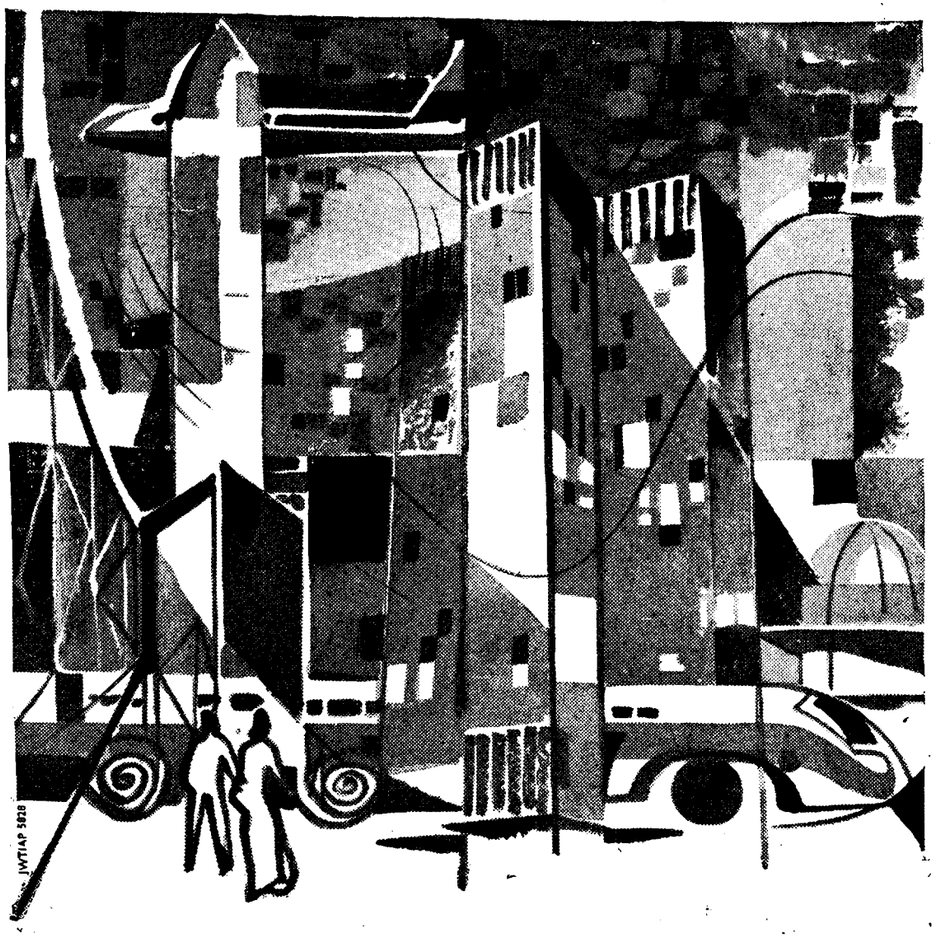
As regards industry, it is true that some conspicuous new ventures have been started up in the South, but they were invariably undertaken by large private or public groups. There is still hardly any sign of the formation of any network of small and medium-sized modern industrial undertakings, which alone could impart a truly expansionary character to the Southern market. By the same token, we could also say that what the South still lacks is a class of entrepreneurs capable of ensuring cumulative development by its own forces.

New important measures and interesting new approaches have recently been introduced with a view to helping in the creation of this element which is truly decisive for the success of any Southern policy. In assessing these measures, we should look not so much for their immediate practical effects, as for the significance of the overall scheme of which they form part.

Entrepreneurial Character of Government Action

First of all, the variety and technical nature of the new provisions underline the entrepreneurial character which Government action necessarily tends to assume — entrepreneurial in the sense that public intervention requires and implies decisions to be taken almost from day to day in relation to current economic conditions and to the results of past activities, which may call either for further intensification and improvement along the same lines or for entirely new measures.

This is exactly the same setting, of course, in which any private entrepreneur operates, who must, with what has rightly been called a creative spirit, continuously adapt his decisions both to changes in external circumstances and to his firm's own capacity.



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We are in the presence of a radical departure from the typical pattern of Government intervention during almost the whole century of Italy's life as a unified nation. Instead of simply putting our faith in the automatic effects to be expected from the working of the legislative machine, we now realize that the dynamics of development require day-to-day action by public authorities and a rapid flow of current decisions, in response both to the conditions of the market and to new aspects of the region's situation as a result of successive measures.

Given the entrepreneurial nature of Government action, the problem of economic development can, of course, not be decisively influenced, let alone resolved, by any one particular measure. On the contrary, the more intensive and diversified Government action becomes, the less is the overall situation susceptible to the influence of any one additional measure.

The success of development action depends, therefore, not so much on the content of particular provisions, as on the observance of the two principles that

(a) the Government should, at all times, be alert and quick to react to any opportunities of intervention which the situation may present, and

(b) that all the separate provisions should fit into the pattern of the economic and social system which it is desired to strengthen or to create, and should be in line with the fundamental forces of progress on which continued reliance is to be placed.

What Should Guide Investment Decisions ?

The importance of these two guiding principles will be seen very clearly when we now turn to examine the particular line of Government intervention which was chosen some time ago for the Mezzogiorno and is now generally recognized as correct, namely, the direct operation of industries by public agencies.

By what principles should investment decisions in this field legitimately be guided ? Before discussing this matter, we have first to clear our minds as to precisely what choice the country has made between the alternatives of development governed by the market mechanism and development governed by a detailed central consumption and investment plan. If, as Italy has done, a country chooses the first alternative, Government intervention will have to be directed at altering the structure of the market so as to bring it into line with the ultimate purposes of public policy. It follows that public, no less than private, investment in industry must be governed by economic calculation within the framework of a market, in the creation and shaping of which the chosen line of general economic policy plays an important part. Unless this principle were followed, public investment in industry would, in the absence of an overall plan of the collectivist type, be deprived of any economic rationale. The resulting unsound investment would be doomed to failure, inasmuch as competing economically sound investment would still continue to be made elsewhere, where the market justifies and requires it.

But if the Government's industrial investment is to follow the indications of a market which fails to call forth private investment, it may be asked : Why invest public money in industry at all ? Yet, public investment in industry is important for the success of development policy even in such a setting. A great body of experience no less than theoretical considerations suggest that, by entering directly into industrial production, Government can still do three things :

(a) it can carry out investments which, even though they are profitable within the existing market, exceed the financial capacity of the country's entrepreneurs;

(b) it can step in more quickly to take advantage of certain investment opportunities which private entrepreneurs are slow to grasp even if funds are available, and which may no longer be profitable later if economic conditions should change;

(c) it may act as a stimulant to subsequent private investment, in which case public investment in industry assumes, in a certain sense, the traditional role of infrastructures.

The Deficiency of Private Investment — The Remedy

It will readily be appreciated that in this system of thought there is no room for the sweeping generalization that Government must step in wherever there is no private enterprise. The absence of private enterprise may be, and often is, a sign of the insufficiency not of private enterprise itself, but of public intervention of the traditional type. In such circumstances it simply makes no sense that private enterprise should continue to make profitable investments in certain areas, while the Government shoulders, in other areas, only unprofitable investment — due, moreover, to remain unprofitable unless the Government succeeds in modifying the market.

The remedy for any deficiency of private investment is not to increase public investment in industry, but to discover in what directions the domestic market needs further modification. Nothing could be more unreasonable than a system in which private enterprise is conducted all on its own and in response to such opportunities as are open to it, while Government enterprise also goes on all on its own, without the benefit either of market indications or of an overall central plan of the collectivist type. In this connection a significant lesson can be learnt from the Italian economy, where private industry is surging ahead vigorously in some parts of the country and is conquering new markets at the four corners of the globe, and yet is so slow to develop in the Mezzogiorno.

The above general considerations, which apply to all situations of economic under-development, gain special relevance in the Mezzogiorno for certain particular reasons. Some 35 to 40 per cent of the country's total population live in the Southern regions; at the same time, private enterprise is responsible for 95 to 96 out of every 100 jobs in Italian manufacturing industry. In these circumstances it is a hopeless oversimplification to expect the Government to do everything that private investment leaves undone in the South. Whether it is public or private money that is invested, there still remains the problem — which,

incidentally, would also have to be resolved by a collectivist plan — of how to make the investment as such yield reasonable returns. In other words, the industrial system of the whole of Italy must be seen as one, and we shall never get any sound and intensive industrial development in the South unless we manage to create conditions of coexistence for the industries of Northern and Central Italy on the one hand, and those to be started up in the South on the other. There is no future in building in the Mezzogiorno, at Government expense, factories which would merely duplicate industrial plant which could be more profitably located elsewhere and for that reason will continue to be built elsewhere in any case. This criterion was followed in deciding the construction of a new large-scale integrated steel works at Taranto; this new unit is going to play a key role in the development of both the national and the Southern economies, having been located in the South as an alternative to a Northern location.

A Southern-interest Component in Economic Policy

This brings us to the point of considering what major new features could and should be introduced into the Government's policy now, at the beginning of the second decade of active intervention in the Mezzogiorno. In the country's present situation, the principle which should rule the Government's policy can be formulated as follows : The volume and composition of investment, as well as the level of consumption, in Central and Northern Italy cannot be independent of whether or not industrial development proceeds in the South. It is in this sense that we should interpret the common catchword that the Southern question is a national problem. It is indeed national because its solution has a bearing on the structure of production and consumption throughout the whole country and not only in the South, rather than because it needs financial and human resources to be drawn from the whole country, as one might make a nation-wide collection for emergency relief after some flood or earthquake disaster.

All this is really only an application of the more general basic principle that development policy for the Mezzogiorno must be deployed on two fronts. One front is the region itself, where the Government can take action through special institutions, the introduction of incentives and other inducements as well as through special local projects carried out by national agencies — all this for the purpose of promoting the formation of capital and of such professional and labour skills as the region lacks in comparison with the rest of the country's economy. The second front is general economic policy, into which the Government should introduce a Southern-interest component, as it were, by virtue of which measures taken in the general public interest, which inevitably tends to be identified with that of the economically strongest area, are rendered compatible with the special interests of the South.

Action on National Plane

It is this kind of action on the national plane which today stands most in need of reinforcing and from which the best further results may be hoped. Local institutions and measures have, by and large, already reached a fair degree of maturity, so that we can hardly expect any sensational innovations to lead, by themselves, to quick and radical changes in the situation.

After ten years of Mezzogiorno policy, we are now more pressingly than ever faced with the problem of subordinating, if possible, the natural course of investment and consumption in the more favoured areas with the development needs of the less favoured ones — or at least of co-ordinating the two.

We have had occasion to state earlier that the prime movers of Italian industrial expansion today are exports and domestic consumption. For the future we must clearly aim at arriving gradually at a market situation in which the most dynamic domestic component of total effective demand is not consumption, but investment demand for capital goods needed to make good the deficiencies from which the Mezzogiorno still suffers.

Perspective for the Future

Both agriculture and industry in the South offer plenty of investment opportunities for anyone who is prepared to look at the problem in terms of the overall progress of society in Italy. That investment in the Mezzogiorno is today not profitable on the scale of the Southern market, nor on the scale of the more dynamic Northern market or the wider European market with which we are associated, does not mean that it cannot be profitable. This is precisely where the Government's task lies today : it has to make Southern investment opportunities operative within the whole of the country's domestic market.

We might add in conclusion that, by so introducing a Southern component into Italy's economic and social development, the Government will surely create the premises of sound and lasting progress not only for the Mezzogiorno, but for the whole of Italy's society.

Countries which do not have such serious internal imbalances as ours today have the growing problem of lines of development influenced too much by the indefinite increase of personal consumption and too little by general community interests, which, for all their being often rather ill-defined, are certainly of a higher order. With its own pressing development problems, the Mezzogiorno ultimately also raises the problem of giving meaningful direction to the progress of a high-income society, such as Italian society is fast becoming.

Growth and Economic Planning in Western Europe

Michael Nicholson

Despite the current coagulation of European economies into two — and possibly, in the course of time, into one — trading groups and the consequent tendency for there to be a single 'European economy' instead of several sets of semi-independent economies, there exist in Europe widely diverse views about economic planning. Not only is the question of whether to plan or not to plan one on which there is fundamental disagreement but also there are wide, if less spirited differences on what forms an economic plan should take and the approaches of different countries have varied a great deal.

The split between the planners and the anti-planners is not matched by the division of Europe into the original Common Market Inner Six and its abortive rival, the Outer Seven. In the Inner Six we find both Western Germany with its philosophy of a free enterprise economy and France where Government planning of the economy is generally accepted. Similarly in the Outer Seven we find the Social Democratic Scandinavian countries, with a strong belief in Government guidance of the economy, the United Kingdom which is a little uncertain whether it believes in it or not, and Portugal which seems to have been included on the ground that, presumably through some oversight, it has not been at war with England for several centuries.

Thus a search for a pattern on these lines seems to be frustrated.

Pattern or no, the differences in attitudes to planning are marked. This has inevitably led to a great deal of controversy in Europe (and elsewhere) over the relative merits of the various approaches. In order to throw some light on the over-all question of growth and planning, we shall examine three countries, Western Germany, France, and the United Kingdom, to see how they have fared. Primary emphasis will be placed on West Germany using the others more for comparison than analysis. West Germany raises very many interesting questions and also the rather over-simplified picture of its economic policies often presented gives the impression that it is more of a 'market economy' than it actually is.

THE period to which we shall for the most part confine ourselves will be 1953 to as close to the present as possible. The beginning date is selected because by 1953 the first big rush of postwar reconstruction had been completed and things were returning to "normal" as the Korean War trailed off to a finish. No date, of course, is perfect, but some are considerably less perfect than others.

The number of countries selected is small but sufficient to keep the discussion manageable in a short article. West Germany must be included in any selection because of the tremendous increase in output there has been in the past few years, because of the hostility to Government planning expressed by those who, in a planned economy, would be the planners, and because of the controversies and myths that this situation has inevitably provoked. France is included because of its very differing approach to economic planning coupled again with the very rapid rise in output during most of the nineteen-fifties. The United Kingdom differs sharply from the other two countries in its growth rate which has been very low during most of the nineteen-fifties. The attitude to planning of the economy has been uncertain during the period to be considered. As Great Britain is the country in which, in defiance of logic, it is possible for it to be both raining and not raining simultaneously and in the same place, it is not surprising that it is a country which also both plans and not plans simultaneously.

Comparative Growth of G N P

A brief review of the salient characteristics of the economies before a more detailed discussion will be helpful. Table 1 gives the GNP per head at constant prices and also an index of manufacturing output (not per head). NNP would perhaps have been more appropriate than GNP but there are well-known problems associated with getting a meaningful estimate of NNP.

There are substantial differences from country to country. As far as GNP per head is concerned West Germany comes out clearly ahead of the other two with the United Kingdom well behind. As far as manufacturing output was concerned, however, the German lead over France is very much less marked though here again the United Kingdom is very much behind. There was a relative setback in all three countries in 1958 from which West Germany appeared to recover more promptly though the French upsurge in 1960 recovered the lost ground.

From the point of view of the balance of payments the experience of the three countries has also been dissimilar. Germany has had a chronic surplus on balance of pay-

Table 1 : National Product and Industrial Production in France, West Germany, and the United Kingdom, 1953-61

	Index Numbers of Per Capita Product at Constant Prices			Index Numbers of Industrial Production		
	France	Germany	U K	France	Germany	U K
1953	100	100	100	100	100	100
1954	104	106	104	110	112	106
1955	109	117	106	120	129	111
1956	114	124	109	133	139	112
1957	119	129	110	144	147	114
1958	120	131	110	150	151	113
1959	121	138	113	156	162	118
1960	128	148	117	174	180	121
1961				184	191	129

Source : "United Nations Statistical Yearbook", 1961, and *Monthly Statistical Bulletin*, June 1962.

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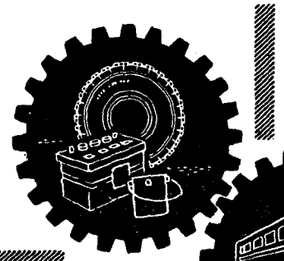

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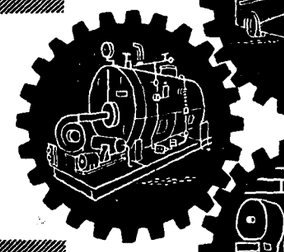

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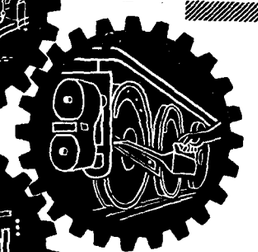

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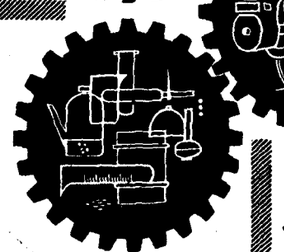

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ments throughout most of the period and has built up a considerable surplus of foreign exchange. This has tended to be an embarrassment to other European countries with respect to the inter-European balance of payments. Both Britain and France have had serious balance of payments difficulties, however, which were further aggravated by the Suez episode in 1956. Their attitudes to these troubles have been very different, however. The British policy has been to try and retain an international balance by dampening internal demand. Monetary policy has been used extensively for this purpose. This has meant a fairly deliberate sacrifice of growth in order to preserve as well as possible the balance of payments and an important explanation of the low growth rate can be found in these terms. This policy has not escaped internal criticism and harsh words have been addressed to the Government which prefers to rely on indirect monetary policy measures as against more direct and discriminatory measures which, it seems plausible to assume, could have secured a higher rate of growth and still done no worse as far as the international balance was concerned. France has by and large adopted a more cavalier attitude to its balance of payments problems. It has been much less willing to let the balance of payments force a reduction of the growth rate and it has financed its deficit by short-term international borrowing. There are limitations to the extent that this can be pushed of course but it is rather easier for France to do than most countries, as the share of its GNP which goes into international trade is relatively small. Nevertheless, this is inevitably a fairly short-term policy and, of course, there was a devaluation in 1959. This devaluation has proved very beneficial, as the foreign exchange position is now very strong and the borrowing which was necessary in the earlier period was easily paid off.

Mechanics of W German Growth

From the GNP figures, Germany appears to emerge as by far the most successful of the three countries. By considering these factors it has been possible to present Germany as the liberal economist's paradise — no planning, no controls, and plenty for all. However, we shall examine the case in greater detail and the examination will reveal that, while the economic growth has undoubtedly been impressive, it has not been as uncontrolled as it appears to the casual onlooker, at least in the sense that there are numerous and important interferences in the simple market allocation of resources. Further, there have been several factors which have facilitated the German advance considerably, reducing it from the status of 'miraculous' to that of merely 'creditable'.

To analyse the rapid rate of economic advance in Germany we must look both at the factors which enabled the effective demand to stay at the high level which has stimulated the high rates of production, and also at the supply factors which have made it possible for a high level of demand to be satisfied. There is the further question to which some attention must be devoted of the distribution of resources amongst different possible uses.

In many respects the first of these questions is easy to answer. Germany was completely ruined at the end of the war with little capital equipment to speak of. The *sine qua non* of any sort of development was a rapid rate of capital growth. With respect to the one characteristic of a small amount of workable capital equipment the West German economy was similar to an underdeveloped economy, but in no other. Above all it had a highly trained labour force, a supply of entrepreneurs already skilled in management and the habits and skills involved for the creation and management of such necessary institutions as a banking system. Furthermore, a part of West Germany's capital problem was not so much that it was nonexistent but that it was broken. There is a great deal of difference between repairing a damaged railway line and making a completely new one. For these reasons alone we can see that the problem of reconstruction is a very different sort of problem from development, and the German economy had some very good social overhead capital in the form of roads, railways et cetera to reconstruct. The problem was how to get the move towards rapid capital growth started but not, once started, how to create a demand for more. The demand was already there and patently obvious. This is not to belittle the achievement in getting the movement going but to assert that the problem was one of making demand effective, not to find a social demand to keep the system going. Given that the economy was functioning at all, it would have taken exceptional incompetence for effective demand to be any limitation on economic growth for there was clearly a great amount of investment which could be done under the 'autonomous' heading apart from any investment induced by an initial rise in consumption. The German Government proved to be neither incompetent nor as ready to trust to purely market forces as it claimed it was. A purely market economy would have left the problem of capital development to be determined by a high rate of return on capital caused by its relative shortage. The Government gave this tendency a strong shot in the arm by adjusting its taxation laws to greatly encourage the ploughing back of profits into business and a consequent growth of capital stock. Furthermore it did a considerable amount of saving on its own account which it channelled into investment. It was also giving encouragement to housing expenditure in the form of subsidies. This was a deliberate attempt to alter the workings of the market economy for social ends and cannot be regarded just as an indication of the working of a purely free enterprise economy. The extensive policies of housing subsidisation have meant a very much higher rate of house building per head of population than in any other country, which, of course, was necessary in a country as devastated as Germany.

Rapid Increase in Working Force

More will be said about Government economic activities in the next paragraph, but first mention must be made of one important characteristic of the West German economy which has substantially assisted in giving it a high growth rate per head. This is simply that while the population during this period has increased by approximately 1 per cent per year, the rate

of increase of the working force has been near 4 per cent. Table 2 shows what has been happening with Britain and France for comparison. Unfortunately there appears to be no index for France strictly comparable with the index of total labour force for West Germany and the United Kingdom, so the index of employment in manufacturing for all three countries is also reproduced in Table 2 to give some idea of the over-all picture.

The hours of work in West Germany fell during the period to partly offset this. Hours of work in manufacturing fell by 6.4 per cent between 1953 and 1960, compared with the French increase in hours worked of 2.0 per cent and the British decline in hours worked of 2.3 per cent. The fall in working hours, however, did not by any means compensate for more than a part of the increase in the labour force and it is clear that at least some of the credit for the German recovery can be granted to the permissive element of a rapidly increasing labour force. When this is taken into account the French experience compares very favourably with the German. In manufacturing output it can be seen that between 1953 and 1960 even without any adjustment for the size of the labour force France was very little behind Germany. Notice again that the allegation is not that the German increases in production have not been very impressive. The argument is merely that the claims are sometimes pitched too high without regard to the equally impressive performances of other countries operating with a rather different attitude to economic planning.

Control over Investment

Mention has already been made of the fact that the Government does intervene to some extent in the workings of the economy not only in influencing the total capital formation (for example through the tax laws) but also in influencing its direction. Housing was the instance taken. Another instance is agriculture which owed a part at least of its rapid advance (more rapid than that of the economy as a whole) to substantial subsidies directed, for instance, to encouraging the use of fertilisers. It is perhaps interesting to note that the subsidised agricultural sector with its productivity rising above the average was actually one in which the number of workers was falling for a part of the period considered. These instances are not isolated, though the example of housing is perhaps especially important. Quantitatively the amount of capital which was influenced by the public authorities is large. It is estimated that between 1948 and 1957, 43.5 per cent of domestic investment and increases in claims against foreigners and West Berlin came from public authorities. ("Competition and Growth — the Lesson of the West German Economy : Comment", K W Roskamp, *American Economic Review*, December 1960.)

Not all this is under the control of the federal authorities, however, and this should not be regarded as all nationally planned investment. It appears in fact that there are significant worries in West Germany over the conflicts, and possible conflicts, between State and federal policy with regard to over-all investment. Nevertheless, the influence of Government bodies in investment is far from insignificant. Something of the order of 43 per cent of public investment (though this is a rough estimate) went to the private sector in one form or another. This indicates a considerable modification of a simple 'market' approach to the problem of development. There was deliberate Government intervention in directing the flow of investment to sectors where it would not have gone without intervention and Government policies also almost certainly increased the amount of net investment carried out. An even more explicit act of investment direction was the special taxation of business to provide funds for a few bottleneck sectors — notably the heavy industry sectors of iron and steel and mining. Again this was not simply a matter of leaving the direction of investment to market forces. It was an explicit attempt to direct investment in defiance of the wishes of the unaided market.

Table 2 : Index of Employment in France, West Germany and United Kingdom, 1953-61

	Index of General Employment (rounded to nearest unit)		Index of Employment in Manufacturing Industry		
	1 Germany	2 U K	3 France	4 Germany	5 U K
1953	100	100	100	100	100
1954	105	102	101	105	102
1955	110	103	101	113	105
1956	116	104	103	121	106
1957	119	104	106	126	106
1958	121	104	107	128	104
1959	125	104	105	131	105
1960	128	106	106	137	109
1961	—	—	107	147	110.

Source : Cols 1 and 2 : "Yearbook of Labour Statistics," I L O 1961. Cols 3 to 5 : *Monthly Statistical Bulletin*, United Nations, June, 1962.

No Unfettered Free Market

All this, of course, is not quite the same thing as having a development plan. A development plan usually implies some setting of targets and some attempt to make these various targets mutually consistent with each other. This has not been the approach of the German Government which seems to have operated on a more *ad hoc* basis. A few tentative efforts at an economic plan were made in the immediate postwar years but the hopes embodied in these plans were greatly exceeded in reality and the planners were unduly pessimistic about what the future could hold in store. This leads to a possible fear that if there had been a development plan it might have gone seriously astray, in that unexpectedly large increases in output in some sectors would have thrown the rest of the plan out of balance, with the possibility of retarding the whole operation. However, for this to have happened there would have to be very great rigidity in the planners' approach. Under the existing system the heavy industries fell out of line, the market system was inadequate and so the Government stepped in. There seems no reason to assume that had there been a greater deal of centrally directed investment a similar operation could not have been carried out successfully.

Enough has been said to indicate the two points mentioned earlier. West German development has been impressive though it does not outshine the rest of Europe to quite the extent that some enthusiasts claim. Furthermore, while it has not a development plan in any normal sense there is considerable manipulation of the market in order to relieve any specific market problems which crop up, to stimulate investment which is one of the principal elements in the growth (though not, of course, the only one) and finally to pursue particular social ends for which the market system appears inadequate. The German experience may provide arguments for giving the businessman his head from time to time while keeping a watchful eye on the direction he chooses. It provides little justification for completely letting him loose.

Planning in France

A description of those features of the French economy which are of immediate interest has already been given in the discussion of Germany. The growth in output has been impressive and in view of the absence of the various advantages enjoyed by the German economy — France, notably, has had relatively small increases in the labour force — the record compares reasonably well with Germany. France has also had the problem of using a great deal of its resources on its armed forces which would presumably otherwise have gone in part at least to raising the level of investment and national income.

While it might be an exaggeration to call France a planned economy there is quite a wide acceptance of Government intervention to assure a distribution of resources other than that which a free market would have obtained. The aim of this has been in general to promote a higher level of savings and investment than would have otherwise been the case. This too has been the case in Germany but the French have been rather more explicit in specifying the directions in which investment should go. There have been a series of three four-year plans which are (to quote the relevant law) "Designed to provide an instrument of orientation ..... and the framework for investment programmes". The investment plans, are fairly flexible and are more of frameworks for long period planning than collections of specific short period policy decisions. They do, however, represent on a very significant scale the view backed by policy decisions that the direction of the economy is not to be determined by purely market decisions but by conscious non-market considerations which, unless the plan is to be superfluous, will presumably conflict on occasion with what the free market alone would have decided. It may be that the French economy would have done better without these investment plans but, on the whole, it seems unlikely, just as it seems unlikely that the German economy would have done any better without a deliberate Government policy to direct resources into investment.

Lesson for U K

As has been made clear earlier in this article, the outstanding characteristic of the United Kingdom during the period considered has been the relative absence of economic growth. Undoubtedly, the balance of payments position has always been a severe problem for Great Britain though one could still have hoped that, despite this, rather better progress could have been made. Government long-term planning has not been in favour in Government circles and the direction of the economy that has existed has been until recently on a short term, *ad hoc* basis and heavily influenced by short term phenomena. The anti-planning attitudes have not been universally popular. The P E P study, "Growth in the British Economy", mildly suggests that something on the lines of the French four-year plans might prove helpful, an idea which in one form or another can be found in Labour Party thinking. This attitude has recently percolated into Government quarters and there now exists the National Economic Development Council which has been set the task of exploring the implications of a growth rate of 4 per cent per year for a group of industries representing the production of about half the GNP. Quite what the significance of this new turn of events and attitudes will turn out to be can at this point only be a matter for conjecture. Certainly there is a feeling amongst numerous observers that "something must be done" and this "something" seems rather more likely to take the form of looking further ahead than has so far been done by the rather vague "freeing" of the economy.

Western Europe's Trade

WESTERN EUROPE'S total trade in 1961 continued to grow faster than industrial production, according to the "Economic Survey of Europe in 1961". But in contrast with 1960 the growth of trade was almost wholly due to the steady increase in exchanges within the area, as trade barriers in the region continued to be removed. Imports from other regions (which in 1960 rose *pari passu* with intra-western European trade) changed little, and exports to them fell. By and large, exports rose most in countries where industrial output rose most, and vice versa. The behaviour of imports was more irregular, and affected by such factors as stock movements and harvests, as well as by the growth of total domestic demand. The balance of trade improved significantly in only three countries and in over half the countries the change in the trade balance was negligible.

The Economic Survey concludes that continued expansion of output in western Europe and further tariff reductions in the EEC and in EFTA should contribute to a further rise in intra-western European trade. Increased import demand from the United States is likely to ensure both directly and indirectly — *via* purchases from primary producers — an expansion of world trade from which western Europe itself will undoubtedly gain. However, it is less certain that western Europe will substantially increase its own imports from the overseas primary-producing countries in 1962 and thus provide purchasing power for higher exports to them.

The Survey brings out the contrast between the balance of payments position of United Kingdom on the one hand — the only country which had to restrain the growth of output so as to prevent a further decline in reserves — and the rest of western Europe, especially the EEC countries, on the other. All the EEC countries except the Netherlands earned a surplus on current account larger even than in 1960.

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1881 to 1921, and an equally unimpressive fall from 1931 to 1951. Conversely, manufacture (plus mining and construction) seems to have dropped slightly from 1881 to 1921, and then to have gained slightly from 1931 to 1951.

The picture for women is quite different. Here we can discern two unmistakable long-term trends: upward for agriculture and downward for manufacture. In fact, the contrast between the patterns for the two sexes is highly suggestive. It would seem to reflect the shift from home crafts and industries such as hand-weaving and rice-pounding, the latter a typically female occupation, to modern mills and workshops in which employment is available mainly for men.

Table 1: Percentage Distribution of Working Force by Broad Economic Sectors

INDIAN UNION — 1881–1951

Sectors	1881	1901	1911	1921	1931	1951
			Both Sexes			
All workers (both sexes)[1]	100	100	100	100	100	100
Agriculture[2]	62	68	73	73	71	72
General labour	12	7	3	4	5	4
Agriculture & general labour	74	75	76	77	77	76
Manufacture, mining & construction	26	25	10	9	9	10
Trade & transport			7	7	7	7
Services			7	6	7	7
			Males			
All male workers[1]	100	100	100	100	100	100
Agriculture[2]	64	68	72	72	71	69
General labour	10	6	3	3	4	4
Agriculture & general labour	73	74	75	75	75	73
Manufacture, mining & construction	26	26	10	10	9	12
Trade & transport			7	7	7	8
Services			8	7	7	7
			Females			
All female workers[1]	100	100	100	100	100	100
Agriculture[2]	58	69	74	75	72	80
General labour	16	9	4	5	8	4
Agriculture & general labour	74	78	78	80	80	84
Manufacture, mining & construction	26	22	11	9	9	8
Trade & transport			6	6	5	3
Services			5	5	6	5

Table 2: Percentage Distribution of Working Force by Broad Economic Sectors

FOUR STATES (BARODA, CENTRAL PROVINCES, MADRAS, UNITED PROVINCES) 1881–1951

Sectors	1881	1891	1901	1911	1921	1931	1941	1951
				Males				
All male workers[1]	100	100	100	100	100	100	100	100
Agriculture[2]	69	66	71	74	76	73	73	71
General labour	6	7	4	3	3	5	3	4
Agriculture & general labour	75	73	75	77	78	77	76	75
Manufacture, mining & construction	11	14	11	10	9	9	10	11
Trade & transport	6	5	6	6	6	7	7	7
Services	6	8	7	7	6	7	7	7
				Females				
All female workers[1]	100	100	100	100	100	100	100	100
Agriculture[2]	62	67	75	77	79	73	78	80
General labour	10	11	6	4	4	9	4	5
Agriculture & general labour	73	79	81	81	83	82	82	85
Manufacture, mining & construction	17	13	10	10	8	7	7	7
Trade & transport	5	3	4	5	5	5	5	3
Services	5	5	5	5	4	6	6	5

Note (Tables 1 and 2): Because of rounding, percentages do not always add up correctly.

[1] Including "insufficiently described", amounting to one percent or less of the total for either sex in any year.

[2] Including animal husbandry, forestry, hunting and fishing.

Treatment of General Labour Crucial

We shall resist the temptation to discuss further the possible significance of the percentages in Tables 1 and 2. At this stage it will be more valuable to call attention to the assumptions and procedures upon which they rest. Perhaps the most important of these relate to the "general labourers" in each census, the "insufficiently described" in 1941, and the "earning dependants" in 1951. If the "general labourers", who bulked large in the returns for 1881, 1891 and 1901, are taken as non-agricultural, or even set aside as impossible to distribute, the values for agriculture in these years, especially on the female side, will be low. Accordingly, the agricultural sector will appear to have expanded greatly from 1881 to 1911. Again, in 1951, if no workers are counted as "general labourers", none being actually listed as such in the census tables for that year, agriculture will seem to have dropped off markedly from 1931 to 1951. If, as we shall argue for doing, the "general labourers" are considered to be largely an agricultural group, and a cohort of "general labourers" is identified in 1951, the trend for agriculture, particularly among males, flattens out at both ends.

Our special treatment of the "insufficiently described" in the Four States in 1941 has also served to smooth the agricultural series. For men, the proportion of the working force engaged in agriculture and general labour has been raised from 70 to 76, and for women from 70 to 82. Without our adjustment, agriculture would appear to have dipped sharply between 1931 and 1951.

Our disposition of the "earning dependants" in 1951 has had two principal effects. On the one hand, we have added substantially to the general labour contingent; on the other, we have significantly increased the manufacturing sector.

Exclusion of Non-Productive

Before explaining in detail our procedures with regard to "general labourers", "insufficiently described", and "earning dependants", it will be useful to sketch the main lines of our method. In each census year we began by establishing the size of the total population for whom economic information had been tabulated. Then, using the term current from 1881 through 1921, we separated out the "actual workers", or persons for whom an

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occupation or source of income was reported. We treated as "actual workers" the "earners" and "working dependants" of 1931, the "independent" and "partly dependent" persons of 1941, and the "self-supporting persons" and "earning dependants" of 1951. Among these "actual workers" we tried to identify all persons who, although in receipt of income, were not engaged in productive work, such as "gentlemen annuitants", students, non-cultivating landlords, and religious mendicants. Following the convention in studies of economic activity, we also treated as "non-productive" persons engaged in domestic duties in their own households. In 1931 this affected seven and three quarter million females and one hundred and fifty thousand males who were returned as "working dependants" under Domestic Service in Madras, Travancore, Cochin, Coorg, Kashmir and the Burdwan district of Bengal.

Industrial Categories

Subtracting the "non-productive" from the "actual workers", we obtained a total for the working force in each census year. The next task was to choose a uniform set of categories into which to regroup the original data which had been presented under four different classification systems. We wished to emphasize the industrial rather than the occupational aspect of the distribution, and to produce series which could be compared with those which have been worked out for other countries. Accordingly we selected the following thirteen heads :

1 Agriculture, including field cultivation, plantations, animal husbandry, and forestry.
2 Fishing.
3 General Labour.
4 Mining, with quarrying.
5 Construction of houses, roads, railways, tanks, etc.
6 Manufacture and processing, including production of gas and electricity.
7 Trade, including banking and insurance.
8 Transport, storage and communications.
9 Public force and administration.
10 Professions and liberal arts.
11 Domestic service.
12 Other services; barbering, laundering, hotel and restaurant keeping, scavenging and water supply.
13 Insufficiently described.

Absolute figures for population, actual workers, non-productive, working force, and each of the above thirteen sectors are presented in Table 8 on p 1164 for the area of the Indian Union. and Table 9 for the Four States on p 1165.

In order to fit the raw data into our thirteen boxes we have had to sort out orders such as "Workers in fabrics and dress", taking the weavers and tailors under Manufacture, the silk dealers and cotton thread sellers under Trade, and the barbers and washermen under Other Services. Wherever a single category included both "makers and sellers" (as of bangles, brass pots, shoes etc.) we have given preference to Manufacture over Trade. Similarly the "cow and buffalo keepers and milk and butter sellers" of 1881, 1891 and 1901 have been extracted from the "Industrial" orders and added in with Agriculture rather than with Trade. The abnormally high figures for manufacture and low figures for trade in 1891 result from the large number of groups in the 1891 classification which lumped sellers with makers.

Breakdown by Broad Sectors

In Tables 1 and 2 we have condensed the thirteen rubrics in order to bring out the relationships among the major industrial sectors. Fishing is added in with Agriculture; Mining and Construction with Manufacture; and Transport with Trade. The four Service categories have been taken together. This is the sectoral breakdown used by Simon Kuznets in his series of papers, "Quantitative Aspects of the Economic Growth of Nations"[2].

Our thirteenth category, Insufficiently described, does not appear in Tables 1 and 2 although (with two exceptions which we will discuss below) these workers have been included in the percentage calculations. For this reason, and also because of rounding, the percentages in Tables 1 and 2 do not always add up exactly to 100.

Figures for the Indian Union have been obtained by subtracting from the All-India totals in the years 1881 through 1931 the provincial and district information for Aden, Burma and the constituent parts of Pakistan. Since occupational tables were not available for smaller units, we assigned whole districts of Assam, Bengal, and Punjab to either India or Pakistan. Exceptionally, in the case of Nadia district, we halved each entry. Our figures for the total population of the Indian Union in 1881, 1901, 1911, 1921 and 1931 refer to the area defined in this fashion. They are, however, very close to the official estimates of the population of India in these years. We have included Kashmir in the Indian Union in every year except 1951, when no census was taken there.

For 1881 and 1901 the process of obtaining and regrouping the figures for hundreds of separate occupational entries in dozens of districts or divisions was so burdensome that we restricted ourselves to calculating the working force total (i e, actual workers less non-productive), the number of workers in agriculture (plus fishing), and the number of general labourers. That is, we did not attempt to give detailed figures for manufacture, trade etc, in the Indian Union as we had been able to do for the Four States.

Whereas the 1881 census gives us for each occupational title the number of workers in that occupation, the 1891 tables tell us only the total dependent on each occupation. In this way the workers are lumped together with the non-working members of their households. The 1901 census gives separate figures for workers and for their dependants against each rubric. For the Four States, we estimated the number of workers in each sector in 1891 by assuming that the ratios of male workers and of female workers to the total supported by that sector were the same as in 1901. We did not attempt to carry out this estimation procedure for the Indian Union.

We had also to omit 1941 in our tables for the Indian Union since the economic data collected in that census were not tabulated for all parts of the country. Our 1941 figures for the Four States are bas-

ed on the so-called Y-sample tabulation carried out for several states by the Indian Statistical Institute. The sample consisted in approximately 2 out of each 100 individual slips, which the Census Commissioner, Mr Yeatts saved out for this purpose when he was unable, because of the war, to proceed with his regular tabulation programme.

General Labour in 1881

Let us now return to the "general labourers" and enquire more closely into the work they are reported to have been doing at the beginning of our period. The Census Commissioner for India in 1881 described them as follows :

> "Practically all the persons included in this sub-order and order are a portion of the agriculturist class, the labourers being really agricultural labourers though they may be sometimes employed on roads or excavation or in other ways"[3]

The Superintendent for Bombay Presidency in the same year wrote:

> "a considerable portion of the labour described as unskilled are in fact semi-agricultural; diverted, that is, to other objects only in default of field work".

And again,

> "with regard to the heading General Labour it is impossible to state what is the proportion, though there is no doubt a not inconsiderable one, of those here included that are by predilection and training field hands, but obliged for various reasons to take to miscellaneous tasks involving as little as possible of anything beyond bodily strength."[4]

In the All-India volume for 1901 we read:

> "Among the great class of landless labourers the means of livelihood changes with the season, and the same man may be at one time a field-labourer, at another time an earth-digger, and again a porter, salt petre worker, paddy husker, palki-bearer, firewood collector, etc."[5]

The "General Labourers", it would appear, constituted a pool of relatively unskilled persons available for any type of physical labour. The actual jobs which they did varied with the time, the place, and the particular master. But in the Indian village setting they were called upon, above all, for agricultural work, especially at seasons of peak demand, such as the ploughing and the harvesting. Other opportunities for local employment were, and in fact still are, limited. The most characteristic among these have been road-building, digging out ponds and irrigation canals, throwing up bunds around fields, quarrying, wood-cutting, toting and hauling.

Variations in Agricultural Labour

What seems to have occurred at the time of enumeration is that these workers were recorded sometimes as field labourers and sometimes simply as labourers. The degree of variation from census to census can be seen in Table 3 which presents results for India, Burma and Pakistan (taken together) from 1881 through 1921.

Table 3 : Variations in Agricultural Labour and General Labour

INDIA, BURMA AND PAKISTAN 1881-1921

(000)

	1881	1901	1911	1921
		Males		
Agricultural labour	1,437	10,674	13,159	11,743
General labour	1,248	5,397	2,689	2,894
		Females		
Agricultural labour	n.a.	9,455	12,721	9,933
General labour	5,244	3,841	1,991	2,257

Roughly speaking, the more persons who were counted as agricultural labourers, the fewer who were counted as general labourers. This is exactly what we should expect if there were no clear line of demarcation between the two. It is certain that *all* the general labourers were not engaged in agriculture *all* of their working time. It is probable that most of the general labourers did agricultural jobs for at least a substantial portion of their time. A tally of agricultural workers which excludes the general labourers is incomplete. We have considered it sounder to take the two together as constituting a body of workers almost all of whom are at least to some extent associated with agriculture.

The term "general labour" does not include persons whose occupational returns could not be deciphered or classified. From 1881 through 1941 such workers were always listed separately under such heads as "persons whose occupation has not been distinguished", "contractors — branch undefined", "occupation not returned", "uncertain", "mechanics otherwise unspecified". These are the groups we have taken under "insufficiently described". Up through 1931, the numbers in this category were negligible.

"Insufficiently Described" in 1941

In the Y-sample tables for 1941, however, the rubric "insufficiently described" accounted for 7 per cent of the male workers and nearly 15 per cent of the female workers in the Four States — in absolute numbers, 2.4 million men and 1.7 million women. The dimension of the group may be seen from the fact that the general labourers of both sexes (in the 1941 census classification, "labourers and workmen otherwise unspecified") added up to only 1.3 million. With or without these general labourers the absolute figures for agriculture in 1941 appeared abnormally low in comparison with 1931 and 1951. As can be seen from Table 9, the same was true for manufacture, transport and "other services". We accordingly decided to depart from our usual practice and to exclude the "insufficiently described" in 1941 before calculating the percentage distribution by sectors. As we have stated, the most noticeable effect of this procedure was to increase the proportion of workers in agriculture in 1941. The proportions for manufacture and services have also been raised slightly for both sexes; and trade as well for females, — all, of course, at the expense of the insufficiently described.

When we come to the census of 1951, we find for the first time no workers listed as either "general labourers" or "unspecified". We have, however, taken under "insufficiently described" for the Indian Union in this year 399,653 males and 586,503 females. (See Table 8). These persons were earning dependants in the states of Hyderabad and Vindhya Pradesh about whom no further details were available from the census economic tables. We have excluded this group from the percentage calculation for the Indian Union for 1951; it is not large enough, in any event, to make any difference.

Search for General Labour : 1951

Searching further for the general labourers, who had certainly not disappeared from the Indian economic scene as of 1951, we find in the instructions issued for classification that vague entries such as "service" or "mazdoor" were to be assigned to "services otherwise unclassified".[6] We must recall, in this connection, that in many parts of India the English word "service" has the meaning of work for hire as distinguished from work on one's own account. "Service" thus indicates not employment in a particular sector of the economy, but simply employment rather than independent economic activity. "Mazdoor" is, of course, quite literally, labourer.

The category, "services otherwise unclassified", was by no means intended to include agricultural labourers, and sorters were particularly asked not to throw them into this box. Nonetheless, once the slip had been marked by the enumerator "mazdoor" or "labourer" rather than the number "3", the proper entry for an agricultural labourer, there was no way for the sorter to judge whether the labour was really agricultural. As in earlier years, the count could do no more than to reflect the form in which the actual returns had been gathered.

The result was that for India as a whole in 1951 nearly three million males and about three-quarters of a million females were shown under "services otherwise unclassified". Of these, over two and a quarter million (about three out of five) were recorded in rural areas. Since there was no rubric in the 1951 census scheme other than "services otherwise unclassified" to which persons returned simply as labourers, general labourers, or unskilled labourers could be assigned, we are led to suspect that the great majority of the workers tabulated under this head were in fact performing the same range of casual jobs in and outside of agriculture as the general labourers of the earlier years. This hypothesis would certainly seem probable for the countryside. It is even likely that many of the workers tabulated under "services otherwise unclassified" in urban areas were also semi-agricultural. We know that more than two million cultivators and agricultural labourers were recorded in areas officially rated "urban".

"Services Otherwise Unclassified"

For lack of any dependable criterion by which to judge how many of the persons shown under "services otherwise unclassified" were actually general labourers, we have boldly taken the whole group under general labour. We should mention that the Central Statistical Organisation of the Government of India in their proposals for revising the national income statistics have suggested an altogether different disposition of the "services otherwise unclassified". They propose to reallocate the workers in this rubric among certain categories of construction and maintenance and certain types of service (including domestic, barbering, laundering, hotels, arts and letters, religion and welfare).[7]

We cannot accept the assumption underlying this proposal, i e, that "services otherwise unclassified" being *by definition* non-agricultural was *in fact* non-agricultural. By treating the entire group as general labour, however, we have undoubtedly erred (to a much smaller extent, we hope), in the opposite direction. "Services otherwise unclassified" in 1951 certainly includes a small number of workers who would in previous years have been listed as "undefined" or "unspecified," and whom we would have classed as "insufficiently described". It is also probable that, at least in urban places, the non-agricultural share of the total work done by general labourers has increased. To this extent our procedure of taking the "services otherwise unclassified" as general labour and adding them in with agriculture at the stage of analysis may perhaps have the effect of inflating somewhat the agricultural sector in 1951.

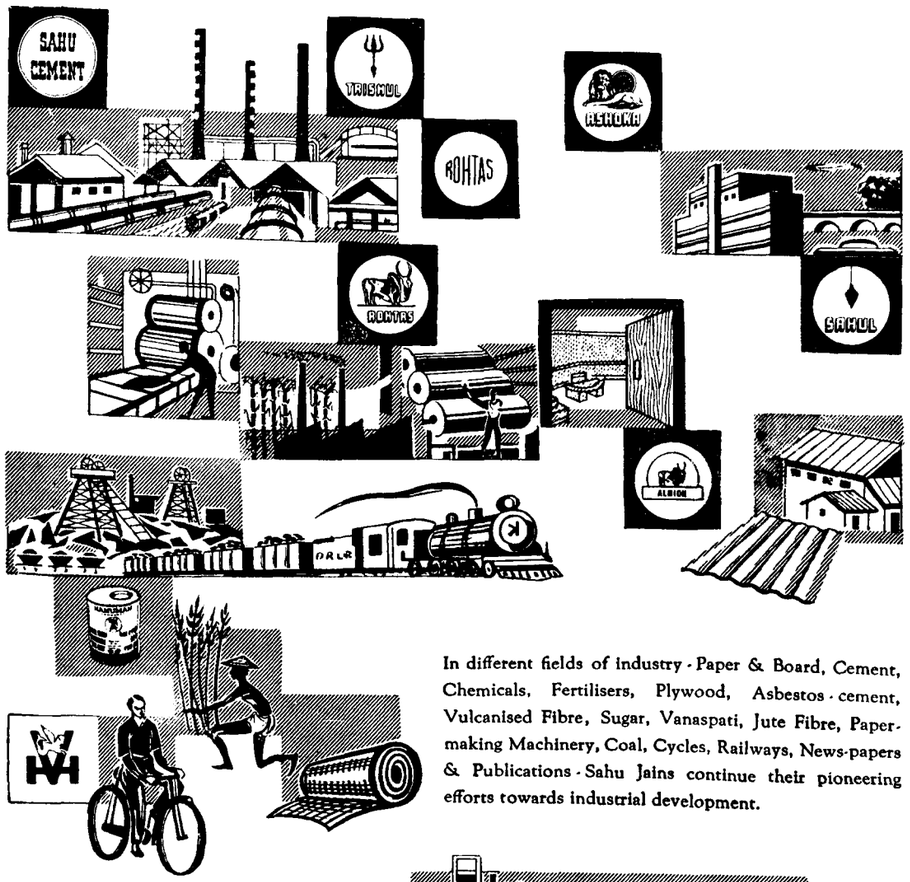
Earning Dependants

This caution should be emphasized, since our total estimate for "general labour" in 1951 involves not only the 3.7 million self-supporting persons whom we have just discussed but an additional 1.7 million earning dependants. Detailed occupational information was provided from the Census of 1951 only for those individuals adjudged to be earning enough to provide their own subsistence, self-supporting persons (briefly, S S Ps). Workers whose incomes were considered insufficient for their own maintenance were labelled earning dependants (briefly, E Ds), and tabulated only under eight broad "livelihood classes". For our purposes the problem is how to estimate the particular industrial attachment of eight million E Ds whose work was listed simply as either in Class V or in Class VIII. Class V included plantations, animal husbandry, forestry, fishing, mining and manufacture. Class VIII included construction, utilities, communications, health, education, other arts and professions, public administration, other services, non-productive means of livelihood, and also the "services otherwise unclassified".

The only detailed information at our disposal as to the exact occupations of the earning dependants in classes V and VIII is a series of sample tabulations which were made for just three states : Mysore, Uttar Pradesh, and West Bengal. These special studies, which were carried out after the main census tabulations had been completed, involved the re-sorting of a portion of the original census slips. The randomly selected samples amounted to approximately 2 percent of the rural population and 10 percent of the urban population.[8]

Evidence of Sample Studies

It is possible to compare the evidence from these sample studies as to the distribution of the E Ds in Classes V and VIII with the data available from the full census tabulation of the distribution of the S S Ps in these same classes. Let us begin with Class VIII, and let us look first at the position with regard to the "services otherwise unclassified". From the main census tables which cover all S S Ps (both rural and urban) we can easily calculate for Mysore, Uttar Pradesh and West Bengal, the percentage of "unclassified" to the total number of S S Ps in Class VIII. For the EDs, we must calculate separately the percentages for the rural and urban sample populations and prepare suitably weighted averages. Table 4 presents the



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comparison. It is clear that in each of these states the percentage of earning dependants returned as "unclassified" was larger than that of the self-supporting persons. We may say roughly that the "unclassified" amounted to about half of all EDs in Class VIII.

Without giving the details for each of the other component groups of Class VIII, we can summarize the results of a series of comparisons each made in exactly the same fashion between the percentages for SSPs and those for EDs to the totals for Class VIII. Practically no EDs were recorded in Mysore, Uttar Pradesh and West Bengal under Electric Power and Gas Supply or Communications (postal and telegraph services); very few under Public Force and Administration. By contrast, fractions of the EDs in Class VIII, approaching those shown by the SSPs, were found under Construction, Liberal Arts and Professions, Domestic Service, Other Services and Non-productive.

Livelihood Class VIII : 1951

Upon the basis of these comparisons we adopted the following procedure for estimating the distribution of the EDs. From the total EDs recorded in Class VIII for India, we assigned the same percentages as observed among the SSPs for India to Construction, Liberal Arts and Professions, Domestic Services, Other Services and Non-Productive. If the actual distribution of EDs for India resembled closely that of the three states for which we have data, this procedure would have enhanced slightly the size of each of these categories except for Other Services. All remaining EDs in Class VIII have been taken under "services otherwise unclassified" and treated as General Labourers. Whereas SSPs in "unclassified" for India as a whole amounted to 26 percent for men and 34 percent for women of all SSPs in Class VIII, we assigned to general labour, by the method just explained, 47 percent of the male EDs and 38 percent of the female EDs listed under Class VIII. A second glance at Table 4 will suggest that these percentages are, if anything, on the low side as compared with the actual proportions of "unclassified" EDs which we found in the three states. In addition to the EDs we distributed by the same method a handful of SSPs whose principal means of livelihood was given as receipt of rent, and whose secondary source of income was described as Class VIII. The actual numbers of earning dependants and rent receivers assigned to each category for India as a whole appear in Table 7. These are, of course, included in the totals for each category shown in Table 8.

Dimensions of Manufacture

Let us now consider the evidence from the sample studies in Mysore, Uttar Pradesh and West Bengal with regard to the earning dependants in Class V. Here, the greatest significance attaches to the rubric, Manufacture. We may calculate the percentages of SSPs in Manufacture to the total in Class V and compare them with the percentages of EDs in Manufacture to the total in Class V, in exactly the same way as we did for the "unclassified" in Class VIII. The comparison appears in Table 5.

It is clear that in every case Manufacture accounts for the lion's share of Class V, although the percentages for the EDs tend to be somewhat smaller than those for the SSPs. In Agriculture and also in Fishing, by contrast, the percentages for the EDs are slightly higher than those for the SSPs; proportions of EDs in Mining are negligible. After much thought, we decided to estimate the distribution of the EDs by assigning to Agriculture and to Fishing percentages equal to those shown by the SSPs and to take the rest of the EDs in Class V in with Manufacture. For India as a whole, this resulted in our counting 82 percent of the male EDs in Class V and 68 percent of the females under Manufacture. Again, we distributed similarly a few thousand rent receivers listed as having secondary livelihood from Class V.

By this method we added over three million persons to the twelve million odd SSPs already tabulated under Manufacture. The effects on the percentage picture for 1951 are considerable, as can be seen from Table 6 which shows the evolution

Table 4 : Percentages of "Unclassified" Workers to All Workers in Class VIII

THREE STATES, CENSUS OF 1951

	Mysore	Uttar Pradesh	West Bengal	Mysore	Uttar Pradesh	West Bengal
	Males			Females		
Self-supporting persons						
Class VIII, total	100	100	100	100	100	100
Services otherwise unclassified	19	35	24	46	37	13
Earning dependants						
Class VIII, total	100	100	100	100	100	100
Services otherwise unclassified	38	61	50	55	62	49

Table 5 : Percentages of Workers in Manufacture to All Workers in Class V

THREE STATES, CENSUS OF 1951

	Mysore	Uttar Pradesh	West Bengal	Mysore	Uttar Pradesh	West Bengal
	Males			Females		
Self-supporting persons						
Class V, total	100	100	100	100	100	100
Manufacture	80	90	77	68	86	52
Earning dependants						
Class V, total	100	100	100	100	100	100
Manufacture	59	71	65	64	88	78

Table 6 : Percentages of Workers in Manufacture to Total Working Force

INDIAN UNION 1911–1951

	1911	1921	1931	1951
Males				
All male workers	100.0	100.0	100.0	100.0
Workers in manufacture	9.2	8.7	8.4	9.9
S S Ps only, in 1951				8.2
Females				
All female workers	100.0	100.0	100.0	100.0
Workers in manufacture	10.8	8.6	8.2	6.8
S. S. Ps only, in 1951				2.8

of the proportion of workers in Manufacture (without Mining and Construction) since 1911. Without the addition of the estimated EDs, the proportion of workers in Manufacture would appear to have remained practically identical from 1931 to 1951 for men and to have fallen by two-thirds for women.

In the 1951 calculations for the Four States, the earning dependants and rent receivers with secondary occupations in Classes V and VIII were distributed in the same way which we have just outlined for India, in accordance with the ratios of the self-supporting persons in those States. We did not, however, make separate estimates of EDs in Fishing or Non-productive in the Four States. The former were taken together with Agriculture and the latter with Unclassified. The number of workers affected would not have been large enough to show up in the percentages. For the Four States, as well as for the Indian Union, our distribution of the earning dependants in Class V has served mainly to build up the 1951 percentage of workers in "Manufacture, Mining and Construction" while our distribution of the earning dependants in Class VIII among General Labour, Construction, and the various Service categories has augmented the percentages in both "Agriculture plus General Labour" and "Services".

Decline in Working Force Participation

One important factor affecting the long-term series to which we have not so far called attention is the fall during the period in the rate of working force participation. The census data indicate that the number of workers per every 100 males in the Indian Union dropped decade by decade from 64 in 1901 to 54 in 1951. For women, the fall was from 33-34 per 100 in 1901, 1911, and 1921 to 23 per 100 in 1951. Yet during these years we have reason to believe that the proportion of persons of working age — usually taken as 15 to 64 — in the total population remained virtually unchanged. We have argued in another article that the 1951 census results represent an undercount of the working force in that year.[9] It is possible that, in part, the falling percentages reflect a tendency to report as dependants rather than workers, family members who help the head of the household. The economic contribution of such workers, particularly in agriculture, may indeed be marginal, and is always difficult to assess. For many women in Indian villages, cutting grass and cleaning the cattleshed are considered to come within the normal range of domestic duties. Young sons of petty shopkeepers may spend hours sitting guard over merchandise. Perhaps, although we do not really know, it was more common fifty years ago to describe these housewives and youngsters as "actual workers." If indeed this was the case, the industrial distribution of the working force would be unevenly affected. As compared with the earlier censuses, agriculture, home industries, petty commerce, and other traditional activities providing scope for family collaboration would tend to be under-reported in the more recent counts. At this stage of our knowledge, however, such a hypothesis remains conjectural, and any attempt to adjust the figures on this basis would be ill-advised.

Table 7 : Estimated Distribution of Earning Dependants and Rent Receivers with Secondary Means of Livelihood in Class V and Class VIII
INDIAN UNION 1951

(000)

	Males	Females
Class V, total	1,983	2,377
Assigned to :		
Agriculture	280	699
Fishing	73	52
Manufacture	1,630	1,626
Class VIII, total	1,875	2,254
Assigned to :		
Construction	161	138
Professions & liberal arts	283	275
Domestic services	173	381
Other services	270	300
Non-productive	105	301
Services otherwise unclassified (general labour)	883	860

Table 8 : Distribution of Working Force by Economic Sectors
INDIAN UNION 1881–1951

Sectors	1881	1901	1911	1921	1931	1951
			Males (000)			
Population	108,840	120,832	128,326	128,476	142,991	183,195
Actual workers		78,175	82,404	80,747	85,798	100,594
Non-productive		1,371	3,096	3,145	3,026	1,587
Working force	68,530	76,804	79,308	77,602	82,772	99,007
Agriculture	43,654	52,021	56,639	55,776	58,642	67,636
Fishing			375	355	412	456
General labour	6,619	4,530	2,149	2,436	3,377	3,830
Mining			193	202	218	465
Construction			626	511	456	1,130
Manufacture			7,327	6,729	6,957	9,778
Transport			1,453	1,242	1,539	2,010
Trade			4,256	4,270	4,455	6,136
Public force and administration			1,687	1,533	1,422	2,088
Professions and liberal arts			1,191	1,134	1,376	1,982
Domestic service			1,450	1,317	1,564	1,206
Other services			1,656	1,542	1,610	1,891
Insufficiently described			306	555	746	400
			Females (000)			
Population	104,399	117,338	123,578	122,671	135,803	173,433
Actual workers		39,731	43,054	41,552	45,525	41,743
Non-productive		819	1,343	1,483	8,860	1,269
Working force	32,333	38,912	41,711	40,069	36,666	40,475
Agriculture	18,685	26,722	30,632	29,814	26,170	31,762
Fishing			162	138	138	90
General labour	5,164	3,685	1,885	2,126	3,074	1,646
Mining			94	109	83	102
Construction			196	194	87	278
Manufacture			4,182	3,438	2,998	2,725
Transport			171	182	221	119
Trade			2,164	2,061	1,737	1,144
Public force and administration			46	118	38	74
Professions and liberal arts			270	235	250	558
Domestic service			916	737	969	772
Other services			976	874	848	617
Insufficiently described			16	44	52	587

Other Methods — Other Results

As we have emphasized at several points in our argument, a different approach to the same census materials could lead to quite different results. An example is provided by the memorandum, "Occupational Pattern of the Indian Union, 1901-51", which was written in the Labour and Employment Division of the Planning Commission, and circulated within Government in 1956. This paper was based on a Comparative Employment Table for the Indian Union which had been prepared under the direction of the Deputy Registrar General, Shri Rajeshwari Prasad. In this study, the data for the earlier years were recast according to the 1951 categories. Thus, plantations, animal husbandry, forestry, hunting and fishing were treated as "primary industries" in the non-agricultural sector. Non-cultivating landlords were included in the agricultural working force, while all other non-productive income receivers were counted as non-agricultural workers. General labourers and insufficiently described were taken as "services otherwise unclassified" and retained in the Service sector. The conclusions reached were that the entire increase in the working force during the fifty years had been in the agricultural sector, and that the absolute level of non-agricultural employment had declined from 44.0 million in 1901 to 43.1 million in 1951. Our own absolute figures, by contrast, show a rise from 28.8 million non-agricultural workers (i e, all categories except Agriculture, Fishing and General Labour) in 1901 to 33.1 million in 1951.

A more recent study by V N Kothari also follows the procedure of Rajeshwari Prasad in regrouping the data of the earlier censuses under the rubrics of the 1951 classification scheme.[10] His analysis differs from the Planning Commission study since he treats the workers counted under "services otherwise unclassified" as "unspecified", and combines them with agriculture rather than with non-agriculture. In this way he arrives at figures of 35.4 million non-agricultural workers in 1901 and 38.2 million in 1951. As we have seen, the Planning Commission paper indicated a slight fall; Kothari a modest rise; and we ourselves a more substantial rise in the absolute size of the non-agricultural sector. Three different methods of handling the same data have produced three distinct trends.

Despite all the cautions we have sounded in the preceding pages, we put forward with some confidence our series of both absolute numbers and percentages. We believe that they constitute as good an approximation as can at present be obtained to the actual trend in the industrial structure of the working force from 1881 to 1951.

Notes

(1) This article carries forward and in part revises the five-part study entitled "The Working Force in India, 1881-1951", by Daniel and Alice Thorner, which was undertaken for the Indian Statistical Institute and distributed in cyclostyled form by the Bombay Branch in 1960. Two additional articles relating to the same topic, "De-industrialization in India, 1881-1931", and "Economic Concepts in the Census of India, 1951", have been reprinted in "Land and Labour in India" by D and A Thorner, Asia Publishing House, Bombay, London, and New York, 1962.

(2) Published in the journal, *Economic Development and Cultural Change*, University of Chicago, at various dates since 1956.

(3) *Census of India*, 1881, Volume I, p 351.

(4) *Census of India*, 1881, Bombay Presidency, "Report".

(5) *Census of India*, 1901, Vol. I, p 189.

(6) *Census of India*, 1951, Vol II, Uttar Pradesh, Part I-A, "Report", p 475.

(7) Central Statistical Organisation, Government of India, "Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-1960", New Delhi, 1961.

(8) Census of India : Papers 3, 4 and 5 of 1955, "Economic Classification by Age Groups, Uttar Pradesh, Mysore, West Bengal". Taken together, these three states had in 1951 a population of 97 million, slightly more than a quarter of the total for India.

(9) "Working Force Size and Structure in India, 1951 — A Regional Analysis of Census and Sample Survey Data", to appear in *Sankhya, The Indian Journal of Statistics* (Calcutta), Series B, Vol 24, 1962.

(10) "Long-term Trends in the Employment Pattern in India", *Indian Economic Journal*, Vol VII, No 4 (April, 1960), pp 415-440.

Table 9 : Distribution of Working Force by Economic Sectors
FOUR STATES (BARODA, CENTRAL PROVINCES, MADRAS, UNITED PROVINCES) 1881-1951

Sectors	1881	1891	1901	1911	1921	1931	1941	1951
				Females (000)				
Population	46,681	51,742	52,318	54,719	54,550	59,619	65,438	73,705
Actual workers		33,980	34,532	35,662	35,096	37,049	34,806	40,573
Non-productive	15,765	859	825	1,025	1,404	1,168	466	571
Working force	36,916	33,121	33,707	34,638	33,692	35,881	34,339	40,002
Agriculture	21,211	21,602	23,973	25,564	25,336	25,913	23,143	28,210
Fishing	109	148	117	147	146	180	156	154
General labour	1,747	2,271	1,322	965	919	1,695	857	1,593
Mining	15	12	8	22	13	30	42	102
Construction	322	292	361	292	230	182	352	419
Manufacture	3,214	4,413	3,346	3,113	2,688	2,987	2,826	3,832
Transport	473	525	464	494	424	560	520	702
Trade	1,411	1,057	1,616	1,676	1,739	1,779	1,825	2,208
Public force and administration	593	828	591	563	494	497	633	758
Professions and liberal arts	413	453	448	454	405	580	577	733
Domestic service	287	466	439	444	423	472	260	384
Other services	715	896	978	807	736	844	746	907
Insufficiently described	405	158	43	96	139	161	2,402	....
				Males (000)				
Population	45,003	50,217	51,378	53,231	52,861	57,623	62,800	70,758
Actual workers		20,474	20,375	20,771	20,424	17,797	11,822	17,001
Non-productive	27,081	436	440	489	731	454	222	393
Working force	17,923	20,039	19,935	20,282	19,698	17,343	11,600	16,609
Agriculture	11,143	13,469	14,899	15,523	15,433	12,568	7,642	13,304
Fishing	15	42	29	45	51	55	24	12
General labour	1,881	2,256	1,144	843	854	1,609	444	843
Mining	2	6	5	11	11	14	14	21
Construction	113	126	161	108	113	33	74	111
Manufacture	2,855	2,509	1,906	1,846	1,454	1,245	616	1,004
Transport	24	44	41	56	60	57	16	34
Trade	806	498	754	882	851	759	457	437
Public force and administration	16	15	12	6	12	6	18	26
Professions and liberal arts	122	93	93	107	95	103	96	215
Domestic services	178	384	345	322	275	401	236	237
Other services	591	476	521	524	467	489	244	364
Insufficiently described	180	120	26	7	16	4	1,719	....

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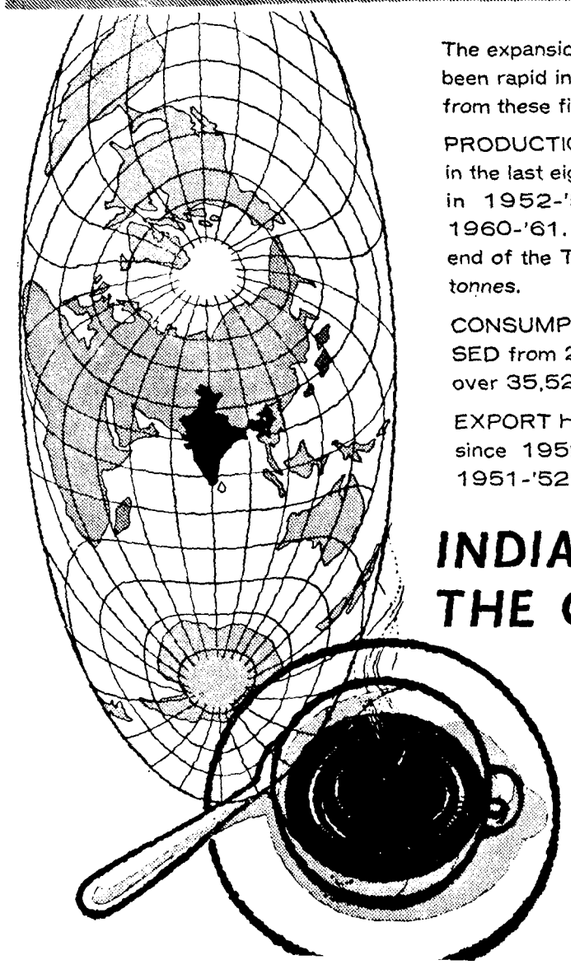

The expansion of Indian Coffee industry has been rapid in the last decade as can be seen from these figures:-

PRODUCTION HAS NEARLY TREBLED in the last eight years: from 23,943 tonnes in 1952-'53 to 67,925 tonnes in 1960-'61. The target of production by the end of the Third Five-Year Plan is 80,000 tonnes.

CONSUMPTION IN INDIA HAS INCREASED from 26,000 tonnes in 1955-'56 to over 35,523 tonnes in 1960-'61.

EXPORT HAS GONE UP FIFTEEN TIMES since 1952: from only 2,200 tonnes in 1951-'52 to 32,271 tonnes in 1960-'61.

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Small Enterprises

Their Contribution to National Income

P N Dhar

S Sivasubramanian

From the point of view of income generated, the small enterprises sector comes next to agriculture and trade, and from that of employment, it is second only to agriculture.

Apart from their importance in the economy, special policies have been pursued during the last decade to promote the efficiency and growth of small enterprises. The rate of growth of income in this sector is, therefore, of very great interest.

The income estimates of this sector, however, seem to be the most defective and unreliable of them all.

The unorganised character of production, which is mostly carried on in households, is an inherent difficulty and official estimates for this sector had, therefore, to be based on certain assumptions which are becoming increasingly untenable.

A large volume of data has accumulated in recent years which makes it possible to review the official estimates and provide somewhat more reliable estimates. This has been attempted below.

All that our exercise can be said to have showed is that the CSO's calculations err on the side of under-estimation. There is, therefore, need for a more systematic and thorough examination with a view to filling in gaps in the data before the quantification of the contribution of small enterprises to national income can be considered a worthwhile effort.

[This paper was prepared at the Institute of Economic Growth, Delhi, as part of the Institute's research programme.]

WITH the increasing use of national income data for economic analysis and programming, the need for improving the quality and reliability of the current data in India is becoming urgent. One of the sectors where this need is the greatest is the small enterprises sector. From the point of view of income generated, this sector comes next to agriculture and trade and from that of employment, it is second only to agriculture. Apart from the size and weight of this sector in the economy, a special set of policies has been pursued during the last decade, the specific purpose of which is to promote the efficiency and growth of small enterprises. The rate of growth of income in this sector is, therefore, of special interest. Unfortunately, however, the income estimates of this sector seem to be the most defective and unreliable of them all. The reason for this undoubtedly is the paucity and poor quality of the basic statistics relating to these enterprises. The unorganized character of production, which is mostly carried on in households, is an inherent difficulty in collecting reliable statistics.

The official estimates of this sector had, therefore, to be based on certain assumptions which are becoming increasingly untenable. At the time the National Income Committee laid down the methods and procedures for national income estimation perhaps such drastic assumptions could not be avoided. The only sources of information on employment in small enterprises available to the Committee were the Census Occupation Tables and for data on net output it had to depend on highly limited findings of a few scattered studies of private research workers. However, in recent years a large volume of miscellaneous data has accumulated which makes it possible to review the official estimates in the light of this data and provide somewhat more reliable estimates.

Data from Many Sources

The National Sample Survey Organisation has collected information on small scale industries and household operations, which throws light on the employment and output of small establishments. Also a number of surveys have been sponsored by the Research Programmes Committee of the Planning Commission on small scale and cottage industries in different towns and cities. In addition, the office of the Development Commissioner for Small Scale Industries has conducted a few studies on various aspects of selected small industries in different regions of the country. Some other studies have been carried out by the State Bank of India and the State Statistical Bureaux of West Bengal, Madhya Pradesh and Bombay. An attempt is made here to bring together the data available in all these studies for the purpose of obtaining estimates of the income originating in this sector.

The data available are still far from satisfactory. Many crucial gaps remain and the need for assumptions which cannot be fully substantiated is not entirely eliminated. In research, as indeed in every sphere, one must try to do the best one can with what one has, especially in India. Although it is not possible to get all the materials one wants, it is still desirable to see whether one can improve the existing data even marginally. This is the only justification for this paper. The fact that the Central Statistical Organisation is also engaged in revising the official series makes the present exercise a sort of an independent check.

Income Approach

The contribution of small enterprises to national income can be estimated by the 'product approach' as well as by the 'income approach'. The former presupposes information on the total value of output and on the deductions to be made therefrom so as to obtain the net value of output, while for the latter approach data regarding the number of workers employed, their earnings and other factor payments will be necessary. It is well known that very little authentic information is available regarding the volume and value of the output of small enterprises. As is done in factory enterprises, no systematic collection of data relating to small scale and cottage industries is made. In the absence of such regularly compiled data, the only alternative is to piece together the information contained in a number of scattered official and unofficial studies on small enterprises.

The two key sets of figures that are needed for the estimation of income from small enterprises are the number of workers employed in them and the average net value added to manufacture per worker.

In the absence of annual censuses of small enterprises, the decennial population census material is the only source from which estimates of working force can be obtained. The National Income Committee obtained the number engaged in small enterprises by deducting the number of workers employed in factory establishments from the number returned as engaged in 'Industry' in the population census. This method has been followed by the Central Statistical Organisation for their annual estimates after making adjustments for annual increase in population and working force, on the basis of the 1941-51 decade growth rates. This procedure, however, is not satisfactory as it does not take account of changes arising from the accelerated growth of population or of the impact of recent economic development.

Earning Dependants and Secondary Occupation

Another hazard of error in the estimates of working force arises from the methodology used in allocating earning dependants among different occupational categories. This has been done by distributing the earning dependants in the same proportion as the self-supporting persons in each livelihood category. In their proposals for the revision of the national income estimates, the C S O have introduced certain changes to correct some of the existing deficiencies. ("National Income Statistics : Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60", National Income Statistics, Department of Statistics, Government of India, 1961.) One of the principal changes suggested relates to the allocation of earning dependants in the various livelihood classes. An examination of the 1931 and 1941 census tabulation of economic activity showed that the proportion of earning dependants to total working force was very low in certain occupational categories such as police, government service, army, etc.

To avoid the distribution of a a disproportionately large number of earning dependants among these occupations, it was assumed that the number of earning dependants in these classes might be negligible and the total earning dependants in each group should be allocated to other categories within it in proportion to self supporting persons. The second change suggested is regarding the method of estimating the rate of increase in working force. The proposal is to estimate this increase on the basis of additional employment created by new investment, assuming certain norms of investment requirements per unit of additional employment.

Employment Data from N S S

The total incomes arising out of economic activity in small enterprises consist of the earnings of those who follow it as the principal occupation and those who follow it as a secondary occupation. Detailed information regarding the latter category is not available. The C S O proposes to mark up the working force estimates by 20 per cent in order to include incomes of this category. ("National Income Statistics" *op cit*, p 114.) It considers this mark up to be on the low side because the secondary means of livelihood of self-supporting persons have not been included. The C S O's proposals for revision are, thus, no doubt an improvement on the current estimates, but these still are far from satisfactory.

In view of their inherent defects we have by-passed the census data in this paper. As an independent check we have built up our figures on the number of workers engaged in small enterprises on the basis of a special tabulation of the special employment data collected during the 9th round of the National Sample Survey (May-November 1955). The N S S data as published in Report No 21 cover small scale establishments employing less than 50 workers when using power and less than 100 workers when not using power. This definition of 'small establishments' has been used to demarcate establishments which are not considered to be 'large establishments' according to the Industries (Development and Regulation) Act of 1951. Since small enterprises for purposes of national income estimation are taken to include only units that employ less than 10 persons and use power and those that employ less than 20 persons but do not use power, the data had to be retabulated.* Units above these limits are covered by the Factories Act of 1948 and income originating from them is classified under factory enterprises in national income estimates.

Net Value Added Per Worker — Sources of Data

According to the N S S, the total number of persons employed in manufacturing in 1955 was 16.2 million. This figure is higher than the one based on the 1951 Census estimates by about 3 million. Since employment in manufacturing could not have increased by such a large magnitude in so short a period, it seems possible that the Census excluded many unpaid family workers from its class of 'earning dependants'. On retabulation it appears that the number engaged in small enterprises as defined here, was about 12.6 million of whom 8.9 million were found to be in rural areas and 3.7 million in urban areas, as will be seen in Table 1.

* The retabulation was done originally for Professor H F Lydall for a study the results of which are published in "Role of Small Enterprises in Indian Economic Development", Asia Publishing House, pp 1-9.

Having indicated the nature and scope of the employment data, let us now pass on to the information available on net value added per worker. It is not possible to utilise the data on net value added per worker from the N S S Report for various reasons. The households engaged in productive activities for their own consumption have been excluded. Since estimates for national income should cover subsistence production also, we have built our figures for net value added for each industry group by assembling data from several other sources.

The sources used cover the reports of the studies sponsored by the Research Programmes Committee of the Planning Commission, the studies undertaken by the different State Statistical Bureaux, the reports published by the Development Commissioner for Small-Scale Industries and the annual reports of the National Small Industries Corporation.

Definitions and Measurement Widely Vary

The data available in the R P C reports cover Delhi, Bombay, Moradabad, Amaravati, Saugor, Mysore and Meerut and pertain to the years 1954-1956. Unfortunately the definitions and methods of measurement used are not identical in all these reports.

In the Delhi Report, a small-scale establishment is defined as a manufacturing or processing establishment working with not more than 19 and not less than 2 persons and with a minimum block capital of Rs 250. The lower limit eliminates very small sized cottage industries based mainly on one-man economic activities.

The Bombay Report covers manufacturing units only and includes those not covered by the Factories Act i e, those employing less than 10 workers and using power and less than 20 workers and not using power.

The enquiry conducted at Moradabad defined a small-scale establishment as a house, shop or any other place where on an average two or more but less than 20 workers were engaged in a manufacturing process excluding those that were engaged in trade, commerce, transport and repair work.

The Amaravati Report also follows a similar definition and excludes enterprises engaged in repairs and transport.

The Saugor Report covers 2,975 villages and 9 towns in the district. In this report, a small-scale establishment is defined as one which does not ordinarily employ more than 100 persons without power or 50 persons with power. A cottage industry is one which is carried on wholly or primarily with the help of the members of the family as a whole or part-time occupation.

The Mysore Survey on the other hand covers the city area only. The definition adopted is different and only establishments employing less than 20 persons and not using power are included in the study. The power-using category of establishments has been left out.

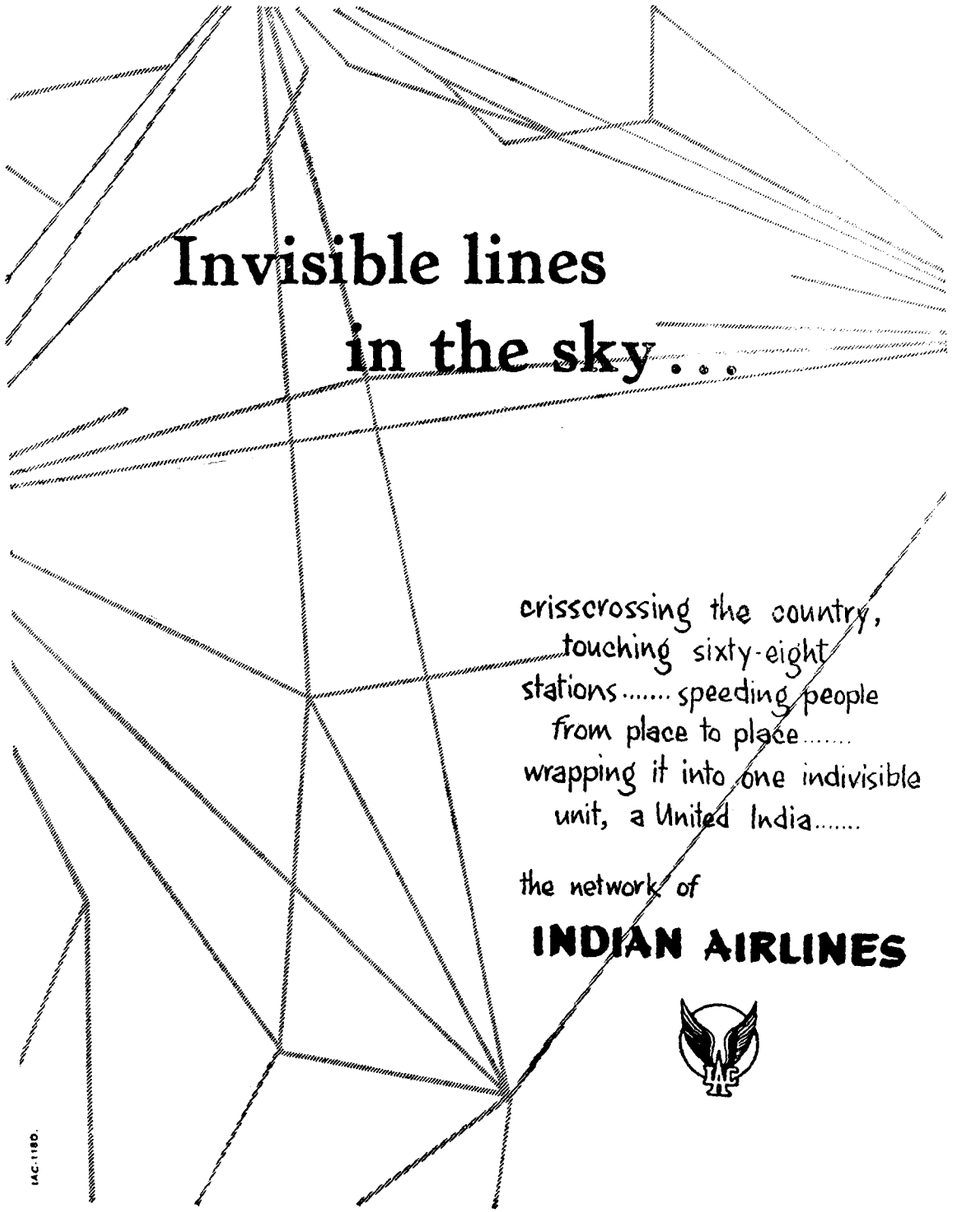
The Meerut Survey covers small-scale and cottage industries in the town and follows the standard definition.

All the studies listed above, except the one relating to Mysore city, contain information on number of workers, gross output and cost of materials and fuels consumed. The Mysore study gives only the first two. The Delhi and Bombay Reports also contain information regarding value added by manufacture. Thus, the data available in the reports enable one to find the relationship between gross output and value added for all centres except Mysore. Since the classification of industries is not uniform in these reports, a certain amount of rearrangement and reclassification is necessary in order to make them conform to the grouping of industries given in Table 1.

Table 1 : Distribution of Employment in Small Enterprises and Manufacturing Industries

('000)

		Household and non-household enterprises below 10 & below 20 with power without power			10/20 to 50/100			Above 50/100			Total		
		Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
I	Food, beverages and tobacco	2227	870	3097	71	70	141	692	115	807	2990	1055	4045
II	Textiles	3112	1352	4464	58	72	130	160	997	1157	3330	2421	5751
III	Leather and leather products	409	182	591	—	27	27	—	24	24	409	233	642
IV	Wood and wood products	1294	341	1635	8	13	21	34	18	52	1336	372	1708
V	Pottery, bricks and glass	778	195	973	42	17	59	173	31	204	993	243	1236
VI	Paper and paper board	10	5	15	—	4	4	16	22	38	26	31	57
VII	Printing	4	67	71	—	23	23	6	42	48	10	132	142
VIII	Chemicals, oils and soap	62	58	120	8	26	34	114	164	278	184	248	432
IX	Metal and metal products	606	209	815	10	18	28	203	125	328	819	352	1171
X	Machinery, electrical & transport equipment	43	114	157	—	22	22	11	101	112	54	237	291
XI	Miscellaneous	356	325	681	—	6	6	29	11	40	385	342	727
Total		8901	3718	12619	197	298	495	1438	1650	3088	10536	5666	16202



Assam, W Bengal, Nagpur and Bhilai

The second set of studies used here relate to Assam, West Bengal, Nagpur and Bhilai. The Assam Study (conducted by the Assam Government) covers only cottage enterprises. In 1954 the State Statistical Bureau of West Bengal conducted district-wise surveys of small-scale industries throughout the State including the Calcutta industrial area. These form the most extensive enquiries conducted in any State in India. In these studies small establishments have been classified into four sub-groups,

(1) those using power and employing less than 10 workers;

(2) those using power and employing 10 or more workers;

(3) those not using power and employing less than 10 workers; and

(4) those not using power and employing 10 or more workers.

For our purposes categories (2) and (4) have to be eliminated. Unfortunately, it is not possible to do so. We have, therefore, arrived at alternate estimates in one of which the West Bengal data have been excluded. The Nagpur study on Small-Scale and Cottage Industries was conducted by the Directorate of Economics and Statistics, Madhya Pradesh, and covers Nagpur city. The Bhilai Survey formed part of a socio-economic survey of the region. This survey was also conducted by the Directorate of Economics and Statistics, Madhya Pradesh. The definition adopted for both these surveys was the usual one, i e, those employing not more than 10 persons if using power and not more than 20 persons if not using power. The data pertain to the year 1955-56. All these four studies contain information on gross output, number of workers employed and cost of raw materials, fuels etc, from which value added per worker has been obtained.

Analysis and Planning Reports

The Office of the Development Commissioner for Small-Scale Industries has conducted a number of investigations in some selected small-scale industries. These studies under the general title of 'Analysis and Planning Reports' contain information regarding the number of workers engaged and value of total output for 24 industries. Most of these studies contain data for the years 1955-57. The results are based on field investigations and detailed study of selected units. The definition adopted for these investigations is, however, different. A small-scale unit has been defined as one having investment in fixed assets not exceeding Rs 5 lakhs and employing not more than 50 workers with power or 100 workers without power. This definition has been adopted to cover all units which qualify for Government assistance under the small industry aid programmes.

A great deal of rearrangement of data and adjustments were required to obtain from these reports data relevant to our definition. Again, these reports contain information on gross output only which is summarised in Table 2. To obtain the value added per worker, the ratio of value added to gross output available from the other field surveys on small-scale industries has been used. The industries are reclassified to conform to the categories in Table 1.

Table 2 : Gross Output Per Worker

		Northern Region	Eastern Region	Western Region	Southern Region
1	Sports goods	1,778	—	—	—
2	Sewing machines and parts	—	—	3,990	—
3	Bicycle parts	3,458	3,674	5,275	—
4	Leather footwear	1,175	—	2,564	—
5	Boot polish	—	—	2,321	—
6	Cotton textile machinery		5,455	5,556	4,236
7	Surgical instruments	2,750	3,198	4,055	3,405
8	Padlocks	—	1,493	—	—
9	Glass beads	973	1,000	—	1,883
10	Glass scientific apparatus	2,331	2,915	—	—
11	Agricultural implements	—	806	3,375	2,297
12	Beam scales	1,489	1,204	—	—
13	Building hardware	4,084	2,049	5,339	—
14	Hand tools	2,200	—	2,202	—
15	Plastic and rubber insulated wares	—	—	6,358	—
16	Wood screws, wire nails panel pins	—	—	4,416	2,694
17	Industrial fasteners	—	—	2,357	2,783
18	Electric porcelain wares	1,317	—	—	—
19	Machine Tools	4,057	5,136	1,315	—
20	Glass bangles	1,207	—	—	5,192
21	Picking bands and leather belting	—	—	7,212	—
22	Sanitary fittings	—	—	—	430
23	Fountain pens and nibs	—	—	—	2,475
24	Plastic goods	—	—	—	3,496

Source: "Analysis and Planning Reports", issued by the Development Commissioner for Small Scale Industries.

Area Survey and N S I C Annual Reports

Apart from the 'Analysis and Planning Reports' mentioned above, the Development Commissioner's office has also published 'Area Survey Reports'. These reports contain data on several industries in an area as against individual industries. From some of these reports information relating to gross output is available for small industries in Trichur district in Kerala and Warangal city and Jangaon town in Andhra Pradesh. The value added per worker in these cases has also been obtained by using the ratio of value added to gross output obtained from other sources.

The Annual Report of the National Small Industries Corporation for the year 1956-57 contains information on number of workers employed for 29 industries. Since this report covers units employing between 20 and 49 workers and using power, this data could not be used except for purposes of a cross check.

The figures on value added per worker obtained from the studies discussed above are presented in Table 3. For West Bengal (excluding the industrial area of Calcutta which is treated separately) the value added per worker is obtained as a weighted arithmetic average of the district-wise figures; the weights being proportional to the number of workers employed in each industry in different districts.

Contribution of Small Enterprises : Rural and Urban Areas

In order to estimate the contribution of small enterprises to income in the rural and urban areas separately it is necessary to have average value added per worker in these two sectors. For the rural sector we have used figures from the studies relating to Assam, Saugor, Amaravati, Bhilai and the district surveys of West Bengal. For the urban sector, the studies relating to Delhi, Bombay, Calcutta, Nagpur, Mysore, Moradabad, Trichur and some of the Analysis and Planning Reports of the Development Commissioner.

In view of the limited data on small enterprises in rural areas we have arrived at two estimates, using different average value added per worker. In the first estimate for rural areas, value added per worker is obtained from all studies pertaining to the rural sector mentioned above. In the second estimate the figures relating to the West Bengal districts have been excluded for reasons suggested earlier. For urban areas median averages are obtained from the studies mentioned above. From these we obtain two separate estimates for the year 1955-56. These estimates are presented in Table 4.

Table 3 : Value Added By Manufacture Per Worker (Rs)

	Centre	Food, beverages & tobacco	Textiles	Leather and leather products	Wood and wood products	Pottery bricks and glass	Paper and paper board	Printing and publishing	Chemicals, oils and soap	Metals and metal products	Machinery electrical and transport equipment	Miscellaneous.
	1	2	3	4	5	6	7	8	9	10	11	12
A	**R P C Studies & S S B Studies**											
1	Delhi	1227	2246	1144	—	—	—	1382	1467	860	1699	—
2	Bombay	827	1506	897	1442	—	—	1592	—	1291	1661	1153
3	Nagpur	1118	1549	558	1205	509	500	682	1858	722	1091	817
4	Calcutta	1368	1008	1778	1508	1074	1382	1405	2065	1387	1440	1844
5	Moradabad	639	—	908	639	226	770	—	—	696	—	714
6	Assam	548	199	—	1469	153	—	—	314	436	1277	150
7	Amaravati	615	705	829	1238	824	—	706	730	654	—	498
8	Saugor	—	176	—	489	202	—	—	446	487	334	375
9	Mysore	540	227	—	—	168	—	—	—	190	—	—
10	Bhilai	940	340	248	404	64	—	494	1072	794	1670	617
11	Meerut	—	236	1164	928	—	—	—	889	1272	—	—
12	West Bengal Distt Surveys	440	248	898	341	292	173	444	222	637	692	207
B	**Analysis & Planning Reports**											
13	Northern Region	—	—	—	806	494	—	—	—	502	1747	—
14	Eastern Region	—	—	—	—	1099	—	—	—	421	976	—
15	Western Region	—	—	959	—	3624	—	—	—	2037	2329	—
16	Southern Region	—	—	—	—	527	—	—	—	908	1447	—
C	**Area Survey**											
17	Trichur—Small Scale Units	2154	856	—	—	882	—	1336	4820	—	1816	—
18	Trichur—Cottage Industries	—	—	—	496	—	—	1154	111	—	—	—
19	Warangal	751	276	376	468	619	—	—	635	—	—	—
D	**National Small Scale Industries Corporation**											
20	Annual Report	799	692	946	1081	126	1345	—	3556	—	1181	1964

Table 4 : Contribution of Small Enterprises to National Income

	Industry	RURAL No of Workers (000)	RURAL Value Added Per Worker Estimate I (Rs)	RURAL Value Added Per Worker Estimate II (Rs)	RURAL Total Estimate I (Rs crores)	RURAL Total Estimate II	URBAN No of Workers (000)	URBAN Value Added Per Worker (Rs)	URBAN Total (Rs crores)	TOTAL Estimate I	TOTAL Estimate II
										(Rs crores)	
I	Food, beverage & tobacco	2227	615	683	137.0	152.1	870	1177	103.8	239.8	254.9
II	Textiles	3112	248	256	77.2	79.7	1352	1008	136.3	214.5	216.0
III	Leather & leather products	409	829	602	33.9	24.6	182	908	16.5	50.4	41.1
IV	Wood & wood products	1294	479	489	62.0	63.3	341	1143	39.0	101.0	102.3
V	Pottery, bricks & glass	778	247	202	19.2	15.7	195	518	10.1	29.3	25.8
VI	Paper & paper board	10	173	202	0.2	0.2	5	1057	0.5	0.7	0.7
VII	Printing	4	600	706	0.2	0.3	67	1392	9.3	9.5	9.6
VIII	Chemicals, oil & soap	62	540	635	3.3	3.9	58	2065	12.0	15.3	15.9
IX	Metal & metal products	606	645	645	39.1	39.6	209	791	16.5	55.6	56.1
X	Machinery, electrical and transport equipment	43	984	1277	4.2	5.5	114	1554	17.7	21.9	23.2
XI	Miscellaneous	356	395	436	14.0	15.4	325	1153	37.4	51.4	52.8
Total		8901	—	—	390.3	400.3	3718	—	399.1	788.4	798.4

Table 5 presents our estimates along with the C S O estimates for the year 1955-56.

It will be seen from this table that our two estimates are very close to each other. Our estimate of the contribution of small enterprises to national income can, therefore, be placed around Rs. 790 crores. This estimate is about Rs 45 crores higher than the one currently used in national income data and designated as 'conventional estimate' of the C S O. Thus our conclusion supports the general impression that the conventional estimates understate the contribution of small enterprises to national income. The C S O's revised estimate is Rs 155 crores less than ours and Rs 110 crores less than their own other estimate. This seems to arise from their underestimate of the working force in the rural sector and of the value added per worker in both rural and urban sectors.

Adjustment in Later Years from Bench Mark Estimates for 1955-56

Having obtained the bench mark estimates for 1955-56, the next step is to derive the net output of small enterprises for the years 1956-57 to 1959-60. In the absence of the relevant data on output and employment the only course open is to adjust for the later years on the basis of some suitable indicators. It is difficult to construct indices reflecting the change in output in all the industrial groups into which small enterprises have been divided. We have, therefore, made use of the same indicators as used by the C S O in their "Proposals for Revised Estimates" except for some modifications in the category of textiles and paper. The indicators used are (a) increase in the output of handloom cloth for the textile group, (b) increase in the output of raw hides and skins, tanned hides and skins and leather footwear in the factory sector for the leather and leather products, (c) increase in the output of hand made paper for paper and paper board group. For food, drink and tobacco group, three different indices have been used for the three sub-groups : one based on the production of food grains, another on the availability of tobacco after making adjustments for exports and factory consumption and the third on the availability of oil seeds after making adjustments for exports and factory consumption. These cover only 4 out of 11 of our industrial groups. For the remaining industrial groups we have followed the same procedure as the C S O viz, the application of a simple average of the combined index of the main groups covered by the four indicators above, the index of agricultural production and the index of population.

The indicators used are not available as such in the C S O Report. They have been worked out from the data given therein. Since the C S O's final figures are in current prices, obtained after adjusting the physical indices for price changes, our estimates are also in current prices. Our estimates for the period 1955-56 to 1959-60, along with those of the C S O are set out in Table 6.

Table 6 : Net Output of Small Enterprises at Current Prices

(Rs crores)

Year	Our estimate	C S O estimates	
		Revised	Conventional
1955-56	788	635	745
1956-57	880	697	752
1957-58	915	707	750
1958-59	995	757	772
1959-60	1044	786	773
Per cent increase in 1959-60 over 1955-56	**32.4**	**23.5**	**3.7**

Table 5 : Contribution of Small Enterprises : Rural and Urban

(Rs)

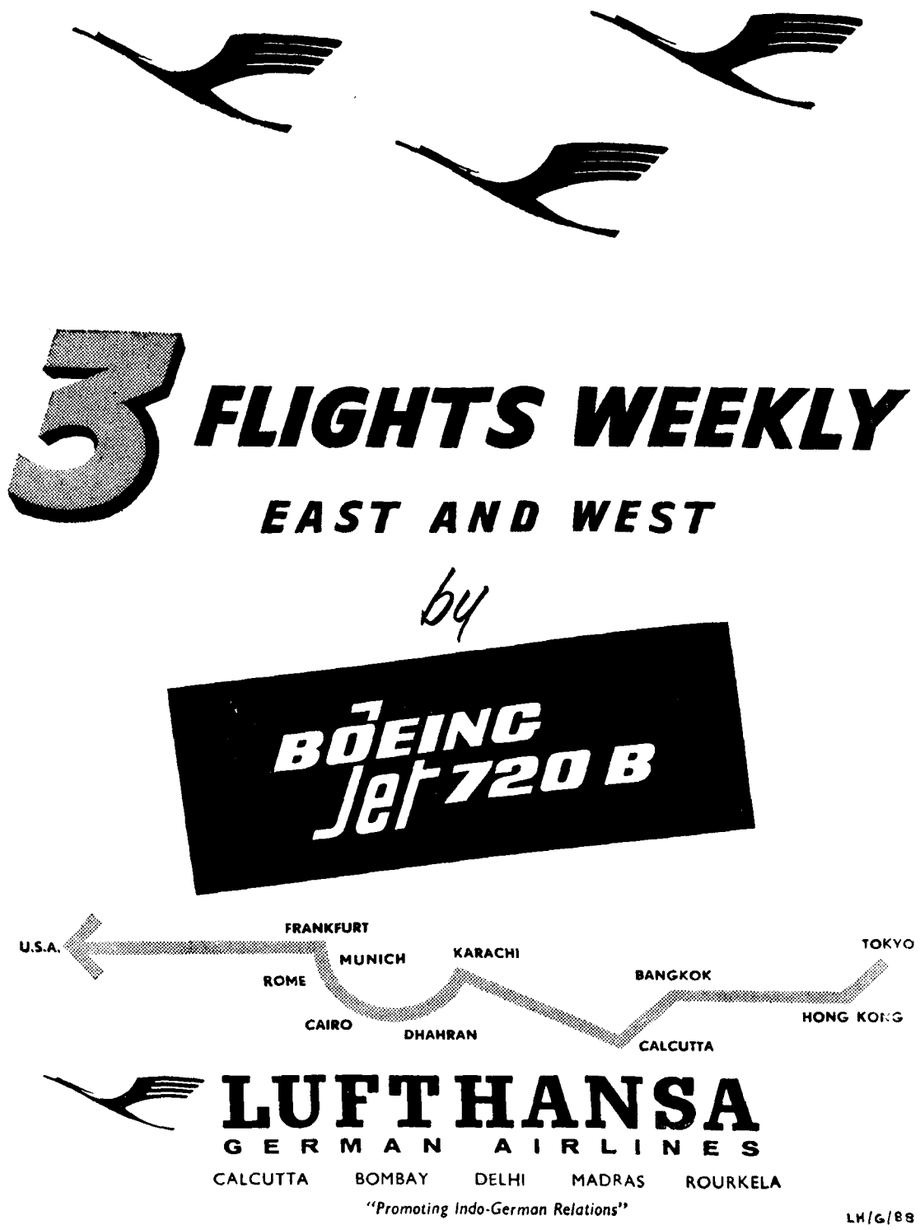
S No	Type of Estimate	Rural	Urban	Total
1	2	3	4	5
1	Our estimate (1)	390	398	788
2	Our estimate (2)	300	398	798
3	Conventional estimate of the C S O	—	—	745
4	Proposed revised estimate of the C S O	255	380	635

Rate of Growth — An Underestimate

Since we have not used all the indicators of the C S O our estimate of the rate of growth of income from small enterprises since 1955-56 is somewhat different from theirs. The large differences in the aggregate figures are, of course, mainly explained by the fact that our estimate for the bench mark year (1955-56) is higher than that of the C S O. It may however be added that this rate of growth seems to be somewhat of an under-estimate. This impression is based on some scattered data available on the growth of output of some individual industries. Thus, the data available in the annual reports of the Khadi and Village Industries Commission for certain selected areas indicate much higher rates of growth. According to this data, between 1955-56 and 1957-58, the output of soap has gone up by 348%, matches by 572%, pottery and oil (ghani) by 450%. The output of khadi, silk and wool has more than doubled during this period. Similarly, the Evaluation Report of the Working Group on Small Scale Industries furnishes some evidence on the growth of output of a few industries for the period between 1955 and 1958. According to a survey organised by the Working Group, hand tools recorded a rise of 267%, electric fans 88%, bicycles 118% and sewing machines 35%. Unfortunately, all these data refer only to a limited number of units and cannot therefore be used for estimating the overall increase in different industrial groups.

We would like to conclude with the remark that we do not regard our estimates as completely reliable.

All that our exercise can be said to have shown is that the C S O's calculations err on the side of underestimation. There is, therefore, need for a more systematic and thorough examination with a view to filling in gaps in the data before the quantification of the contribution of small enterprises to national income can be considered a worthwhile effort.



The Concept of Import Substitution

Padma Desai

Recent writings on international trade and development make frequent use of the concept of import-substitution.

No discussion is available, however, of possible (alternative) definitions of import-substitution, the purpose for which each is suitable and the measurement problems each presents.

This paper considers two alternative concepts of import-substitution.

I

IMPORT-substitution (or import-saving) is sometimes held to mean 'reduced dependence on imports' of the economy. For instance, consider the following excerpt: "Although I have allowed for an increase in imports (for 1961-71, India) above the 1960-61 level and thus assumed no absolute import-saving, there would have to be massive import-saving in a relative sense. Imports would have to fall from nearly 8 per cent to little more than $5\frac{1}{2}$ per cent of the national income".[1]

The statistical measure that follows from this approach is often taken to be the change, between two periods, in the ratio of imports to national income $\cdot\triangle\frac{M}{GNP}$, where M is the value of imports and GNP, the gross national product. However, this ratio is, as will be demonstrated shortly, the result of the interaction between what can be described in the Leontief terminology as the 'structure' of domestic production and imports on the one hand and the 'final bill of goods' on the other; and hence the ratio may alter with a change in either. For example, consider an input-output table for a hypothetical economy. There are three activities: agriculture, manufactures and services. The 'final bill of goods' column, in conformity with standard usage, is marked (X+C+I+G). The bracketed entries refer to imports. All imports are inputs with the single exception of manufactures imports (50) for final demand. Each imported item is entered in the import row according to the sector of origin and then shipped by that sector to the sector of use.

The resulting domestic coefficients matrix, in terms of the standard Leontief procedure, would be:

$$\begin{matrix} 0 & 20/103 & 4/7 \\ 1/12 & 0 & 9/35 \\ 1/6 & 35/103 & 0 \end{matrix} = A$$

When the inverse of (the unity matrix minus this domestic coefficients matrix) is post-multiplied with the vector of final bill of goods (net of imports for final consumption), one emerges with the vector of the gross value of domestic production:

$$(I - A) \begin{matrix} 0 \\ 800 \\ 250 \end{matrix} = \begin{matrix} 600 \\ 1030 \\ 700 \end{matrix}$$

The import pattern can be similarly characterised in terms of an 'import-coefficients matrix'. This matrix (exclusive of imports for final demand) can be written for our hypothetical economy as:

$$\begin{matrix} 0 & 10/103 & 0 \\ 17/60 & 0 & 0 \\ 0 & 15/103 & 0 \end{matrix} = B$$

Clearly $(I-A)^{-1}$ and B describe the 'structure' of the domestic production and imports of the economy provided one is willing to make the Leontief assumption of fixity of domestic coefficients and also extend it to the import sector. The assumption underlying the import coefficients matrix B is that the ratio of imported inputs to the total domestic output of each sector of *use* is unchanging. One could alternatively have assumed that the ratio of imported inputs to the total domestic output of each sector of *origin* is unchanging. This would naturally yield a different coefficients matrix. In our hypothetical economy, this matrix can be written as a row vector

$$1/6 \quad 17/103 \quad 3/14 = B^1$$

which, when post-multiplied by the column vector of the gross value of domestic production, yields the total quantity of imports in the economy. However, this alternative formulation of the imports coefficients matrix B^1 does not appeal to be economically sensible; whereas the assumption underlying matrix B is plausible insofar as imported inputs represent technically necessary components of the production process in the sector of use — a postulate similar to that underlying Leontief's formulation of the domestic coefficients matrix A. Further it should be emphasised that B excludes imports of items for final demand.[2]

When B is post-multiplied with the product of $(I-A)^{-1}$ and the column vector of 'final bill of goods' (net of imports for final demand), one gets the column vector of imports, by sector of origin, into

Table 1

	1 Services	2 Manufactures	3 Agriculture	4 X+C+I+G	5 Total	6 Total
Services	0	200 (+100)	400	0	700	600 (+100)
Manufactures	50 (+170)	0	180	800 (+50)	1250	1030 (+170) (+50)
Agriculture	100	350 (+150)	0	250	850	700 (+150)
Imports	100	220	150		470	
Households	280	230	120		630	
Total	700	1250	850			

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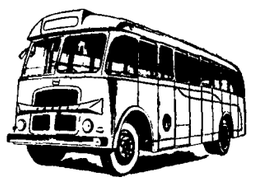

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the economy (with the exception of imports for final demand):

$$B(I-A)^{-1}\begin{matrix}0\\800\\250\end{matrix}=\begin{matrix}100\\170\\150\end{matrix}$$

It can thus be seen that the ratio of imports to national income M/GNP (47/63 in Table 1) is the result of interaction between given 'structure' and 'final bill of goods'[3]. (The ratio 47/63 in Table 1 *includes* imports for final demand). To isolate the change in import dependence or the import-substitution in an economy, which is attributable to a change in the 'structure' of the economy, therefore, it is necessary to post-multiply the 'structure' for both periods with the *same* column vector of 'final bill of goods', and then to compare the resulting ratios of imports to national income. Clearly one must eliminate from the measure any distortions introduced by the fact that different 'final bill of goods' obtain during the periods which are being compared.

This procedure, however, raises the first problem in measuring a change in import dependence, viz. the index number problem: which 'final bill of goods' shall we choose for the comparison of 'structures' at two points of time? Indeed the ranking of different periods in terms of their ratios of imports to national income can be reversed by the choice of suitable 'final bill of goods'. As with all index number problems, there does not appear to be really any satisfactory solution to this problem.

The second difficulty in measuring import-substitution (in the sense of a change in import-dependence) arises from the fact that quite often the change in the 'structure' and in the 'final bill of goods' between the two periods cannot sensibly be considered independently of each other. For example, if one were measuring import-substitution over a long period during which an agricultural economy has, for instance, passed on from ploughs to tractors, it is not particularly helpful to discover import-dependence of the economy in the tractor-age (plough-age) for a 'bill of goods' involving ploughs (tractors). In the tractor-age (plough-age) one is almost certain to want only tractors (ploughs) in the 'final bill of goods'. Indeed, it would be far from meaningful to apply the 'bill of goods' obtaining in the tractor-age (plough-age) to the production and import 'structure' of the plough-age (tractor-age) as the latter lacks the relevant production and import coefficients pertaining to the tractor industry (plough industry).

Thirdly, in a dynamic setting, the 'bill of goods', by way of deliberate investment policy, is designed to bring about rapid transformations in the production and import 'structure' of an economy. Till the economy settles down to a state of long-run balanced growth, any 'structure' in the terminal period must be regarded as temporary. Therefore, it would not be meaningful to derive the change in import-dependence on the basis of a 'structure' which is itself in the process of change. It would be a matter of sheer chance if one ended up by calculating a change in import dependence between two points of time such that in the second period the economy is tuned to a state of long-run balanced growth.

Before we proceed to the next concept of import-substitution, however, it must be stated that, for growing economies using aid for development, the ratio of imports to national income can rise considerably while imports are augmented through utilisation of aid and then fall because this utilisation has resulted in a change in the 'structure' which has reduced the dependence of the economy on imports. This is, however, no more than a testable hypothesis which may quite conceivably be refuted for some developing countries, owing to a variety of reasons.

II

By import-substitution, economists also refer often to the replacement of imports by corresponding import-competing domestic production. Thus consider: "The economic development of a country demands, as a general rule, a continuous substitution of imports by domestic production, in so far as foreign markets cannot, without a perceptible deterioration in the country's terms of trade, absorb enough of the country's exports to satisfy its entire demand for imports."[4] Nurkse's "balanced growth" doctrine is also based on a concept of import-substitution which is concerned with the replacement of actual and potential imports by domestic production.[5]

Three ways of defining and measuring import-substitution in this *general* sense can be distinguished in the literature.

(1) The most meaningful concept is that which emerges from the literature on the theory of trade and growth. These trade theorists attempt to define the pattern of outputs which would have emerged within a certain institutional framework. Import-substitution is then defined in terms of the departure from such an output-pattern, brought about by a policy intervention such as the imposition of a tariff, for instance. In the theoretical literature, the institutional framework which is taken as the reference point for such a comparison is the Paretian system. In practice, of course, such an approach, while conceptually most attractive is operationally very difficult to use. Even to begin to use this approach, one would need a very careful multiple correlation analysis and a sophisticated interpretation of the institutional framework taken as the reference point.

(2) A similar but definitely inferior approach is to take a situation of balanced change (expansion or contraction) of imports and import-competing output as the reference-point. Thus, the base-year proportion of imports to domestic production in an activity is compared with that in the terminal year. If the proportion has fallen, import-substitution is said to have taken place. This measure of import-substitution seems to be implied in some of Chenery's recent work on patterns of industrial growth. However, it does not appear to have any theoretical basis at all, unlike the trade theorists' concept and measure discussed earlier here. Why should the 'balanced growth' situation be taken up as the reference point? No rationale seems to underlie such a procedure.

(3) A concept and measure of import-substitution which one comes across frequently is based upon the proposition that, in an import-competing activity, *any* expansion of domestic production represents import-substitution since, in the absence of it, imports would have been necessary to maintain the same availabilities. For any import-competing activity, therefore, one could take the *absolute* value of increased domestic production as representing "import-substitution". This concept could easily be extended to the domestic production of *all tradable* items, since presumably they would all have had to be imported otherwise.

The chief statistical problem that besets many of these measures, of course, is that of aggregation. It is extremely difficult to classify import-competing activities satisfactorily. Even detailed input-output matrices, having several hundred rows and columns, are much too aggregated to yield anything except the startling result of every sector being characterised by an entry for the import row *and* an entry for the export column too! Nothing short of a careful and painstaking disaggregation of activities into import-competing and others would give the kind of measures of import-substitution that one can accept as reliable.

Notes

1 MacDougall G D A, "India's Balance of Payments", *The Economic Weekly*, April 22 and April 29, 1961.

2 There appears to be no general postulate, sharing equal plausibility with that applied here to imports of intermediate items, which can be adopted concerning such imports. Possible candidates, however, may be the rules that the imports of items for final demand

(i) remain in a fixed proportion to total final demand (e g imported cars bear a constant proportion to domestically produced cars, both for final demand); or

(ii) should be taken to stay at the current year level (which may be meaningful if such imports are being severely curtailed).

3 To be sure, it can be shown that B (I—A)$^{-1}$ yields the total, direct and indirect, import requirements associated with unit output of each sector; and that the composition of the 'final bill of goods' merely assigns weights to different sectors. If the elements of each column of the product matrix B (I—A)$^{-1}$ are added up, one gets a row vector, each element of which gives the direct plus indirect imports of producing unit output of the corresponding sector. By post-multiplying this row vector with the 'final bill of goods', one can see immediately that the resulting import bill for the economy is nothing but a weighted sum of the elements of the row vector of (total) import coefficients of each sector, the weights being provided by the elements of the 'final bill of goods' column vector.

4 United Nations, "International Co-operation in a Latin American Development Policy", New York, 1954, p 10; also G M Meier, "Export Stimulation, Import Substitution and Latin American Development", Social and Economic Studies, Vol 10, March 1961, p 42.

5 R Nurkse, "Patterns of Trade and Development", Wicksell Lectures, 1959, Stockholm, p 63. Nurkse also has an appendix which deals with the writings of the trade theorists, (Hicks, Bhagwati, Johnson and others), concerning the effects of growth on trade; this has relevance to the concept of import-substitution, as noted here.

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Twentyfive years ago, family circumstances *forced him* to devote his time and energy to looking after the holding of about 15 acres of land.

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THE INDIAN EXPRESS, in its issue of April 7, carried the dramatic story of how Mr. K. Raghava Menon of Irimpanam, Thiruvankulam Panchayat, was able to harvest a record yield of 4,763 lbs. of paddy per acre.

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FT-32

Sources of Balance of Payments Deficits

Henry J Bruton

Subsidies to exporters, Export Bonus schemes and other export promotional techniques can be effective only if the economy responds to the incentives thereby established.

This requires a flexible, adaptable economic system. Prices must reflect relative scarcities and both demand and the allocation of resources must be affected by relative prices.

This should not be interpreted as a suggestion for removing or even reducing import controls and relying on an automatic adjustment process to eliminate the problems. What wants emphasis is the effort to create a flexible, responsive economy. Emphasis on a single phase — imports and exports — tends to lead our attention away from the heart of the objective.

We are not saying that external balance is not important — it is, of course, essential. We are *saying that failure to see it in its proper setting results in policies and plans and temporary expedients that contribute to a prolongation of the source of the real problem.*

OF the many difficulties confronting the development planner, one of the most intractable is that of maintaining external balance with a flow of imports consistent with steadily growing domestic output. Virtually in every country (excluding the oil producing countries) where development plans are being implemented, crises in the balance of payments occur with a frequency and regularity that suggests some fundamental flaw in either the plan itself or in its implementation. Part of the problem arises due to prices in foreign currencies rising, but on the whole this is a minor problem and we ignore it here.

Conventional analysis tells us that a balance of payments deficit is due to an "improper" relationship between money income and the general price level and to an improper relationship between the prices of domestically produced and used goods and those of internationally traded goods. If the general price level is "too low" relative to the prevailing level of money income, expenditure on domestic products and on imports is in excess of that which the productive capacity of the economy can support. To correct this improper relationship between money income and the general price level we may either reduce money income or allow the price level to rise. To reduce money income requires a reduction in money wage rates and this is a notoriously difficult task in any society and an effort to do so will almost surely add to the unemployment problem. So it is usually necessary to correct the aggregative demand part of the problem by allowing prices to rise until, with money income constant, expenditure is consistent with the productive capacity of the economy.

Price Adjustment

But it is to be emphasized that to eliminate an external deficit requires not merely an adjustment between money income and the general price level, but also an adjustment between the price level of domestically produced goods and that of internationally traded goods. In particular, it requires a fall in the former relative to the latter. For if the entire correction of the external deficit is done through a rise in the general price level then, since the resulting reduction in expenditure affects both imports and domestically produced goods, under-utilization of capacity will result unless some expenditure is switched away from imports to domestically produced goods. With no change in the composition of expenditure a policy of merely reducing total demand would result in demand for domestically produced output being less than capacity available. This is so because aggregative demand would have to be cut sufficiently to reduce demand for imports enough to eliminate the deficit and this will necessarily result in reducing demand for domestic products below capacity.

Now *if* this idle capacity in the domestic sector produced an immediate fall in prices of the domestically produced goods relative to internationally traded goods and *if* this change in the relationship between these prices produced a change in the composition of demand in favour of domestically produced goods, the source of the external deficit would be completely eliminated without creating unemployment. It is, however, evident that the two *ifs* in the preceding sentence are extremely stringent conditions, and a heavy burden indeed is placed on the flexibility of relative prices and on the response of demand to changes in relative prices. In a longer run context the rise in the price of internationally traded goods relative to that of domestically produced and used goods should result in a tendency to shift productive resources out of the latter into the former. And this too will improve the foreign trade position of the country.

It is also evident and needs no elaboration that devaluation produces the same kind of relative price shifts that would result from the perfectly flexible price system described above. But most countries are, for a variety of reasons,

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Basic Policy Requirements

Two things of great policy relevance stand out in this analysis. First, an adaptable, flexible economic system is called for. Prices must reflect relative scarcities and both demand and the allocation of resources must be affected by relative prices. In particular it is important to see that a deficit is not merely due to excess aggregative demand. Second, the productive power of the economy must be such that it can respond to the new demands placed on it by correcting the external deficit.

II

Most developing countries now rely very heavily on import controls to protect their external position. Import controls are necessary because the adjustment process described above will not work (because of the failure of the economy to respond in the manner required) or because it is believed that certain features of that process (e g price rises) are undesirable from a larger, social point of view. The general view would appear to be that import controls are necessary now as a temporary measure while the economy develops to the extent necessary for the satisfactory functioning of the adjustment mechanism. It is, however, clear that the failure of most developing countries to solve in any sort of fundamental fashion their external balance problem is directly attributable to the failure to create an economic system in which the adjustment process would perform effectively if it were called upon to do so, i e the failure to meet the two requirements stated in the preceding paragraph.

III

Part of the problem — and a major part — results from the fact that a development plan imposes certain demands on the composition of output. And some of the products called for are necessarily imported simply because it is not possible to produce them internally. If these products are required in such quantities that foreign exchange is not available to pay for them, then it is easy to place emphasis on obtaining more aid or foreign loans or on increasing exports. Although international aid may increase over the years ahead, it is very unrealistic to assume that aid is to be the major part of the answer. Hence the emphasis on increasing exports. This of course makes sense, but the recurring crises suggest that nothing really fundamental is happening. Unless we take the cynical view that crises are necessary in order to stimulate action at home or to get more grants or loans from abroad, we surely are entitled to conclude that either the plan or its implementation is defective or the problem is so vast that one cannot expect a fundamental solution to the external balance in the span of a few five year plans. The latter point has much validity, (but few plans acknowledge it), and perhaps the one thing we have learned most clearly about development in the post-war years is that it is a terribly long, slow, painful process. But it also seems legitimate to contend that most plans have been defective in concentrating on imports and exports as such rather than concentrating on the more nebulous task of creating a viable, flexible allocation mechanism and a generally strong, responsive, productive system. The method by which this is done is in no sense clear, but it is possible, I think, to do more than is now being done in most countries.

Export Bonus Scheme

Many of the schemes designed to increase exports are a way of altering prices along the lines outlined above. Thus a subsidy to exporters, for example, has some of the effects of devaluation. The exporter receives a larger amount (in local currency) for his product. This fact may encourage him to export more and, more importantly, may encourage resources to flow into the export industries from industries not producing for export. In an economy where there is great excess demand for imports and imports are limited by licenses, the lucky license holder is in an extremely favoured position. Schemes, such as Pakistan's well conceived Export Bonus scheme, that seek to transfer the profits of the importer to the exporter also result in price movements comparable to those that are necessary for the fundamental solution of the problem. The Pakistan scheme allows the exporter of most commodities to receive a voucher authorizing him to purchase a given percentage of the foreign exchange that he has earned. This voucher may be sold in the market at a price set by the market, and given the high profitability of imports in Pakistan the vouchers command an attractive price. Evidently this process adds considerably to the profitability of exporting.

But the essential point — and one that frequently seems to be lost in the urgency of the moment — is that subsidies to exporters, Export Bonus schemes, and other export promotional techniques can be effective only if the economy responds to the incentives thereby established. And response will usually mean price changes and resource allocation changes similar to those outlined in the first Section of this note.

IV

No one should interpret the preceding remarks to be a suggestion for removing or even reducing import controls and relying on an automatic adjustment process to eliminate the problems. Controls of a wide variety are, and doubtless will remain, essential to the carrying out of the development plans. But they will remain essential for the same reason that planning and careful internal controls will remain essential, namely, because of the failure to develop the responsive, adaptable economy previously described. Thus we can see — and this is the essence of the argument — that the balance of payments difficulties have their source in the same malaise that a host of other problems do.

Why Concern over Balance of Payments?

Why then do we get so excited about a balance of payments crisis? In part it is simply because such difficulties are so evident. The failure to make headway in developing a large army of skilled labour, in developing an effective entrepreneurial class, in mobilizing the domestic saving potential, in sweeping away obstacles to vertical mobility, and in accomplishing several dozen other things that we know to be as important to development as high imports is difficult to pin down without thorough research. No research is needed to show when the foreign exchange till is empty.

But, partly, the concern over the balance of payments is due to the fact that it is in supplying foreign exchange that other, richer countries can most obviously help. It is not surprising then that we tend to concentrate attention on this aspect for it is easy to convince oneself that merely more aid is the answer.

Finally, the general philosophy of plan-making tends to place heavy, even primary, emphasis on imports. As we mentioned earlier, plans frequently call for machinery and equipment that cannot be produced at home. There is no doubt that a great deal of such imports are required. There is equally little doubt that personal and national prestige and limited imagination and inadequate knowledge among the plan-makers also leads to excessive reliance on imports. Consider for example imports of foodgrains under United States Public Law 480. There is distressingly little evidence that such imports have been used in a manner that leads to capital formation. Yet except in those cases where food is in such short supply that acute health problems result, the ultimate purpose of these food imports must be to release domestic resources from the production of food in order that these resources may be used to build new capital. Otherwise these imports can have no lasting impact on the economy. There are many reasons why increased capital accumulation rarely results from the import of P L 480 foodgrains. It is difficult to organize and mobilize labour in an effective way and, of course, imported supplies are often modest in terms of desired standards. But one reason that is observed quite often is an attitude that capital accumulation *necessarily* involves the importation of capital equipment and machinery. This is of course economic nonsense and the kind of nonsense that leads to the bias in plan-making toward making imports more strategic in the plan than domestic contributions.

What wants emphasis is the effort to create a flexible, responsive economy. Emphasis on a single phase — imports and exports — tends to lead our attention away from the heart of the objective. We are *not* saying that external balance is not important, it, of course, is essential. We *are* saying that failure to see it in its proper setting results in policies and plans and temporary expedients that contribute to a prolongation of the sources of the real problem.

Prospects of Foreign Aid

B N Ganguli

In popular thinking, the U S economy is conceived of as the most important source of supply of foreign economic assistance available to developing countries.

On the whole, American aid is widely distributed and rather thinly spread. It shows heavy concentration in the form of "Defence Support" aid to countries militarily aligned to the U S A.

The Soviet bloc aid is concentrated in countries with neutralist inclinations. The highly selective character of this aid makes it very probable that there will be scope for extended operations in Africa and Latin America in the near future.

Western Europe has been developing an export surplus but one should not exaggerate its capacity as a supplier of development aid. Its domestic reqwirements have been growing fast and with the increasing degree of economic integration in the E E C, capital flows within the Community and across to Associated Territories will absorb the bulk of its investible resources.

In view of the limited capabilities of the Soviet bloc as an exporter of capital in the coming decade, the possibility is that the aid will get more thinly spread. In either case the prospects of the present recipients obtaining progressively increasing amounts of aid are not at all so bright as many are apt to assume.

IN this paper I propose to review, on the basis of such facts as are accessible to a student of economic affairs, the long-term perspective of foreign assistance on which underdeveloped countries in general and India in particular should legitimately rely in formulating their planning programmes.

My main purpose is to provoke thinking rather than make too much of what must remain largely in the region of conjecture by the very nature of the problem.

In popular thinking the U S economy is conceived as the most important source of supply of foreign economic assistance available to developing economies. In recent years U S net long-term capital exports averaged about $8 billion, which is equal to a little less than 2 per cent of GNP. Only part of this is foreign aid the magnitude of which has been about $ 5 billion per annum. About 60 per cent of this consists of military aid grants and "defence support" aid. Although perhaps between one-half and one-third of such aid assists economic development, as an offset it creates distortions in the economic structure of the countries receiving such aid.

Leaving aside "defence support", only less than 1/5th of U S foreign assistance is, therefore, assistance for economic development, properly so-called.

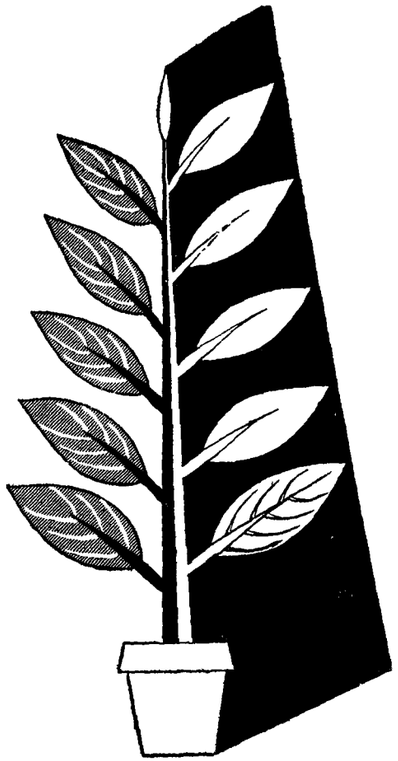
The agricultural surpluses taking the form of foreign aid ($ 25 billion in 1959, for example) and exported are a domestic cost in support of U S agriculture; their sales at whatever prices can be obtained, bring relief rather than involve a burden.

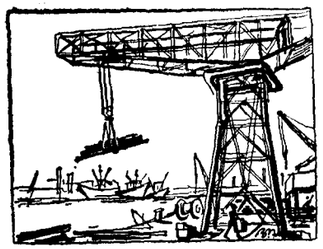
Leaving this as well as defence support aid aside, foreign aid for economic development represents less than 4th of 1 per cent of G N P in U S A, 1.5 per cent of the federal budgetary expenditure, 1 per cent of personal consumption and 2 per cent of U S defence expenditure. Yet foreign economic assistance, as distinct from the military component of it, arouses such sharp controversy and perennial struggle amongst policy-makers in the U S A. According to one estimate, no more conjectural than any other, in 1970 additional net capital exports of $20 billion are quite probable at current levels of U S defence expenditure, without government deficits and with personal consumption rising at the rate of 2 per cent per annum. *provided* balance of payments difficulties do not constitute a limiting factor.

Sharing the Burden — Consortium

Recent experience has, however, shown the relevance of this limiting factor in a dramatic manner. The large gap in U S balance of payments, the sustained outflow of gold, the simultaneous swelling of the foreign exchange reserves of Western European countries—all in the context of large capital transfers including economic aid—have sharpened the edge of the usual controversy about foreign economic assistance, which is a hardy annual in U S Congress. Since military grant and "defence support" aid overshadow the field of aid, foreign aid for economic development (particularly in the case of 'non-aligned' countries) is bound to be judged in the same atmosphere in which the former type of aid is discussed. It is also natural to expect a defensive attitude to such aid when claimants are so many and becoming steadily more numerous, with the emergence of new independent nations, one no less impecunious than the other. Particularly when the U S balance of payments position shows an apparent, though not perhaps fundamental, deterioration, it is also understandable why U S Congress should hesitate to ask the public to bear alone what it regards, rightly or wrongly, as the "burden" of economic aid to developing economies.

U S A's anxiety to share this "burden" with the prosperous European Economic Community and other countries similarly situated is reflected in the Consortium arrangements under which the U S government is a partner with the World Bank and other Governments in the assessment of, and joint contribution to, the total aid required, on the understanding that U S A will find, as in the case of India, a dollar for every dollar contributed by the rest. This institutional device has yielded good results, thanks to the initiative and enterprise of the World Bank. For this





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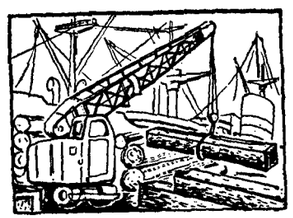

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very reason the area of aid through consortia will naturally expand and include many more countries or groups of countries than the few countries like India and Pakistan who were first to receive such joint economic assistance. When this happens, there is bound to emerge a type of group aid which is neither multi-lateral nor strictly bilateral. The "political economy" of this type of aid may be too complicated to make it possible for us to receive the type of aid we need in required amounts and at the time when we need it most. Aid received through an international agency depends on carrying conviction with the agency concerned; that received through a single government depends on the success of bilateral negotiations. But a consortium dealing with a number of countries (with different political complexions) is faced with difficult problems of evaluation of their needs in terms of their absorptive and repaying capacity. It has also to carry conviction with the governments and the legislatures concerned. Uncertainty of the outcome may easily be imagined.

W Europe as Capital Exporter

The hopes as well as the fears of the underdeveloped countries are currently centred on Western Europe, or rather the European Economic Community as an important source of capital exports. I have referred to the anxiety on the part of U S A to share its responsibility for giving aid for economic development, with this group of countries. This anxiety is based on solid economic reasoning. Countries like U S A with a much slower growth rate than others have been making capital transfers in excess of their export balances; whereas countries with high growth rates have been piling up export balances on current account far in excess of their readiness to transfer capital abroad. The U S A has been trying to correct one kind of unbalance (disarmament, incidentally, will assist the process). From the international angle, the other kind of unbalance has also to be corrected; otherwise it will be a drag on the growth rates of the advanced industrial countries of Western Europe, and, in view of their importance in world trade as producers and consumers, such unbalance will tend to inhibit the growth rate of the world economy as a whole.

In spite of this plausible reasoning one comes across a feeling of hesitancy, wariness and sometimes reluctance or even impatience expressed covertly or overtly. This should not be set down merely to the political overtones of this question. Currently West Europe's record as a source of economic aid has been quite encouraging, and yet persuasion and even prodding that sometimes become necessary to induce the flow of capital exports may be the outcome of a cautious assessment of the capability of Western Europe as a capital-exporting region in the long-range perspective.

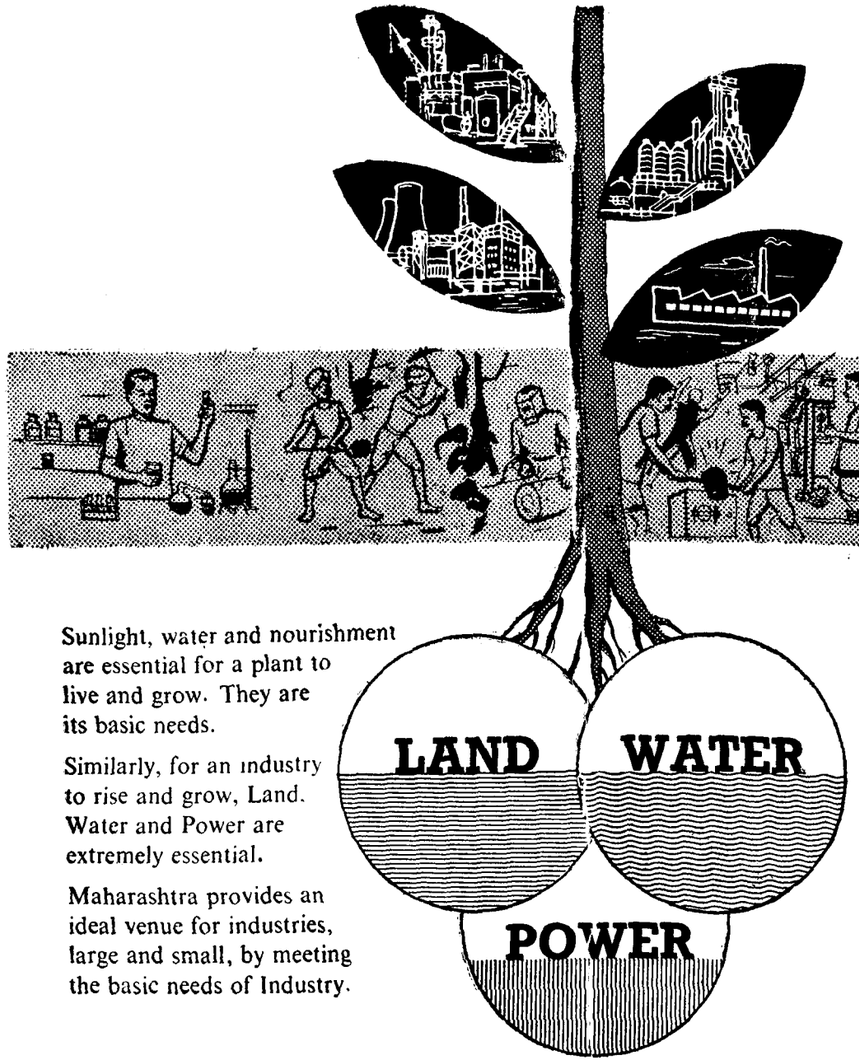
The Long Range Perspective

It is necessary to look into this aspect of the question more closely. On this matter we may have indulged in wishful, superficial thinking. Stimulated by massive American aid, Western Europe recovered its pre-war levels of production and consumption in four years. In the nine years before 1959, the combined GNP of Western Europe increased by 45 per cent in constant prices. The exceedingly high growth rate implicit in these figures was bound to level off, and it is anticipated that during the next 20 years, the factors which favoured post-war economic growth will not persist, that a growth rate of a little more than 3 per cent is not unlikely and that maintenance even of this rate will call for more capital per unit of output. Labour scarcity is now a bottleneck. To the extent to which general disarmament will release labour, the average cost of additions to productive capacity through labour-saving and capital-intensive technology will be prevented from rising.

Nevertheless, one must not miss the trend in Western Europe towards capital-intensive industries, such as oil-refining, metal-using industries, engineering industries and the chemical industries. The European economy is becoming more "steel-intensive", and the steel industry will need restructuring which will involve large capital investment. Technical progress will also call for fresh capital investment, mainly through the process of obsolescence. Arrears of investment in transport, housing and education will have to be made good. Social security expenditure will make a larger demand on resources. Foreign demand for "development goods" either through the process of flow of aid or through the normal process of trade with developing countries, will have to be met by expansion of capacity in capital-intensive industries, which, again, will call for larger capital investment. Apart from the demand for higher social security expenditure, private consumption, as evidenced by the increasing current demand for consumer durables, is bound to rise to higher levels. According to OEEC projections, the share of private consumption is likely to rise from 65 per cent of GNP in 1956 to 70 per cent in 1975. In 1958 military expenditure in Western Europe accounted for 5.2 per cent of GNP. Even assuming that the bulk of this will be diverted to consumption and/or investment (including foreign capital transfer), one should not exaggerate West Europe's capability as a potential source of development aid. The OEEC projection assumes an external balance of only 0.4 per cent of G N P in 1975 — $ 1.5 billion in 1955 dollars. This is a figure which has already been exceeded. What more can be expected?

Preference for Associated Territories

The question turns on the nature of alternative economic policies which countries of Western Europe should choose to follow. It may be considered a rational policy to curb current consumption and to accelerate the growth rate through increasing investment rather than to face inflationary situations created by the aggregate monetary demand pressing ahead of real output. Should this logic be accepted, it may also be considered rational to treat foreign investment, and not merely domestic investment, as an important determinant of accelerating growth rates in industrial countries. There is, however, a limited kind of rationality which is often decisive in these matters. Curbing consumption to accelerate rates of growth without inflationary pressure is a kind of constraint which does not always appeal to prosperous countries and less so to



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developing economies with low and slowly rising consumption levels. The increasing degree of economic integration in the European Economic Community is an imponderable factor; but it is not unwarrantable to assume that capital flows within the Community and across to "Associated Territories", which now represent an important economic base requiring intensive capital development, will absorb practically the bulk of the investible resources generated in the Community.

Soviet Bloc Aid

While the assessment of the prospects of economic aid from the West as a whole, including the richer industrial countries of Western Europe, seems to be based on wishful thinking, at any rate in the long-range perspective, and seems to alternate between optimism and pessimism, depending upon the mood and circumstances of the moment, there seems to be equal enthusiasm or the lack of it when it is a matter of estimating the possibilities of aid expected from countries belonging to the so-called Soviet Bloc. This matter also requires much closer study than has been evidenced so far in India.

It appears that the economies of this Bloc are geared to high growth rates of 6 per cent per annum or more. Even at such high growth rates, many claims on the investible resources will be generated. There is the same bottleneck of labour shortage due to the attrition of the war as in Western Europe. During the coming years there will, therefore, be a high premium on the rapid increase of productivity in all sectors of the Soviet economy. Greater resources will also have to be diverted to housing, agriculture and production of consumer goods, all of which have been planned by way of resource development and industrial development which will absorb investment capital. Within this Bloc the Soviet Union as the most advanced industrial country, and next to it East-Central Europe, will have to provide the capital and most of the equipment to the other members of the Bloc. The total commitments of the Soviet Union in the field of foreign aid look impressive, but they are small as a proportion of the national product. At the same time the high priority given to rapid economic growth within individual countries and in the Bloc as a whole, does not make it reasonable to expect a considerable increase in the flow of foreign aid to underdeveloped countries.

Aid Tied to Trade

On the other hand, since the volume of foreign aid has been small in the past, a substantial increase is possible from a low base without much strain. The significance of economic aid flowing from the Soviet Bloc also lies in the fact that trade and aid are closely integrated, whereas in the case of the West there is more often than not a hiatus between trade policy which is exclusive and discriminatory and aid policy which is liberal and generous — a contradiction which puts the West at a disadvantage. At the present moment India, for example, has been caught in this contradiction, the implications of which will be quite serious during the next decade.

It is worth noting that the Soviet Bloc's trade with the primary producing countries has grown rapidly since 1954. In two years, 1955-1958, it increased by 40 per cent, while trade with industrial countries rose by less than 20 per cent. This reflects closer relations of this Bloc with underdeveloped countries based on increasing imports from them and increasing exports on current account, in addition to extension of credit terms under the expanding programme of economic aid to which the Soviet Bloc gave priority during this period.

Structure of Soviet Development

There is a theory that the Soviet Union has shifted its cost structure in the process of industrialisation to a point at which it would pay her to exchange manufactured goods for primary products. But USSR is still, on balance, an importer of machinery and an exporter of fuels, grain and raw materials. One must also take into account the fact that for a country of continental size, rich in resources, foreign trade will be of marginal significance.

This, however, is not true of the smaller countries of the Soviet Bloc. Countries of East-Central Europe — including Czechoslovakia, Poland and East Germany—have economies which are complementary to those of less developed countries. The latter are a natural outlet for the capital goods produced in the former at a high level of productivity, whereas East-Central Europe offers new and growing markets for primary products and even manufactured consumer goods. We have instances of spectacular purchases by the Soviet Bloc countries of commodity surpluses — fish, rice, cotton, cocoa and coffee — and consumer goods like shoes and textiles from India. One cannot expect that these trends will persist. Such purchases take place at the "margin" and have the desired impact on sensitive markets which is none the less advantageous to the sellers who may be facing falling prices and shrinking export markets.

Trade Prospects Unstable and Erratic

Except for such purchases, partly because of isolation and partly because of deliberate policy there is a natural tendency in the Soviet Bloc towards self-sufficiency so that it is not too dependent on the "capitalist" part of the world. It is hard to explain otherwise the Soviet policy of undertaking a costly programme of increasing its already vast cotton output (in addition to the increasing Chinese output) as well as the new large synthetic textile project which is normally expected to cut into the consumption of cotton textiles. The Bloc is now a net exporter of tin and aluminium, whereas formerly it was a net importer.

The market potentialities of the Soviet Bloc *vis-a-vis* under-developed countries are, therefore, unstable, unpredictable and erratic. There is no doubt that in the long run sustained concentration on the development of heavy industry may even create surplus capacity for which exports to developing countries will provide an outlet. Moreover, export oriented heavy industry may be considered rational in view of the possible economies of scale. In these circumstances greater attention may be devoted to comparative advantage as a basis of trade. Conditions, are not, however, likely to be propitious for such developments in the foreseeable future when we think of the existing state of international economic and political relations.

Aid More Thinly Spread

As I have said, in the case of the Soviet Bloc, trade and aid are closely allied. Since the trade of this Bloc with developing economies is selective, marginal and not always predictable, aid cannot but show a similar character.

On the whole, American aid is widely distributed and rather thinly spread. It shows heavy concentration in the form of "Defence Support" aid to countries militarily aligned to U S A. The Soviet Bloc aid is concentrated in countries with neutralist inclinations. The highly selective character of this aid makes it very probable that there will be scope for extended operations in Africa and Latin America in the near future. In view of the limited capabilities of the Soviet Bloc as an exporter of capital in the coming decade, the only other possibility is that the aid will get more thinly spread. In either case the prospects of the present recipients of aid from the Soviet Bloc obtaining progressively increasing amounts of aid are not at all as bright as many are apt to assume.

Level of Foreign Saving

ONE important factor in the wide disparity of rates of gross saving in countries of the ECAFE region during the 'fifties is the very uneven inflow of foreign saving, according to the U N's "Economic Survey of Asia and the Far-East, 1961". The contribution of foreign saving ranges from almost 10 per cent of national product in South Korea (and much higher perhaps in Laos and South Viet-Nam) to foreign lending, or domestic dissaving, of 10 per cent in the Federation of Malaya. This explains why the rate of gross saving in the Federation of Malaya during 1950-59 was only 12 per cent and not 22 per cent. a rate which, if applied to domestic capital formation, would have placed the Federation not only first among underdeveloped countries of the region for investment effort but also among the upper group of countries outside the region.

Ceylon and Japan also lent abroad a small percentage of their national incomes during 1950-59. South Korea was, on the other hand, a net dissaver at home; together with Laos perhaps, it would have occuppied the lowest position in the low-saving group in the ECAFE ranking but for massive inflows of foreign aid. China (Taiwan), India and Thailand have all been enabled to move up into the group of high saving economies by the inflow of foreign saving. For the remaining countries of the region, the inflow of foreign investment makes little difference to their aggregate saving.

Phillippines is the only country in the region where private capital accounted for as much as one half of foreign saving during the 'fifties. There was a net outflow of private capital from Ceylon, India and Indonesia. In Indonesia a private long-term capital outflow was accompanied by an official long-term capital outflow; in Ceylon there was a net inflow of official capital but it fell short of the net private capital outflow; in India official capital aid more than made up for a relatively small private capital outflow.

Development Assistance

A Growing Concern for Small European Nations

Fritz Steuber

After a long period of relative indifference to the problems of developing countries, the small European nations have rather suddenly become agitated about them.

With the exception of such former colonial powers as Belgium and the Netherlands, the small European nations had no direct ties with the colonial world, and both public opinion and Government circles remained largely undisturbed about the colonial upheaval and its political and economic implications.

We shall be dealing here with five small European nations : Austria, Denmark, Norway, Sweden, and Switzerland.

In most of these countries the traditional manifestations of philanthropy, most important those of the Christian churches, are of long standing. Now there is a growing awareness that a new and bolder approach is needed. Public opinion in these countries seems to be already far ahead of Government action.

GUNNAR MYRDAL recently commented that "the common people might be more enlightened than their leaders sometimes assume that they are. When I recently visited my home country [Sweden], I was surprised to find an undercurrent of serious concern for the pressing needs of the underdeveloped countries". (Gunnar Myrdal, "Beyond the Welfare State; Economic Planning and Its International Implications". New Haven, Yale University Press, 1960, p 197.)

In some countries the establishment of voluntary agencies with the aim of dealing with problems of development assistance has preceded any concerted effort by Governments. Up to now, thinking on development assistance has largely centred around technical assistance. Government agencies dealing with foreign technical assistance were established in Switzerland in 1960 and more recently in Norway. The Central Committee for Swedish Technical Aid to Less Developed Areas had already been founded in 1952, but this early attention to the problem by a Government has been the exception.

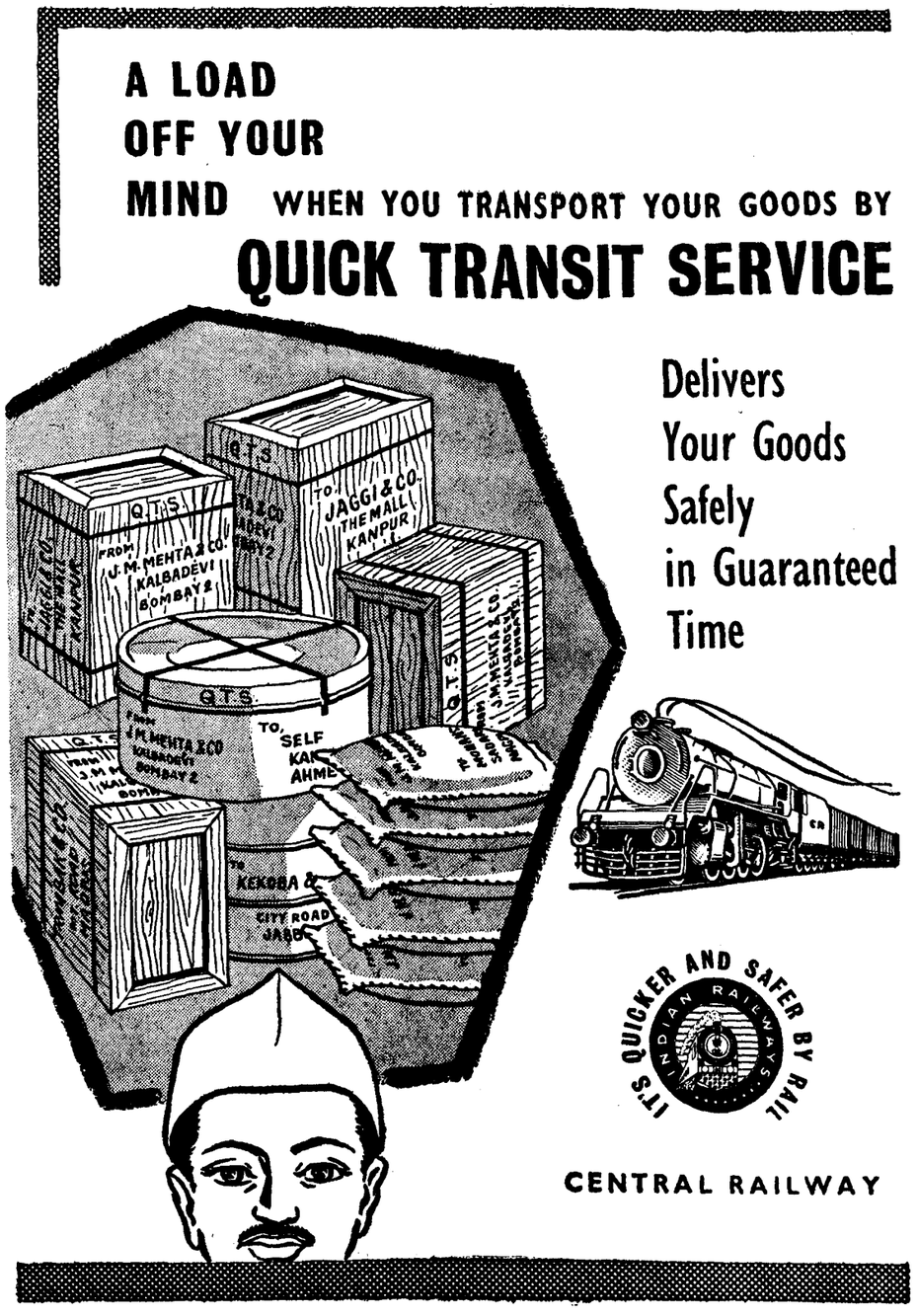
What precisely caused this sudden stir in both public opinion and Government circles is not easy to determine. There is no doubt that the spectacular events that took place in Africa during 1960 — independence granted to the former French African territories, and above all the birth-pangs of the former Belgian Congo, brought the problems of under-development to the limelight and demanded the almost continuous attention of even the average citizen. It is also true that the heavy pressures applied on West Germany by the United States in order to bring about a more equitable sharing of the burden of foreign aid, has spilled over to the smaller European countries.

What Is Aid ?

There is still utter confusion about the very definition of "foreign aid". The West Germans for a long time have included short or medium-term export credits under this title. Direct foreign investment by private firms may or may not be included. Thus it is difficult to assess the actual weight of the burden of aid when considering some of our countries' ambitions as future donors. In both Sweden and Norway, unofficial studies have indicated that a foreign aid contribution equal to one per cent of gross national product should be considered a desirable magnitude. Again, it is not quite clear whether this contribution would consist of public aid only or include also private investment. In 1961 the Swedish Industrial Council for Social and Economic Studies proposed a contribution of one quarter of one per cent of GNP as a suitable aim. In Norway the short-term target is one-half per cent of national income.

It remains to be seen whether to assess the industrialized countries with a "development tax" of one per cent of their gross national product, as originally proposed as a convenient figure by Paul Hoffman of the United Nations Special Fund, is a realistic target. In the past decade no donor country has even approached that figure, France being the conspicuous exception. According to a new formula worked out recently by Professor Rosenstein-Rodan (*Review of Economics and Statistics*, May 1961), based on both capital requirements of developing countries during this and the next decade and relative economic strength of each present and prospective donor country of the West, the assessment would probably be less than one per cent of GNP. The share of a country like Switzerland would be slightly above one-half of one per cent of its present GNP, or about 190 million Swiss francs.

For the present time, the gap between ambitions and past performance is still wide. Over the past decade public foreign aid in our countries was well below one-tenth of one per cent of their respective gross national products. Most of this public aid went into technical assistance, the greater part of it through multilateral channels, mainly the United Nations' expanded Programme of Technical Assistance and the Special Fund. In recent years, many Governments have steeply increased their contributions. Thus the Swedish contribution to multilateral technical assistance was raised to 17 million kronor in the 1959-60 budget from 6 million kronor in the previous fiscal year. In 1961 the Swiss Parliament voted a yearly contribution of 20 million Swiss francs over the next three years for both bilateral and multilateral technical assistance. Twelve million francs will be allocated annually for bilateral technical assistance, while during 1957-



1959 only about 300,000 Swiss francs were spent for that purpose. While in absolute terms this is still a modest contribution, the relative increase is indeed significant. But the magnitude of the Swiss public foreign aid contribution is still under one-tenth of one per cent of Switzerland's gross national product.

Reliance on Multilateral Programmes

As far as technical assistance is concerned, most countries still seem to hesitate whether to allocate a greater share of available funds to bilateral or to multilateral aid. It can be said in favour of bilateral technical assistance that all the small European countries considered are in an excellent position as donor countries, since they do not have any "spheres of influence", never having been colonial powers. The advantages in future trade developments to be drawn from bilateral technical assistance have been discussed with great candour in Sweden. In Switzerland an often-heard argument ran that a Swiss bilateral aid programme should focus on tropical Africa, for a variety of reasons: relative geographic nearness, especially urgent needs and economic structure complementary to that of Europe (which, however, would be true of other less-developed areas as well). Another reason why the newly independent African states could be considered as a natural field for technical assistance ventures of small European countries is that Africa has been kept relatively free of the Cold War struggle. The injection of technical assistance granted and administered by European countries without power ambitions could thus only contribute to the political stability of the new countries.

With a full employment situation prevailing in the small European countries considered, the recruitment of technical assistance personnel on a significant scale will prove exceedingly difficult. And the relative inexperience of all our countries with foreign technical assistance ventures makes it probable that they will not rely on bilateral assistance alone. It is safe to estimate that allocations for technical assistance will be about evenly divided between bilateral and multilateral programmes, the latter carried out chiefly by the United Nations.

Hesitation over Economic Aid

All our countries now envisage their foreign aid contributions primarily in the form of technical assistance. It is quite natural that they deem public *economic* assistance in the form of capital grants and/or loans to be largely beyond the capacities of small countries. Recently the Swiss Federal Council has argued that only the "biggest States" or international lending institutions such as the World Bank are in a position to extend economic assistance. In Switzerland again, some members of Parliament have vigorously spoken out against the "evils of public investment", quoting an extensive list of failures that resulted from investments made under the U S aid programme in South Korea. It is, of course, true that even if the small European countries should embark on a programme of capital grants and/or loans, they would still be confronted with the most difficult problem of creating an adequate machinery for the appraisal of aid requests and, especially, of individual projects. It is clear that international institutions such as the World Bank are much better qualified to do this. Our small countries would then do best to leave the assessment of priorities, both as far as countries and individual projects are concerned, to international aid institutions.

In fact, all the countries considered have contributed to the World Bank's lending operations in one way or another. Sweden, Norway, Denmark, and Austria have done it through subscriptions to the Bank's capital stock. Switzerland, although not a member of the Bank, has made a significant contribution over the past decade by permitting the Bank to sell bank bonds to Swiss investors. Out of 38 public bond issues marketed by the World Bank up to the end of 1961, 10 were denominated in Swiss francs. The Swiss Government has also lent the Bank over 300 million Swiss francs. In all, the Swiss contribution — public and private — to the Bank's lending operations has gone well over the 200 million dollar mark. By comparison, the three sterling issues which the World Bank has so far marketed in London totalled 56 million dollars. There is no doubt that World Bank bonds have proved an attractive investment for Swiss capitalists. How far considerations for the final destination and use of the funds thus provided have played any role in their decisions is, of course, impossible to ascertain.

Except Switzerland, all the countries considered have also made contributions, in the form of subscriptions, to the International Development Association, a subsidiary of the World Bank. Since this institution has granted "development credits" at a much faster rate than was originally envisaged, substantial additional contributions will soon be needed. Recently the Swedish Parliament has set the good example by voting additional contributions to the I D A. It is hoped that other countries will follow suit. It is safe to say that the International Development Association provides the best possible guarantee for a judicious use of the funds that the small European countries might want to earmark for economic aid.

On a bilateral basis, economic aid might be granted within the context of international consortia which are sponsored by the World Bank. Austria, for example, has already joined the Aid-to-India-Club. Thus, whether multilateral or bilateral, economic aid extended through the devices mentioned would relieve the small European countries of the burden of evaluating independently the feasibility of complex investment projects.

Substantial Private Investment

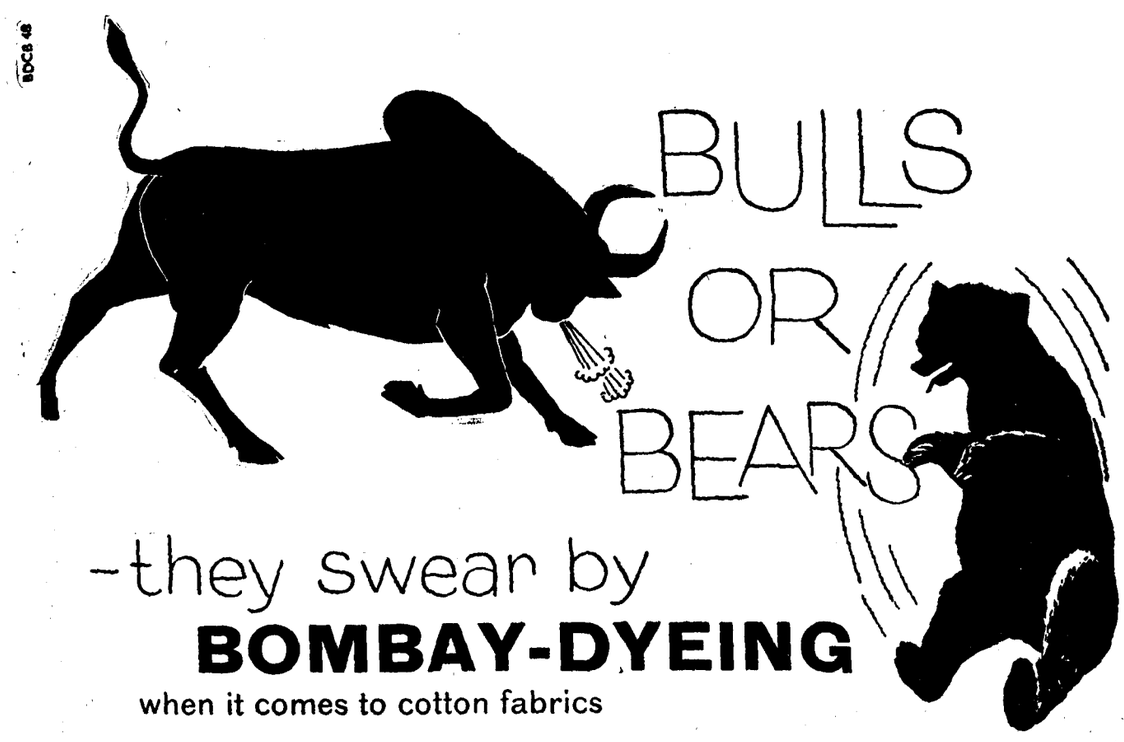
While significant increases in public foreign aid contributions will necessarily take time to materialize, since they depend on the willingness of the voter and taxpayer, the volume of direct investment by private firms in the developing countries is of a respectable magnitude in some cases. This is especially true of Sweden and Switzerland. During the four-year period 1958-1961, more than 500 million Swedish kronor were invested in developing countries, the bulk of it in Brazil, India, Liberia, and Tunisia. As of December 1959, total direct investment by Swiss firms in the developing countries was esti-

mated to be 1,660 million Swiss francs. In 1959 alone, 215 million Swiss francs were invested in these countries. Unfortunately, no figures are available on a country-by-country basis, nor about types of investments made. Per head of the Swiss population in 1959, Switzerland had thus invested 318 francs in the developing countries, a figure which is comparable to the one arrived at when total private investment by the United States in these countries is divided by the U S population.

A governmental investment guarantee programme is now under consideration in Switzerland. It has also been recommended in Sweden. Such a programme is a relatively cheap means of encouraging private investment in the developing countries. However, the experience of both the United States and West Germany with these programmes shows that potential investors are often deterred more by commercial than by political risks. Both American and West German investors have indeed been rather slow in taking advantage of the guarantee programme offered by their Governments. But since the record of both countries indicates that losses to date have been practically nil, the small European countries might at least experiment with such programmes.

Aid by Trade

Finally, there is a growing awareness, both in business circles and with the general public, of the special problems involved in the patterns of trade between the small European countries and the less-developed areas. It is now recognized in many quarters that the industrialized countries should not restrict their imports to raw materials only, and that some readjustments in their own industries following the import of manufactured goods from less-developed areas will be painful. In 1961 the Swedish Industrial Council for Social and Economic Studies drew attention specifically to the stabilization of primary commodity prices and non-discrimination against imports from less-developed areas. And recently, a Swiss chain of food stores pointed out in a series of advertisements that prices of African cocoa beans had fallen to an unprecedented low. Through massive consumption of a new, low-priced chocolate brand, the Swiss people could, so the argument went, help the young African nations to earn much-needed foreign exchange. Conclusion: if you buy chocolate XYZ, you contribute your share of foreign aid and "in the most practical way", and the countries concerned will like this form of aid much better than "give-away programmes which create the bitter after-taste of charity". In this instance, the "trade, not aid" argument was used effectively by commercial interests. It has, nevertheless, contributed modestly to the public understanding of the problems involved. We are confident that in the end neither the "aid" nor the "trade" formula alone will prevail, and that public opinion in the small European countries will gradually give support to both.



Planning for Export

Bhabatosh Datta

An enquiry into market prospects abroad, an investigation of the domestic cost structure in the export sector and a re-examination of the investment allocations are the basic steps in long range planning for exports.

The Third Plan has nearly four years still to run and it should not be impossible to reconsider the detailed investment allocations, remembering that exports are the most vital requirement for the success of the present and the subsequent Plans.

There are uncertainties and risks associated with every economic policy, but these appear to be greater in a scheme of things depending on the timely arrival of large and increasing amounts of foreign aid, particularly when the variables on which capital inflows depend are not all economic.

ONE of the recurrent features of planning experience in India has been the periodic emergence of continuously operating problems in the form of short-period crises. These short-period crises are the natural results of the absence of long-term policies in regard to the pressures generated by the process of development. The unfortunate consequence of this state of affairs is that once a short-period crisis is bridged over, relief and complacence follow and the necessary long-term policies are not adopted at all. The major problem of this nature has been that of our balance of payments. It should have been clearly foreseen in the early fifties that any large-scale development programme would press continually on our balance of payments, increasing imports and tending to reduce exports. It should have been recognised that the sterling balances would serve their purpose by being used up, that there would also be a decline in the interest income from these balances, and that foreign loans would require servicing. It should have been easy to foresee that a sharp upgrading of export earnings would be an essential condition for the success of our plans, unless there was a definite assurance of large, continuous and expanding foreign aid for a long series of years.

This conclusion would be relevant to all cases of rapid economic development, planned or unplanned, unless the country is largely self-sufficient, or unless the development process is itself initiated by expansion in the export sector. Adequate attention was not paid in India to the imperatives of the payments situation, and Government policy for a long time was merely one of adjustment to the exigencies of the quarterly or half-yearly changes in the foreign reserves. The oscillations around the trend were often sought to be corrected, but the trend itself was allowed to pursue its course. The large sterling balance of the First Plan period led to complacence, and excess industrial capacity and good monsoons combined to create a false picture of good prospects. The inevitable crisis came with the initiations of the Second Plan, and was, like all crises, corrected with the help of emergency measures. Long-term policies were talked about, but little was done.

There is a crisis again and there is also the danger that after the emergency stage has passed, there would again be delays and hesitations regarding long-range measures. The Second Plan period was the time for taking care of the Third Plan payments problems. The Third Plan itself speaks about the need for raising exports to a Rs 1400-crore level in the final year of the Fourth Plan, but does not enter constructively into the problem. The plans themselves have been a bold break with the past, and our export promotion policy also required a bold break. Instead, one feels that behind all our policy discussions, there is an implicit faith that something will turn up and there is also a belief that other countries will necessarily see us through our troubles.

II

The Second Plan started with a total foreign exchange balance of Rs 746 crores in the hands of the Reserve Bank (in addition to Rs 118 crores of gold). This total declined to Rs 267 crores at the end of March, 1958, and to Rs 136 crores at the end of the Second Plan, despite substantial drawings from the IMF in 1957 and the various credits obtained from the IBRD and foreign Governments. The decline in reserves continued in the first year of the Third Plan, the total reaching an all-time minimum of Rs 98 crores in July, 1961. An IMF drawing of $ 250 million, leaving a net accretion of $ 122.5 million (Rs 58 crores) after the repurchase of the remainder of the 1957 drawings, raised the total to Rs 153 crores in early August, 1961. A new downward phase started in 1962 and the reserves fell to Rs 112 crores at the end of April, Rs 103 crores at the end of May and to Rs 102 crores in the middle of June.

Final foreign trade figures for 1961-62 are not yet available, but according to the provisional estimates there has been some improvement in exports and a considerable shortfall in imports, as compared with 1960-61. (Table 1). The ex-

Table 1 : Foreign Trade, 1961-62 : Plan and Performance
(Rs crores)

	Third Plan estimate of annual average	Third Plan estimate for 1961-62	Provisional actuals for 1961-62	Actuals 1960-61
Exports	740	667	677	646
Imports	1150	1131	958	1045
Balance	—410	—464	—281	—398

Source : "Third Five Year Plan", p 112; Reserve Bank of India *Bulletin*, May 1962, p. 803.

port performance in 1961-62 appears to be a little better than was estimated in the Third Plan document and appreciably better than in 1960-61, while imports have been substantially lower. If in spite of this, there has been a fall in reserves, the reasons will be found in the current invisibles account, in the private capital account and in the figures for debt repayment. All these reasons are likely to persist and even to get magnified. There is also the fact that if the total import plan for the five-year period is the absolute minimum, the shortfall in 1961-62 will have to be made up by an annual average of more than Rs 1150 crores in the next four years.

Danger Signs

The full picture for 1961-62 cannot yet be drawn. Detailed trade figures available for the first ten months of the period (April-January) indicate increases in the exports of sugar, raw and waste cotton, jute manufactures, art silk fabrics and coffee, while there have been decreases in vegetable oil, cotton fabrics, gums, resins and lac and manganese ore. Table 2 brings together the provisional balance of payments data for the first nine months of 1961-62. Superficially, the account for 1961-62, with its smaller trade deficit and larger capital inflow on Government account, appears to be better than in 1960, but there are three danger signs. The first is that the imports have been smaller than the minimum targetted level, indicating that either they will have to increase considerably above the estimated average over the next few years, or the full implementation of the Plan will be affected. The second danger sign is the sharp change in the net position on the invisibles account and the third is the increase in the repayment obligations of the Government. The increase in exports that would make one feel safe about the Third Plan will have to be much larger than has been experienced in the first year. And the requirements for the Fourth Plan will be larger still.

III

It is against this background and on the prognosis offered by the essential elements in the structure that one has to examine the measures that are likely to bring about a substantial increase in export earnings. A comprehensive set of proposals regarding our import and export policies have been put forward by the Mudaliar Committee, which reported in February, 1962. It is not quite surprising that the Committee's discussion of import policy is confined mainly to an examination of the existing licensing procedures. If the estimated level of imports during the Third Plan is taken as the essential minimum, the main requirements of import policy are, first, to ensure that the right type of imports come in, and, second, to see that when imports are permitted, official delays are kept down to the minimum. The first logically involves the question of priorities, and this, in a sense, reopens a large part of the entire problem.

There is, for example, a difficulty about the meaning to be accorded to the term 'maintenance imports'. It is possible to interpret the term to mean the imports necessary to maintain the existing levels of production and consumption. The Mudaliar Report interprets the term in the sense of imports for maintaining the existing units of industry at the *optimum* level of production (p 7). The first interpretation is more convenient for policy decisions, though there is no social compulsion to maintain the existing levels of production and consumption in all lines. The other interpretation creates difficulties because the technological optimum, the commercial optimum and the social optimum in its all-inclusive sense will generally diverge from one another. And unless the optimum is defined in a purely static sense, no distinction can be made between maintenance imports and development imports.

"Maintenance Goods Fallacy"

The composition of the import-basket raises other important issues. During the first few years of planning in India, there was what may be called a 'capital goods fallacy' in our policies — an idea that if the imports are of capital goods, they deserve to be facilitated. It was not always clearly realised that there could be excessive or wasteful imports of capital goods — of capital goods that would remain idle on account of lack of final demand or of complementary factors, and of capital goods that could only produce goods low on the scale of social priorities. A similar type of fallacy may creep in, if imports of goods required by the existing industries are all put on the same level of priority. Besides, one has to take into account the future technological and demand prospects. An unqualified policy of maintaining all existing industries at their current levels of output may later create the problem of protecting out-of-date lines of production. What is more important is to define separately what may be called 'growth industries' — industries for the outputs of which there is a strong likelihood of a rapid and long-continued rise in demand. A high place will be taken in this list by industries with a good prospect of rising external demand, and here the export and import policies will require to be integrated.

IV

Coming to the more important and more complex field of export expansion, the Mudaliar Report makes a large variety of recommendations. Among the currently operating difficulties in this field, one of the most serious is the existence of

Table 2: Balance of Payments, 1960 and 1961

	April–Dec. 1961	April–Dec. 1960
	(*Rs crores*)	
Imports	—709	—806
Exports	+500	+472
Trade balance	—210	—335
Official donations	+ 28	+ 35
Other invisibles	— 7	+ 52
Current a/c (net)	—189	—248
Errors and omissions	— 10	— 11
Private and Banking capital (net)	— 26	— 1
Official loans	+263	+163
do Repayments	— 40	— 14
do Miscellaneous	+ 15	+ 67
Movement in reserves (Increase)'	+ 13	— 44

Source: Reserve Bank of India *Bulletin*, November 1961 and February and May, 1962.

a highly profitable and rapidly expanding domestic market. A related point brought out by the Report is that India has no great export tradition; Indian export houses are few in number and they very often carry on trade through entrepot countries. The Committee has also accepted the position that no really effective export expansion measure has been adopted up till now (p 24). The recent measure of tying up new industrial licences and capital goods import licences to promises of export performance is not considered 'tight' enough. No really careful scrutiny precedes either the making of the promises or the granting of the sanctions. It is unreasonable to suggest that the promise to export should be absolute, but there is scope for a better analysis, on the Government side, of the prospects, and for more definite guarantees on the producers' side than are given now. There is the patent fact that no commodity-wise study of export-prospects has as yet been undertaken.

The Committee is also outspoken in regard to our failure in developing an export climate. The creation of an export climate requires effective co-ordination of intention and action between the Centre and the States, between Government and business and between Government and the public. The committee points out that there have been serious cases of lack of co-ordination between the Central and State Governments in regard to remission of fiscal levies or facilitation of inter-State movement of raw materials (p 25). Similarly, the business community has not worked in co-operation with the Government. The mercantile community, the Committee states, "cannot be expected to be guided purely by altruistic and patriotic motives", and the question of concessions, relief and other incentives naturally arises.

Revolving Fund for Exports

The Committee has examined the various ways in which aid or incentives can be given to exporters. In regard to the shortage of imported raw materials, components and replacements, it quotes with approval Sir Donald MacDougall's suggestion that a further annual import of Rs 100-crores worth of materials would probably increase industrial production by 15-20 per cent, or by several times the value of the increased imports, but does not enter directly into the question as to the specific industries which would require these additional imports. The question as to the availability of additional foreign exchange for the import of raw materials etc is linked up with the Committee's other proposal regarding the establishment of a revolving fund. This proposal is an expansion of a private foreign bank's scheme for providing foreign exchange for imports, on the condition that export earnings resulting from the additional imports would be used for repayment. Expanding this idea, one can think in the first instance of a revolving fund, the receipts from export earnings being used for financing necessary imports and imports being used to increase the export-output. Once the revolving fund has reached an optimal size, there would be net gains in foreign exchange from further accretions. The points that require examination here are whether such credits would in fact be additional to credits that would otherwise have been received, and what would happen if the resulting export-earnings are lower than expected. The net advantage is likely to be greater if foreign firms are willing to send materials and components for rupee-payments and then use the rupee balances for purchases in the Indian market. But here also one cannot always be optimistic about the quantitative magnitude of such transactions, and there is again the problem whether the foreign firms' purchases of Indian goods with their rupee balances would mean additional exports, or simply a substitution of asset-earning exports by liability-reducing exports.

V

A major element in the Mudaliar Committee's recommendations is that regarding income tax relief for exporters. The Committee does not favour the grant of tax remissions only on earnings from additional exports, on the ground that the present level of exports cannot be taken for granted: it may in some cases be a creditable performance just to prevent exports from falling. The Committee suggests a three-fold scheme: a tax rebate on profits from basic exports, a tax rebate on earnings from additional exports and a special rebate for the creation of an export development reserve. In order to avoid the difficulty of calculating separately the profits from exports, the Committee recommends that, for the purpose of the tax rebate, export-profits should be calculated from the total profits of the firm concerned on the basis the ratio between its total export receipts and its total turnover, domestic and foreign. Thus, the export-profits of a firm earning gross sales receipts of Rs 20 lakhs from exports and Rs 40 lakhs from domestic sales would be taken to be one-third of its aggregate profits. The basic exports would be the exports in a specified year, say, 1960-61. The rates of rebate suggested by the Committee are 7.5 per cent in the case of basic exports, 10 per cent in the case of additional exports and 5 per cent for the export development reserve fund. If there are losses these, as well as the rebates thereon, would be carried forward.

There is some danger of collusion here — two exporters may collusively arrange that one should have large additional exports and thus earn rebates, while the other would show a loss and earn the resulting carry-forward. But the prospects of any large gain from such collusion would be limited and it should not be difficult to devise effective preventive measures. In regard to the development rebate, it is obvious that the reserve will be of no value unless the drafts on it are spendable abroad for publicity and marketing. Like all cases involving foreign exchange expenditure, this measure would involve individual scrutiny of each use of the development funds.

Rebate: How Much?

The main difficulty in all such schemes is that of finding out the required rate or rates of rebate. It will be difficult to discover the optimal rate of rebate even in the case of a single commodity produced by a single firm; the difficulty will be many times greater if a uniform scheme of rebates is to be made applicable to all commodities and all firms. It is impossible, however, to think of a multiple scheme of rebates, and the best that the Government can do is to approach the right scheme through practical working. The fact that the Committee's scheme of rebates is based on the gross earnings from exports in welcome, not only for the reasons

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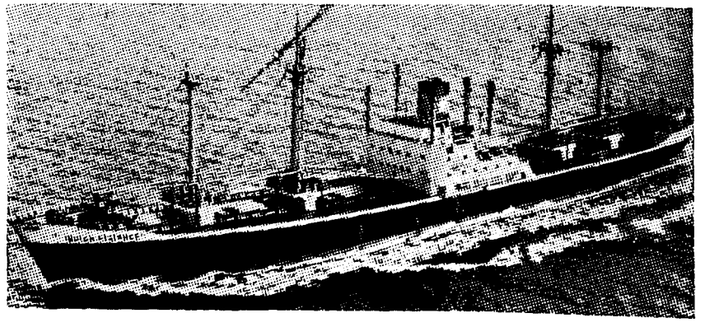

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stated by it, but also because of the elementary fact that it is the increase in the total export earnings that is primarily important from the national standpoint.

VI

The Committee also discusses the issues connected with currency retention — i e, permitting the exporter to retain a part of his exchange earnings, either for importing materials and components, or for importing goods which he can sell in the domestic market at a high profit. The Committee has not recommended retention schemes in general, but has suggested that the currently operating system of issuing import licences to exporters for the import of necessary materials and components should be continued and widely used. The Committee is definitely against permitting import-entitlement for consumer goods otherwise banned.

Pakistan, it may be noted, maintains a differential export bonus system, under which all exporters are allowed import-entitling foreign exchange to the extent of 10 per cent of the total foreign earnings surrendered; the bonus is 20 per cent in the case of exports of certain primary products and of jute and cotton manufactures and 40 per cent for all other manufactures. The vouchers are freely transferable and entitle the holders to import a wide variety of listed commodities. The French EFAC (*exportations-frais accessoires*) account system is more complicated, as the import-entitlement percentages depend also on the type of foreign currency surrendered. There is no reason in India now to have special rules for different currencies and a system of the Pakistan type will be self-defeating, going against the entire basis of our import control. If the exporter has to be subsidised, it would be better to offer the subsidy by some more direct means.

Among other measures, the Mudaliar Committee recommends a general railway freight concession of 25 per cent on all goods actually put on board for export purposes. There are no doubt good reasons for this step, but its net effect on exports would depend on the proportion of the internal railway transport cost to the total c i f sale value of the commodity concerned in the foreign market. In many cases, the proportion is likely to be very small.

Rupee Payment Agreements

The Committee has in general approved India's policy regarding bilateral rupee-payments agreements. There is an admirable statement of the different aspects of the problem in two excellent paragraphs (p 42) and the general conclusion is that the agreements have developed new trade and new markets. Procedural changes have been suggested regarding import price mark-up and resale of our traditional exports at cut prices in third markets. It has also been prescribed that the agreement imports should be those which are really high in our priority scale and that there should be no relaxation of import control simply because goods are available for rupees. It would have been profitable to pursue the inquiry further, region by region, and to examine the prospects of rupee payments agreements with countries in Asia, Africa or Latin America.

VII

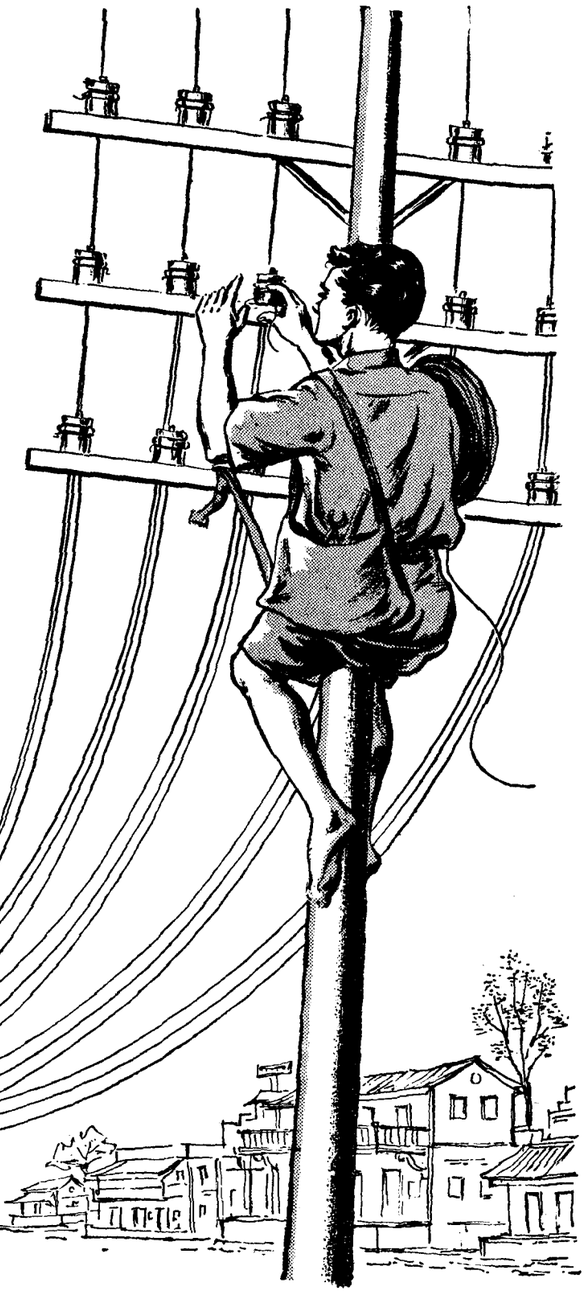
Many of these recommendations would mean rupee-revenue losses to the Government. One should therefore consider the alternative of giving direct subsidies to exporters on the basis of their export performance. The main objection against open direct subsidies would be that there would be international reactions. It is an irony of our times that measures having exactly the same economic effects may not be equally acceptable. Differential tariffs may bring a country in conflict with the GATT and multiple exchange rates with the IMF, but thin disguises are acceptable. There is, however, a better understanding now of the similarities and dissimilarities in trade policies among the peoples of the different countries, and there is no reason now to presume that direct subsidies to exporters will produce more reaction among foreign Governments and businessmen than thinly-disguised indirect financial aids. The main advantage of direct subsidies is that the case for each commodity can be judged on individual merits and all calculations and estimates become easier and more dependable. The same result can, of course, also be secured by state trading, based on purchases in the domestc market at the internally prevalent prices, or at least at prices that will cover domestic costs with a profit mark-up, and sales abroad at competitive prices.

The Mudaliar Committee has rightly rejected the proposal that there should be a statutory compulsion on some industries to export a part of their output. This would be unfair to the private sector industries and would in many cases mean a large gain to the foreign buyers without an increase in our net foreign currency earnings. A voluntary understanding with private industry will probably bear better fruits, and if any compulsion is to be used at all, it should take the form of compelling industries to sell a part of their output to the state trading unit, leaving the responsibility for export to the Government.

Curb on Domestic Consumption

All this would mean in effect a deliberate curb on domestic sales and consumption in many cases. It is clear by now that in the inflationary situation of our times, price-curbs on domestic consumption are often ineffective in releasing a surplus for export, and there would be a strong case for more direct control. Even here, there is some scope for collusive diversion of export quotas to the domestic market (the 'export-rejects' sold after the War in the British domestic markets were not always above suspicion), but, with state trading functioning effectively over a wide field, the evil should be capable of being minimised. There would, of course, be an increased price-pressure in the domestic market, but that is a result for which any export promotion scheme has to be prepared at least in the short run. The remedies would lie in other directions — in fiscal measures and in measures reducing monopolistic practices in the domestic market. It also deserves to be remembered that if our national income increases by, say, 50 per cent in the next eight or nine years and our exports are doubled, the share of exports in the national income will increase from the present level of 4.6 per cent to about 6.2 per cent, and this should not mean any great strain on domestic consumption.

Right man on the Right lines...



That is the linesman in the public utility serving you. Be it a transient fault or a major line failure, the utility is always on the alert to restore service with least possible delay.

With the unfolding of the National Plans there will be more power but this to be of use must be delivered to Industries and homes. Towards this task, and in augmenting power resources, the Electric Supply Undertakings affiliated to the Federation of Electricity Undertakings in India are dedicated. The successful performance of this task calls for investor confidence which is best fostered by the return being made really reasonable.

With investor confidence comes more finance, which means enlarged power facilities for the Nation.

THE FEDERATION OF ELECTRICITY UNDERTAKINGS OF INDIA

VIII

The important point that is often ignored is that foreign exchange is the scarcest among the resources we require for the implementation of our plans and we should therefore be prepared to pay a special price for it. In any properly calculated programme of action, the accounting price of foreign exchange would be much higher than the price established by our existing parities. This does not necessarily make out a case for actual devaluation, particularly when other prices are not brought in line with the shadow prices, but it emphasizes the justification for bearing increased domestic burdens for increasing our foreign exchange earnings. If internal revenue-losses of the Government would increase foreign exchange earnings, such losses should be willingly borne. If physical control of domestic sales and consumption would make larger export earnings possible, the feasibility of such control should be carefully examined. If a reallocation of the total investment expenditure would increase the production of import-substitutes or increase the exportable surplus, such reallocation should be considered. If high domestic profits keep exportable goods in the domestic market, steps are necessary both for making exports more profitable and for reducing domestic profits.

There is, of course, the difficulty that one cannot always be certain about the effectiveness of a particular foreign trade policy. One can be much more certain about the domestic effects of any particular policy than about the effects abroad. But, still, external trade policies have to be adopted — even the absence of a policy has its effects on the external transactions — and some estimation of the foreign markets' demand elasticities at different price ranges has to be made. One should not, in any case, speak of two alternative models explaining the Indian export situation — one emphasizing the domestic factors (rise in demand, prices, profits and costs) and the other emphasizing the factors affecting external demand and external sales. The actual picture is a composite result of both the aspects of the problem.

Study of Foreign Markets

There is a strong case for a thorough commodity-by-commodity study of the demand situation and prospects abroad. The market prospects as analysed by our consular representatives have generally been of a routine variety and our consular offices have not generally been provided with suitable technical staff. In regard to commodities like jute and tea, the trading interests themselves have occasionally tried to look into the matter, but to them the most important consideration is the net profit from export, while to the nation the most important objective is the total sales revenue from export (from which, in some cases, it may be necessary to deduct the cost of additional imports required for attaining and sustaining the export level). The inquiries have to be really technical ones and continuous, and should not be of the sporadic Trade Mission variety.

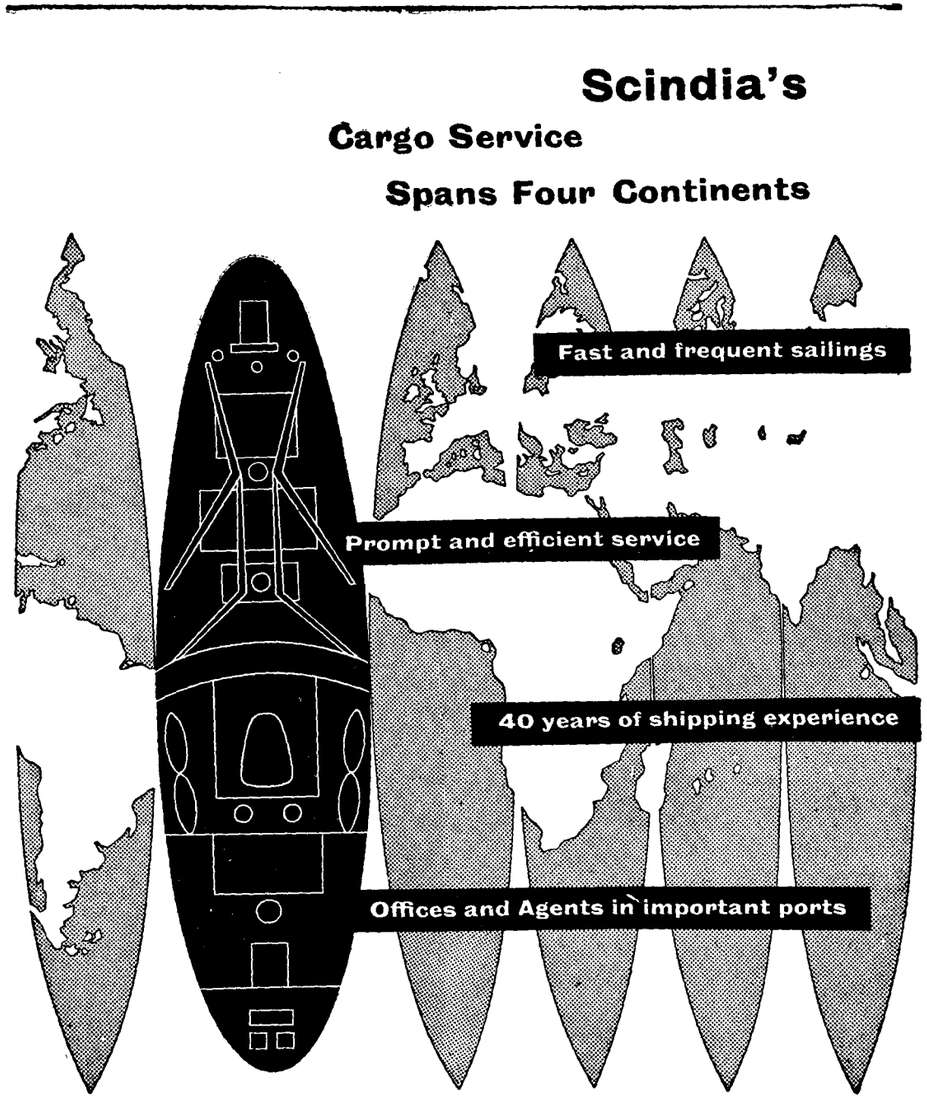
These inquiries should cover both our present markets and the prospective ones. It is clear that that there would be new alignments in trade as a result of Britain's entry into the EEC. Despite any advantage that India may have in maintaining some of the preferences of her trade with Britain during the next few years, substantial adjustments will have to be made to the new situation. It is not impossible that the loss of a sheltered market may offer India a challenge which would be ultimately beneficial. But all this requires a thorough examination of the factors governing import demand abroad — national incomes, the share of imports in the national incomes, the share of Indian goods in the imports, the difficulties in increasing India's share etc — country by country and commodity by commodity. Too much concentration on export destinations can easily create situations of the type we are experiencing at present — the sudden loss of a traditional market may create a serious emergency. If diversification of exports is desirable, it is no less desirable to diversify our export markets. It is worth remembering that all the African countries together buy only about Rs 50 crores worth of goods from us, and all the Latin American countries together no more than Rs 16 crores. And these are all growing economies.

Development of Export Industries

The specific allocation of investment expenditure for the development of industries with export prospects is another line of action which has been neglected up till now. Assuming that import estimates for the near future have been correctly made after taking into account the prospects of import-substitution by domestic output, the only positive additional measures that can be adopted are those leading to an increase in the exportable surplus. Exports can be increased even with a given output, if there is an increased diversion to the foreign markets. Exports can be increased, without reducing domestic sales, if the total output of exportables can be increased. This increase can in some cases be secured by utilising existing plant capacity more fully and by the elimination of monopolistic forces keeping output down. And there would also be cases where new investment will be necessary. There is, besides, the closely allied problem of possible cost reductions in our export industries. An increase in the unit-price of factors of production need not necessarily mean an increase in the unit-cost of producing the output, but there may always be some scope for cost reduction by better organisation or by intra-industry specialisation.

An inquiry into market prospects abroad, an investigation of the domestic cost-structure in the export sector and a re-examination of the investment allocations are the basic steps necessary for the solution of the long range problem. The Third Plan has nearly four years still to run and it should not be impossible to reconsider the detailed investment allocations, remembering that exports are the most vital requirement for the success of the present and the subsequent Plans.

There are uncertainties and risks associated with every economic policy, but these appear to be greater in a scheme of things depending on the timely arrival of large and increasing amounts of foreign aid, particularly when the variables on which capital inflows depend are not all economic.



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Export Structure and Policy

Kanta Ahuja

An attempt has been made below to project the level of Indian exports on the basis of certain assumptions regarding the growth of trade in different areas of the world. Such projections are the first step on the basis of which planning the composition and direction of exports can be undertaken.

On the assumptions made in this study, South-East Asia and the Middle East appear as the most hopeful areas for achieving a large expansion of Indian exports.

The importance of the U S and industrial West for Indian exports would probably continue.

Japan and East Europe have good prospects in terms of rates of growth but in terms of absolute values, the scope in these markets is limited.

[The author wishes to thank Jagdish Bhagwati for his helpful comments and suggestions. Her thanks are also due to Dr A Vaidyanathan for having gone through the draft and suggested improvements.]

FOR planning India's export structure it is necessary to estimate the likely demand for Indian exports 10 to 15 years from now. To get such an estimate, one could take a commodity by commodity approach and estimate demand for each individually. This can be done for most of our traditional exports where estimated income elasticities can be a fairly good basis for projecting demand. The supply and cost situation is also fairly well known or reasonably valid assumptions can be made about it. This approach fails when we come to the non-traditional exports. A rapidly changing export structure does not lend itself to the kind of analysis applicable to most traditional export items. In the first place, we do not know precisely what commodities would be important in our export trade ten years from now. All we know is that by that time India would be producing a large range of manufactured goods. In the second place, even if the commodities were precisely known, demand estimation would still be difficult because unlike standard primary products, the industrial products are not well defined. Quality differences and non-price factors play an important part in determining demand. Very little is known of price and substitution elasticities and only very rough approximations can be made about income elasticities. Broad generalisations about the growth of trade in capital goods, consumer goods and semi-manufactured intermediate goods could be made. This in itself cannot be used as a basis for projection as trade prospects for any country depend not merely on the level of trade of particular groups of commodities but also on the precise composition of trade within the groups.

Due to these difficulties the commodity by commodity approach has to be given up for non-traditional exports and instead a more aggregative estimate, based upon the growth of trade in relation to postulated growth rate of national product in different regions of the world has to be made the basis for projection.

Method Followed

The method followed in this exercise adopts the individual commodity approach for most of the traditional items. For new manufactures estimates are obtained by making assumptions regarding the share of Indian exports in the total imports of the trading partners. Statistically, therefore, the estimates for new manufactures appear as a residual, having first determined the total export level and the level of traditional exports. In fact this is not so, for the assumptions regarding the share of Indian exports to total imports take into account the factors that are likely to determine exports of manufactured goods from India. On the basis of the direction of total trade derived by the above method, a commodity composition of trade that would be consistent with the assumptions regarding the share of Indian exports in total imports of the importing areas is obtained.

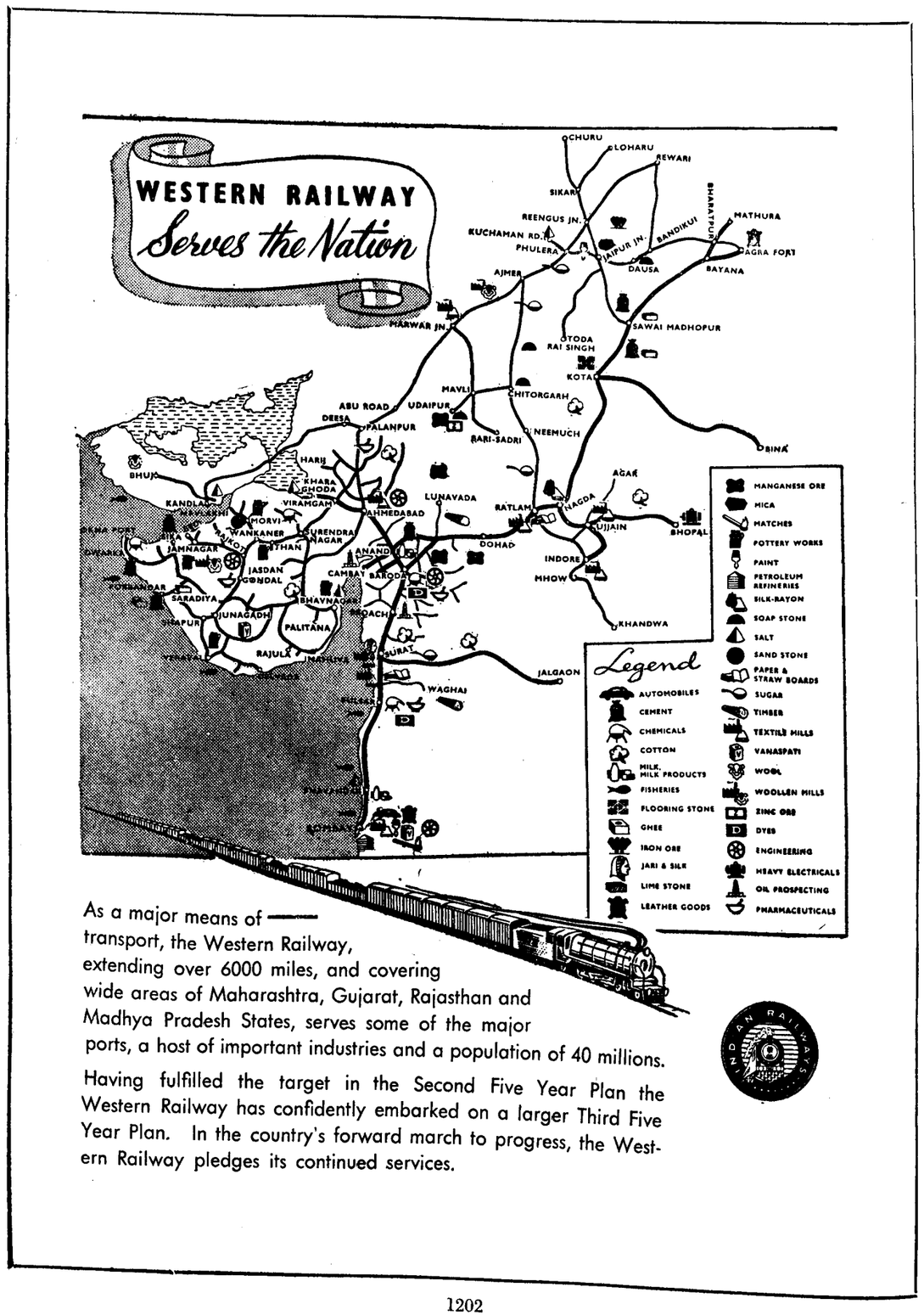
Table 1 : Total Imports into Different Areas of the World, 1958 and 1975

('000 *million dollars*)

Countries/Areas	1958	1975
U S A, Canada	181.2	271
W Europe	451.3	722
Japan	30.3	104
Oceania	28.9	45
Latin America	85.3	178
Middle East	38.5	57
Africa	63.6	155
S E Asia (excl India)	80.3	168

Table 1 presents projections of imports into different areas of the world. For USA, Canada and Western Europe, imports are estimated on the basis of a projected rate of growth of GNP and an assumed import/national income ratio. The estimates shown imply an 80 per cent rate of growth of GNP[1] between 1955-1975 giving an average rate of growth of 2.8 per cent per annum, and an import ratio of 4 per cent for North America and 20 per cent for West Europe. These ratios are assumed to decline from the existing levels of about 5.5 per cent and 22 per cent respectively because of the fact that trade during the post-war years has shown a fast rate of growth due to unusual factors and is therefore not expected to last over a long period

[1] See GATT *Survey* 1956 and 1959, and ECE *Survey* 1957 and 1960.



As a major means of transport, the Western Railway, extending over 6000 miles, and covering wide areas of Maharashtra, Gujarat, Rajasthan and Madhya Pradesh States, serves some of the major ports, a host of important industries and a population of 40 millions.

Having fulfilled the target in the Second Five Year Plan the Western Railway has confidently embarked on a larger Third Five Year Plan. In the country's forward march to progress, the Western Railway pledges its continued services.

of time. In other words, the estimates imply a slightly slower rate of growth of imports as compared to the rate of growth of GNP. The Japanese import estimates in Table 1 and Table 2 are based upon the projections made by the Long Range Deliberation Council (LRDC) Japan[2]. They imply an average 6 per cent per annum rate of growth of imports. For lack of any other detailed analysis, the estimates for Oceania are taken from the LRDC study on exports. They imply a 2.7 per cent per annum rate of growth of imports. This figure is arrived at on the basis of the past trend in imports. For the underdeveloped regions, the projections are based upon the assumptions made by the ECE[3]. They imply a 3 per cent per annum rate of growth of per capita incomes and an import elasticity of 0.85 of the growth of national income. For East Europe, the estimate in Table 2 is arrived at on the basis of information regarding the trade plans of some of the East European countries[4]. These plans in most cases extend upto 1966 or 1967. For estimates given here it is assumed that the same trend would continue until 1975.

Countrywise Share of Imports

On the basis of Table 1 estimates, Table 2 projects Indian exports to major areas of the world on two alternative assumptions viz (1) that the share of imports from India to total imports remains as in 1958; and (2) that due to a changed commodity composition that would result from a changed structure of production as also from the changed structure of world trade, India's share in some areas would increase and remain constant or fall in some other areas.

A study of the share of imports from India in total imports shows that this share has been declining in the more highly developed countries (West Europe, North America, Japan and Australia) and also in the underdeveloped regions (Latin America, and South East Asia). It has remained constant since 1950 in Africa and fluctuates from year to year in the Middle East. The declining shares are not only relative but are also due to absolute decline in exports to Latin America, South East Asia and West Europe. In the light of this, the first assumption that Indian trade manages to keep pace with world trade implies a change both in the composition of exports and in the direction of exports due to the differential rates of growth of different commodities and of different regions of the world.

Tied Aid, Development and Exports

Assumption 2, which implies that India pushes forward in the areas with possibilities of high growth of total trade, has been made after taking into account various factors that are likely to determine our exports. In the first place, one has to keep in view the commodity net-work of trade between different regions of the world. It does not appear reasonable to assume that India can simultaneously increase her share in all markets of the world, specially when her exports to some areas consist of inputs for the exports of the importing area. For instance, the level of iron ore exports from India to Japan is determined among other things by the level of exports of iron and steel products from Japan. Therefore, if we are competing with Japan in iron and steel using products in third markets, it is inevitable that the exports of iron ore to Japan would show a decline. It is this kind of relationship that is reflected in the shares assumed under the second assumption. The precise levels that have been determined, while involving an unavoidable amount of arbitrariness, take into account most of the factors that might encourage or limit the growth of Indian exports.

For the industrialized countries, the shares have been determined after taking into account the commodity projections for individual traditional export products given in the last section of this article. On the basis of these projections, the level of traditional exports from India would be only about 50 per cent above the 1956 levels. The projections made by the ECE so far visualise an increase in imports of processed materials from underdeveloped regions and while recognizing the need for increased exports for the underdeveloped areas, the ECE does not consider the prospects for the exports of manufactured goods very encouraging, In the case of India processed material (leather, oils, tea) are traditional exports and the new manufactures consisting mainly of engineering goods would not only face greater competition if imported into the industrialized countries but there would be greater resistance in allowing such imports.

Table 2: Share of Indian Exports in Total Imports of Different Areas, 1958 and 1975

(Value in 100 million dollars)

Country/Areas	1958		1975 I		1975 II	
	Percentage Share	Value	Percentage Share	Value	Percentage Share	Value
U S A & Canada	1.25	2.26	1.25	3.39	1.1	2.98
Latin America	.5	.45	.5	.89	.4	.71
W Europe	1.04	4.7	1.04	7.51	1.0	7.22
Middle East	2.85	1.1	2.85	1.62	5.5	3.14
S E Asia	1.82	.54	1.82	3.06	5.0	8.40
Africa	.77	1.5	.77	1.19	1.5	2.33
Oceania	2.04	.49	2.04	.92	2.5	1.12
Japan	1.09	.59	1.09	1.98	1.6	1.67
Europe	N A	.62	N A	2.10	N A	2.1
Total		12.25		22.66 (Rs 1079 crores)		29.67 (Rs 1412.7 crores)

[2] Reports of the Export and Import Sub-Committees of the LRDC, Japan. Translation Series No 46 and No 53 of the Indian Statistical Institute, Translation Unit, Tokyo.

[3] U N Economic Commission for Europe, *Survey* 1960, Chapter V.

[4] U N Economic Commission for Europe, *Survey* 1959, Chapter III.

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On these considerations, the maintenance of the existing share would be quite difficult. Latin America, because of its distance from India, has never been very important for Indian exports. In addition Brazil would play the kind of role in Latin America that India might play in South East Asia and be an important exporter of manufactured goods to the neighbouring countries. Due to these reasons, an increase in share in this area is not anticipated in the projections.

Where Scope for Increase Is Definite

Middle East and South East Asia are the two markets where there is definite scope for increasing the share. The limiting factor in these areas is the way in which new imports are likely to be financed. If tied aid remains the principal determinant of the level of imports, Indian prospects would not be very bright. If we make the assumption made by the ECE (*Survey* 1960) that net aid would continue to cover one-eighth of the level of imports as at present, the magnitude of imports over which India could compete in these two regions would be reduced by about $4 billion — this being the level of aid — and this would fall still further if the rate of growth of per capita income that can be sustained by this aid turns out to be less than the anticipated 3 per cent per annum. If on the other hand we make the assumption made by GATT (*Survey* 1959) that aid covers the entire saving-investment gap (estimated on the assumption that present savings ratio is 7 per cent, the marginal savings ratio 25 per cent and the capital-output ratio about 2.3 : 1) that would exist if a 3 per cent rate of growth of per capita incomes is realized, then the amount of imports that would remain to be financed from sources other than the aid giving nations would be reduced by about $ 8-10 billion. In this case, the scope for increased exports from India to the underdeveloped regions would be very limited. Therefore on the basis of these considerations, as also the present share and its past trend, a 5 to 5.5 per cent share appears an optimistic and a maximum limit. The estimates in Table 2 represent the feasible area within which India can hope to operate, given the broad net-work of international trade.

Table 3 shows the extent of redirection that is involved in the two assumptions. The importance of the industrial areas even under assumption 2 would remain. Exports to them would still constitute more than 40 per cent of the total exports from India.

The commodity composition of trade that is implied in the estimates given above and that would be consistent with the individual commodity estimates is given in Table 4.

Demand for Traditional Exports

In projecting demand for the traditional exports, relative prices have been ignored and only income elasticities have been taken into account. Relative prices have to be ignored because very little is known about price and substitution elasticities. In any case, except for cotton textiles, changes in relative prices cannot have a long run effect on the level of exports. This is because of inelastic demand on the one hand and a limited number of suppliers on the other. Unilateral price reductions in tea or jute will harm not only our competitors' but also our own exports. In other cases like vegetable oils or coffee where inadequate supplies limit exports and where the Indian share in the total world market is small, changes in prices cannot be expected to do much for the level of exports. Besides, there is no basis on which changes in prices can be forecast and therefore they have to be assumed constant.

The commodity estimates generally assume that the present structure of trade in most of the traditional commodities would continue. It is assumed that the Indian share in the tea trade and jute textiles trade would be maintained at 45 per cent and 80 per cent respectively. In the case of cotton textiles it is assumed that cotton yarn and artificial silk fabrics would show larger increase than the traditional grey, unbleached cotton cloth. This assumption has been made because most of the underdeveloped countries are setting up textile mills. Most of them are not cotton producing and if India manages to produce sufficient raw cotton, she should be able to export a considerably large amount of raw cotton and/or yarn. For the precise income elasticities used and other assumptions made, the reader is referred to GATT *Survey* 1956 and the ECAFE and ECE *Surveys* 1957.

Table 3 : Direction of Exports from India, 1959 and 1975

Country/area	1959		1975 I		1975 II	
	Value Rs crores	Percentage of the total	Value Rs crores	Percentage of the total	Value Rs crores	Percentage of the total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
USA & Canada	111.1	17.6	161.4	14.96	141.9	10.04
Latin America	15.3	2.4	42.4	3.93	33.8	2.39
W Europe	227.2	36.0	357.6	33.14	343.8	24.34
M E Asia	25.1	4.0	77.1	7.14	149.5	10.58
S E Asia	75.0	11.9	145.7	13.50	400.0	28.31
Africa	38.0	6.2	56.7	5.25	110.9	7.85
Oceania	23.8	3.8	43.8	4.06	53.3	3.77
E Europe	39.0	6.2	100.0	9.27	100.0	7.08
Japan	34.8	5.5	94.3	8.75	79.5	5.63
Others †	40.7	6.4	—	—	—	—
Total	630.0	100.0	1079.0	100.00	1412.7	100.00

† This category represents many small areas of trade that have been excluded from the broad groupings to obtain the export values for 1959. That is, the 1959 values refer only to specific countries in the areas. For example, 1959 exports to Oceania refer only to exports to Australia and New Zealand and the S E Asia only to the E C A F E countries excluding Iran. For 1975 projections, however, it is assumed that countries in the 'Others' category would be included in the broad area totals.

Growth Prospects

Group I in Table 4 includes commodities that have some prospect of growth. Group II includes traditional commodities that have little prospect for growth either because of insufficient demand (cotton and jute textiles and lac) or because supplies are likely to be absorbed at home (manganese ore and most minerals). Group III includes all new manufactures. Iron ore has been included here because it is related to the exports of semi-manufactures and finished manufactures included in this group.

Insofar as the second assumption regarding expansion of trade with the underdeveloped regions is not realized either because of lower rates of growth or because of financing of imports by tied aid, it would increase our dependence on the industrialized countries for finding export markets. Semi-manufactures, particularly crude steel and aluminium would appear to be the most promising areas in which India can achieve a major expansion in her trade with the industrial countries. Assumption 2, with its emphasis on trade with the underdeveloped countries would imply a larger expansion in the exports of finished manufactures — both capital goods and consumer goods. It is really here that some of the important problems of choice lie. Assuming that we can sell either semi-manufactures to developed countries or finished manufactures to underdeveloped countries the choice between the two must be made on the basis of the implications for investment requirements, import costs, costs of breaking into the new markets, etc.

The two assumptions made here could be interpreted as two extreme assumptions — the first one being unduly pessimistic and the second being quite optimistic on the whole. The level which Indian exports can reach would probably be somewhere between these two limits.

Getting into the South East Asia and the Middle East market for machinery or consumer goods may prove difficult, considering that we have some disadvantages regarding price and quality *vis a vis* Japanese and European goods. If these factors cannot be surmounted, it still leaves us one area where prospects are bright. A big iron ore and aluminium shortage is foreseen in Europe and U S A by 1975. Africa, Latin America and Canada are expected to be the major suppliers of iron ore and crude aluminium. In the case of iron ore and steel, India has no disadvantages *vis a vis* the foreign countries and considering that the imports of iron ore into West Europe are expected to be about 70-80 million tons valued at about $800 million in 1975, there is no reason at all why India should not be able to export steel or ore to West Europe. To the extent that we have to do this, it would imply a situation that would move towards assumption 1 for large imports of iron ore or steel into Europe assumes a large increase in exports of machinery and other goods to the underdeveloped regions from the European countries, thereby reducing the scope for Indian exports to them.

The exercise here merely tries to show the *feasible* areas within which Indian exports are likely to be by 1975. It merely analyses the implications of developments elsewhere for the level of Indian exports. It does not go into the question of the *desirable* level of exports. The desirable level may be much more or much less, depending upon the import requirements and the desirability or availability of foreign aid. Studies such as the present one, going more deeply into each area and each commodity, would help greatly in giving concrete direction to the export promotion efforts.

Table 4 : Commodity Structure of Exports, 1960 and 1975

(Value in Rs crores)

	Unit of Qt	1960		1975 I		1975 II	
		Qt	Value	Qt	Value	Qt	Value
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Group I			293		472		472
Tea	mn lbs	442	123.6	600	170	600	170
Coffee	000 cwt	300	6.3	600	13	600	13
Spices	000 cwt	..	14.5	100	20	100	20
Sugar		—	3.3	—	8	—	8
Fruits, fish & other food products		—	29.6		40		40
Tobacco	000 tons	48	14.5	75	21	75	21
Oil cakes			15.1	—	25	—	25
Leather & prod.			27.9		50		50
Vegetable oils	mn lbs	68	18.0	100	34	100	34
Raw wool	mn lbs	30	7.3	40	10	40	10
Raw cotton	000 tons	47	14.5	110	35	110	35
Textiles other than cotton or jute			12.0		30		30
Group II			284		313		313
Hides & skins	000 cwt	258	11.2	300	13	300	13
Cotton textl	mn yds	885	66.2	1000	75	1000	75
Jute textl	000 tons	798	139.5	900	150	900	150
Metal ores			16.6		15		15
Lac etc.			18.5		20		20
Other mineral			12.7		15		15
Others			19.0		25		25
Group III							
Iron ore			16.8		60		50
Semi-manufactures*			25.0		155		160
Finished manufactures*			12.0		100		315
Grand Total			631.0		1100		1420

* All traditional exports of manufactured goods are excluded from these groups. Semi-manufactures include section 5, division 62, 64, 66, 68 and 69 of the Indian trade classification, while finished manufactures include sections 7 and 8. There is some amount of overlapping here which is unavoidable due to computational difficulties.

Investment Pattern and the External Balance

Pranab Kumar Bardhan

Developments on the foreign exchange front have once more caught us flat-footed. It has been proved time and again that, if in the past Indian budgets were a gamble in the rains, today Indian plans are a gamble in international charity. It is the disposition of 'Aid-India' nations which sets the pace of our development, which surely does not go very well with planning.

As a matter of fact, the foreign trade sector has remained one of the most unplanned sectors in the economy.

Over the last ten years, we have seen enough of faulty foreign exchange budgeting, under-estimation of import requirements (original estimates going wrong sometimes by more than 50 per cent), and wholly inadequate or complete lack of phasing of foreign exchange expenditure.

A favourable foreign exchange position in some year has led to undue liberalisation of imports (to be used, not infrequently, in low-priority projects). There has hardly been any co-ordination of the policy of import control with that of industrial licensing.

All this is a familiar story. What is more, every time a developing foreign exchange crisis seems to catch the authorities unawares and policy measures, essentially piecemeal and designed in nervous haste, have followed in the wake.

One wonders if something is not radically wrong with our basic methods of planning and of investment allocation.

IN the expertise on investment criteria, external balance has nearly always been given crucial importance and the maximisation of foreign exchange earnings per unit of investment has been regarded as the criterion of efficiency. A substantial weight has been attached to balance of payments equilibrium as an element in the social welfare function, used for devising decision rules in investment allocation. Partial analyses, however, have their pitfalls. The whole issue can be most usefully formulated (as Chenery has recently shown) in terms of a linear programming model (using 'shadow' prices to reflect non-market costs and benefits), determining simultaneously the optimum allocation of investment and the optimal pattern of trade. The problem of investment allocation in a developing economy, as Frisch points out, "must be formulated in terms which ultimately make the problem amenable to linear programming. Otherwise, one is practically certain to be taken by surprise afterwards in unexpected balance of payments difficulties and other troubles". A programming criterion may allow for over-valued or under-valued factors of production and evaluate alternative investment projects in terms of their 'social profitability' computed from the shadow prices.

Shadow Price

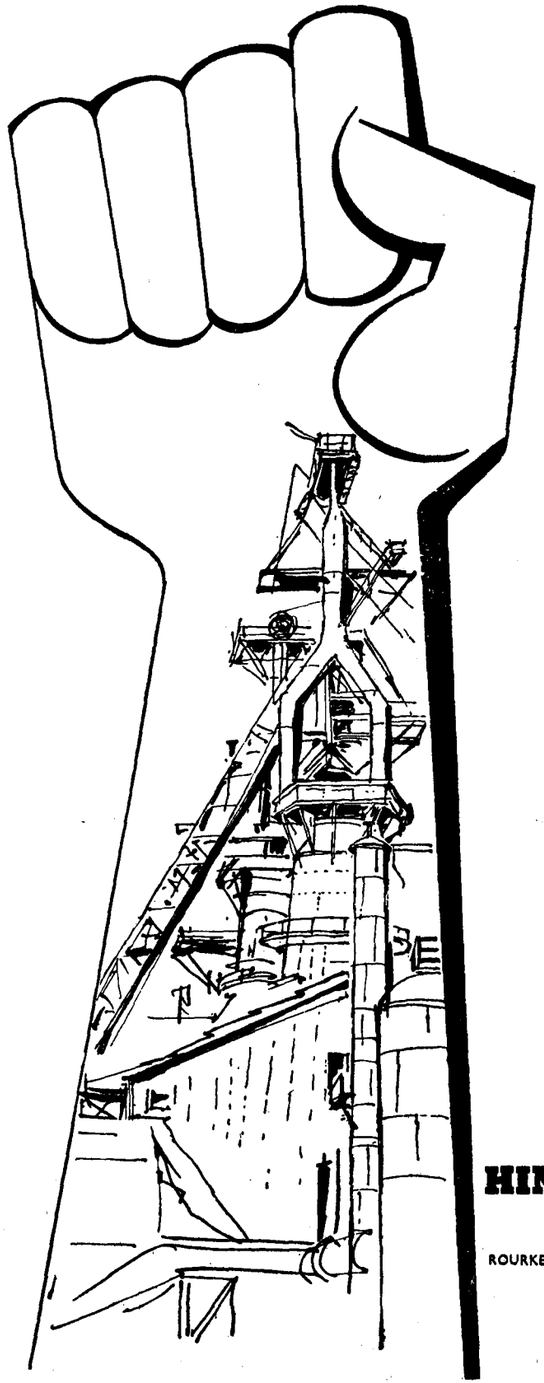
The concept of shadow price is important in the analysis of the structural disequilibrium in the factor markets of under-developed economies. On the shadow price of labour, there has been much discussion, and it is now more or less accepted that this price is below the market wage rate (though considerably above zero) and that the choice of investment projects is affected accordingly. But until very recently, the shadow price of foreign exchange has been used less frequently as an analytical tool. In a maximising problem, the shadow price of a factor represents the value of output which would be foregone by the loss of one unit of it (or its social marginal product).

There is evidence to suggest that in India today the shadow price of foreign exchange is significantly above the par rate. In view of the installed capacity (in engineering, chemical and other industries) lying unutilised — suspected to be enormous but undetermined — even on a single shift basis, for shortage of imported materials and equipment, and in view of the availability of structurally unemployed domestic labour at a very low social opportunity cost, each additional unit of foreign exchange earned (and spent on imports of raw materials, intermediate products and capital goods) may increase domestic production several times its value. (See A K Sen, "Trade Policy and Structural Unemployment", Special Number, June 1960. MacDougall's guess was that an annual increase in the value of imports by Rs 100 crores would have been enough to ensure a fuller utilisation of industrial capacity at the end of the Second Plan, see *The Economic Weekly*, April 22, 1961).

Case for Export Subsidy

Thus when there are unutilised complementary resources, foreign exchange is likely to have a value considerably higher than its official par rate, in the sense that its social marginal product would be higher than the marginal loss of resources in producing the exports to earn it. (Appropriate qualifications are necessary if the export industry also requires imported machinery or materials). All this is pretty obvious but is nevertheless worth emphasising, in view of its

STRONGER THAN STEEL



There are metals stronger than steel, but steel is still the master metal because it helps build something stronger than all—a nation's economy.

India's annual steel production capacity has risen four times in five years—from 1.5 million ingot tons in 1956 to 6 million tons today. In providing this firm foundation for the country, Hindustan Steel has played a leading role, building three one-million-ton integrated steel plants at Rourkela, Bhilai and Durgapur. And in the coming years, Hindustan Steel plans to expand the capacities of these three plants and build two more—one at Bokaro and an Alloy Steels Plant at Durgapur. By 1966 Hindustan Steel will increase its capacity to produce 7 million tons of ingot steel a year.

In the bid to make the national economy stronger, Hindustan Steel will play its part.

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insufficient recognition in the planning process in the country.

A good economic case can be made out for export-subsidy or, which is the same thing, for purchase from exporters by the State Trading Corporation at current domestic prices and then selling the goods in foreign markets at cheaper prices, even at a rupee loss. The domestic fiscal loss should be matched against the product gain that accrues with the help of foreign exchange. This would apply, however, only to those exports foreign demand for which is more or less price-elastic and where the chances of international retaliation to dumping are not really serious. On similar grounds one can argue for a tax on imported equipment etc, or auctioning of import licences. Outright devaluation, while retaining tariffs levied on grounds of external economies and taxes on exports that are in inelastic demand, however, is a different matter. For, while import duties and export subsidies can be selective, an omnibus solution like devaluation may create more problems than it solves.

Investment in Exports

But more important than subsidising exports or changing the exchange rate is the need for a more adequate recognition in our planning procedure of investment in exports and its serious consideration as an investment alternative. In countries where the basic theoretical structure of development plans draws heavily on the Soviet model of autarchic 'commodity balances', investment tends to be biased towards import-substitution and little attention is paid to comparative advantage. This procedure may often make costly mistakes and result in a considerably lower productivity of investment in import-substitutes than in exports, if the two are not systematically compared. (J Bhagwati, "Indian Balance of Payments Policy and Exchange Auctions," *Oxford Economic Papers*, Feb 1962). A programming criterion is of much help in this context.

We can easily formulate a simplified programming model[1] containing a few production activities for, say, machine tools, heavy machinery, iron and steel and exportable goods (light engineering and manufactured consumer goods), and import activities providing alternative ways of production, the objective being to minimise the amount of capital required to supply the given final demand, with the use of labour and 'natural resources' (like iron ore) at their opportunity costs in terms of capital. Then we can find a feasible set of activity levels satisfying the balance equations, calculate the associated shadow prices, including that of foreign exchange and using these prices we can determine the social profitability of activities and go on by iteration towards the efficient solution. From such a model it can be seen what valuation of foreign exchange (shadow rate) makes export activities (in which the country has a comparative advantage due to abundant supply of iron ore, low wages not always offset by low productivity, etc) more profitable and the need for allocation of investments in that direction.

Import Substituting *vs* Exporting Industries

There are, of course, some very simple indicators also to help us make the choice between a marginal investment in the import-substituting industry and in the exporting industry. The relevant considerations are those of incremental capital-output ratios, import-content of initial investment, recurring foreign exchange needs, etc.[2] Although without a detailed industrywise investigation it would be rash to generalise, our exportable industries are more likely to have a lower import-content of investment as well as a smaller capital-output ratio. The estimates of foreign exchange components of fixed investment in selected major industries over 1961-66, as given in the Third Five Year Plan, p 502 ff, and the estimates of additional fixed capital required per unit of extra output for different industries, as given in W B Reddaway's "The Development of the Indian Economy", p 127, appear to support this supposition. Recurrent foreign exchange needs are also likely to be heavier for the type of industries that serve for import-substitution in our economy.

It can be argued, however, that the recovery of foreign exchange through replacement of imports is in the long run more certain than that through exports. While this is true, we should not forget that for quite some time in future, we can afford continuous import-substitution only on the assurance of a sustained inflow of foreign aid. It is not perhaps quite fair to discount the possibilities of export industries on account of the uncertainty of export earnings, and at the same time to bank too heavily on foreign aid, certainly a very uncertain source of finance, for the import-substituting industries. The balance of advantage, on international grounds alone, may conceivably lie either way.

Export Fatalism Unjustified

Then again, while it would be idle to deny the enormity of the task of export-expansion, we are perhaps too much given to 'export fatalism'. It is perhaps not without significance that the four-sector growth model of Raj and Sen (*Oxford Economic Papers*, February 1961) focussing on the appropriate assignment of priorities in import-substitution, draws on Mahalanobis methodology and characteristically starts with the assumption that "there is no scope for increasing the earnings from exports". The validity of this assumption in an evidently long-period planning model has been rightly questioned. (On S J Patel's well-known statistical pessimism regarding Indian exports, Dr Anne Krueger's comments are interesting. See *Economic Journal*, June 1961).

While much of the recent decline in Indian exports can be ascribed to a structural shift in the demand of the Western countries (synthetic substitutes, the declining raw material content of industrial products, low income-elasticity of demand for our traditional exports, etc), and also their lingering protectionism, the scope for improvement with the help of domestic policies alone is perhaps, being under-rated.

[1] Some such simplified programming model can be found in H B Chenery, "Comparative Advantage and Development Policy", *American Economic Review*, March 1961, for example. Input coefficients for a tentative programming model for India has been given by Jan Sandee, "A Demonstration Planning Model for India".

[2] See Bhabatosh Datta *et al*, "Economic Development and Exports" Ch. XI.

Some of the difficulties our exports face today are either *home born* or at least curable at home: our monetary, fiscal, price, wage and admi. nistrative policies, for example, some of the *disincentives*, e g, increasing domestic demand for exportable consumer goods (cotton textiles tea, vegetable oils, etc) and raw materials (cotton, oilseed, leather, etc), high profits in domestic sales and the increasing costs of production as in sugar, jute textiles, etc.

What Investment Policy Can Do

Apart from these, there is much that our investment policy can do. Some of our principal export industries suffer from an inadequate rationalisation and modernisation of plant and equipment. The qualities and specifications demanded abroad cannot be produced with the existing plant in some industries; exports of common tea, sugar, etc suffer from price competition and of footwear, etc, from quality competition in the international market, and expansion of capacity is badly needed (sometimes to harness hitherto unexplored economies of scale) in exportable industries producing electric fans, sewing machines, leather goods, etc. All this will need substantial investment, and given adequate assistance, these industries can go a long way in earning valuable foreign exchange, even if one recognises the structural constraints of foreign demand. When the total market demand is not growing, one can strive at least for increasing one's share in this market, instead of giving it up in absolute despair. There is also some scope for extension of the public sector in industries where export is dampened by a deliberate policy of monopolistic exploitation of the domestic market.

Domestic Balance All the Way ?

Of course, in a large country like India with its wide endowment of resources, it may eventually turn out to be economical to produce something of everything, but for allocating scarce resources in the immediate future, over-emphasising domestic balance may not be economical all the way. There is some evidence to suggest that the social costs of buying in the face of comparative advantage and putting all the weight on import-competing industries straining India's scarcest resources may not have been adequately assessed up-till now. We seem to have accepted the import-substitution rationale rather too easily. While there are excellent reasons for supporting a scheme of massive import-substitution in the next decade, it is easy to forget that after a point, import-substitution comes to draw upon considerations that are not strictly economic or even rational. Autarchy was largely a political necessity for Soviet Russia in her early days. The same may not be true for other countries in other periods. Nor can we ignore Japan's classic example of harnessing foreign trade in the early stage of her development, importing machines in exchange for products of light industries which more correctly corresponded to her particular factor endowment and comparative advantage.

It is true that under the circumstances today the export sector in India may not be expected to serve as a propulsive, 'leading' sector, but considering the scale of import-requirements even by 1971 (Mac-Dougall's estimated annual foreign exchange bill is around Rs 1,500 crores, *after* allowing for the probable completion in the meantime of a number of our import-saving schemes) and the present very dismal state of affairs in our export trade, it is perhaps imperative to accord to investment in exports its rightful place in the strategy of India's economic development.

And it is important to note that many of our new exportable industries — on which lies the major hope for the future — are also actually or potentially import-substituting. The problem is not one of either balanced growth or export expansion, but the judicious combining of both to ensure maximum growth at the minimum social cost. Our policy on the export front in the past has been one of piecemeal concessions and a proliferation of committees, councils and boards; but what is needed is a reconsideration of our pattern of investment allocation and a long-term programme to be carried out with utmost urgency.

Inflationary Pressures and Imports

IN 1961 the ECAFE region experienced a 4 per cent increase of food production, a 15 per cent increase of industrial production and an approximately 10 per cent rise in imports, according to the U N's "Economic Survey of Asia and the Far East, 1961". This made for an impressive increase of aggregate supply — one that was about twice the growth rate for the region's population. The increase in real incomes was, however, unequally spread, being the highest in Japan and the lowest in Indonesia, South Korea, Laos and South Viet-Nam.

The general improvement in supply together with a decline in Government demands upon the banking system to finance public sector expenditure made for a better balance between aggregate supply and aggregate demand in many countries of the region. Thus there was little evidence of marked inflationary or deflationary strain in British Borneo, Burma, Cambodia, the Federation of Malaya, Hong Kong, Pakistan or Singapore. But other countries showed varying degrees of imbalance between supply and demand: Ceylon, China (Taiwan), India, Indonesia, Iran, Japan, South Korea, Laos, Philippines, Thailand and South Viet-Nam.

One of the first and clearest indications of the strain imposed by excess demand for goods and services over domestic supply is a disproportionate increase in imports since imports are the most elastic part of aggregate supply. Judged by this test there was a marked imbalance in the Japanese economy in 1961. At the end of the third quarter of 1961, monthly imports were running about one-quarter above the already high rate for 1960. There was even more marked imbalance in Indonesia, where imports rose by nearly one half in the first seven months of 1961. China (Taiwan), in the first ten months of 1961 increased imports by 32 per cent, partly because it relaxed import controls, but this did not strain its balance of payments unduly because exports increased correspondingly. In most other countries of the region imports were fairly steady. This does not, however, necessarily indicate absence of inflationary pressures — the explanation might be more efficient control of imports.

The Socialist Pattern of Society and Foreign Trade

Jagdish Bhagwati

The title of this paper may seem odd.

However there is a good reason for it.

I propose to argue that the pseudo-socialist policies of the present Government combine with muddled views about foreign trade to produce serious errors in governmental policy concerning industrial licensing.

THE phrase "Socialist Pattern of Society", to which the present Government glibly subscribes, is naturally no more than a hypocritical slogan. It was adopted by the Congress party partly because it sounded good (which is much the same reason why the Communist countries insist on misusing and appropriating to themselves words like "democracy" and "most favoured nation clause") but largely to steal the thunder from the then more powerful left-wing opposition. In practice, no serious effort at any kind of socialism has been made. Equality has been neglected in practically all matters. The middle class income taxation is notoriously low. The duties on all of the luxury items are criminally low (Table 1), even when compared with rates in foreign countries.

The more doctrinaire form of socialism such as that supporting nationalisation is regarded as unacceptable. The only aspect of policy that may sound "socialist" is the reservation, under the Industrial Policy Resolution, of investment in certain sectors to the public sector and the associated increase in the ratio of public to private sector investment from Plan to Plan. And yet, one has only to look closer into the economic rationale of the Industrial Policy Resolution (the private sector was either unwilling, through disbelief in profitability, or unable, through lack of financial institutions, to move into practically all the Schedule A industries ruled out from private investment) and of the rising ratio of public to private investment (the weight of steel and social overheads) in the decade 1951-61, to realise that this form of socialism was neither economically expensive nor politically uncomfortable.

Towards the end of the Second Plan, however, the economic and political forces began to pull the Government away even from this bastard variety of socialism. The private sector began to find investment in many activities profitable and started to clamour for inroads into Schedule A. Socialism thus became difficult to subscribe to. The right-wing parties also had grown in strength by this time. The response of the government to this test of its professed convictions has been quite predictable. Schedule A has become "flexible" and socialism even in this weak sense has been thrown overboard. The right sort of noises are still being made concerning the share of the public sector in total investment. But who does not know that the Second Plan itself ended up with a significantly higher ratio of private to total investment than planned for and that the same will happen again?

Import Substitution: Luxury Industries at Home

The same political hypocrisy that has characterised the economic policy of the Government in these fields has prevailed also in the field of foreign trade. A pretence at hitting luxury consumption has been made by ruling out gradually the import of luxury goods, such as cars, refrigerators, radios, gramophones, portable air conditioners, watches etc. At the same time, however, domestic industries in all of these commodities have been deliberately encouraged and supported under the comfortable but dishonest slogan of "industrial progress'. The recent revival of the small, people's (!) car idea, at a time of heavy foreign exchange shortage, is symbolic of the type of socialism that the present government subscribes to. We have thus witnessed willing investment of foreign resources in setting up luxury industries at home [1].

Some muddled thinking concerning the factors which affect the choice between imports and domestic production of a commodity has also helped to eliminate consumption goods imports while permitting their domestic production [2].

[1] This, plus the investment in other consumer industries, also makes nonsense of the claim that India's rate of investment is limited by the shortage of foreign exchange. The exchange which was used to set up consumer industries could easily have been used instead to establish investment industries and thereby to raise the rate of investment. It is also necessary to advertise the fact that we have not used the PL 480 aid to the fullest although we still have vast unemployment which could be alleviated, to some degree, by supplying consumer goods and by putting people to work on purely labour-using projects at a wage. The only thing that prevents the government from creating more employment and investment along these lines is the unwillingness to tax and thereby redistribute consumption from the employed to the unemployed (who are therewith put to work). Is this socialism?

[2] I have analysed the sources of such confusion and presented a correct analysis in "The Theory of Comparative Advantage in the Context of Under-development, Growth and Planning", Paper presented at a Seminar on Asian Trade, Institute of Development Economics, Karachi.

Enormously Wasteful

Aside from exposing the Government's hyprocrisy concerning socialism, this policy of domestic **production** of the luxury goods has been enormously wasteful. I would adduce four main arguments against this policy as compared with a policy of **importing** the number of these luxury goods that the government wishes, in its bourgeois indulgence and negligence, to permit the people to consume.

(1) To begin with, the scale of output of most of these items is too low to permit efficient import substitution. The car production in 1960-61 was under 40,000 (and there were three firms). Refrigerators (produced by 4 firms) were under 12,000 in 1960-61. Air conditioners (produced by 10 firms) were under 11,000 in the same year. (Table 2). These scales of output (and also those projected for 1965-66) are at much too low a level to achieve cost levels even remotely comparable to the prices of imported substitutes even if the number of firms in each industry were to be reduced[1]. It is just the tariff-plus-QR policy of the government which prevents foreign competition and supports these wasteful industries. There is no justification at all for incurring such waste[1].

(2) Still further loss is involved to the nation because these industries rarely manufacture all components at home. Often several components are sent by the collaborating firm[2]. This results in two-fold waste. The first waste is that the foreign firm often picks up lucrative prices for the components. The domestic market for cars, for instance, is protected; the successful collaborator, therefore, can push the component price up to higher than competitive levels. It has often happened, therefore, that the price of the imported components has come pretty close to the delivered, c.i.f. price of the finished product itself!

(3) The other loss associated with imported components has been that, whenever foreign exchange has fallen short, the Ministry of Commerce and Industry has decided to restrict the allocation of exchange to these industries. This results in idle capacity and wasted investment. However, if the government, instead of having capacity to produce 10,000 refrigerators per annum, had been importing 10,000 refrigerators, for instance, it could have just eliminated the imports of the refrigerators in case of shortage of foreign exchange. Importing the required amount of luxury items, and reducing their imports when necessary is clearly a superior policy.

Wrong Psychological Impact

(4) Finally, there is an important psychopolitical point involved. By building up domestic production, the bureaucrats effectively plead against higher excises on these luxuries on the ostensible ground that this will hit the (vociferous) producers hard but really because they do not wish to pay the higher excises themselves. The bureaucracy belongs to the very same middle class that it is most concerned to protect. If, however, the luxuries were entirely imported, it would be awfully tough to perpetrate such a selfish policy; and import-duty measures such as that adopted by Shri Morarji Desai in his recent budget (raising the import duty on cars to 150 per cent) would cease to be the hypocritical gestures that they currently are and become both inevitable and truly effective.

There is really no argument in favour of the policy that the Government has been adopting for the past several years. All arguments point in the contrary direction.

Table 1: Excise Taxes on Cars, Refrigerators, Air Conditioners, Watches and Radios

1) **Cars:** i) $\not>$ 16 H.P. : Rs. 1,000 each or 10 per cent ad valorem, whichever is higher.
ii) $\geqslant$ 16 H.P. : Rs. 3,000 or 15 per cent ad valorem, whichever is higher.
2) **Refrigerators:** 20 per cent ad valorem
3) **Air Conditioners:** 20 per cent ad valorem
4) **Watches:** Nil
5) **Radios:** i) Rs. 150 : nil
ii) Rs. 150 — Rs. 300 : 10 per cent ad valorem
iii) Others: 20 per cent ad valorem.

Table 2: Production and Capacity in Cars, Refrigerators and Air Conditioners

		1958	1959	1960
Domestic Refrigerators	Production	2946	3960	11388
	Capacity	7596	7596	13596
Portable Room Air Conditioners	Production	10776	8868	10860
	Capacity	19956	19956	20472
Cars	Production	31932	26796	36468
	Capacity	49800	49800	54696

[1] Considerations, such as defence, for the car industry are quite out of date in the context of current politics and war strategies.

[2] From this, some economists in India have sometimes argued that these industries are not really "import-saving". This is quite a silly argument, of course, since there is import-saving to the amount of the value added domestically. The fact that the import-saving is small has to be balanced against the fact that fewer resources are correspondingly necessary for such import-saving.

Development and External Balance

(Contributed)

In all our Plans, except perhaps the present one, the underlying assumption has been that any substantial expansion of exports can only be a long-term affair and not much reliance can be placed on increasing exports to solve immediate foreign exchange problems.

Of late, however, several measures have been taken to promote exports, ranging from the setting up of the Export Risks Insurance Corporation, the Directorate of Export Promotion, the Department of International Trade and various Export Promotion Councils to the offer of fiscal incentives, import entitlements against exports, etc.

There is no single specific way of ensuring external balance. But one thing is certain: Exports have to come from planned production and they have to be incorporated and integrated with the targets.

Reduction of costs necessary to enable earmarked exports to be sold abroad has to be systematically pursued with appropriately devised incentives and disincentives.

How much do we have to export and what goods? The first is a question of high policy dictated by political compulsions, but the second is entirely a matter of planning of production and its implementation on schedule.

AT the beginning of the First Five Year Plan, the foreign assets of the Reserve Bank of India amounted to Rs 884 crores. They declined by Rs 138 crores in the First Plan and by Rs 604 crores in the Second Plan and have further fallen by about Rs 36 crores so far in the Third Plan. This means that we have lost reserves* at an annual rate of about Rs 71 crores. In fact, if we had not utilised about Rs 72 crores (net) of drawings on the I M F the fall would have been correspondingly larger. Allowing for this factor, the real loss of foreign assets of the Reserve Bank would work out to a total of about Rs 850 crores since the beginning of the First Plan, or at an annual rate of about Rs 77 crores.

Furthermore, this loss has occurred despite the utilisation of external assistance of about Rs 1,950-2,000 crores (estimated) in these 11 years, or at an annual rate of Rs 177-182 crores. What is more, both the annual rates of loss of reserves as well as of utilisation of foreign assistance have been generally rising: the rate of (net) loss of reserves was about Rs 28 crores per year in the First Plan period, and increased to about Rs 132 crores per year in the Second Plan and has during the first fifteen months of the Third Plan amounted to about Rs 94 crores (net), indicating some abatement. The annual rate of utilisation of foreign assistance was about Rs 40 crores in the First Plan, Rs 286 crores in the Second Plan and may be placed at about Rs. 350-375 crores in 1961-62.

What Has Gone Wrong?

What has gone wrong? Although, the symptom—an alarming loss of foreign exchange reserves—is the same both in the Second Plan and the first 15 months of the Third Plan, the diagnosis is very different. The loss of reserves in the First Plan was less than expected, the actual loss being Rs 138 crores as compared to the estimates of Rs 290 crores. This was mainly due to good harvests, food imports being much less than allowed for and, the rate of investment was lower than expected.

The payments deficit in the first year of the First Plan was Rs 234 crores and (since this had already occurred when the Plan was finalised), it visibly influenced the outlook of the Planning Commission, which estimated deficits of the order of Rs 180-200 crores per year in the remaining four years of the Plan. In the event, the total deficit in the remaining four years amounted to only Rs 84 crores, making a total of Rs 318 crores for the entire Plan period, as against an estimated Rs 950-1,030 crores. The happy balance of payments experience of the First Plan lulled us into a false sense of complacency, and the pendulum swung in the opposite direction in the Second Plan.

Depletion of Reserves

The estimated draft on the foreign assets of the Reserve Bank during the Second Plan was Rs 200 crores despite the fact that (a) the original Plan outlay envisaged was a little more than twice the actual outlay in the First Plan, and (b) the proportion of total outlay going to industries (including village and small industries) and mining, and transport and communications was stepped up sharply from about 31 per cent (actuals) in the First Plan to about 48 per cent in the Second. In the event, the proportion of outlay on these sectors to the revised total outlay of Rs 4,500 crores turned out to be even higher at about 51 per cent. Even, in absolute terms, the share of these sectors, with much higher foreign exchange content, increased from Rs 2,275 crores in the original total outlay of Rs 4,800 crores to Rs 2,290 crores in the revised total outlay of Rs 4,500 crores.

The actual (net) loss of reserves during the Second Plan was of the order of Rs 654 crores as against the estimate of Rs 200 crores. As against estimated Rs 4,340 crores, actual imports amounted to Rs 5,375 crores, i e, Rs 1,035 crores more which upset the external balance completely. Consequently, the fact that actual exports at Rs 3,060

*The term "reserves" is used for the foreign assets of the Reserve Bank and the term "(net) reserves" for reserves exclusive of drawings on I M F.

crores were about Rs 95 crores higher than the estimates did not help much and the current trade deficit of Rs 2,314 crores was Rs 939 crores higher than the estimates. Actual net receipts from invisibles (excluding official donations) at Rs 438 crores were Rs 183 crores above the estimates. However, the enormous increase in imports compelled recourse to massive foreign aid and depletion of reserves.

Let Down on Food Front

Why did imports shoot up to such unexpected heights? There were some other factors which must also be taken into account, but there was also a great deal of slackness on the part of the Government and hardly any proper foreign exchange budgeting. (For the official explanation, see "Fall in Foreign Exchange Reserves", Planning Commission, Government of India, March 1958, p 2). For one thing, the extraordinarily run of good luck we had with food production in the First Plan gave out and food imports were much higher than expected. Similarly, imports of raw materials and other producer goods were also higher, the latter partly to allow for a rising level of industrial production (made possible by the growth of installed capacity). Besides, in 1955-56 and 1956-57 imports of consumer goods were also high. Finally, there was some rise in import prices as well as freight rates.

All this added up to a first-class foreign exchange crisis which brought in its train a rigorous import control, an assiduous soliciting of foreign aid and some interest in developing exports.

Investment Income Turns Negative

In the first year of the Third Plan, the import restrictions measures to meet the exchange crisis have, if anything, been further tightened. Nevertheless, not withstanding the determination not to touch the foreign assets of the Reserve Bank (which had fallen to Rs 136 crores at the beginning of the Third Plan), the reserves began to fall so alarmingly that by August, India had to go to the IMF for another drawing (net) of Rs 58 crores. While data for the full year are not yet available, from the published figures of balance of payments in the first 9 months of 1961-62, it is possible to make a few guesses and judge the main factors which precipitated this critical situation which is apparently still continuing. In 1961-62 as the Economic Survey for the year pointed out, there was a large outflow of banking capital presumably in response to the higher interest rates obtainable in Britain. Besides, with the growth of foreign investment in this country and the sharp reduction of the Reserve Bank's foreign assets, the net receipts from investment income had been progressively declining for a number of years. In 1961-62 there was a swing from net receipts to net payments on this account. Another important factor is the rising liability on account of repayments of foreign loans which has to be discharged year after year. And, finally, although imports of capital goods for the developmental projects included in the Plan are believed to be, more or less, covered by foreign aid, the rapid growth of imports for the maintenance of current levels of consumption and production, coupled with a slow growth of exports have created a situation where even the so-called 'maintenance imports' are not covered by current receipts from exports of goods and services. While the much faster growth of such imports than that of exports is one reason, there is no doubt that the swing in the invisibles account from net receipts to net payments is a significant weakness which developed last year and will be a source of increasing worry in the future.

True, a situation of this kind was visualised in the Plan and out of the total foreign aid of Rs 2,600 crores for which credit was taken, Rs 700 crores were for meeting just this kind of 'maintenance gap'. This estimate gives an annual rate of Rs 140 crores of foreign aid for covering the gap in 'maintenance imports'. It is quite likely that the maintenance gap, net payments on investment income account and repayment of loans together, probably, far exceeded the amount of 'free' foreign aid which was received in 1961-62. Hence the draft on reserves.

Why Devaluation Will Not Help?

An imbalance in the external accounts of a developing economy is, by no means, a novel or unusual experience. Apart from the sharp increase in import requirements implicit in the developmental process which cannot possibly be matched by proportionate increase in exports, and which alone can throw a country's balance of payments out of gear, it should also be remembered that we are operating within an international framework of fixed exchange rates, where exchange rates do not move freely but have to be changed, if necessary. And while the International Monetary Fund not only permits but, indeed, advocates, if in a somewhat prudish manner, devaluation of the currency under certain circumstances, this is a course of action which cannot possibly be adopted by a planned economy. This is because devaluation is a double-edged weapon: it stimulates foreign demand for exports and reduces home demand for imports. While the former is essential for the success of planning, the latter is inconsistent with the postulates of planning. Of course all non-essential imports must be rigorously excluded. But, having done that, if devaluation tends to cut the volume of essential imports further in order to restore external equilibrium, it would defeat the basic purpose of planning viz development.

The function of import control in a planned economy is, fundamentally, to act on the structure rather than the volume of imports. On the other hand, if devaluation is undertaken for its likely effects on exports than on imports and, therefore, the volume of imports is frozen at the predevaluation level, the local currency cost of imports would go up which would upset the entire calculus of planning, with a strong likelihood of non-fulfilment of plan targets.

Little Scope for Further Cuts

Nor is a reduction in the volume of imports advisable: if imports of capital goods are cut, the rate of investment will be compromised and the very purpose of development will be defeated. If 'maintenance imports' are axed, the growth of output will be arrested. Of course, it is possible to reduce the imports of those capital or intermediate goods or raw materials, the home production of which has gone up. But after about 5-6 years of the most rigorous import control and continuous growth of domestic demand, we have already reached a situation where any further substitution of domestic goods for imports will take the form, not of a net decline in imports, but of only a slower rate of growth of imports.

Secondly, devaluation would succeed only if foreign demand for the country's exports is sensitive to price changes and it is possible to increase the exportable surplus at short notice so as to take advantage of increased foreign demand. In the majority of cases, under-developed countries do not satisfy these conditions and, especially so, if they have taken to planned development. Nor would devaluation be effective in a case where the sluggishness of exports is due not to any price or cost disadvantage, but due to altogether different factors such as supply bottlenecks, difficulties of movement, etc. Finally, even when it does prove effective in the case of some exports, it is fundamentally a short term stimulus, which soon spends itself. If the adverse turn in the balance of payments is expected to continue for some time in a developing economy, clearly, a short-term weapon like devaluation cannot serve the purpose.

Therefore, the mechanism of external adjustment which is open to a non-planned economy is not open quite in the same way or quite to the same extent to a planned economy which has targets to fulfil.

Again, as we have already seen, two of the main ingredients of the current drain on our foreign exchange reserves, namely an invisibles account dominated by an adverse balance on account of investment income, and the growing repayment liability in the capital account are both contractual and not amenable to policy control. Apart from striving to effect as many cuts as possible in all payments items, and soliciting more foreign aid, the only other major instrument left in the policy-maker's armoury is to do something about exports.

Continued Neglect

Apparently, not much was done about exports until the closing years of the Second Plan. This was, because, both in the First and the Second Plans, actual export performance was better than the relatively modest targets which were set. Secondly, since planning was upset in 1957-58 chiefly by the very sharp increases in imports, it was on restraining them that the most attention was concentrated. Finally, in all our plans — save, perhaps, in the present one — there has been an under-current of feeling that growth of exports is, anyway, a long-term task and cannot be relied upon to solve short-term problems. The result has been that exports have suffered from neglect.

The urgency of export promotion became apparent only around the last two years of the Second Plan. Since then several measures have been taken to promote exports, which have varied from the setting up of institutions such as the Export Risks Insurance Corporation, the Directorate of Export Promotion, the Department of International Trade and various Export Promotion Councils to fiscal incentives such as drawbacks of customs and excise duties paid on products which have gone into the making of exports and other incentives such as import entitlements against actual exports, etc. It is needless to catalogue all the measures here as they are now well-known.

Export and National Income

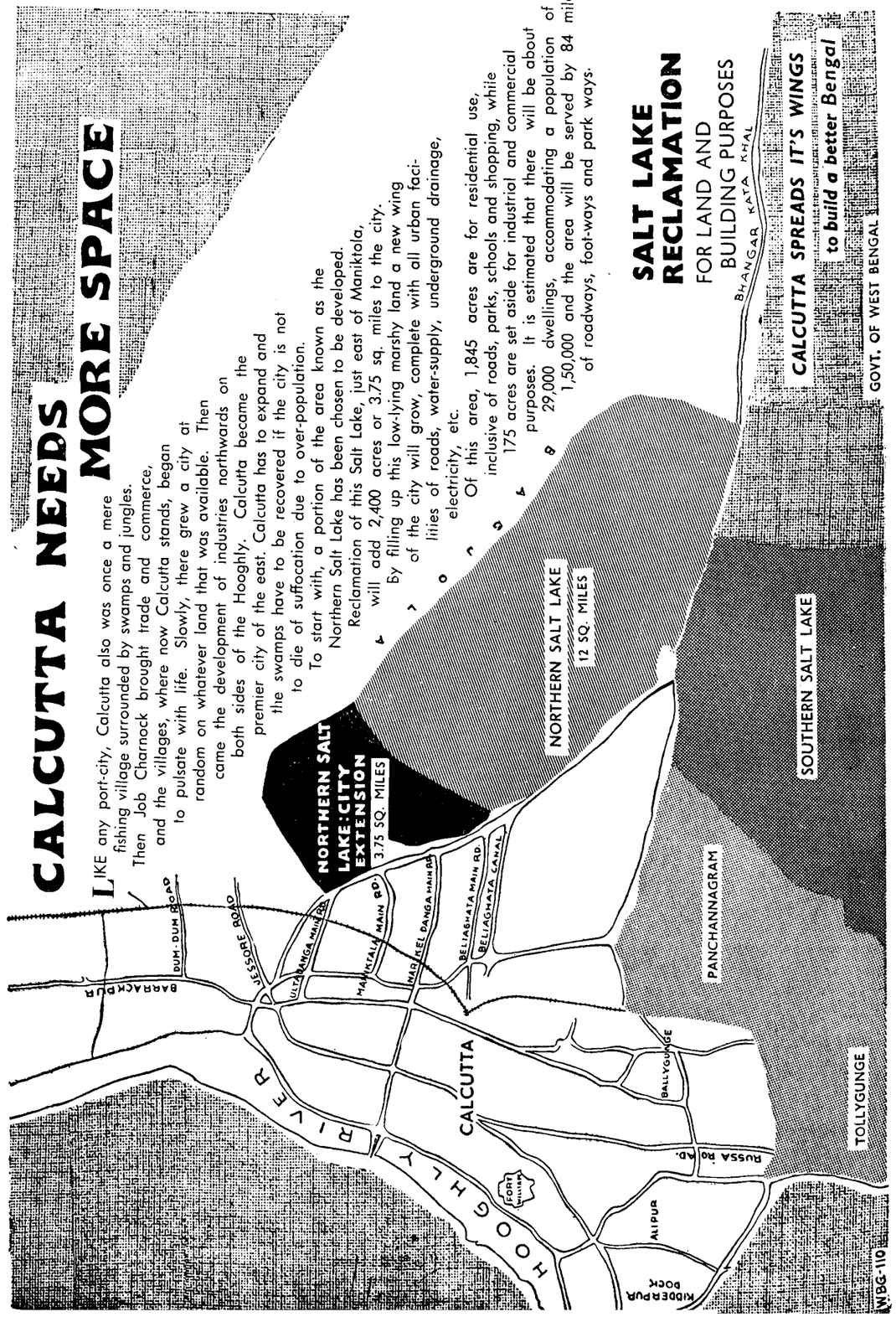
The heart of the matter, of course, is how much of the annual production should go into exports, what percentage should exports form of the national income? When national income rises, exports do not necessarily rise with it. In fact, even though the possibility of a decline in the absolute value of exports can be ruled out, it cannot be presumed that exports as a percentage of national income will remain constant; far from it. From 6.4 in the last year of the First Plan, exports as a percentage of the national income steadily went down to 4.7 in the last year of the Second Plan; and from 6.4 in the First Plan, the five-year average has gone down to 4.9 per cent in the Second Plan. The range of fluctuation in recent years has been from 7.3 to 4.6. So it is easy enough to pick on a year like 1955-56 when this ratio was 6.4 — and this was no boom year like that of the year of the Korean war — and say that all that we have to do is to steer our export policy by this lode star.

It may be asked, and it has been asked that, if our average over recent years has been a little less than 5 per cent of the national income, is it so bad? After all, American exports as a percentage of national income is no higher than 4 per cent, that America has not been doing so badly and that India too is a vast country with quite varied resources, though not as varied as the United States. Then take Soviet Russia, a developed country and developing at a fast rate, faster than that of the United States. Soviet exports form no higher percentage of the country's national income than in the U S, it is in fact much lower.

How Much and What?

But whatever be the ratio, it is naturally to be decided in the light of India's own development strategy, possibilities of obtaining foreign aid, the terms on which such aid is secured or expected, and so on. But having once decided that, the rest of it should be clear. Exports have to come from planned production and they must be incorporated into the production targets, costs have to be brought down to the level necessary to enable the selected, earmarked or potential exports to be sold abroad, and cost reduction has to be pursued systematically, through appropriate measures and well-devised schemes of incentives and disincentives. In fact, the process has to start with the proper selection of the location and ensuring the economies of scale in the planning and licensing of industries. The planning of exports and export promotion, properly so called, if not the whole subject ensuring the country's external balance, has many facets, and the more important of these have been dealt with in separate articles in this issue.

But first things must come first. How much do we want to export and what goods? The first is a matter of high policy, and choice is restricted by political compulsions. But the second is entirely a matter of planning of production and its implementation on schedule, supplemented, of course, by effective economic policies and specific measures of export promotion.



Self-Sustained Growth by 1971?

Its Balance of Payments Implications

Manmohan Singh

Sir Donald MacDougall's estimate of Rs 1,500 *crores for* 1970-71 *as a minimum export target to ensure self-sustained growth indicates more correctly the magnitude of needed effort than the Planning Commission's estimate of Rs* 1,300 *crores.*

As against the greatly increased export needs, what are the export prospects?

According to estimates presented below, exports of traditional goods will probably be higher by roughly Rs 200 *crores by* 1970.

As for new industrial manufactures, we will be lucky if we can raise exports even to Rs 150-200 *crores by* 1970.

All available evidence, therefore, points to a strong likelihood that India may have to postpone the objective of self-sustained growth to a date much later than 1970-71.

INDIA'S Third Plan has been formulated on an assumption that "it would be advantageous from the point of view of the recipient country as well as the donor countries to plan for substantial amounts of external assistance for a relatively short period rather than to proceed in terms of varying and uncertain amounts of assistance over an indefinite period" (The Third Five Year Plan, p 107). The objective then is to ensure that the economy by the end of the Fourth Plan will be able to do without external assistance "outside the normal inflow of foreign capital" (p 28). External assistance to India is at present performing two important functions: it has increased the supply of investible resources beyond a level permitted by domestic savings; it has also provided the much needed support to the country's balance of payments. The achievement of the objective of self-sustained growth by 1971, therefore, implies that not only will the country be able to support "an adequate scale of investment from its own production and saving" but also that we will be earning enough by way of exports to be able to balance our foreign exchange budget without external assistance. It is with the latter aspect of the problem that we will be concerned in the present note.

That an early achievement of self-sustained growth will require a much greater effort on the export front is now widely recognised. Gone are the days when it was so readily assumed that "import substitution" by itself will be able to resolve India's difficulties with regard to her balance of payments. Whatever the economic strategy, our import requirements are bound to grow even though some economic models continue to be based on "stagnant exports" (and by implication, constant imports). According to the official document of the Third Plan, import requirements of the Indian economy and repayment obligations on account of loans previously contracted would be such as to require annual exports worth Rs 1300-1400 crores by 1970-71.

Export Objectives

This is undoubtedly a welcome shift in emphasis. Yet the available information suggests that the official estimates of the needed export effort for attaining self-reliance by 1970-71 are an underestimate. External loans repayable in foreign currencies and utilised upto March 31, 1961 amounted to Rs 732 crores. During the Third Plan period, they will impose repayment obligations worth Rs 100 crores a year. During the next ten years, our external loans are going to multiply many times over their level of 1960. The Third Plan itself seeks to raise loans worth Rs 2,600 crores over the five-year period. As a result, repayment obligations in 1970-71 may well amount to Rs 400-500 crores. But suppose that they are as low as Rs 300 crores. In that case, export receipts of Rs 1,300-1,400 crores will be able to finance an import bill worth only Rs 1,000-1,100 crores. The average annual imports during the Third Plan are assumed at Rs 1,150 crores, after excluding PL 480 imports worth Rs 120 crores. Thus the acceptance of the Plan target for exports for 1970-71 will suggest that the import requirements of the Indian economy will be lower in 1970 than now. This seems to be a grossly unrealistic assumption. History provides us with few such cases where import requirements of an economy have fallen absolutely in the wake of successful development. MacDougall's estimate of Rs 1,500 crores for 1970-71 as a minimum export target to ensure self-reliance indicates more correctly the magnitude of needed effort (though I would regard his estimate also as an underestimate).

As against the greatly increased import needs, what are the export prospects? Can we raise our exports to a level suggested above by 1970-71? I have made some detailed studies of export prospects for our traditional exports and the main results are presented below. For want of space, I cannot state and justify all the assumptions underlying these projections, though I am prepared to defend them if need arises. The broad assumptions are: that agricultural targets in the Third Plan will be fully realised and that satisfactory progress in agriculture during the Fourth Plan will ensure adequate export surpluses. The estimates for vegetable oils and oilcakes, raw cotton, coffee and tobacco are naturally dependent on this assumption being proved right. Similarly, progress in agriculture will influence export performance of industries like jute and cotton textiles. Secondly, we have assumed that in those commodities of which India is a major exporter in the world, her relative share of world exports will not fall, while for those commodities of which we are only a marginal supplier in the world, sustained efforts will be made to enlarge our relative share. In the first category, there are jute

manufactures, tea, cotton textiles, virginia flue-cured tobacco, black pepper, manganese ore, mica, and lac. In the latter are vegetable oils, mainly groundnut oil, raw cotton, coffee and iron ore. Thirdly, it has been assumed that export prices will not fall from their present levels (of the last two years of the Second Plan). Brief notes on individual commodities are given below and quantitative estimates are summed up in Table 1.

Jute Manufactures

Our projections assume that import demand for jute manufactures from the industrial countries of North America and Western Europe will not be much different from its present level, though the chances of a small expansion are not ruled out. In these areas, jute is used as a packaging material, for the making of floor coverings and also in industry. The demand for jute in floor coverings will steadily grow but this will benefit only Pakistan, the main source of supplies for raw jute.* All these countries meet their requirements of jute yarn by domestic manufacuring and there is very little trade in yarn. And it is jute yarn which will be in increasing demand for use in floor coverings. As for its use as a packaging material, a recent FAO study ("Trends in Demand for Jute Manufactures" **Monthly Bulletin of Agricultural Economics and Statistics**, January, 1961) has forecast a big fall in the years to come in industrial areas. I regard this as unduly pessimistic though I cannot go into the controversy here. The fact is that the use of jute as a packaging material has grown moderately since 1952 in North America as well as Western Europe and if jute prices do not rise excessively in future, the relative position of jute in relation to its substitutes (shipping sack paper) will be further strengthened. However, bulk handling techniques, which eliminate the use of a container altogether in the process of transportation, are capable of further expansion and this will limit the use of jute as a packaging material in industrial countries.

* Manufacture of jute backing for carpets and/or of jute carpets is being taken up by Indian jute mills. —Ed.

Primary producing countries account for nearly 50 per cent of world consumption of jute goods (outside India, Pakistan and the Sino-Soviet area) and in these countries jute is used mostly as a packaging material. Consumption of jute in these countries may, therefore, be expected to rise with the growth of agricultural production. And on past performance, agricultural production in the present decade should rise by 25-30 per cent in these countries (see F A O: "Agricultural Commodities, Projections for 1970"). Their imports of jute manufactures will however, not rise in proportion to their rising consumption. Many countries of the Middle East are establishing jute industries of their own. Taken together, their imports may rise by 15-20 per cent over the decade. Assuming that imports of industrial countries will not be much different from their present level (and the position will not be altered by an extension of preferential trading area in Europe to include Britain) and that import requirements of primary producing countries rise by 20-25 per cent, world trade in jute goods in 1970 will be about 10-15 per cent higher than in 1960. From India's point of view, the growing jute industry of Pakistan is likely to pose some awkward problems.

On pessimistic assumptions, Indian exports of jute manufactures may not rise beyond their present levels. On more optimistic assumptions, they may rise by some 15 per cent over the decade.

Tea

High income countries of Western Europe, North America and Oceania account for over 70 per cent of world imports of tea. At high income levels, habit, rather than income, is a major determinant of consumption. In predominantly tea drinking countries like the UK and Australia, per caput consumption is already at a saturation point and total consumption is unlikely to grow much faster than population. In countries of Western Europe and USA per caput consumption is very low but these are predominantly coffee drinking countries. In underdeveloped countries of North Africa and the Middle East, the prospects of increased consumption are bright and recent FAO projections assume an increase of 52-67 per cent in consumption in underdeveloped importing countries taken together over the decade (See "Commodity Projections for 1970)".

According to the same study, world imports over the decade may increase by 18-29 per cent. This estimate is somewhat over-optimistic because it does not allow for the possibility that many underdeveloped countries may restrain imports of tea if their balance of payments position remains tight. World trade, therefore, is not likely to rise by more than 20 per cent over the decade (the same rate as in the last decade).

India's exports may, however, not rise by 20 per cent if countries of British East Africa are granted the status of Associated Overseas Territories and send their tea to Europe free of import duty. Even if Britain succeeds in persuading the Six that the common external tariff of the EEC should be nil, African producers are bound to make some further inroads into the markets for Indian tea. They are known to have lower costs of production than Asian producers and their production plans point to the same rate of growth as in the last decade (9.5 per cent a year). They are, therefore, bound to raise their share of world exports from its present level of about 7 per cent.

Indian exports may therefore not rise by more than 15 per cent over the decade.

Cotton Textiles

According to some projections made by me, the volume of world trade in cotton textiles in 1970 may not be much different from its present level, though the chances of a further small contraction cannot be ruled out. A modest expansion in world trade that took place in the last decade was largely a result of growing imports into hitherto net exporting countries like the UK and the USA. Imports by underdeveloped countries are most likely to fall as they develop their local industries but the losses to world trade may be avoided by a further liberalisation of imports into Western Europe, the pressures for which are bound to increase over the decade.

A loss of Commonwealth preferences in the important UK market for Indian textiles will by itself not materially affect our exports provided the enlarged European Community pursues liberal trading policies. The fact that we will have to compete on an equal footing for the European markets against countries like Japan, should not frighten us, because there is only a very limited competition between Indian and Japanese textiles, India mostly concentrates on textiles of 20-25 S while the Japanese exports largely consist of higher counts.

As a result, India may well be able to maintain its present level of exports.

Tobacco

Western Europe is the most important importer of tobacco in the world. Normally, consumption of tobacco has a high income elasticity, but there is the growing uncertainty arising out of the consumers' reaction to further evidence of a link between smoking and lung cancer. From India's point of view, the outlook for virginia flue cured tobacco is a major determinant of her export prospects. This tobacco has been in relatively strong demand in the last decade but India's prospects of increasing her exports to Western Europe will be dark if the Federation of Rhodesia and Nayasaland, the other important source of supplies for this variety apart from the USA, were to be accorded the status of an Associated Overseas Territory of the EEC. In that case, imports from that country into the EEC would be free of duty while Indian tobacco will have to pay a duty of over 30 per cent, if the present external tariff stands intact.

To the underdeveloped countries, India has not much chance of selling more tobacco. The USA has been selling its tobacco surpluses abroad in local currencies of the importing countries and this will effectively limit any chances of India being able to sell more to those countries. In recent years, the Soviet Union has been an important customer of Indian tobacco, but China and Bulgaria will continue to be the major sources of supplies to that country.

Thus Indian exports may not rise by more than 10-15 per cent over the decade.

Vegetable Oils

In the case of groundnut oil, India had become an insignificant exporter in the late fifties because of her dwindling export surpluses. The present EEC tariff would discriminate in favour of imports from the African countries. But the fact that production of groundnuts in Africa in the last decade has been pushed rather too far at the cost of food crops and that in recent years, Mali has diverted its entire crop for sale to the USSR, will ensure that India will be able to sell more groundnuts and oil to Europe if she can produce larger export surpluses.

Provided requisite export surpluses are forthcoming, a doubling of export receipts from vegetable oils and oilcakes is not an impossible task.

Spices

Export receipts from spices have been lower in recent years largely because prices have come down from their high levels of the early fifties. Exports of cardamom have steadily risen and if India pays increasing attention to the US market for black pepper (where our share in recent years has fallen heavily), export receipts from spices could be increased by 20-25 per cent over the ten year period.

Coffee

India is only a very small exporter of coffee in the world and her share of world trade is slightly higher than one per cent. The prospects for increased consumption of coffee in the world are good, though production is also expected to keep pace with it. Yet India need not be bothered by the overall trend. She should aim to enlarge her share even if the level of world trade is static. Indian coffee has a special appeal and a market of its own, being largely used for blending with other varieties and we should build on that advantage. As presently constituted, the Associated Overseas Territories of the EEC do not produce arabica coffees and their output is largely confined to robustas which do not directly compete with Indian coffee. If Kenya were granted the status of Associated Territory as a result of Britain's entry, India's interests would suffer because the Kenya 'milds' compete directly against Indian varieties.

But considering that Indian exports even after a 200-300 per cent rise would be only a very small part of total world consumption, India should be able to increase her exports in a big way by paying attention to markets in the USA as well as Eastern Europe.

Hides, Skins and Leather

In the past decade, Indian exports have been limited more by lack of export surpluses than world demand. However, prospects of increased consumption in advanced countries are not bright, as a result of growing displacement of natural leather by synthetic materials. While consumption of leather is not likely to grow much, increased production of meat in Europe will enlarge supplies of hides and skins available locally. Besides, the common external tariff of the EEC will discriminate against export of manufactured leather to Europe.

In recent years, the USSR has been buying hides and skins from abroad and given larger export surpluses, Indian exports could be increased by about 5-10 per cent over the decade.

Cashew Kernels

India is the only major exporter of cashew kernels and her exports have nearly doubled in the last decade. There is a vast market for edible nuts in all industrial countries and a further doubling in the present decade is not improbable. But India will find it increasingly difficult to raise her exports at as fast a rate as in the past decade. Local production of raw nuts being no longer adequate, India has to import large quantities of raw nuts from East Africa. In due course, the countries of East Africa will themselves be processing raw nuts for exports and already Mozambique has been exporting small quantities of cashew nuts to the USA.

From an annual average of Rs. 19 crores in the last two years of the Second Plan, exports could perhaps rise to about 30-32 crores in 1970.

Raw Cotton

Here again, exports in the past have been limited by a lack of adequate export surpluses. India is only a marginal exporter of raw

cotton and some of the Indian varieties like the Bengal Deshi have a special appeal of their own (being more suitable for surgical dressings, and also for mixing with other fibres). Whatever the outlook for world trade given larger export surpluses, India would be able to greatly increase her exports from a low level (Rs 7 crores) reached in the last two years of the Second Plan.

Anyway, the FAO projections point to an increased consumption of raw cotton in the major importing areas over the decade, competition from synthetics notwithstanding.

Iron Ore

In 1960, India supplied iron ore worth Rs. 17 crores. Exports of iron ore from India were about 3.5 million tons and Goa supplied another 4.5 million tons of ore to the world market. Considering that Japanese requirements of iron ore are growing and also that net imports into Western Europe are growing rapidly, a doubling of exports from India (Goa included) is not an impossible task. The only difficulties may arise on the side of supplies which depend largely on railway transport and expanded port facilities.

But already, the Third Plan provides for about 10 million tons of exports by 1965-66 and production facilities could be further built up in the Fourth Plan.

Manganese Ore

According to a study of the UN Economic Commission for Europe, production of steel in North America, Europe (excluding USSR) and Japan will rise by about 72 per cent between 1957 and 1972-75 on the basis of past trends and assuming uninterrupted growth over this period. All these areas depend on imports for their requirements of manganese which finds its use in steel making. Unlike mica, no satisfactory substitute has so far been found for manganese and the chances of any further economy in its use are also small. Thus, import requirements of these areas should grow at the same rate as their steel production. In the last decade, Indian exports have suffered because of the entry of the USSR to the European market and also because of new development of manganese mines by US companies in Brazil. Both these factors will continue to operate in the sixties to the disadvantage of India.

However, in view of the expected rapid growth of world trade, India should be able to raise her exports by at least 25-30 per cent.

Export Projections for Traditional Exports

Table 1 summarises our previous discussion by giving some quantitative estimates of likely export receipts of various commodities. There is no particular significance attached to the estimates and they serve only to indicate a broad order of magnitudes.

According to these estimates, exports of traditional goods will rise by Rs 166-218 crores between 1960 and 1970. As a rough order, we may assume that exports of these goods will probably be higher by Rs 200 crores by 1970. But this will raise total exports to only Rs 850 crores in 1970 from Rs 650 crores in the last two years of the Second Plan.

Prospects for New Manufactures

That India's traditional exports by themselves cannot see us through our balance of payments difficulties is of course not a new discovery. In one form or the other, this fact has been pointed out by many writers. However, it has come to be widely assumed, that we are on the threshold of a tremendous expansion of what are now called "new" manufactures. Often the argument is conducted along such general lines: World trade in manufactures has been rapidly expanding in the past and is likely to further expand in the coming decade. Anyway, it should not be difficult for India to capture a small share of world exports and even that should be enough to see us through our payments difficulties. On the supply side, the fact that India has good quality of iron ore and that she is a cheap producer of steel is used to argue that India can compete effectively in the world markets for a great many things or could be made to do so by suitable export subsidies.

One may agree with many of the above statements and yet feel not much hopeful about export prospects of new manufactures for 1971. I simply do not see how we can raise our exports of new manufactures to about Rs 500-600 crores by 1971. The issues can be best illustrated by reference to what the engineering export promotion council calls "engineering exports".

In 1960, exports of engineering products amounted to about Rs 8.9 crores. Of these, consumers' goods like aluminium and other utensils, CI buckets, steel trunks, electric fans, sewing machines, bicycles etc accounted for over Rs 5 crores; capital goods like transport equipment, and jute, oil mill, shoe, tea and textile machinery accounted for only about 80 lakhs of rupees and intermediate products like iron and steel, cast iron pipes, diesel engines and sheets of non ferrous metals etc earned Rs 2.3 crores. The bulk of such goods are directed to underdeveloped countries and the share of Asian and African countries in 1960 was about 62 per cent.

Table 1

Commodity	Exports during 59-60 and 60-61: Average.	Projections for 1970 Low	High		Change Low	High
Jute manufactures	120	126	132		6	12
Tea	130	150	156		20	26
Cotton textiles	62	62	62		0	0
Veg. oils & cakes	30	50	60		20	30
Spices	14	17	18		3	4
Coffee	7	21	28		14	21
Leather	28	30	32		2	4
Cashew kernels	19	30	32		11	13
Raw cotton	8	16	20		8	12
Iron ore	16	70	75	(includes Goa)	54	59
Manganese	14	18	20		4	6
Coir goods	9	11	12		2	3
Tobacco	14	16	17		2	3
Others (fish, woollen textiles, art silk, fabrics, etc.)					20	25
					166	218

Not All Engineering Goods Will Sell

From the above characteristics of our engineering exports, we can draw some conclusions about their export prospects. Firstly, to the extent that consumer goods predominate in the list and they are directed to the underdeveloped countries, there is a risk that importing countries may restrict their imports for balance of payments reasons. And balance of payments difficulties are a common feature of many underdeveloped countries walking on the path of development. More important is the fact that because a large number of items can be manufactured on a small scale (and this can be verified by any visitor to an industrial township in the Punjab where sewing machines, bicycles and many other things are being manufactured by small scale enterprises) they are bound to be an early victim of import substitution in the importing countries. That these are no imaginary fears is borne out by some recent developments in the neighbouring countries. Burma has banned since 1957 the import of aluminium utensils and buckets to encourage local fabrication, Mauritius has also banned their import and Iraq and Pakistan have become exporters of aluminium utensils in recent years. For electric fans, Iran and Iraq are setting up their own plants. Ceylon and South Vietnam are planning to set up plants to assemble sewing machines. These instances gleaned from the various reports of the Engineering Export Promotion Council, point to a development which is bound to limit severely export potential of many engineering products that we have started exporting in the last few years. This is not to say that there is no scope for increasing exports of these goods. There does exist a considerable scope and we must fully exploit the export potential. It is, however, difficult to believe that as presently constituted, engineering exports can provide the nucleus of a big leap forward on the export front.

The danger that imports of many engineering products from India may be restricted by the importing countries for balance of payments reasons, or that their export potential may be limited by their being an early victim of import substitution in those countries, would be considerably reduced if our exports consisted of goods which were vital to the development of other developing countries and which they could not manufacture locally. Thus our export prospects would be different if our exports consisted of industrial machinery, intermediate products like iron and steel, chemicals, essential chemicals and drugs etc. In many of these goods we could compete effectively in the world markets. But the first essential for export promotion is that there should be provision for export surpluses. The Third Plan document does mention that in undertaking new industrial development, the accent will have to be on projects which "by contributing to exports will earn foreign exchange" (p 458) and that "special attention will have to be given to the development of industries for whose products there are reasonable prospects of finding export markets" (p 459). Yet when it comes to discussing the question of additional demand and additional capacity needed to cope with demand (as in the chapter on Industrial Development), no mention at all is made of export demand. Take for instance the case of steel. In this case, one often hears that we are soon going to become a big exporter of steel because of the excellent quality of our iron ores. But in the Third Plan document, where breakdown of the likely demand for steel in 1966 is given we are told that the likely production of steel (assuming every thing goes according to the plans) of 6.8 million tons will still be insufficient to meet the estimated demand of 7.3 million tons (and since there is no mention of exports, one is bound to assume that the estimates of demand refer only to domestic demand). Similarly, in discussing production targets for industrial machinery — cement, sugar, paper and cotton mill machinery, export possibilities have not at all been taken into account. For machine tools, it is explicitly stated that as against an expected demand of Rs 50 crores in 1965-66, production will amount to only Rs 30 crores worth. Similarly, for the railway stock and fertilisers, once again production will fall short of expected demand in the last year of the plan.

Export Possibilities Not Allowed For

If the above examples are any guide, then it follows that in those sectors where export outlook is much more cheerful, export possibilities have not been allowed for in planning additional capacity for the Third Plan period. Of course, one may take the view that such shortcomings could be made good in the Fourth Plan. No doubt additional capacity for export needs would be created during the Fourth Plan. But it is unduly risky to assume that this investment will be ready by 1970 to boost our exports in a big way. Investment in heavy industry has a long gestation period and in addition, there may be similar difficulties as have caused the Second Plan targets for steel, fertilisers, electric machinery etc to fall behind the schedule. Many of these industries are being set up in India for the first time and there are bound to be delays in their completion, which cannot be taken into account before hand. Secondly, even if we assume that added capacity will be ready in 1970 to go into production, it is extremely naive to assume that export markets are simply waiting to welcome us and that we have simply to produce more to capture export markets immediately. A successful build up of exports of new products and entry into new markets requires careful planning as well as a knowledge of export markets which is essentially a long term process. World markets are becoming more competitive than ever before and in many fields we will face fierce competition from developed countries, often backed up by the reputation of their established brands as well as by promises of "tied" loans to the developing countries. All this leads to a conclusion that India will require much patient hard work before she can hope to make any considerable gains. And if this is true, it means that the creation of additional capacity for exports in the Fourth Plan is not a sufficient guarantee that export performance of new manufactures in 1970-71 will come up to expectations held now. The time to plan for the needed capacity for export purposes is now and whatever

the reasons for not being able to create the needed capacity now (foreign exchange is, of course, a crucial barrier) failure to provide for it during the Third Plan period will mean that export performance of new manufactures will fall far short of present expectations in 1970.

Our conclusion then is as follows: In the absence of needed capacity for exports for such items as iron and steel, industrial machinery and chemicals being created during the Third Plan, it is grossly unrealistic to assume that exports of new manufactures will rise to Rs 500-600 crores, as they must if India is to become self-reliant by 1970-71. It is an illusion to think that we can speedily reach the goal of self sustainment through exports of bicycles, sewing machines and household utensils etc. I personally believe that we would be lucky if we can raise export receipts of new manufactures even to Rs 150-200 crores by 1970.

Role of Eastern Europe and Regional Trade Cooperation

Our previous analysis leads us to a conclusion that we will be very lucky even if our export receipts in 1970 rise to Rs 1,000 crores. This level clearly falls short of the target for exports discussed earlier in this note for achieving self-sustained growth by 1970. Could we do anything to raise our export proceeds in any other way? Some have advocated increased trading with Eastern Europe. There is no doubt that Eastern Europe has much to offer to us to meet our import needs. But have we enough to offer them by way of exports? The plain fact is that the type of goods that we export are on very low priority lists of these countries. Both for jute as well as tea, the Soviet Union is planning to become self-sufficient. (And in case of jute, why should we not assume that the factors which have affected adversely an increasing use of jute in Western countries would not be operative in Eastern Europe, with their highly mechanised agriculture offering great scope for bulk handling?) The Soviet agriculture remains a problem for the Soviet planners and they may well resort to international trade to meet their growing requirements. But what agricultural commodities can we supply to them except perhaps vegetable oils and tobacco? And for both these commodities, as was pointed out in "Economic Survey of Europe, 1960", prospects for increased imports from the third countries into the Sino-Soviet area are none too bright. While there is no harm in entering into bilateral arrangements with these countries and we should do our best to export more to them, their present plans do not give enough indications that they are planning to accept much larger imports from India.

As for greater regional cooperation, whatever the long term benefits, and I cannot deal with them here, countries of South East Asia cannot provide a solution for India's balance of payments difficulties. Because of a narrow specialisation on a few primary commodities which is characteristic of most countries of the region, there simply does not exist a sufficient basis for mutually profitable trade on a large scale.

Export Prospects and Self-Sustained Growth

We are then forced to end up with a gloomy conclusion that our likely export performance in 1970-71 is unlikely to match up to the requirements of self-sustained growth. We shall be lucky if we can export goods worth Rs 1,000 crores in 1970. For even this estimate rests on the crucial assumption that exports of traditional items will not be allowed to suffer for want of adequate export surpluses and that means a satisfactory solution of our agricultural problem. We could do something to raise our earnings of foreign exchange by earning more on invisible account and by attracting a larger inflow of private foreign capital. As for the invisibles, two hopeful cases often mentioned are tourism and shipping. Estimates of earnings from tourism in the past decade point to a further expansion in the future. But even if they were to double from their present level (Rs 17 crores in 1958), they would not make our payments difficulties much easier to solve. And as for shipping, the same foreign exchange barrier, which limits further investment in promising lines of exports, also limits the pace at which we can add to our merchant fleet. As is well known, even in 1965-66, when we will have a tonnage of 1.1 million GRT, Indian shipping will be carrying no more than 10 per cent of the freight originating in India's foreign trade.

The prospects for attracting private foreign investment on a large scale do not seem to be very bright. According to available statistics, both in 1958 and 1959, there was an actual net outflow of private long term foreign capital from India, if retained earnings of foreign owned enterprises are excluded. Government have recently taken steps to attract a larger inflow of private capital, like negotiation of avoidance of double taxation agreements with a number of countries, taxation relief to foreign technicians and foreign inter-corporate earnings. An agreement with the USA provides for insurance under the ICA guarantee programme to cover risks both of nationalisation as well as in respect of transfer of capital and profits by American investors and an India Investment Centre has been opened to provide information about investment opportunities in India to intending foreign investors. All these steps have no doubt improved the "climate of enterprise" but to expect that private foreign capital can be attracted on a large scale is much too premature. Even the Third Plan estimate of an average annual inflow of Rs 50 crores looks like being a triumph of hope over experience.

All available evidence points to a strong likelihood that India may have to postpone the objective of self sustained growth to a date later than 1970-71. This, however, should not be taken to mean that its pursuit ought to be given up right now. The best strategy would still be to aim high and utilise the period between now and 1970 to put in the largest possible effort in export promotion as well as in import saving activities. If despite all the effort, balancing the foreign exchange budget in 1970 should prove difficult, the choice whether to postpone the objective of self sustained growth to a later date or to modify the character of the Fifth Plan could then be settled in the light of such considerations as the availability of fresh aid and the terms on which it was made available.

Common Markets for All?

M V Posner

No two problems, on the face of it, could be more dissimilar than the export performances of the U K and of India.

For the U K, price inflation, sluggish salesmanship, insufficient technical development, a protected and attractive home market; for India, constant battles against foreign tariffs and quantitative restrictions, the need to produce high quality goods with labour intensive methods, a volatile and highly variable market. Yet in some important ways, these two problems raise similar issues, and require similar solutions.

This article attempts to disentangle some aspects of foreign trade problems that are, perhaps, little emphasised, and to dissent from the dogma that "the (European) Common Market is a 'good thing' if it leads to world free trade".

The moral I shall try to suggest is that, while the European Common Market may be bad for Britain, an Asian Common Market, paradoxically enough, may be good for India; the pattern of trade that suits a country best depends on the stage of development it has reached.

FIRST, we must clear the decks of the simple-minded view that all payments difficulties are caused by mistaken loyalty to rigid exchange rates. According to this traditional argument, the possibility of trade stems from differences in the patterns of resources with which different countries are equipped at any point of time. Given these original differences, and the differences in the relative costs of different commodities which they imply, it follows that there is *some* set of currency exchange rates at which trade will balance. The sluggish salesmanship of British exporters, or the tariffs faced by Indian manufactured goods, are "bad things", indeed, since they imply a lower equilibrium value for the pound sterling or the rupee than would otherwise be necessary, and hence both worsen the "terms of trade" for the two countries and reduce the amount of trade. But the fact that these potential losses appear disguised as actual balance of payments difficulties is unnecessary and unfortunate.

There are many obvious objections to such a simple argument — e g, the well-known fact that a developing country must necessarily depend (in a physical sense) largely on imported capital goods, and hence is bound to regard the balance of payments constraint as unusually urgent. However, I do not want to stress these practical difficulties here — they are familiar to us all. Moreover, I think it dangerous to counter a theoretical argument with practical objections. To do so leaves the theory undamaged (though perhaps a little rusty!), and hence leaves it as undisputed master except where some practical man argues with sufficient force and speed that in some particular circumstance this no-doubt excellent theory does not apply: there is always a presumption in favour of an unchallenged theory, and it is this presumption that I fear may be dangerous.

Another Cause of Trade

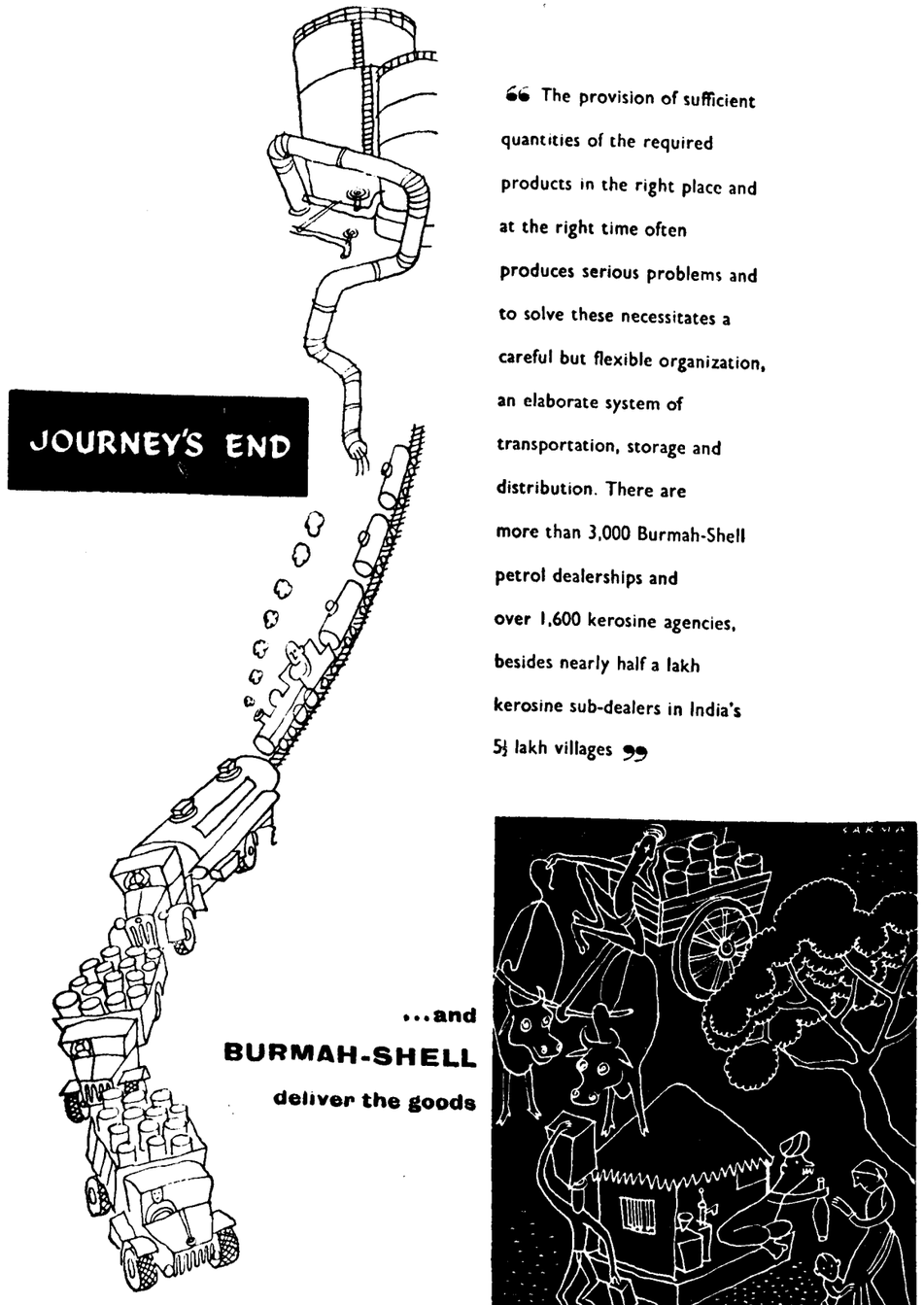
The essence of the analysis I employ is very simple (I have explained it at greater length in *Oxford Economic Papers*, October 1961); I suggest that an important cause of comparative advantage, and, *a fortiori*, of changes in comparative advantage, is to be found in the existence of differences in technical knowledge between countries. Two advanced capitalist countries may be very similar in basic "endowment" of the factors of production, but nevertheless at one point of time one industry in one country may be ahead of its foreign competitor in its technique of production. The two countries can even be innovating at the same rate over *all* industries, but at any one time *one* industry will have its "nose" ahead of its competitor abroad. The greater the rate of innovation, the greater will be the disparity between countries in their production methods at any one time, and hence the greater the amount of profitable trade. I shall call this sort of trade "dynamic", to distinguish it from more traditional types.

But all this is on the assumption that the two countries in our trading model have roughly equal rates of innovation and technical change: if the "pen" industry in one country is ahead of its foreign competitor, the foreign "pencil" industry will displace its home equivalent. If, however, one country is innovating more rapidly over all industries, what will happen? The relatively backward country will be constantly in balance of payments difficulties, forced into exchange depreciation, and hence induced to export products not previously competitive abroad: as the foreigner innovates in one industry after another, the sluggish home country has to take over markets which the foreigner has abandoned. The constant changes of tack imposed on the "following" country imply unstable markets, possibly frequent exchange depreciation, and so on.

"Dynamic" Trade and Developing Countries

A very similar account, more directly applicable to developing countries, was given more elegantly by Sir Dennis Robertson in his book "Britain and the World Economy", where he develops a parable of a rich man and his servant; no sooner does the servant learn to clean shoes than the rich man installs an automatic shoe cleaner; no sooner does the servant acquire (at the cost of much "investment" of effort) the skill of cooking, than there appears an automatic kitchen stove; and so on. In mechanical terms, the economic system is always "hunting" — trying to achieve today a position that yesterday would have been an equilibrium, but is, alas, today a disequilibrium.

Moreover, while the advanced capitalist country, which is thus



"The provision of sufficient quantities of the required products in the right place and at the right time often produces serious problems and to solve these necessitates a careful but flexible organization, an elaborate system of transportation, storage and distribution. There are more than 3,000 Burmah-Shell petrol dealerships and over 1,600 kerosine agencies, besides nearly half a lakh kerosine sub-dealers in India's 5½ lakh villages"

...and

BURMAH-SHELL

deliver the goods

continually overtaken by foreign innovations, can always improve its position by faster imitation of new techniques discovered abroad, the same escape is not always open to the developing country. If the new technique tends to make a previously "labour-intensive" industry more "capital-intensive" then the country that is poor in capital would be unwise (and indeed, unable) to follow or imitate the new development.

If we add a (well-chosen!) touch or two of reality to this simple model, even more striking consequences can follow. If a developing country is actually trying to *increase* its export earnings (necessarily at the expense of some foreign producer) the pressure on that foreigner to innovate and hence retain his market is suddenly and substantially increased. Indeed, we might advance a new "law" of political economy: where the home market can be successfully retained through appropriate innovations, free trade is practised as well as preached; where, as in the case of cotton textiles, this is not technically possible (or the backward state of the industry makes it *seem* impossible), tariffs and quota restrictions are imposed instead. Doubtless, in some sense, the first alternative is economically preferable, but, from the point of view of a developing country which is desperately trying to increase its export earnings, the results are very similar in the two cases.

"More" Trade *versus* "Free" Trade

We can now, equipped with this alternative framework for analysing the causes of trade, return to our main problem — when, and for whom, is a "Common Market" a good thing? I discussed many of the relevant issues in my last article in *The Economic Weekly*, (Annual Number, 1962), and so will touch here only on those aspects which have particular relevance to my present theme. The conventional analysis rests on the distinction between trade "creation" and trade "diversion". If, as a result of joining a Common Market, the U K buys goods abroad that she had previously bought at home, trade is created; if she buys from a fellow member of the Market what she had previously bought from outside the Market, trade is diverted.

If we accept that diversion is probably bad but that creation is certainly good, and note that *world* free trade necessarily implies that there will be no trade diversion, it follows that world free trade is better than any partial trading block (although it is recognised that regional free trade may be a move towards world free trade). This conclusion is primarily responsible for convincing many liberal-minded economists in the U K that the European Common Market is acceptable only if it is "outward looking" — a first step to real free trade on a world scale. As a matter of fact, this approach is extremely favourable to such countries as India, and is intended by its protagonists to be so. But we must look rather deeper than these immediate policy implications would suggest.

Essentially, this liberal approach wants "more" trade, but prefers "free" trade — the U K gains from trading with Europe, but forces upon others (and to some extent upon herself) losses from trade diversion; this loss should be limited by lowering tariffs against the rest of the world. From these lower tariffs (and reduction of quota restrictions) developing countries have much to gain. But does this imply that restrictive, partial, customs unions are necessarily against the interests of developing countries? And is it really true that, trade diversion aside, the *European* Common Market is good for the U K? Let us deal with the second question first.

"Dynamic" Trade and Growth

I assent, with no proof from other than very casual experiences, that a substantial element in trade between the U K and, say, Germany, must be "dynamic" in the sense I loosely defined this term above (another large section must be associated with economies of large-scale production — this starts analytical hares which I shall not follow here). It follows from the previous discussion that the U K may, if she innovates at *roughly the same rate* as does Germany, although with a different inter-industry pattern, gain substantially from trade. The question is, however — will Britain's rate of innovation be favourably or unfavourably influenced when she is joined with Germany in a Common Market? Suppose our present rate of innovation is less than that of Germany: will the shock of increased competition induce more or less innovation (and growth) in the U K economy?

If there is a connection — as most people would agree — between rates of technical change and rates of economic growth, the question we are asking resembles the familiar argument as to whether or not the U K rate of growth will increase when we adhere to the Rome Treaty. But whereas this conventional question about growth discusses the *results* of trade, we are mainly interested in the *causes* of trade: the whole possibility of two-way "dynamic" trade depends on the similarity of rates of innovation (and perhaps growth in general) in different countries. For, if Britain has no "dynamic" (recently innovated) products to sell, she has balance of payments difficulties, which implies exchange rate depreciation, which will make old, "uninnovated" products saleable in the German market. However, actually to *sell* these products will mean meeting the competition of German producers — and Britain's problem will become that of the servant in Professor Robertson's parable.

According to this analysis, then, if the U K joins the Common Market but *fails* to match German (or French, or North Italian) dynamism, her problems will come to resemble those of developing countries, vainly trying to expand their export markets against competitors who are willing (and *able*) to meet the competitive threat by technical change. (To sell a new product may not directly hurt any individual competitor seriously; to sell an old product more cheaply may hurt someone, but if the cheapening is due to technical change, all the injured party can do is to imitate you; but to sell cheaply, using old techniques while employing "cheap labour" is to invite technical improvements by your competitor).

On the other hand, a stimulated Britain, wide-awake and progressive, has much to gain from increased competition: in particular, the ability to enjoy the advantages of economic change in those techniques

in which foreigners are progressing faster before Britain's own businessmen would produce these changes themselves.

Which of these two possibilities is the stronger? That is a problem for the soothsayers to answer. But, in formal terms, the possibility of gain is greater, the greater the similarity between the various members of the trading community, and the greater the internal mobility of resources between different industries. We can now come to our main problem.

Free Trade for India ?

We seem to have reached two conclusions. First, explicitly, we have seen that an "outward looking", free-trade-minded European Community is better for India than a restrictionist group forcing trade diversion on all and sundry. But, secondly, we have implied, in the last section, that close trading relationships, at least in so far as "dynamic trade" is concerned, are best suited to countries that are closely similar to each other; from this it would seem to follow that India should keep as far from Europe economically and politically as she is already geographically. Are these two conclusions mutually compatible? The argument can best be expressed by setting out four separate points:

1 India (and other developing countries — I use India as an archetypal example only: I hope I may be forgiven!) already has a market in Europe. It would certainly be bad to lose what she has. To that extent, the greater the free trade bias of Europe, the better for India.

2 Certain capital goods can be bought only from the advanced capitalist countries or the Soviet Union. To buy these goods India must export, and the easier the conditions in the export market, the better for her development programme.

3 But, given points 1 and 2, what trading developments should India try to encourage over the next decade? Non-discriminatory world trade, or something else? To my mind, the choice for India lies between wedding her foreign trade to that of countries like Britain and Germany, or, alternatively, trying to build a discriminatory group of developing countries — an Asian Common Market? — who have that crucial characteristic of similar factor endowments that I stressed in the British-German case. Such an Asian Common Market could "divide labour", in the international Adam Smith sense; could take advantage of economies of scale in small specialist industries; and, most important for the dynamic trade whose characteristics I am discussing, protect growing export industries from the brutal closure of markets which they would face if they were operating in the European market.

4 Such a proposal is visionary, both because of its political naivete, no doubt, and because the pattern of trade it is designed to serve is one for the future rather than the present. The present, dominated by points 1 and 2 above, and by the overriding importance of traditional causes of trade, leaves little time for frills. But this also seemed the picture in Europe in 1945: the United States was, it seemed, the one advanced country, and all concentrated, competitively, on earning dollars. But the solid (although also visionary) activity of those who established the highly discriminatory European Payments Union — the true father of the Common Market — provided the opportunity for the amazing recovery of European trade in the 1950's. The fact that some of us British sceptics dislike the particular form which the Common Market has taken should not blind others to the solid advantages of a discriminatory group of well-matched economies. There *are* lessons to be learnt from our experience!

IDA Loan for Bombay Port

THE International Development Association has approved a development credit equivalent to $ 18 million to India for development of the Port of Bombay. The loan is made to the Government of India who will make the funds available to the Trustees of the Port of Bombay for a five-year programme to eliminate ship congestion by expanding the capacity of the port, and to improve facilities for the handling of cargo and passenger traffic.

Cargo traffic through the Bombay port has doubled in the past ten years, reaching a peak of 14.7 million tons in 1960-61.

The increased traffic has put a great strain on port facilities, particularly on those for handling the larger deep-draft cargo vessels. Because of congestion, ships lost 1,825 days awaiting berths during 1960-61.

The port complex at Bombay consists principally of three enclosed dock basins, Prince's, Victoria and Alexandra Docks, containing 40 berths for ocean-going ships. In addition, the port has the Ballard Pier for larger passenger liners, seven tidal berths along the harbour walls for ferries and coastal passenger ships, "bunders" or open wharves for small coastal craft and sailing vessels of shallow draft, and Pir Pau and Butcher Island for oil tankers. Alexandra Dock can handle ships of up to 32 feet draft — the only dock that can handle the larger freighters. The principal features of the current programme are the construction of four additional deep-water berths at Alexandra Dock, a new ferry wharf adjacent to Prince's Dock so as to release three harbour-wall berths for deep-water berthing, an extension of Ballard Pier to provide an additional berth and a new building equipped to accommodate passenger and cargo traffic; dredging of the main harbour channel to arrest siltation; the acquisition of new floating craft, including a new drag-suction dredge, two grab dredges, seven tugs, four harbour launches and one salvage-cum-water boat; and improved port equipment and services.

The total cost of the programme is estimated at the equivalent of $ 57 million, of which $ 18 million will be in foreign exchange.

World Socialist Market

Prices, Currency and System of Payments

J Zlobin

The sharp division of the world into two poli tical camps has its counterpart in the division of the world economy into the so-called dollar economy and the rouble economy. The world market is split into the capitalist and the socialist markets.

Among the countries that comprise the socialist market, there are differences in the levels of economic and technical development, entailing differences in costs and prices and giving rise to balance of payments difficulties.

The clearing arrangements between these countries and their programmes of mutual help and economic co-operation have increased their trade and are leading towards greater international socialist division of labour.

THE prices prevalent in the socialist market differ fundamentally from those in the capitalist market. This is only natural as the nature of economic relationship is very different in the two systems and prices reflect such relationships. Prices, expressed in money, indicate the cost of commodities which in this case are the property of the socialist states. In all socialist countries, foreign trade is a State monopoly and it is the State that determines prices. However, in the process of pricing of commodities and services in the world socialist market, the corresponding price levels in the world capitalist market cannot be ignored. This is because the transition of the socialist countries to the basis of completely independent pricing of their own has not yet been completed and to that extent, the traditional basis of prices remains which is that of the world capitalist market. This is, of course, only for the goods traded among the countries of the Soviet Bloc and does not apply to domestic prices.

It is a notable fact that, at present, as much as 30 per cent of the aggregate foreign trade of the socialist countries is with the countries of the capitalist world. The latter group accounts for 90 per cent of total international trade. Hence, naturally, prices in the world markets are generally expressed in US dollars, British pound sterling or in some other freely-convertible currency. These prices, which serve as a basis for the pricing of commodities and services in the world socialist market, have to be converted into roubles, in conformity with the gold content of the official rate of exchange between it and the currencies mentioned.

Basis of Pricing

The familiar terms "on the basis of prices of the principal commodity markets", or "on the basis of prices of the world markets", as used in trade and credit agreements between the socialist countries, show the influence of the international cost of commodities in the world market. But it would be a serious mistake to think that socialist countries trade among themselves on the same prices as used in the world capitalist markets. Taking prices of the world capitalist market for a basis, the socialist countries correct them and, wherever possible, remove deviations from the actual value of goods, which are caused by speculative dealings and by the effects of monopoly in boosting selling and understating buying prices — features so characteristic of capitalism. In brief, socialist prices are "cut off" of everything that "capitalistically disfigures" world prices and put on a sound economic basis. However, the prices corrected in this manner are not always used in their "pure" form, as socialist countries take into account the objective interests of proper international specialisation and division. The complicated procedure of price adjustment is itself being modified and improved along with the expansion of the socialist market and its growing influence on international trade.

Speedy Elimination of Disparities

As an effect of the war in Korea, the world capitalist market witnessed a sharp rise of prices in 1950. At that time, the socialist countries took as a basis the so-called "stop prices" (i e, prices on a definite date) of the world capitalist market as at the end of 1949 or at the beginning of 1950. This base continued to be adopted up to 1957, but afterwards some corrections were made so as to adjust prices of some of the commodities to current conditions in the world market. Such an adjustment was made necessary by the development of new lines of production and by the growth of the trade between countries of the two world systems.

Thus, while prices in socialist countries as defined by trade agreements, are based on prices of the world capitalist market, they differ substantially from the latter and carry some features of their own. Among individual socialist countries, there are uneven levels of economic and technical development, inherited from their capitalist past, which lead inevitably to differences in the national costs of production and prices of commodities and services, and consequently, also to variations in the deviation from the costs and prices prevailing in the world socialist market. The more advanced socialist countries provide assistance to the less developed ones even within the framework of trade. The under-developed countries are given concessions while defining prices in agreements and given loans either completely interest-free or at a very low rate of interest, as well as technical assistance. Needless to say, such assistance contributes greatly to the speedy economic growth of the less developed socialist countries which process would culminate in their attaining the levels of living enjoyed by the

most advanced among them and in this way a firm basis would be laid for their economic equality. One can predict that along with the economic advance of each national economy, the mutual trade between socialist countries will progressively acquire the same features as characterise their domestic trade, while simultaneously, their domestic trade will be under the growing influence of their trade with each other. This two-way influence will gradually create a new and different basis for prices in the world socialist market.

Of course, the existence of the world socialist market with its more equitable and stable prices is, first and foremost, a great asset to the countries comprising that market. But even at present, while the share of the socialist countries in international trade is no more than 10 per cent, the capitalist countries are not able to ignore the existence of the world socialist market, and the price level obtaining in it, and they consider the possibilities of more favourable trade deals with the countries of the socialist system. With the rapid growth of world socialist economy and consequent rise in the foreign trade of socialist countries, their influence on the price structure of the world capitalist market is bound to be more and more pronounced year by year.

Valuation of Currency

As the world socialist market has developed, the Soviet rouble has come to be the common monetary unit, in which prices are expressed and payments made. But the international value of the Soviet rouble is different from the purchasing power it has on the Soviet domestic market. For trade purposes, it is a monetary scale for evaluating the prices of the world capitalist market. For the purposes of clearing payments of the Socialist countries, the rouble is valued according to its fixed gold content. For payments of a non-commercial nature, the rouble represents its actual purchasing power on the Soviet domestic market. Prior to January 1, 1961 there was a special rate of exchange for tourists and for other non-commercial payments, the so-called "tourist rate" being about 150 per cent higher than the official rate of exchange for commercial purposes. Thus, the foreign trade turnover of the socialist countries is calculated both in the national currencies and in Soviet roubles, at the official rates of exchange.

The rouble as well as the currencies of other socialist countries are linked with gold, and hence gold is accepted as the only objective standard for the world value of goods. This measure has helped to strengthen the economic ties between the U S S R and other socialist countries and has laid a firm foundation for all monetary transactions within the world socialist market. The decision of the Soviet Union to re-value the rouble with effect from January 1, 1961 was a measure of great importance. The gold content of the rouble was raised from 0.222168 to 0.987412 gram and the rate of exchange was changed correspondingly. Thus, the official rate of exchange has become 90 kopeks (or 0.9) rouble for $ 1.

At present, the Soviet Union is an important participant in world trade. The U S S R has established economic ties with more than 80 countries and the State Bank of the U S S R has exchange transactions with more than 800 banking establishments of the world. The Soviet foreign trade has increased more than ten times since 1938 and the annual rate of increase during the last decade was 12.6 per cent, or slightly more than the rate of increase in industrial production. In absolute terms, the value of foreign trade in 1961 was 10.5 billion roubles. According to estimates made by the Soviet economists, it can record a more than four-fold increase in the next 20 years. The Soviet Union has also provided economic assistance to other socialist countries and to economically less-developed countries in Asia, Africa and Latin America in the form of long and short-term credits. At the beginning of 1961, the total amount of these credits to the socialist countries was 7.8 billion roubles and 2.4 billion new roubles to the economically less-developed countries. During 1961 these amounts have increased considerably.

In these circumstances, the new gold content and the new rate of exchange of the rouble are of significance for the further development of Soviet foreign relations and trade. The new rate of exchange for rouble was settled on the basis of actual correlation between the purchasing power of a rouble and a U S dollar in the domestic markets of the two countries. With the introduction of the new rouble, the average level of wholesale prices and official price of gold in the soviet market have come close to the world price of gold. This did away with the necessity for the maintenance of the so-called "tourist rate of exchange". It is now possible to conduct all operations with the same rate of exchange, to compare the cost and prices of goods on the world market and on the domestic market of the U S S R, to define more precisely the economic efficiency of export and import trade relating to individual items, to different groups of commodities and different countries.

The new rate of exchange of the Soviet rouble was calculated on the basis of actual correlations of purchasing power of rouble with that of various currencies, taking into account the whole composition of the gross national product. This method of defining the rate of exchange is practically the only rational and economically sound method.

Inter-Country Payments

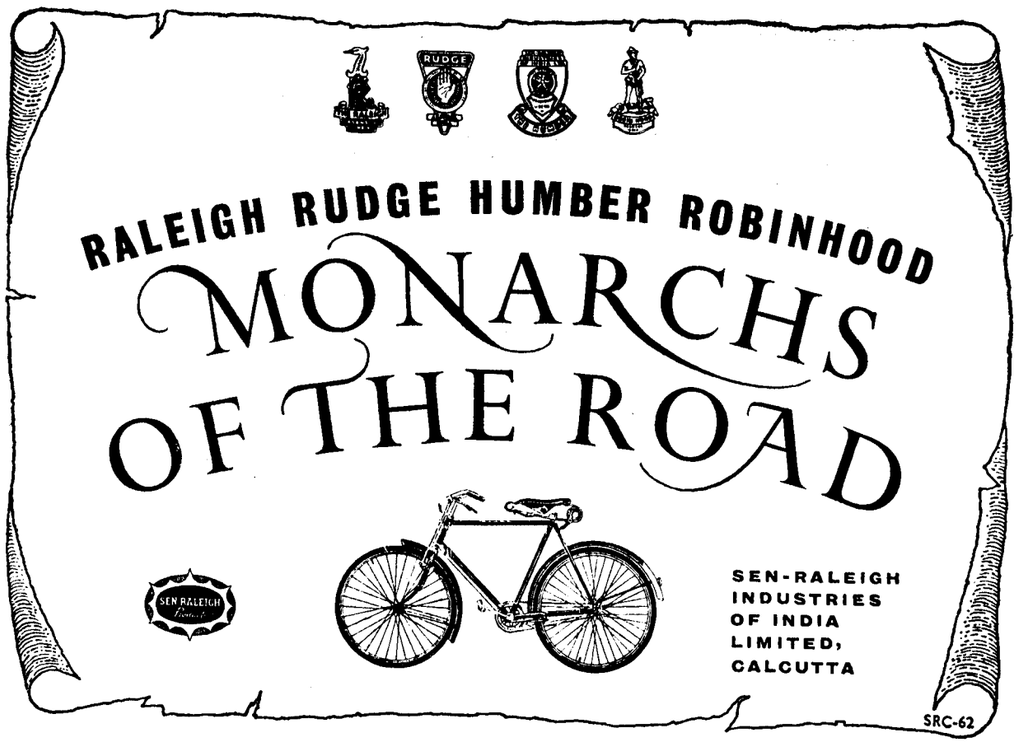
Payments between the socialist countries are effected, as a rule, through clearing arrangements. Since foreign trade is a State monopoly in socialist countries, only Governments can be participants in such arrangements. Balance on a clearing account in roubles is a monetary demand on commercial payments from one side and a debtor's obligation of another. But the creditor country can use this claim only through such transactions as are provided for by the bilateral trade and payment agreement between the two States. Any other payments should be especially provided for by additional agreements. Besides, the debtor country is not obliged to exchange, in favour of the creditor country, the rouble surplus on the clearing accounts into the local currency. The local currency is used exclusively for settling accounts between the country's national bank and national export and import corporations.

Hence, in clearing payments, the rouble expresses the international value of goods and services and is a means of settling inter-State payments on the world socialist market. In operations involving foreign exchange, the economic significance of the rouble lies in making possible the comparison of international prices with those of the national markets and in thus serving as an economic link between the world socialist market and world capitalist market.

Multilateral Clearing and Mutual Economic Assistance

Clearing payments between the socialist countries do not mean a restricted two-way traffic. With a surplus of roubles on her clearing accounts, each country can pay (by remitting amounts from one account to another) for the import of goods and services from the debtor country as well as from any third country (by consent of the debtor country and the third country), or to remit this surplus or a part of it to her account in multilateral clearing of the socialist countries (by consent of the debtor country) from where the surplus can be used for payments to any participant country of the multilateral clearing. A rouble surplus can also be converted into the local (national) currency of the debtor country (by her consent) to cover non-commercial expenses, or, used to provide credit to the debtor country or a third country. The latest session of the C M E A (Council for Mutual Economic Assistance) permanent commission for foreign trade which was held in Moscow in January 1962, considered new measures for further expansion of mutual trade on the basis of multilateral clearing. Multilateral clearing would facilitate a further development of trade and payments between the socialist countries, as it is meant to substitute the necessity of a "balanced trade" between every two countries by an overall balanced trade within the limits of the world socialist market.

It should be borne in mind that the mechanism of clearing, either bilateral or multilateral, cannot remove the national differences in prices on the domestic markets of the socialist countries. Clearing prices, as expressed in roubles, still significantly differ from the domestic prices of each individual country. This makes it more difficult to determine the multi-lateral rates of exchange and to work out the most suitable system of payments. But there has, in recent years, been a marked tendency toward levelling of the scales of prices and to eliminate the national differences in costs of production and of services in the socialist States and hence in the prices and rates of exchange. This tendency reflects the gradual levelling up of the stages of economic and cultural development. It is primarily the outcome of the programmes of mutual help and economic co-operation of the socialist countries, leading towards greater international socialist division of labour and co-ordination of their economic development plans.



Asian Economic Cooperation

D T Lakdawala

The idea of regional economic co-operation has gained strong support during the post-War period. The United Nations has recognised the importance of regional co-operation by setting up various regional bodies — Economic Commissions as they are called — and these have done valuable work in bringing out the special features and problems of the regions with which they are concerned.

Attention is now centred on a very important and rather controversial question, viz, the possibilities of trade co-operation in a region as a whole or among its important constituents. Unlike in other spheres, the trade co-operation contemplated has a distinct preferential and discriminatory ring; it entails a favourable treatment of goods from the region compared with those outside.

The lead has come from an advanced region, viz, Europe where the habit of regional co-operation was developed earlier for common defence and post-War rehabilitation, and had taken many organisational forms like the OEEC, the EPU, the SCSC, the EDC, etc. Two strong trade bloc arrangements have operated for sometime in Europe, viz, the Common Market for the 'Six' and a European Free Trade Area for the 'Outer' Seven. After Europe being at sixes and sevens for sometime, as a result of the desire of Britain and other 'Outer' European countries to join the ECM in one way or the other, it now seems likely that the Common Market may comprise most of non-communist Europe.

This has given rise to a feeling of anxiety and rivalry and has stimulated plans for defensive actions in other regions. A Common Market for Latin America is already on the anvil. It is but natural that Asia should also consider the possibility of a Common Market or some other trade arrangement for her.

APART from the desire for emulation or the wish to have a strong bargaining counter in trade matters so that Asia can talk to Europe or Latin America from a position of strength, there is a strong economic case for a discriminatory trade arrangement in Asia. In common with other underdeveloped areas, the Asian countries find that in the last few years the market for their primary products, excluding petroleum, is growing very slowly, more slowly than the growth of world trade and much more slowly than the increase of world income. For many reasons, they are not able to find new lines of simple manufacturing in which developed countries may offer them expanding markets. On the other hand, to achieve or maintain a satisfactory rate of growth they have to import increasing quantities of capital goods and intermediate materials. However much they adjust their other imports of consumption goods, they find themselves faced with an adverse trade balance of a magnitude which even generous foreign aid does not enable them to meet. In the process they have also to impose similar restrictions on imports from other Asian countries as in the absence of any specific arrangement the foreign payments to these neighbouring countries are likely to be converted into the currencies of other, developed, countries.

These formally non-discriminatory controls have specially adverse effects on Asian exports, as they largely consist of consumption goods or materials for consumption goods on which the axe of import restrictions falls first. The countries have, therefore, necessarily to resort to import substitution which is a costly process, if the market is limited and the goods to be substituted are capital goods and durable consumption goods where the economies of scale preponderate. At some stage, this may adversely affect the level of exports and become a self-defeating process. Even earlier, it will definitely slow down the rate of growth, though it may still be more rapid than under free trade. Regional trade co-operation which will ensure a sufficiently wide market without hindering the rate of growth will be a much better way out.

Concept of Common Market

Of all the forms that regional trade co-operation can take without involving drastic restriction of national sovereignty, the most thorough and far-reaching is a Common Market, or its near-equivalents — a Customs' Union and a Free Trade Area. A Customs' Union involves (a) removal of all tariff barriers among countries entering into the Union, and (b) a common tariff on goods from the territories of non-member countries. A Free Trade Area implies the former, but the member countries are free to have their own tariff policies regarding imports from outside. The European Economic Community goes much further than a Customs' Union, for it provides for a European Investment Bank, a Social Fund, an Overseas Development Fund and a likely Agricultural Improvement Fund, and sets up a whole set of governing or directive bodies. Arrangements regarding the Customs' Union or Free Trade Area may have transitional provisions or interim arrangements allowing all sorts of adjustments, but at the end of a reasonable period, they must provide for a total abolition of tariff barriers.

The question of a Common Market for Asia raises two important issues :

Are the countries of Asia or most of them prepared in ten or fifteen years' time to remove tariff barriers or face duty-free imports from one another ?

Will it be to their interests to do so ?

Feasibility in Asia

Since the question of feasibility of an Asian Common Market involves a peep into the future, unanimity of opinion among economists is not to be expected. But from an examination of the present position and future prospects of the Asian economy for the next decade it seems to the writer that a Common Market for Asia in the near future is unlikely, or that, if formed, it will be hedged in with so

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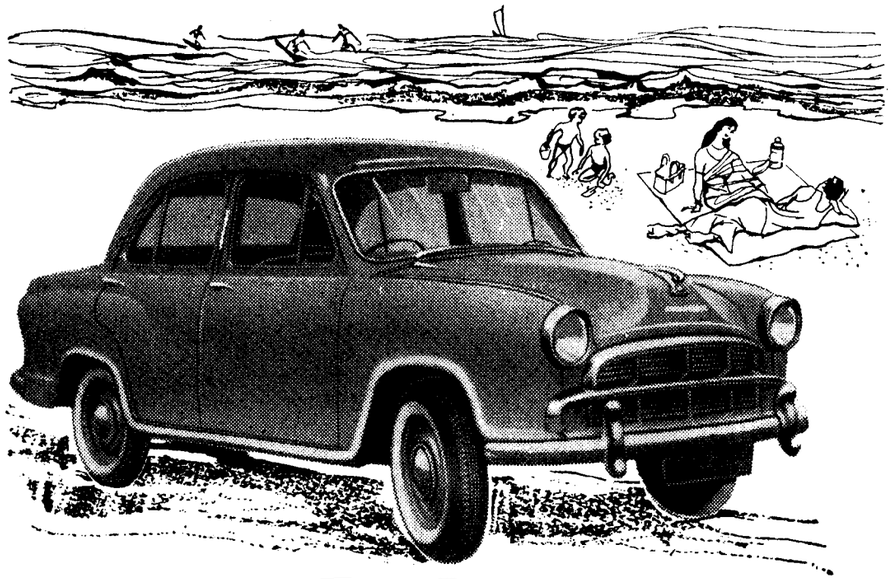

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many reservations and safeguards that it will lose all meaning. Many countries of Asia do not rely by and large on the working of the market or the price mechanism. In few sectors of the Asian economy are market forces allowed to operate unhindered. In this context, one does not know what meaning to attach to the removal of all tariff barriers. If import controls, quantitative trade restrictions and exchange control continue after tariff abolition, and state trading not governed by price calculations continues on a wide scale, the Asian Common Market will have little significance. This also holds true of any allround regional preference system. There is little prospect that the formation of the Market itself will hasten the bringing about of conditions where quantitative trade controls or trade tariffs will no longer be needed *vis a vis* other parts of the region. Exchange and trade controls are used for a threefold purpose in India which is likely to be true of a number of other Asian countries :

(i) Since there is an almost insatiable need for investment and savings, and the marginal propensity to consume is high, luxury production is rigidly controlled to restrict consumption and increase savings. Control of luxury imports is a necessary adjunct to control over its production at home.

(ii) Protection of infant industry is another reason for import restrictions in many fields.

(iii) Foreign exchange is scarce, and import restrictions are essential for its conservation.

At present the third is the most pervasive and pressing reason for import restrictions. But if by some miracle, it is removed, the first two will force themselves more and more on our attention. It may be that if suitable regional arrangements are made, countries may not have an acute problem in meeting their payments to other members in the region. But concepts of luxury differ from one member to another, so that a common policy regarding luxury production and import restriction will be very difficult to evolve. Different parts are at different stages of economic development. The need for protection within the region is, therefore, likely to be keenly felt. India may feel that she cannot succeed in her aim of developing electrical and machine goods industries if Japanese goods can come freely within her borders and Pakistan may feel the same about India. This makes it unlikely that members will be prepared to dispense with import restrictions on the regional goods within a reasonable time.

Will Asian Common Market Help ?

Apart from the question of the member countries being prepared for the eventuality of free trade within the region, there is the more fundamental question of whether they will gain from such a policy. It is important to remember in this context that *a priori* the case for world free trade is as strong as that for regional free trade. If the former does not command strong allegiance now, it is for good reasons; and one must have special reasons to believe that these do not operate with equal force in the region, or that counteracting powerful forces operate or can be made to operate. The gains of free trade can only be realised if there are free factor movements. A Common Market must mean not only a free market in goods, but also in factors of production. Neither labour nor capital are, however, free to move within the region. The region is suffering from unemployment and under-employment. Some of the countries are seriously trying to reduce the number of migrants who had settled within their borders; almost all are afraid of large-scale exodus that an open-door policy may bring. All the countries are suffering from a chronic shortage of capital and will not allow free capital movements to areas where profit prospects are greater. In order that free trade and free factor movements may not lead to an uneven rate of economic development, and division of regional labour highly unfavourable to some parts, a proper distribution of economic and social overheads like education, public health, power, transport and communications is essential. Since different parts are at present differently placed, this requires a common regional authority endowed with sufficient funds. Further in extreme cases, it may be necessary to correct the working of a common regional market by special aid programmes to backward or distressed parts.

It is obvious that the conditions in Asia are not favourable for any of these requirements to be fulfilled and, therefore, a Common Asian Market does not appear as either a practicable or advisable proposition at present. This is unfortunate, because a Common Market or a Customs' Union has the distinct advantage of setting a clear-cut goal which serves as a driving force to action. Any departure or deviation from it becomes easy to detect and control. It allows the price mechanism to determine regional division of labour and, therefore, leaves no scope for negotiations between countries which often tend to become opportunistic.

Sub-Regional Groups

This, however, does not rule out sub-regional groupings for countries in the region in very special circumstances. For instance, the Federation of Malaya and Singapore have decided to form a political union by 1963. This will automatically have as its consequence the abolition of all trade barriers between the two countries. It will also imply very probably free factor movements, a common policy regarding economic and social overhead facilities, common tax and expenditure policies at the federal level, common monetary and exchange policies and equalisation programmes. This could all be done because there is a great identity of vital interest between the peoples of these two territories, who are linguistically and culturally akin. They feel the need for common action so strongly that they have agreed not only to satisfy the test of a common market but more, viz, to form a common government. If there are any other countries which feel the need equally strongly, they should surely form a Common Market or even a Federation, and other countries of the region or the world could take no objection to this course.

But the question is very different when it comes to these sub-groups being regarded as preliminary steps to a regional grouping. The formation of the sub-groups is not likely in itself to speed up fulfilment of the regional ideal, except insofar as they will develop into stronger eco-

nomic units. Unless very carefully worked out, they are likely to disrupt the established trade patterns of other members of the region. Only when they achieve greater prosperity as the result of the sub-grouping, would the income effects on trade compensate for this diversion. The sub-groups are not likely to welcome other members joining them, nor are other members likely to accept any such invitation. Such sub-groups, while welcome in themselves, do not help the process of regional trade co-operation.

Other Trade Arrangements

If the Common Market for Asia is ruled out, this does not mean that all trade co-operation for the region is precluded. Many other forms of trade co-operation more suited to the present special conditions of Asia are possible. Sectoral integration of selected industries like paper, cement, etc, where the economies of scale are large, and very few nations benefit from them on the strength of their own markets, is possible for the region. The countries concerned may set up a Common Authority which will decide for a number of listed industries, the country or countries of location, the scale of their operation, and their price and distribution policies for the region. Because of the difficulties of agreeing on location due to uncertain factors in a dynamic situation, this policy may have to be confined to only a few products where the advantages of regional integration are substantial and where for one reason or another agreement is possible. Since the countries are planned economies and prepare plans for a number of years, a study of their plans could enable one another to know the likely export surpluses and import requirements of each country. An expert study of these plans would make it possible to coordinate their plans on the basis of a programme of agreed specialisation mostly of a horizontal character so that no country felt cheated of the fruits of economic development while, at the same time, a great increase in their trade could accrue.

Left to themselves, planned economies feel more certain in planning production for domestic markets, neglecting the international, especially the export sector. Agreed specialisation may correct this tendency. Once it is agreed that other members of the region would not set up an industry which a member country is establishing, and would buy their requirements at world competitive rates from this country, the member concerned could with security concentrate its attention on the technical and production problems. This would make for an export-oriented industrialisation. As a further help to the process, bulk purchase and sale contracts could be entered into, which go in well with collectivist economies. Many of the Asian countries are already entering into bilateral trade and payments agreements among themselves and with other countries. While they have no specific regional character, they could be utilised for fostering regional trade. If a substantial external reserve could be secured, or if a strong currency comes up in the region, the bilateral payments agreements could be multilateralised and regionalised through an Asian Payments Union. All these ideas can be explored as paving the way towards a Common Market, but a Common Market itself seems to be beyond the realms of immediate practicability.

Precautions

In all these regional agreements there is one precaution which will have to be taken. Even with all possible arrangements to facilitate regional trade, the area will need considerable trade and aid from developed countries outside Asia. It is necessary to ensure that our exports to countries outside the region do not suffer — that is, inter-regional trade does not decrease. Any such downward effect will not redound to our long-term advantage. Further, the world has succeeded with great efforts in building up some structure, *albeit* a very imperfect one, of international economic co-operation through organisations like IMF, GATT, IBRD, IFC, IDA, UNESCO, etc. While some of them in their present forms do not give proper recognition to the special and legitimate needs of underdeveloped areas and the latter must fight to ensure recognition of these needs, they must do nothing to endanger this structure built with great care. It is only when these conditions are ensured that regional trade co-operation will pave the way to a better world. Otherwise, it may usher in a period of trial of bargaining strength among various trade blocs, in which some may fare a little less badly than others, but none will really benefit.

Trade of ECAFE Region

THE ECAFE region accounts for about one-tenth of world trade, excluding the trade of the centrally planned countries with one another. In 1959 ECAFE countries conducted one-third of their trade with one another, according to the "Economic Survey of Asia and the Far East, 1961". One-quarter of their trade was with North America, one-seventh with continental Western Europe, one-eighth with the United Kingdom, and the remaining one-seventh was spread over a wide range of countries. There has been some relative decline over the past decade in the intra-regional trade of the E C A F E countries (from 36 per cent in 1953 to 33 per cent in 1960) and also in their trade with the United Kingdom and continental Western Europe (from 26 per cent to 23 per cent). There was a corresponding expansion in trade with North America (from 22 per cent to 26 per cent) reflecting, on the side of imports, increased aid from the United States for defence and economic development.

The centrally planned economies of Asia had exports, in 1959, amounting to approximately $ 2.2 billion as against $ 11.5 billion for the other countries of the ECAFE region, and Mainland China accounted for no less than $ 2 billion of these exports. Only 16 per cent of the exports of the centrally planned countries went to other ECAFE countries as by far the greater part, 72 per cent, was taken by Eastern Europe; Western Europe took 9 per cent and the rest of the world 3 per cent. Their imports from Eastern Europe at 69 per cent of the total, roughly matched the corresponding exports. But they had a trading surplus with other ECAFE countries, from where they drew only 8 per cent of their imports, and a trading deficit with Western Europe, from where they drew 19 per cent of their imports.

Imbalance in Japan's Trade

Shigeto Tsuru

The bulk of the increase in Japan's exports in 1961 was to the developing countries. In a way, this is a promising development since Japan's future as a trading nation lies in her role as a supplier of producers' goods to developing countries.

However, most developing countries face the problem of deficits in their balance of payments and need to have their products — mainly the products of primary industry — bought by the supplier nations.

Japan is thus confronted with a situation where she has to buy more in order to sell more.

But though Japan's imports rose by 29.4 per cent in 1961, imports from the primary producing regions increased at a much slower rate: Southeast Asia (6.6 per cent), West Asia (18.8 per cent) and Africa (16.2 per cent).

Apart from the crucial importance of expanding exports for the developing countries, even from the point of view of Japan's own self-interest, it is questionable whether Japan has been wise to increase her dependence for imports on the United States.

Japan's interest lies in expanding her trade with the developing nations. Since most of them are unable to buy from Japan unless Japan buys from them, she should be especially wary of diverting her imports away from them.

JAPAN has entered the season of White Papers. Ever since the Economic Stabilization Board (now called the Economic Planning Agency) compiled and made public the first Economic White Paper in July 1947, the number of Government Ministries which caught the fashion has steadily increased; and the Japanese citizen of today, if he wants to, can busy himself in wading through more than a dozen White Papers annually to obtain detailed information and some evaluation of various aspects of the state of his country. Most of the White Papers are released in the months of June and July.

The "White Paper on Foreign Trade", recently released in two volumes, is a veritable mine of information on all aspects of Japan's trade relations with the rest of the world in the calendar year 1961. Gigantic tables of trade matrix by commodities and by countries, in quantity and in value, are appended for convenient use.

What characterized the general pattern of commodity trade in 1961 was (1) the distinct slowing down of the growth rate of exports, and (2) the accelerated swelling of imports, thus (3) giving rise to an unprecedented deficit balance in commodity transactions (customs return figures) of 1,575 million U S dollars.

Poor Export Performance

The trend of exports was a disappointment. Some economists had calculated, on the basis of statistics of the past decade, what is called "the elasticity of Japan's exports with respect to world income". The elasticity came out to 3.5 — a suspiciously high figure — which means that when the world income rises by 3 per cent Japan can expect to expand her exports by 10.5 per cent. The record of 1961 belied the optimistic expectation based upon this method of mechanical extrapolation. The volume of exports rose only by 4.5 per cent over the previous year — clearly less than 3.5 times the rate of growth of the world income.

Especially disappointing was the fact that Japan's exports to industrial countries rose only by 1.3 per cent whereas the latter's imports generally rose by 6 per cent. Such a lag is a new experience for Japan in the post-war years. She fared much better, in 1961, vis-a-vis newly developing nations, as can be inferred from Table 1. The table shows, in percentages to the total increase in the volume of exports from 1960 to 1961, what type of exports to which group of countries contributed to the expansion to what extent. It is unmistakably clear that the expansion was mainly in the field of engineering products. The marginal increase here was greater as regards developing countries than others. Furthermore, in the case of industrial countries, the expansion was nearly offset by the decline of exports of light industry products.

Export-Import Link

In a way, this is a promising picture inasmuch as most people stress the point that Japan's future as a

Table I: Relative Shares in the Expansion of Japan's Exports by Markets and Commodity Groups, 1960 to 1961

(Per cent)

	Industrial Countries	Developing Countries	Communist Bloc	Total
Food, Raw Material & Fuel	— 2.8	6.1	— 0.6	2.8
Heavy & Chemical Industry Products	49.7	66.3	8.3	124.5
(Metal Products)	(1.1)	(— 1.7)	(0)	(— 0.6)
(Chemical Prod.)	(1.1)	(8.8)	(1.1)	(10.8)
(Engineering Prod.)	(48.1)	(59.1)	(7.7)	(114.3)
Light Industry Products	— 35.4	— 0.6	8.8	—27.1
(Textiles)	(— 30.4)	(—11.0)	(3.9)	(—37.6)
Total	11.8	71.7	16.5	100.0

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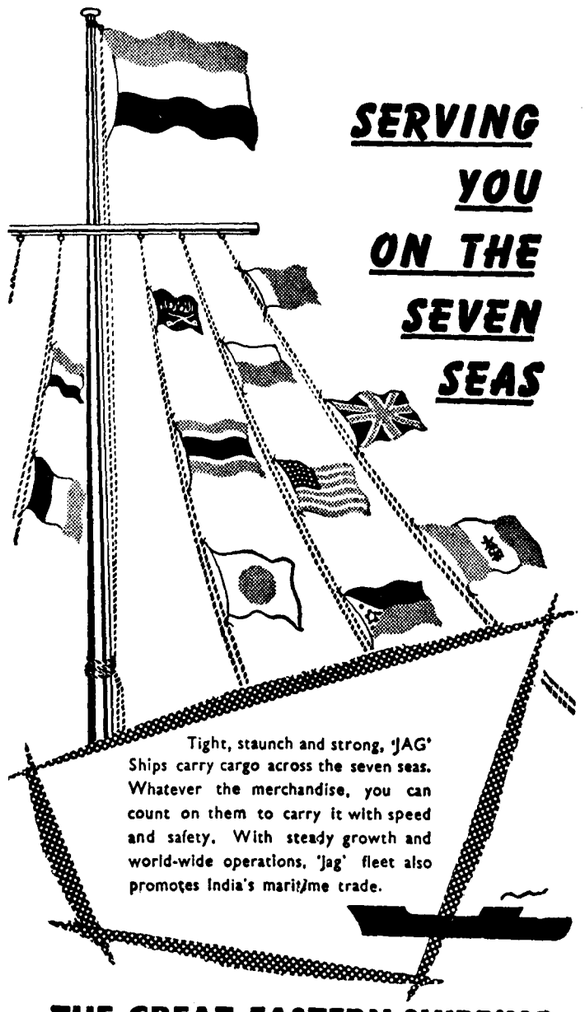

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trading nation lies in her role as a supplier of producers' goods to developing nations. The trouble, however, is that most of these nations are prone to suffer from deficits in their international balance of payments and need to have their products — mainly the products of primary industries — bought by supplier nations. The payment problem being still acute in a number of cases, Japan is confronted with the situation of having to buy more in order to sell more. Thus it is pertinent to ask which area in the world contributed most to the swelling of Japan's imports in 1961, amounting to as much as 1,320 million dollars compared with the previous year and consisting largely in the expansion of primary goods imports. Taking this net increase of 1,320 million dollars as 100, we give below the weight of respective contribution to this increase by various geographical areas in percentage terms:

	Per cent
Southeast Asia	4.5
West Asia	6.0
Western Europe	12.2
North America	45.9
Latin America	13.0
Africa	2.0
Oceania	9.5
Communist Bloc	6.9
Total	**100.0**

North America's share being almost one-half, it is in fact paradoxical that the order of percentage shares is closely correlated with the degree of industrialization — paradoxical because Japan's imports consist mainly of raw materials, food and fuel. Japan's imports in 1961 rose by 29.4 per cent over the previous year; but the three primary-goods producing areas were the only areas which could expand their exports to Japan less than this rate of market expansion: Southeast Asia (6.6 per cent), West Asia (18.8 per cent) and Africa (16.2 per cent). Here is a paradox which calls for a closer analysis.

An attempt is made in Table 2, compiled from the data in the White Paper, to see how the **net increase** of Japan's raw material imports between 1959 and 1961 was shared by the U S A and the other country groups. The table is extremely revealing in that developing countries which have been major suppliers to Japan accounted for only one-fourth of the net increase while the U S A took more than one-half. In cases like raw cotton and animal hide, the U S A actually expanded her sales to Japan more than the total net increase of the latter's imports, thus reducing **absolutely** the sales share of developing countries.

How this came about is, of course, a complex problem. Price and quality, as well as transport cost, are factors in the situation. Japan's exchange liberalization programme also affects the direction of trade. But it cannot be denied that here is involved a policy problem of major importance.

Table 2: Shares in the Increase of Japan's Raw Material Imports, 1959 to 1961

(Million Dollars)

Commodity	Total	Major Supplying Countries			Others
		U S A	Other Industrial Countries	Developing Countries	
Raw Cotton	170.3	180.3	0	— 18.3	8.3
Raw Wool	118.0	0	107.4	17.8	— 7.2
Iron Ore	155.6	6.0	6.1	127.2	16.3
Iron Scrap	183.5	179.4	0	6.2	— 2.1
Timber	125.5	50.4	29.7	40.2	5.2
Non-ferrous Metal Ores	63.6	8.8	15.0	29.2	10.6
Non-ferrous Metals	95.2	46.3	29.7	15.6	3.6
Phosphorous Rock	9.6	7.3	0	0.5	1.8
Salt	6.1	3.0	2.6	— 1.7	2.2
Animal Hide	17.6	19.1	0.6	— 1.8	— 0.3
Soya Beans	32.5	31.9	0	— 3.4	4.0
Feed Corn	53.6	9.9	0	41.8	1.9
Total	1,031.1	542.4	191.1	253.3	44.3

Case for More Imports from Developing Countries

As it is, developing countries, which in general depend upon exports of primary goods, have been suffering from a severe downward trend in prices of their export commodities. Sugar, cocoa, coffee, crude rubber and lead are notable examples. Even before this happened, the disparity between the growth rate of per capita income of industrial coutries and that of primary-producing countries had been pointed out by many and was causing concern in various international circles. A careful study by D. Seers (**The Economic Journal**, March 1962), for example, confining the comparison to **commodity supplies**, reveals that between 1938 and 1952 the average annual rate of growth per capita was 2.4 per cent in industrial countries and 0.8 per cent in primary-producing countries. Unless this trend is reversed, the absolute gap between the rich and the poor among nations cannot but widen. What the industrial countries, which are in the favoured position, can and should do to correct this trend is a problem that ramifies itself into different levels of discussion depending on the normative orientation one takes.

Even if the country's own self-interest is to be the only guide, it can be questioned if Japan has been wise, from the long run point of view, in letting the dominant economic forces have their way to bring about the situation of increasing dependence on U S raw material supplies. In 1961, Japan's imports from the United States amounted to 2,079 million dollars (36 per cent of the total) while her exports to that country totalled 1,051 million dollars (25 per cent of the total), giving rise to a sizable deficit of 1,028 million dollars. Apart from this problem of payments unbalance, Japan's interest should surely lie in expanding her trade with developing nations.

Since many of them are unable to buy from Japan unless Japan buys from them, she should be especially wary of diverting the source of supply away from them.

Imports Diverted

Take the case of Greco-Japanese trade, for instance. The record of the past three years is as follows :

	(in million dollars) Japan to Greece	Greece to Japan
1959	24.9	4.3
1960	43.3	4.2
1961	46.7	2.7

Here is an extreme case of unbalance which the Greek Government has been trying hard to mitigate in order to be able to buy more from Japan. A major Greek export item to Japan used to be raisins. Knowing this, Japan delayed the release of this item from the category which restricted the purchase from the dollar area. But somehow pressure was exerted to liberalize the imports of the item from January 1961; and suddenly, as could have been expected, Greek raisins were almost completely replaced by California ones in that year.

A somewhat similar case is the trade relation between Turkey and Japan. The record of the past three years is again as follows :

	(in million dollars) Japan to Turkey	Turkey to Japan
1965	2.6	2.7
1960	6.0	2.8
1961	19.6	2.6

Japan's exports to Turkey have shown a strong upward trend while her imports have been stagnant and, in fact, declined in 1961. The main reason for this decline was the diversion of raw cotton imports from Turkey to the U S A. Raw cotton constituted more than one-half of Japan's imports from Turkey in 1959; but such imports were reduced in 1960 to one-fourth of the 1959 level and again in 1961 to one-fourth of the 1960 level. The consequent gap in trade balance in 1961 is now making it difficult for Japan to expand her exports to Turkey.

Excessive Dependence on USA

These and several other instances are posing a problem for Japan. In both exports and imports of Japan, the United States tops the list, the second biggest customer, Indonesia, buying only one-sixth of what the U S A buys and the second biggest supplier, Australia, selling only one-fifth of what the U S A sells. Is such a situation a natural outcome of free market forces ? Or is there an element of the pressure of bigness, possibly the pressure of non-economic factors ? Even if the former is the case, does not the extreme dependence of Japan's trade on the U S A make the economy of Japan too vulnerable to fluctuations originating in the U S A ? And after all, is it not a matter of responsibility as an industrial country that Japan take a more positive attitude in making developing nations viable by buying more from them ? These are the issues which are certain to be debated more and more as the present decade advances.

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A Study Group was appointed by the Ministry of Commerce and Industry in April 1960 to enquire into the difficulties experienced by exporters in obtaining adequate credit facilities and to suggest measures for expansion of such facilities to achieve increased exports.

The Group came to the conclusion that credit facilities extended by banks to exporters are normally adequate, and these can be further expanded if arrangements are made to replenish the banks' resources which are depleted in financing exports.

INDIA has recently entered export markets in respect of a number of engineering goods. Most of these goods face severe competition from producers in advanced countries who are often able to give longer credit facilities to overseas buyers. In order to create and also retain their markets, Indian exporters also have to extend similar facilities. This has made the subject of export finance a matter of great importance. After studying the credit facilities usually demanded by foreign buyers and granted by the more advanced countries, the Group came to the conclusion that the export of consumer-goods requires credit facilities for up to six months; but the export of producers and capital goods warranted granting of longer credit facilities for periods ranging from 1½ to 5 years. The Group was convinced that even for the export of consumer goods like tea, according to the present day trade practice, credit facilities are longer than 3 months which used to be the norm in the past.

The Reserve Bank has already appreciated the necessity of extending longer term credit facilities for a number of engineering goods. The rule regarding repatriation of foreign exchage proceeds within six months has been relaxed in respect of such items. In view of the difficulties which are still being experienced by the exporters of producers and capital goods, the Group has recommended that this rule may be further relaxed in consultation with bodies like the Export Risks Insurance Corporation, exporters' organisations, etc.

The exporters' contention before the Group was that an adequate expansion of exports requires, firstly, availability of longer-term credit facilities from banks and, secondly, a reduction in the interest rates which are quite onerous. The Group, as stated above, recognised the validity of the first contention, but it does not — rather strangely — appear to have given proper consideration to the second contention.

Having been convinced of the need for longer export credit facilities, the Group was faced with the problem of recommending a suitable machinery for providing such facilities. In view of the ever-increasing demand for advances from new and expanding industries, banks are often not in a position to meet the demands of the exporters to the desired extent, unless their resources depleted by export financing are readily replenished. In other words, a mechanism has to be evolved by which bank capacity for granting more export finance can be supplemented before they are called upon to bear the responsibility of providing it in larger amounts and for longer periods.

Refinancing of Export Credit

The Bill Market Scheme and the Refinance Corporation for Industry have already proved their worth in helping banks to enlarge their advances portfolio. The former has been providing banks with funds to meet the increasing demand for short-term commercial loans, particularly during the busy season, whereas the latter has started reimbursing banks for their medium-term advances to industry. The successful working of these two schemes appears to have influenced the Study Group in prescribing the form of the required mechanism for export finance. It has recommended that the Bill Market Scheme should be expanded so that the Reserve Bank can advance to banks up to six months against their export bills and the Memorandum of Association of the Refinance Corporation may be amended to allow it to refinance banks up to five years against their medium-term export financing.

The Bill Market Scheme has already been extended to cover Reserve Bank advances to banks up to 90 days against export bills. The Group's recommendation requires further extension of this facility to six months. But the procedure for such advances as laid down in the Bill Market Scheme requires revision. Under the present procedure, banks' demand promissory notes covering the advances made under the Bill Market Scheme must be accompanied by further usance promissory notes of exporters who are financed by the banks. The anomaly of asking exporters to bear stamp duty twice, once on the usance foreign bills negotiated by banks and again on usance promissory notes required by banks for obtaining advances from the Bill Market Scheme, was pointed out by banks and the Group has strongly recommended that the procedure must be revised to allow advances against banks' demand promissory notes only. It appears from press reports that the Reserve Bank has accepted this recommendation and measures are being taken to remove the existing anomaly.

Need for Specialised Institution

These two institutional arrangements came in so handy to the Group in prescribing the desired mechanism that it did not even consider the feasibility or otherwise of a specialised institution for providing refinance to banks for the purpose of export credits. To evaluate the Group's recommendation of channelling funds for export financing, we must examine the basic objectives of these institutional arrangements and the extent to which the taking up of the new functions would further the realisation of these objectives.

During past years, the Bill Market Scheme has served as an effective measure for credit-control. Often the Governor of the Bank threatened banks with a cut in the Bill Market Scheme facilities if they did not bring down their advances during the slack season to around a predetermined figure. Such threats might not have brought about a contraction in bank credit to the extent desired, yet it must be recognised that they had a salutary, even though limited, effect on the economy. To graft export financing on to the Bill Market Scheme may reduce, to a certain extent, its potency as a means of credit-control. The special treatment given to agricultural paper under the Reserve Bank of India Act may, of course, be cited in favour of giving similar treatment to export bills, but, to exclude some of the Reserve Bank's advances from the purview of credit-control as recommended by the Group introduces a new factor in the *modus operandi* of Central Banking which should not be accepted without further enquiry.

Will Refinance Corporation Do?

The value of the Group's recommendation for handing over to the Refinance Corporation the function of providing banks with medium-term export finance may also be questioned. According to its Memorandum of Association, the basic objective of the Corporation is to promote the industrial development of India. No doubt, the Memorandum may be easily amended to include export financing. But the question is, whether such an amendment expanding the Corporation's activities will be conducive to its proper functioning.

Commercial banks are acquainted with the well-tested criteria for granting short-term advances. They have yet to evolve criteria for granting medium-term loans to industries. The criteria already evolved in the advanced countries require various modifications for making them suitable to serve banks in the under-developed countries. Banks can make such modifications only through experience which, it will be readily admitted, may at times prove rather costly. This risk of acquiring experience in industrial financing has kept many banks away from entering the new field on any substantial scale. A specialised institution like the Refinance Corporation can go a long way in evolving the criteria suitable to the economic climate of the country and thus contribute towards the realisation of its basic objective.

Lack of Proper Appraisal

Medium-term industrial finance is at present being provided by banks according to their usual yardsticks of judging the credit worthiness of the borrowers rather than judging the profitability, growth potentiality, etc, of a project on scientific lines. The Corporation is presumably providing refinance facilities to banks on no better consideration — they look at the standing of banks for providing such facilities. No worthwhile technical appraisal of an industrial proposition is made either by banks or by the Corporation. If industrial financing is carried on in this fashion, the day of reckoning may not be far.

Some banks are already experiencing difficulties in respect of some of their medium-term industrial loans on account of technical defects in the planning of the units, and in estimates regarding costs of raw materials, labour, etc. Banks are frequently confronted with revised estimates regarding capital investments. Where the foundations of industrial finance are so weak, the Refinance Corporation cannot equate its function to that of a merely passive lending institution. Having taken up the objective of the country's industrial development, the responsibility of the Corporation is much wider than is recognised at present. As it has yet to go a long way to realise its objective, burdening it with further responsibility of a different nature may not contribute to its proper functioning.

In the context of the country's deteriorating foreign exchange resources, export financing should be treated as a matter of prime importance. Its specialised character should warrant the setting up of a specialised institution. Had the Study Group examined the problem of export finance in its wider perspective, it would have done a much better job than cutting the Gordian knot into two halves and throwing the pieces into the laps of the existing institutions.

Interest on Bank Advances

Earlier, we stated that the Group does not appear to have given proper consideration to the subject of rates of interest on bank advances granted to exporters. After a short discussion, the Group came to the conclusion that if export finance is exempted from the operation of credit-control measures, flexibility will be introduced in the determination of a "more real rate of interest" and it made its recommendation accordingly. It did think it worthwhile to consider whether a "more real rate of interest" by itself will give the necessary fillip to exports.

In view of the dire necessity of export expansion, many advanced countries have got themselves freed from this bogey of "real rate of interest", a subject in which only the theoreticians take interest, and have taken positive steps to reduce the interest burden on exporters by providing funds to them at preferential rates. In India the exporters continue to suffer from specially adverse rates.

According to the Group's estimate, the rate of yield on export bills in the first half of 1960 was 7.5 per cent per annum as compared to 5.8 per cent per annum on loans and inland bills together. Instead of coming to the easy conclusion, from these figures, that "exporters have, therefore, no difficulties at any rate in the recent past, in securing accommodation from the banking system through negotiation of their export bills", the Group should have appreciated the burden that the exporters bear as disclosed by the figures, and recommended reconstruction of banks' bill purchase rates, particularly of sterling usance bills which, according to the Group's estimate, may be placed around Rs 60 to 65 crores.

Higher Discount Rates

According to the established practice, started perhaps in the last century, banks in India purchase usance export bills at discount rates prevailing in the country of import. If such rates are higher than the structure of interest rates in India, as they very often are, exporters are penalised for having granted credit facilities to importers in such countries. It is important to remember in this connection that the discount rates applied in the formulation of rates for purchasing usance export bills, particularly sterling bills, are not the "Prime bill" rates but "Trade bill" rates which, as is well known, are adverse rates. The justification for taking Trade bills rates for the fixation of bill purchase rates is that the Indian Banks having branches in the U K do not command the status which can entitle them to Prime bill rates in the U K discount markets. In other words, the exporters are penalised with higher rates as Indian banks do not command a higher status abroad. This may be a valid explanation. But certainly it cannot justify penalising the exporters, particularly now, in view of the country's foreign exchange crises.

There is nothing sacrosanct or universal about the principal of applying foreign discount rates in determining the bill purchase rates. If such discount facilities are provided in India, there will be a reduction in the interest burden suffered by exporters. Provision of funds to banks under Bill Market Scheme and by the Refinance Corporation, as suggested by the Study Group, will no doubt remove the present handicap suffered by exporters. But the bogey of 'more real interest rate' clouded the mind of the Group and restrained it from recommending a preferential treatment to exporters in regard to interest burden.

Differential Rates

In establishing a case for granting preferential rates for export finance, the cost structure of various exporting industries vis-a-vis international prices of the export items should be properly examined. Such an examination may disclose that all exports do not require similar preferential interest rates. If the principle of graded preferential rates is accepted for export finance, further tiers will have to be added to the present four tier bank rate. The acceptance of the principle of grading preferential interest rates must lead to the exclusion of export finance from Reserve Bank advances, and this points to the necessity of a specialised institution for the purpose.

It is heartening to find that another Study Group has been appointed to go further into the matter of export finance. It may be hoped that its terms of reference allow the Group to take an integrated view of the problems of export finance which alone can endow it with the necessary courage in recommending bold institutional reorganisation. With restricted terms of reference, the Group can do no better than recommend short-term measures, which may be of only marginal value, in solving the foreign exchange crisis which appears to have come to stay with us for a pretty long time.

Vegetable Oil in India's Foreign Trade

A C Chhatrapati

A long term export policy for vegetable oils must necessarily depend upon oilseed production increasing sufficiently to meet the home demand and leave a surplus. The progress in this field is very disappointing so far and in the current decade no export surplus of edible oils can be expected, save in a year of very good crop.

India can hope to earn substantial foreign exchange only through the exports of oilcakes. This will depend on the policy with regard to oils.

Just as Government is being forced to permit modernisation and expansion of the textile industries in the interest of exports, its policy on the oil milling industry will have to change if oilcake exports are to continue and increase.

WITH the rapid development of margarine and shortening and soap industries in Europe during the early part of this century the demand for vegetable oils grew rapidly. Indian farmers were quick to take advantage of this demand and the area under oilseeds, primarily groundnut, rose rapidly. The figures in Table 1 reveal effectively the trends.

With the closure of European markets during World War II, the exports declined but soon the export surplus was absorbed by the rising domestic demand for edible oils and vanaspati. To illustrate, the production of vanaspati shot up from 17,000 tonnes in 1935 to 135,000 tonnes in 1945 and 175,000 tonnes in 1950. Since then increase in domestic demand for vegetable oils both for industrial purposes and direct consumption has continued with the increase in population and the rise in living standards. We have no accurate statistics of production, domestic disappearance and stocks of oils and fats. Even our crop statistics which are only partly based on crop cutting surveys are none too reliable. There is always a wide difference between trade estimates and Government estimates.

Some indications of the rising domestic consumption of vegetable oils can be had from the increase in use of oils by the vanaspati industry from 2 lakh tonnes in 1950 to nearly 4 lakh tonnes in 1961. The production of soap has also increased very substantially both in the organised and the unorganised sectors and soaps contain 50 to 60 per cent fatty matters. The only other indication of rising domestic demand is the continual upward trend in oil prices as shown in Table 2.

Acreage and Production

No doubt as shown in the Table 1 the acreage under oilseeds, primarily groundnut, has continued to rise in the postwar period. The production, however, has not increased proportionately because yields of all oilseeds have been declining as additional land brought under oilseeds is poor or unsuitable for oilseeds and mainly in semi-arid areas where rain failures are quite frequent.

The development plans have had little effect on oilseed cultivation so far. During the First Five Year Plan primary attention was given to increase in food production and

no measures to increase oilseed production were recommended. The Planning Commission recognised the need for increasing oilseed production to meet the rising demand for fats in the country and provide a surplus for export during the Second Plan. Accordingly the Plan target envisaged increase in oilseed production from 56 lakh tonnes to 75 lakh tonnes. The State Governments were given special grants for oilseed development schemes. However few State Governments took immediate action to implement them. It was only when the Central Government was forced to stop exports of groundnut oil in 1957 in order to check rise in prices despite difficulties of foreign exchange that the indifference of States to oilseed cultivation was brought to light. Efforts were then made to implement the schemes. The work started in 1958-59 could not obviously produce results. The production of oilseeds reached a figure of 65.3 lakh tonnes in 1960-61 mainly under the stimulus of rising prices bringing more land under oilseed cultivation. But the Second Plan target remained unfulfilled to the extent of 55 per cent.

Fast Growing Domestic Demand

In the Third Five Year Plan greater emphasis has been laid on increasing oilseed production to meet the fast growing domestic demand and creating an export surplus. The target is 98 lakh tonnes in 1965-66. It entails an increase of over 50 per cent in five years. A close study of oilseed cultivation in India would show that this target is a paper target only. It is doubtful whether even the planners sincerely believe that this target can be fulfilled. The expenditure of Rs 2 crores on oilseed development is expected to produce additional output worth Rs 256 crores ! Out of the total increase of 33 lakh tonnes Andhra Pradesh has been asked to treble its present level of production of 5.6 lakh tonnes. Similarly Mysore State is expected to double its production of 5 lakh tonnes. When the much advertised package plans of intensive cultivation are expected to increase production in the selected 14 districts on an average by 50 per cent how can one expect 3 times rise in oilseed production in a State with a meagre expenditure of a few lakhs of rupees ?

The National Council for Applied Economic Research has recently estimated that the supply of oilseeds at the end of the Third Plan will rise to about 77 lakh tonnes, the level which the Second Plan was expected to achieve. This study also estimates the demand for vegetable oil in India of the same order. It is quite possible that the very high prices of edible oil in this country has checked the rise in consumption in recent years and this lower estimate may prove to be more realistic than that of the Plan. Even then there will be no surplus for export.

Table 1 : Oilseeds and Oil : Acreage, Production and Exports

(in millions)

	1910-19	1920-29	1930-39	1940-49	1955	1957	1959	1961
	(Average)							
Acreage under oil-seeds (acres)	17.5	18.6	23.1	24.2	30.9	30.8	31.	32.9
Acreage under Groundnut (acres)	1.4	3	6.5	9.2	13.7	13.5	14.5	15.4
Production of Oilseeds (tonnes)	2.64	3.19	4.34	4.75	5.62	5.56	6.22	6.63
Production of Groundnut (tonnes)	.63	1.26	2.41	3.02	3.71	3.78	4.33	4.42
Exports of Groundnut (tonnes)	.29	.70	1.08	.412	.04	—	—	.02
Exports of oilseeds & Oil (Oil equivalent) (tonnes)'	.375	.407	.457	.192	.305	.072	.105	.066
Imports in terms of oils (tonnes)	.019	.015	.053	.049	.072	.102	.119	.085
Net Exports (tonnes)	.358	.392	.404	.143	.232	—.030	—.014	—.019

Table 2 : Wholesale Price Index

(1952 - 53 = 100)

	All commodities	*Food Grains*	*Edible oils*
1955-56	99.2	94.6	111
1956-57	105.1	101.7	121
1957-58	106.1	103.4	120
1958-59	112.1	112.7	124
1959-60	118.7	116.5	136
1960-61	127.5	118.1	164

Net Importer of Oils

Since 1957 India is a net importer of vegetable oils. The imports of copra and palm oil in terms of oil exceed the exports of oils and oilseeds as shown in the Table 1.

The production of copra in this country has been relatively stagnant. Consequently the demand for lauric oils of the soap industry has to be met through imports of copra and palm oil. The steep rise in the prices of groundnut and other edible oils has largely frustrated the efforts of Government to stimulate their exports with incentives. Even an industrial oil like linseed oil remains out of parity with world prices as it is used up for the adulteration of high priced edible oils. With keen speculation in the forward markets castor oil which has very limited demand in the country cannot be exported on a regular basis. There is such a large speculative interest in vegetable oils that when the market is active the entire castor crop is bought and sold several times within a short period of, say, a month. It is, therefore, not surprising that even castor oil prices should remain in disparity with world prices.

Oilcake Exports Partially Offset

The loss of vegetable oil exports has been made good to some extent by large scale exports of oilcakes, particularly groundnut extractions. The rise in groundnut oil price has made extraction from oilcakes economical and more and more solvent extraction plants are being set up. As extracted meal is considered unsuitable for feeding cattle in India, it has been permitted to be freely exported to Europe for feeding cattle ! Even in the case of oilcakes earnings from exports show a decline from Rs 19.4 crores in 1959, 16.12 crores in 1960 to 14 crores in 1961. This decline is partly due to the loss of market for oilcakes like linseed owing to contamination and partly due to competition from increased

oilcake production in other countries. This year with a prolonged winter in Europe exports should show some improvement.

Europe currently imports over 3 million tonnes of oilcakes for feeding cattle. The demand for oilcakes should grow further as with rising living standards demand for meats is increasing. India should therefore expect to increase her exports of extractions and oilcakes. Unfortunately the uncoordinated policies of the Government of India are once again creating conditions which may not only prevent further increase in our exports but also lead to loss of the established markets.

Inefficient Crushing Retards

Since 1959 Government has introduced a compound levy system for the collection of Central Excise on vegetable oils with the declared purpose of encouraging small scale industries. The excise duty on a tonne of oil is Rs 110.25 nP. The total cost of crushing seeds to produce a tonne of oil does not exceed this amount. Any crusher eligible for compound levy, however, inefficient his method, can always undersell the large organised millers liable to pay full duty. This has led to fragmentation of oil mills and encouragement of baby expellers and other modes of inefficient crushing. Crushing by small units creates difficulties of oilcake supplies to solvent extraction plants. As oilcake deteriorates on storage and contamination is inevitable during collection from numerous small crushers it is becoming increasingly difficult for the exporters of extractions to meet buyers' specifications. Unless immediate steps are taken to reverse this excise policy regarding vegetable oils it is to be feared that many solvent extraction plants may have to remain idle for want of cake and the exports of extraction may suffer. Would it not be wiser to protect and promote the export market for oilcakes which requires no subsidies than to spend huge amounts of subsidies in pushing out vegetable oils which are badly needed at home and are surplus on the world market ?

A long term export policy for vegetable oils must necessarily depend upon oilseed production increasing sufficiently to meet the home demand and leave a surplus. The progress in this field is very disappointing so far and in the current decade no export surplus of edible oils can be expected save in a year of very good crop. Currently the supply of vegetable oils and fats exceeds the demand from advanced countries which are the main consumers. This is reflected in very low prices in Europe. The price of groundnut oil at present is Rs 1300 per tonne, of soyabean oil Rs 1100 per tonne. Marine and animal fats are available at prices between Rs 600 and Rs 800 per tonne. Against this groundnut oil costs Rs 1875 per tonne in Bombay. The easy supply position is likely to continue so long as the U S A continues to encourage soyabean cultivation. In this context there are no prospects of exports on an economic basis for edible oils at present or in near future.

India can hope to earn substantial foreign exchange only through the exports of oilcakes. This will undoubtedly depend on the central excise policy with regard to vegetable oils. Just as Government is being forced to permit modernisation and expansion of the textile industries in the interest of exports, its policy on the oil milling industry will have to change if oilcake exports are to continue and increase. Besides oilcakes, free exports of H P S groundnut which has a limited market and castor oil (speculation permitting) may increase exchange earnings.

In the short run the current exchange crisis demands that vegetable oils should be exported even at loss. Some reduction in fat consumption at home would have no serious repercussion on health of the people. What is required is a mechanism through which vegetable oils can be exported at a loss. The performance of the S T C during the current year appears to be very unsatisfactory. This is to be expected because no bureaucratic machinery, which S T C is, can function effectively in highly speculative commodity markets like those of vegetable oils. The best example of the S T C's inefficiency lies in its current attempts to export groundnut oil at a loss of Rs. 500/- per tonne or more when it could easily export linseed oil and castor oil at a much smaller loss and, incidentally, earning more foreign exchange per tonne of oil exported.

It is also not possible to devise a general incentive scheme for vegetable oil exports as speculation can easily frustrate exports by pushing up domestic prices. The only alternative is to select organised groups conversant with the market and entrust them with exports of vegetable oils in exchange for their essential imports. A beginning was made this year by asking soap manufacturers to export groundnut oil in order to earn the exchange for the import of palm oil. Although a vast majority of our population is non-vegetarian the soap industry has been compelled to use more expensive coconut and palm oils of vegetable origin which cost the country nearly Rs 15 crores in foreign exchange. If the religious sentiments of the minority are to be respected distinct brands of soaps made from animal fats and vegetable fats can be marketed. The imports of such fats, vegetable and animal, can be made conditional to exports of raw and processed vegetable oils by the soap and vanaspati industries. Since high domestic prices make such imports of fats very profitable the loss on exports can be offset against the profits on imports.

The policy of granting import licences for copra to established importers is unwarranted in the present circumstances. There is no reason why Government should permit Zamindari profits on import licences to established importers of consumer goods or raw materials of industries when Zamindari in land has been abolished. In order that exports are increased sufficiently to permit essential maintenance imports there is an urgent need to channelise the profits on imports for subsidising exports of our high-cost products.

Oil Export Policy

Re-thinking Needed

D P Sharma

From 3.32 lakh tons in 1955, exports of vegetable oils fell to a mere 25,000 tons in 1961. Exports continued to fall despite the abolition of all fiscal levies and helpful export policy.

Indian oils have been priced out of world markets. But there is no reason to think that oil prices in the major producing countries competing in international markets have been more stable than in India.

Unlike India, other countries have not allowed their high internal prices to impede their export performance. This underlines the need for a basic change in the Government's approach to the oil export problem.

IN 1955, India exported as much as 3.32 lakh tons of vegetable oils of which groundnut oil accounted for 1.71 lakh tons, linseed oil 71,434 tons, castor oil 43,100 tons and niger oil 10,000 tons. But this performance was never to be seen again. Exports of vegetable oils declined sharply to 1.50 lakh tons the very next year and the figure for 1958 was as low as 53,145 tons. There was a moderate improvement in 1959 to 97,532 tons but exports were down again in 1960 to 68,483 tons in spite of the record export of 58,474 tons of castor oil, thanks to the failure of the Brazilian crop. 1961 was an extremely disappointing year with exports of vegetable oils adding up to a little over 25,000 tons. Exports of oilcakes which had declined from 199,525 tons in 1955 to 69,000 tons in 1956, however, recorded an impressive rise from 1958 onwards, with shipments reaching an all-time high of 515,762 tons in 1959. Oilcakes exports averaged around 4.6 lakh tons in the next two years. The impressive increase in exports of oilcakes was due almost entirely to groundnut extractions which reflected the phenomenal growth of the solvent extraction industry in the country and the rising trend in world consumption of oilcakes for cattle-feed. The Continent consumes about 3 million tons of oilcakes a year.

Slump Helps Exports

Record oil exports in 1955 were not the outcome of any determined export drive; in fact, even to-day, India does not have anything like a policy for oil exports. It was the severe slump in prices in 1955 which made it possible for India to export substantial quantities of oils abroad. Oilseeds production had increased from 52.85 lakh tons in 1953-54 to 62.42 lakh tons in 1954-55, with groundnut production rising from 33.91 lakh tons to 41.28 lakh tons. The Economic Adviser's index for groundnut oil prices (1952-53=100) fell to a record low of 74 in 1955. But the index shot up to 104 the very next year and it has kept moving up since then, year after year, notwithstanding increased production, recording a high of 160 in July 1961. The index stood around 145 in April 1962.

The price advantage did not last beyond 1955 — nobody would wish the slump to continue long — and Indian oils soon became uncompetitive in world markets. But the serious setback in exports was due in no small measure to the Government of India's haphazard export policy which shook the confidence of Indian exporters and of overseas buyers. India came to be regarded as an undependable source of supply. And the importing countries did not experience any difficulty in obtaining their requirements from other sources. The deteriorating foreign exchange position forced the Government to do away with all fiscal levies by 1959 and offer export incentives, but once driven out of world markets through bad salesmanship for which Government's export policy —rather the lack of it — is much to blame, India has been unable to win back the old customers. And the few new customers we have found in recent years belong to the Communist bloc which does not help us earn the much needed foreign exchange because trade with these countries is conducted on the basis of rupee payments.

Table 1 : Exports from India of Major Vegetable Oils and Oilcakes

(Long tons)

	1955	1956	1957	1958	1959	1960	1961	Shipments from Bombay Jan-June 1962	Jan-Dec 1961
Groundnut Oil	171,000	26,323	—	888	41,390	1,674	1,488	6,104	698
Castor Oil	43,100	40,661	42,845	20,234	35,156	58,474	22,989	14,076	21,760
Linseed Oil	71,434	44,750	16,027	22,224	19,586	8,041	772	212	222
Cottonseed Oil	5,600	4,700	7,850	2,386	—	—	—	—	—
Vanaspati	15,588	10,863	3,480	2,689	2,628	5,955	4,044	881	2,217
Total of Vegetable Oils	331,728	149,649	75,541	53,143	97,522	68,483	25,442	21,290	24,901
G'nut Expellers	10,200	19,000	25,743	79,525	134,445	78,193	37,320	3,390	6,252
G'nut Extractions	33,982	13,000	22,000	131,246	268,609	295,176	374,571	104,737	122,530
Linseed Cake	16,000	4,000	1,048	6,115	71,556	45,713	10,557	7,474	11,012
Cottonseed Cake	26 000	6,000	7,225	4,869	13,723	14,060	27,445	14,700	24,230
Copra Cake	3,000	8,000	12,321	9,509	13,782	12,094	10,560	3,015	6,832
Total of Oilcakes	199,525	69,000	73,366	234,895	515,762	456,466	464,145	133,316	171,312

Relative Prices

If the setback in exports of Indian oils reflected a decline in the world export trade in oilseeds and oils, it would be a different matter. But it is apparent from the figures given below that the world trade in groundnut oil, linseed oil and castor oil has been maintained at a fairly high level and that it is only India which has been steadily losing ground. To state that Indian oils have been priced out of world markets is to say the obvious. Prices have continued to move up despite increased production as rising population and expanding incomes have enabled the domestic market to absorb the large supplies. Strong domestic demand has kept prices on the high side. But while it is true that Indian prices have been quoted above the world market level for the past many years, there is little reason to think that the prices of edible oils have been more stable in the rival producing countries than in India. A study of the relative movements in vegetable oil prices in different countries over the past six years or so would prove to be quite revealing. The relevant data are not readily available but those who have been following world market trends closely over the past few years will bear out that castor oil prices in Brazil — world's largest producer and exporter — have registered a much steeper rise than in India. And the rise in linseed oil and groundnut oil prices in the Argentine has also been more marked than in India. That Brazil's cruziero and Argentina's peso have been in a chaotic condition in recent years is common knowledge. Brazil has not allowed its exports of castorseed and castor oil to suffer because of higher domestic prices and the same is true of linseed oil and groundnut oil exports from the Argentine. Fluctuations in exports from these countries as also from certain other competitors seem to reflect mainly the changes in production which depends on the weather conditions rather than the trend of domestic prices.

'Export or Perish' is no new slogan; it has been with us for quite some years. But the actual performance has continued to disappoint. Despite various export incentive schemes, exports have failed to reach the records established on previous occasions, let alone improve upon them. New Delhi needs to be reminded that the abolition of export levies, ill-conceived incentives, link deals and barter transactions do not add up to a sound policy for export promotion. Unlike India, other countries competing in world markets for the sale of their oils and oilseeds have not allowed high internal prices to affect their export performance. This calls for a basic change in the Government's approach to the problem of oils and oilseeds exports. The Ministry of International Trade should ask the Indian embassies in the important oilseeds producing countries to submit exhaustive reports on oilseeds, dealing with production, price trends and marketing policy which includes various

Table 2 : Production and Prices in India

(*Base* 1952-53=100)

Year	Production of major oilseeds (lakh tons)	[Price Index] Edible Oils	Groundnut Oil
1955-56	56.4	111	74
1956-57	61.7	121	104
1957-58	60.5	120	105
1958-59	69.1	124	107
1959-60	58.8	136	118
1960-61	65.2	164	138
1961-62	..	150	144
1961 High	..	165	160
April 1962	..	152	136

Table 3 : Castorseeds

(Short tons)

		1950-54 Average	1956	1957	1958	1959	1960
Production :							
World		470	498	577	532	540	637
Brazil		187	177	221	191	160	240
India		121	139	139	100	125	119
Exports :							
World	Seeds	165,313	128,572	145,135	134,275	124,848	83,787
	Oil	66,265	77,442	107,795	92,073	100,943	120,268
Brazil	Seeds	55,282	26,844	35,031	27,498	10,870	—
	Oil	25,694	22,147	53,036	60,977	52,601	46,139
India	Seeds	N.A.	—	—	—	—	—
	Oil	29,346	47,303	47,539	22,662	39,511	64,456
		Total Imports of Castor Oil					
Into							
U S		43,220	44,392	60,715	41,816	58,164	53,725
U K		9,918	15,030	19,483	16,313	14,806	24,789
		Total Imports Into France, W. Germany, Italy and Japan					
Castorseeds		54,073	64,899	72,881	78,658	76,050	99,726
Castor Oil		3,185	8,982	14,293	21,044	7,708	22,143

Production figures are in '000 short tons
N. A. not available

Table 4 : Groundnuts

	1950/54 Average	1956	1957	1958	1959	1960
World Production	11,557,000	13,978,000	14,902,000	15,339,000	13,724,000	14,860,000
Export : Seeds	1,447,746	2,260,986	2,000,960	2,208,477	2,070,320	1,696,094
Oil	224,759	330,688	296,269	332,313	333,517	339,239
Export : Indian Oil (in long tons)	N.A.	26,323	—	888	41,390	1,674

measures taken by the authorities concerned for boosting exports. All this is very essential for evolving a sound export policy.

No Subsidy, No Export

Prices of edible oils in India have continued to move up despite the improvement in production which suggests that the increase in production has not been keeping pace with growing internal demand. Against the Second Plan target of 75 lakh tons oilseeds production in 1960-61 amounted to only 65.3 lakh tons and it seems unlikely that the Third Plan target of 98 lakh tons can be achieved. The pressure on prices will therefore persist in view of the steady growth in consumption. Exports will further aggravate these pressures but that is the price which the country has to pay for earning the badly needed foreign exchange. Anyway, there seems little chance of Indian prices coming down to world parity — the prevailing disparity is as much as £ 45 per ton in respect of groundnut and £ 28 per ton for linseed oil. Being essentially an export product, the disparity in the case of castor oil seldom exceeds £ 2 to £ 4 per ton for the U K market and 1 cent a lb for the U S.

Exports of vegetable oils have got to be subsidized in one form or the other if sales are to be effected. Exports will need to be channelled through some centralised agency in order to keep the cost of incentives at the lowest. In view of the highly speculative nature of the Indian oilseeds market, it is extremely difficult to form a voluntary organisation of established exporters. The work can be better handled by an institution like the State Trading Corporation. It is certainly possible to cite instances where the STC has not given a good account of itself, the most recent instance being in regard to groundnut oil exports where it failed to honour its commitments with foreign buyers in time. But this only underlines the need for taking steps to build up the Corporation into an honest and efficient organisation. It should be possible for the Corporation to avail of the services of men who have sufficient experience and sound knowledge of oilseeds business. Channelisation of exports does not necessarily imply the elimination of the private export trade.

Essentials of Export Policy

In evolving an export policy for oils and oilseeds, the Ministry of International Trade will have to make up its mind on how much to export after giving careful consideration to the urgency of earning foreign exchange and the possible impact of exports on domestic prices. But it would be better to concentrate attention on the export of castor oil, linseed oil and other less essential oils than on groundnut oil. The export of groundnut oil has an exaggerated effect on the general price structure of edible oils, thereby creating further impediments to the overall export effort. There seems considerable scope for boosting the export of castor oil and castorseed and a rise in the price of castor is not only of very little consequence to the country but it might lead to a welcome improvement in its production. Ban on the export of groundnut oil might help release for export considerable quantities of linseed oil which is now being widely used for adulteration because of the high prices of groundnut oil. The export of groundnut oil should be resorted to only after every possible effort has been made to export other oils, especially castor oil.

The popular notion that castor oil continues to move without any effort and incentives ignores that the potentialities for export are far greater than what actual shipments suggest. Besides, the bulk of shipments in 1961 and this year have been to the Communist countries with which we have rupee payment arrangements. An analysis of world trade in castor oil and castorseed shows that quite a considerable volume of business is carried on in castorseeds and that there are countries which prefer seeds to oil. It should not prove difficult to sell castorseeds to these countries if the export ban were to be lifted. The export of moderate quantities of castorseeds is unlikely to have any significant bearing on the domestic crushing industry. Having decided on how much to export of each oil, the Department of International Trade can entrust the work of negotiating business to the STC with the assistance of private trade. The Corporation should invite offerings of oil once or twice a week and these should be promptly replied in order to avoid undesirable market fluctuations. There should also be prompt decision on foreign offers. This will help the Corporation to match the transactions at the smallest possible loss. The success of the Corporation's operations will depend on how honestly these are conducted because there is considerable scope for foul play in the game.

It would perhaps be better to close futures markets to minimise the risk of speculators frustrating efforts at export promotion. Apart from evolving an efficient technique for negotiating business, the Corporation will need to give early attention to the question of installation of big storage tanks at the ports and also to the system of freight rebate adopted by the Conference Lines against which the export trade has been agitating for long.

Table 5: Linseeds

(Production and seeds export figures are in 000 bushels; oil exports are in short tons)

	1950-54 average	1957	1958	1959	1960
World					
Production	98,920	101,686	110,277	105,230	133,505
Exports: Seeds	15,728	34,418	22,824	24,794	24,383
Oil	353,206	351,131	274,076	319,291	263,081
U S & Canada					
Production	46,178	44,292	60,175	38,956	53,429
Exports: Seeds	8,019	31,145	18,941	21,510	18,657
Oil	67,436	78,365	12,394	5,929	31,792
Argentina					
Production	17,888	24,802	24,408	32,478	22,125
Export of Oil	187,097	155,090	178,090	239,733	169,304
India					
Production	14,824	15,360	9,960	17,880	17,239
Export of Oil	—	18,648	25,371	22,452	8,773

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Raw Jute Price

IN the bad old days of the Swadeshi movement, one of our [illegible] leaders, Bipin Chandra Pal, drew upon himself the [illegible] the Governor General and the then British Government by [illegible] slogan that Whitehall was run from the banks of the Hooghly. Bipin Chandra Pal happened to be a Bengali but he was not fighting for Bengal's interests. He was fighting a government which subordinated the interests of India to those of a handful of exploiters who happened to be foreigners. By focussing on the Scotsmen running the jute mills, he pinpointed the process of exploitation of India by means of a symbol. Like other leaders of those times, Bipin Chandra was just a nationalist and not a Marxist. It was no materialistic interpretation of history or study of dialectics which had led him to lay his finger unerringly on this sore point. The then government, indeed, was run from the banks of the Hooghly. It was British commercial interests which dictated its policy.

Much has happened since then. But judging from the manner in which Delhi has all along allowed itself to be bullied by the jute interests or played into the hands of these interests, one cannot sometimes help wondering if things have really changed after all. True, much water has flowed down the Hooghly since then and perhaps the image has become a little blurred but its outlines can still be recognised. By one of those strange processes of social transformation, which cannot be explained except in terms of crude economics, the Scotsmen and Marwaris have made a wonderfully successful deal, by which continuity has been maintained and India's political independence has not made a break with the past. The only change that has taken place is rather imperceptible, and can hardly be detected unless one takes a broad view over the years. The jute interests have not perhaps been as far-sighted as they had been in the past. The restrictions on output that they have maintained over the years, with the blessings of individual Ministers if not the Government has been an invitation to others to help themselves. Jute manufacturing, which had been languishing on the Continent and elsewhere, has been helped back to life. Pakistan jute mills have had a flying start, despite Hooghly's uncounted advantages, its external economies, century-old experience and the vast capital which a long-established industry cannot help accumulating in course of time.

Bengalis have been largely spectators of this process, though by no means disinterested, because of their part in growing jute. Curiously enough, the role of the people of East Pakistan has been no different, their participation being also limited in the same way. Hence there is a danger in talking of the grower's interests of being dubbed as a narrow-minded provincial who cannot take a larger view. In self-defence, one may plead that it is not West Bengal alone which grows jute in the Indian Union. There are other States too which have a stake in raw jute — Bihar is a substantial producer, Orissa and U P also grow considerable quantities and there is, of course, Assam, which grows the finest quality. There is a coarser variety which goes by the commercial trade name of 'Mesta' which is grown in a large number of States as far apart

as Punjab, Maharashtra and Kerala, though in small quantities. And India has an interest in the jute industry also which is not negligible, it being such a big foreign-exchange-earner.

Now look at the price of raw jute. Last year, there was a good crop and prices broke. The Indian Jute Mills' Association came forward to help the grower and, under Delhi's guidance, a Jute Buffer Stock Association was formed to buy up jute in order to support its price. But it did not start operations until the bulk of the jute had left the hands of the grower and passed on to traders and stockists. True, Delhi, with its socialistic concern for the poor peasant, did talk about a minimum price, and this year too, the Government of India has indignantly turned down the jute interests' case for a lower price and an official announcement says that the same minimum price will continue. The Jute Buffer Stock Association was registered under the Trade Union Act and since it is operated by the jute mills themselves, one may be pardoned for asking if, true to the spirit of trade unionism, it should not look after its own group interests! This is a nice way to enforce a minimum price — the Jute Buffer Stock Association has no statutory responsibility, neither is the Government nor the Association legally committed to maintain the market price at the **minimum** or any other level. Nor does the **modus operandi** of this agency give any earnest of its ability to maintain anything like a minimum price. Yet it is a wonderful arrangement to have, and Delhi probably does glow with pride that it has done the right thing by the jute-grower!

True, the formalist, the tedious theoretical advocate of price support, can also note another omission. The minimum price is an **ad hoc** price and it is not based on a thorough study of costs of production which a proper price support programme demands. This is, indeed, true for it is only now that the Government has set up an investigation of the cost of production of raw jute. But experience with other agricultural produce in this country has shown, time and again, how elusive is the concept of cost, in small scale, peasant farming. There is absolutely no reason to suppose, however, that because the minimum price talked about is only an **ad hoc** price, it is by any means a very generous one, judging from what had been suggested by several committees of enquiry in the recent past. But these finer points apart, there has been no attempt even to maintain the semblance of a minimum or to purchase at whatever price is fixed outside the terminal markets. Jute is grown over a wide area and transport and other selling costs cut deeply into the price which the grower in the mofussil receives.

Having heroically decided that the season's minimum should not be touched and that it should continue, it will not be surprising at all if the Planning Commission or the Agricultural Ministry of the Central Government were to trot out proposals for forming cooperative wholesale societies in every village as the ultimate solution to the problems of the jute-grower. Nothing can be done or viewed in isolation; the solution has to be properly integrated, coordinated, made comprehensive and it must be over all .... a light that never was on land or sea but how dazzling and how captivating!

Alloy Steels Plant

THE Federation of Indian Chambers of Commerce and Industry has done it again! In a letter to the Minister of Heavy Industry, Shri C Subramaniam, its President, Shri Shriyans Prasad Jain, has taken the stand that the Durgapur Alloy and Tool Steels plant involves capital investment and foreign exchange expenditure which are "very much on the high side". Such concern for economy is doubtless touching but its motivation is clearly revealed when the FICCI couples its plea for reviewing the scope of the Durgapur project with a request to expedite licensing of private sector units whose applications have been pending with Government for quite some time.

The facts on the Durgapur project deserve to be better known. In the Second Plan, the Planning Commission stressed the need to develop special steels capacity within the country and recommended a 40,000 ingot ton plant in the private sector. Two schemes from foreign consultants were obtained, and the cost estimates they furnished (even now quoted to the disadvantage of Durgapur) related to a plant of the size then specified. Subsequently, a fresh review of demand justified the idea of starting with a plant of 80,000 ingot ton capacity capable of "rapid expansion" to 300,000 tons. What is coming up at Durgapur, therefore, is the first stage of a 300,000 ton plant, and any comparison with differently conceived units, even if the initial capacity is the same, is obviously invalid. The plant as now designed has an inbuilt expansion potential as the primary mills, which cannot be economically duplicated, are designed for an ultimate throughput of 300,000 tons. It is also forgotten when capital costs are compared that the Durgapur plant is coming up at a "greenfield" site where all facilities and services will have to be laid on, unlike at Jamshedpur where Tatas are setting up a unit or at the Kanpur Ordnance factory within which the Defence Ministry unit will be located. Provision has also been made in Durgapur's estimate for a township — a social overhead which others may not have to bear.

A technical committee set up by Hindustan Steel examined the proposals for Durgapur very carefully before giving its enthusiastic approval. This committee included a number of people specially qualified to judge — the Director of the National Metallurgical Laboratory, the Chief Metallurgist of the Ordnance Factories (which are, so far, the only significant producers of special steels in India) and a former Technical Director of Tata Steel. Subsequently, the proposals were given a second scrutiny by Atlas Steel, production advisers to Hindustan Steel on this project. The technical soundness of the Durgapur plant does not, therefore, admit of dispute.

Its economic feasibility, discussed at some length in the project report, has no doubt been examined in the Steel and Finance Ministries and the Planning Commission. Although details are not available, the principle underlying the 300,000 ton project is simple enough for it relies on the well-known economies of scale. Throughout the world, special steel plants are tending to be bigger and bigger, some approaching a million tons or more, because only larger plants can employ modern techniques of continuous production which offer such striking economies. At the same time, small plants are creating a niche for themselves through specialisation in products or qualities which larger plants cannot manufacture so economically. The position in this respect is comparable to that in the mild steel industry where small-scale units, the re-rollers, play a similar role.

FICCI's angle on Durgapur is readily understandable in the light of the many applications for units of small capacities now pouring in because the demand for special steels is soaring on account of the rapid growth of machinery manufacture. Will it make economic sense if we were to limit the size of integrated steel works such as Bhilai or Jamshedpur because re-rolling mills based on electric furnaces can be built at a lower initial cost? The FICCI's suggestion to disperse special steels capacity over a number of small plants makes as little sense. To accept it would be to impose a permanent and intolerable burden of high costs on India's machine building industries.

What FICCI ignores is the scope that still exists for large and well-conceived units in the private sector. The public sector plants account for less than half the capacity needed for the Third and Fourth Plans. Only one such scheme is as yet in view — the Tata plant licensed for an initial production of 50,000 tons. The difficulties that Tatas are experiencing in finding foreign collaboration to underwrite the foreign exchange required suggests that even if a large share of capacity were allotted to the private sector, the chances of fulfilling it are none too bright. In any case, the FICCI's intervention would clearly run counter to the interest of all large units, whether public or private — and this deserves to be noted by all concerned.

Trade with East Europe

AS a result of India's trade agreements with the East European countries, her exports to them have been increasing for last few years and are currently at a level which is higher than that of her exports to European Economic Community countries. Most of these agreements are due for renewal and it would be to India's advantage to renew them in such a way as to increase her total exports. Most of these agreements are bilateral and involve payments in terms of rupees.

These agreements are doubtless necessary as only through them can India tap these new markets. However, now with the organisation of the West European countries in European Economic Community and the proposed entry of the United Kingdom into this Community, a new dimension is added to India's efforts at increasing trade with the East European countries. We ought to think about this trade in a much more imaginative way; for, with the present attitude of the European Economic Community, it may not be possible for us to increase our trade in this direction. As a countermove, we should give more importance to our trade with the East European countries.

It may be easier to export some of the products of our consumers' goods industries as well as light engineering goods, apart from traditional commodities like jute goods, cotton textiles and foot-wear to the East European countries. These countries have concentrated their efforts on the development of heavy industries and are in need of some of the goods which we can sell. Further, their trade with the countries outside the Soviet bloc is increasing at a rapid rate and we could take advantage of these rapidly-growing markets.

For this purpose, it may be to our advantage to fashion our trade agreements with them on a **multilateral** basis as far as this bloc as a whole is concerned. Further, it is feared that some of them purchase goods from us only to re-export to our traditional markets and thus cause a sort of a diversion in our trade-pattern; at the time of renewal of agreements, we should insist that such trade diversion should not take place. Any way, we should try for a major and substantial increase in our exports to these countries through suitable modifications of the terms of the agreements.

Weekly Notes

West Irian for Indonesia

THE 13-year old dispute between Indonesia and Holland over West Irian was peacefully settled on Thursday last when the two countries signed an agreement under the auspices of the United Nations for a phased transfer of the territory to Indonesia. Under the agreement, Holland will hand over the administration of the territory to the UN which will transfer control to Indonesia next year. During the interim period, before Indonesia takes over, the territory will be administered by a UN Administrator who, along with a UN Temporary Executive Authority, will be appointed by the Secretary-General immediately after the agreement is endorsed by the UN General Assembly which meets on September 17. Formal transfer of sovereignty to Indonesia will not be completed until the people of the territory, the Papuans, decide at a referendum to be held in 1969 to be citizens of Indonesia. The provision in the agreement for the referendum is, however, no more than a face-saving device for the Dutch who had all along taken the stand that the Papuans must be given the right to decide their political future.

In fact it was the announcement of the Dutch intention to grant self-determination to the Papuans which brought the simmering dispute to boiling point in 1957 when the Indonesian Government seized Dutch property in Indonesia and nationalised all Dutch-owned banks, rubber plantations and industries. In August 1960, President Sukarno severed diplomatic relations with Holland and in March last year even the indirect diplomatic link which existed between the two countries *via* the UAR embassy in Amsterdam was cut off.

The crisis came in December last year when President Sukarno announced that he had lost all hopes of arriving at a negotiated settlement with Holland and ordered the Indonesian army to be prepared to fight for West Irian if necessary. This was followed by intensive arms build-up by both sides and by sporadic landings by Indonesian paratroopers in West Irian.

While it is easy to exaggerate the importance of these incessant irritants in eventually compelling the Dutch to give up their colonial hold over West Irian, there can be no doubt that the decisive factor which influenced the Dutch decision was the diplomatic pressure brought to bear on Holland by the United Nations and the United States. The two names which have been mentioned as having played the vital role in making the agreement possible are those of the Acting UN Secretary-General, Mr U Thant, and the ex-US Ambassador to India, Mr Ellsworth Bunker. The Secretary-General may decide to appoint Mr Bunker as the UN Administrator for the interim period before West Irian is transferred to Indonesian control. The settlement is a feather in the cap of Mr U Thant and strengthens his claims to election as UN Secretary-General.

Modernising Small Mines

SOONER, rather than later, Shri K D Malaviya will have to tackle the problem of modernising the private sector of the coal industry. A significant increase in the output of the better grades of coal, both coking and non-coking but specially of coking coal, is not possible without modernisation. Cheek by jowl with the mine to be sunk with Polish assistance to raise two million tons of coking coal at Sudamdih in Jharia, there are a number of pits worked by lease-holders with winding and haulage gear operated with the help of bullocks. They raise a few thousand tons a year, but their output is nothing compared to the reserves they have got. Unless these lease-holders, enjoying very comfortable incomes despite all protestations to the contrary, can be made to modernise their mines in order to raise more coal, production of better grade coals, so urgently needed by industries, is bound to suffer.

The view is gaining ground that "selective" nationalisation offers the solution that Malaviyaji has been seeking. This is one of the drastic measures that the Minister probably had in mind while addressing the field staff of the Coal Board in New Delhi last week. But even if this politically difficult step cannot be taken, Malaviyaji has other alternatives, some of which the Ministry will have discussed with representatives of the mining industry at the conference held on Thursday. While sympathising with the need for some assistance to the large modernised mines to enable them to invest in further mechanisation needed for raising more coal according to a well-conceived, long-term plan, the Ministry has no option but to crack down on the small operators sitting tight on valuable reserves. Malaviyaji has already pulled up Tata and Indian Iron for holding over 30 per cent of the coking coal reserves but contributing only 14 per cent of the total output of coking coal. The solution now being considered is that of raising the subsidy for deep and difficult mining and stowing, but only to collieries which exceed the production norms set on the basis of their past performance. Simultaneously, the assistance given under the existing subsidy schemes will be withdrawn from mine owners who fail to play the game.

This may achieve the desired objective of making easy-going mine-owners sit up, take notice and do something to step up production. However, unless some of the holdings are consolidated by a much more ambitious version of the present amalgamation scheme, only a limited improvement will be possible with the limited resources that small mines will be able to mobilise. The point to note is that until the beginning of the Second Plan, coal used to be mined largely by very small units, and 800 or more of them raised 33.5 million tons. The operations in these mines were, by and large, manual. And with a few notable exceptions such as Andrew Yule's Bengal Coal, there was no real planning of mining operations in order to get the most coal out of the ground. In times when there was money in coal (quite often, there wasn't any), some increase in output was effected but largely by

primitive methods, without any significant capital investment, and consequently without any much consideration for the long-term consequences. Such 'slaughter' of coal mines (encouraged by a mis-conceived production bonus scheme during the war) has depleted national reserves, a process which continues to an extent even today because of a misplaced concern for small owners.

The time has come to make a distinction. In terms of technology and economics, some of the better run large coal companies are on a comparable level with the State-owned NCDC and equally deserving, therefore, of support as long as they undertake to expand as vigorously as national interest requires. For one thing, neither makes illegitimate profits by false muster rolls or by forcing employees to sign for wages they do not receive. The Government is, in a sense, already making this distinction. Applications for sinking new mines or extending operations to contiguous areas are refused unless the applicant can produce satisfactory evidence that he has adequate resources to undertake modern, large-scale mining. They are also refused, quite rightly, if the applicant has more than ten years' reserves in his existing properties, because in that case his effort should be directed to more intensive exploitation rather than expansion.

There is much loose talk of the private sector collieries having been put in a strait-jacket by the Industrial Policy Resolution. Great play is made of alleged restraints upon expansion, forgetting that four new mines have been sanctioned as part of the Third Plan expansion programme to raise over 2 million tons of coal. More schemes would undoubtedly have been licensed if the proposals satisfied the criteria mentioned above, particularly after the modification of official policy in 1960. Much heat has also been generated because some unworked areas of private lessees were taken over by NCDC. In one or two cases, this may have caused hardship but the general principle of putting pressure on mine owners to exploit their reserves was undoubtedly sound. Unfortunately for the country, one of the two apex business organisations (probably the more influential) is heavily influenced in its counsels by the small owners, whose continuance is difficult to justify on either economic or technological grounds. The rate of production apart, the bulk of the coal they produce is not of the quality the country needs. Malaviyaji need not be too concerned, therefore, with the agonised outpourings from this quarter.

Shortage of Sugar, Really?

ONE must confess to a feeling of unreality while listening to no less a representative of the sugar industry than the President of the Indian Sugar Mills' Association talk of an impending "crisis of shortage." True, the trend of mounting stock of sugar appears to have been arrested. The sugar season is not over yet, but the worst that can be expected is that the unsold stock at the end of the season would be no less than that at the beginning. It may actually turn out to be somewhat less. With the mills' crushing all but completed — three months of the official sugar season yet remain, though — production by the end of July is estimated at 27 lakh tons compared to 30 lakh tons by July last year. Against this, despatches from mills by July totalled 20.3 lakh tons, 18 lakhs tons for internal consumption and 2.3 lakh tons for export. The corresponding figures for the last season were 15.1 lakh tons and 1.3 lakh tons, respectively. With the festive season yet to come, internal consumption should touch 24 lakh tons and exports are expected to be at least 3 lakh tons. Thus the entire production of this season will be accounted for, leaving only the opening stocks of about 11.5 lakh tons to be carried over to the next season.

Even so, isn't it a bit too premature to talk of shortage of sugar yet? At the present rate, 11.5 lakh tons represent almost half a year's consumption. This is what makes Shri D D Puri's statement, made in the course of his Presidential Address to the Annual General Meeting of the Indian Sugar Mills' Association last week, that if the excise duty on sugar was maintained at the present level, the industry would "rapidly move into another crisis of shortage", so striking. There is also another reason: the linking of excise duty and shortage. Hitherto the industry had argued that the removal of the excise duty was necessary to solve the problem of excess stocks for, since export prospects were limited, only a reduction in the price of sugar, leading to increased internal consumption, could take care of the greatly increased production. Now Shri Puri looks at the duty from another angle.

The excise duty on sugar, which amounts to Rs 10.70 per maund, in the face of a nil duty on gur and a much smaller one on khandsari, he argues, puts the sugar industry at a disadvantage in a season when sugarcane is in short supply. Weighed down under the excise duty, sugar factories are unable to bid with khandsari and gur makers for the sugarcane and so the cane that is normally supplied to sugar mills is diverted to gur and khandsari manufacture. The result is a fall in sugar output and idle capacity in the sugar industry; not only that, the diversion of sugarcane to gur and khandsari is a "national loss" since sugar mills extract between 33 per cent and 50 per cent more sugar from the cane than the gur and khandsari makers.

Now in a short sugarcane season there is naturally competition between sugar mills and gur and khandsari makers for cane and even ordinarily purchasers of cane for the mills keep a sharp eye on gur prices. But whether the excise duty on sugar really places the mill industry in a weaker position than the decentralised, small-scale gur and khandsari makers is not so obvious. In the three seasons ending 1955-56 marked by poor crops, there is little evidence of cane having been diverted to gur, for the impact of cane shortage was, if anything, more marked on production of gur than on that of mill sugar. Of course, in 1957 the excise on sugar was raised by a little over Rs 5 per maund but hasn't the rise in price of sugar since then taken care of that?

Indeed, this appears to be a rather unpropitious moment to argue for a removal or reduction of the excise duty. Even the conventional argument — that such a step is necessary to step up internal consumption by bringing down prices — has lost much of its force, particularly to the Government. Only the other day Shri S K Patil expressed the confidence that even with the normal rise in internal consumption and the foreseeable export possibilities, the sugar situation should become normal in "one or two years". This may be somewhat optimistic but there can be no doubt that the problem is now reduced to manageable proportions. And if the Government did not see fit to relieve the industry of the excise duty when unsold stocks were fast accumulating, there appears to be much less ground for doing so now.

Raw Sugar for Export

THE confidence that we will be able to export 5 lakh tons in 1962-63, and possibly more in the years to come, has undoubtedly contributed to official optimism that the sugar crisis will solve itself in due course. The optimism over exports is also reflected in the waning of interest in the U S sugar quota, not so long ago the object of frantic effort by both the Government and the I S M A.

Speaking in New Delhi some time back, Shri S K Patil disclosed that the State Trading Corporation had concluded agreements with Japan and Canada for export of sugar. Under these agreements, India will export 2 lakh tons to Japan and 1 lakh tons to Canada every year for the next three years. The S T C has also entered into an arrangement with the I S M A for making available for export 3 lakh tons of sugar annually for the next three years. Of this, two lakh tons will be raw sugar and the rest white sugar. Accordingly, the I S M A has agreed to manufacture 2 lakh tons of raw sugar in the coming sugar season. Half of this quantity, it is believed, will be exported to Japan.

The decision to manufacture raw sugar thus appears to be backed up by fairly definite export prospects. This meets the criticism that manufacture of raw sugar would be risky because, as this country has no refineries to refine raw sugar, if any of the sugar produced was not exported, it would go waste, particularly since raw sugar deteriorates rapidly. Even so, sugar industry interests are not all agreed on the merits of the decision to manufacture raw sugar. Export of raw sugar is justified on two grounds. First, it is felt that the prospects of export of raw sugar are better than those of white sugar since many countries which do not grow sugarcane and cannot, therefore, manufacture sugar, nevertheless have set up sugar refineries to refine imported raw sugar. Further, with the breakdown on the International Sugar Agreement, it is believed that India now stands a good chance of exporting sizeable quantities of sugar to some of the Asian countries. Japan and Korea alone import between them some 13 lakh tons of raw sugar annually.

The other advantage in exporting raw sugar is that in the case of raw sugar the disparity between our costs and international prices is somewhat less than for white sugar. It has been estimated that the cost of a ton of raw sugar would be roughly between Rs 40 to 50 less than that of white sugar. Prices of raw and white sugar, on the other hand, do not vary very much and raw sugar prices often rise above those of white sugar. For, countries which have refineries prefer to import raw sugar and refine it even though white sugar may be available at comparable or even lower prices.

The differences within the sugar industry over the merits of manufacturing raw sugar for export arise mainly from the fact that the saving in cost on raw sugar is less in the case of mills with a high average recovery of sugar. It is not surprising, therefore, that at the annual general meeting of the Deccan Sugar Factories Association last month, the retiring president, Mr F Edwards, was critical of the move to manufacture raw sugar. According to him, the modifications which will be necessary in the machinery and equipment of mills, and in storing, handling and packaging methods would not be justified by the small saving in costs of manufacture. This is true of the sugar mills in Maharashtra which have a high average rate of recovery. But the North Indian mills which have a much lower recovery rate may find manufacture of raw sugar relatively more advantageous.

The decision to manufacture raw sugar has been taken and the I S M A cannot go back on its agreement with the S T C. What can, however, be done — and what appears likely to be done — is that the quotas for manufacture of raw sugar be given only to mills with low recovery rates.

The United Commercial Bank Ltd

Head Office : Calcutta

G D Birla

Chairman

Capital Subscribed :	**Rs.**	**4,00,00,000**
„ Paid-up :	**„**	**2,00,00,000**
Reserve Fund :	**„**	**2,35,00,000**

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts at 3% interest. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers Cheques sold and encashed. And other Banking facilities.

S T Sadasivan

General Manager

Our Delhi Letter

Hair Splitting at Labour Conference

FROM the limited purpose of constituting a tripartite machinery for settling industrial disputes, the Indian Labour Conference has grown into a platform where "all labour can meet all employers on a national scale" to formulate principles and policies to govern different aspects of industrial relations. The Twentieth Session of the I L C, which concluded here last week, clearly underlined the difficulties in the way of achieving this infinitely wider objective.

Some 'letting-off' of steam by both employers and employees was perhaps to be expected. But what struck one was that on every major issue which came up before the session representatives of employers and employees expressed divergent opinions. In fact, the Drafting Committee failed to record the conclusions of the Conference since the representatives of workers and employers could not agree on many vital points. It was decided, therefore, that Shri Gulzarilal Nanda in his capacity as Chairman of the Conference would formulate the "official conclusions" of the Conference.

Code of Discipline

One of the most debated issues at the Conference concerned the review of the working of the 'Code of Discipline' which, on the face of it, is accepted by both employers and workers. In the review two points were underlined. One related to the question of according recognition to workers' unions and the other to arbitration in industrial disputes. Workers' representatives pointed out that employers invariably refused to extend recognition to unions which were fully qualified for recognition by all standards. The workers' case was supported by Government representatives but employers contested it on the ground that there might be valid reasons for delay in recognition. Shri V V Dravid, the Madhya Pradesh Labour Minister, wanted legislation making it obligatory on the part of employers to recognise unions which qualified for recognition. Shri Nanda also felt that legislation might be the only way out if employers persisted in not recognising qualified unions. In the face of the opposition of employers to the suggestion, the Government climbed down and Nandaji suggested that refusal to recognise a qualified union should be regarded only as a breach of the Code of Discipline.

Arbitration vs Adjudication

Workers' representatives also asserted that employers by and large refused to accept arbitration to settle industrial disputes. Ninety per cent of disputes are referred to adjudication at the instance of employers, it was stated. Shri Nanda was also in sympathy with the workers' viewpoint. He said: "There are numerous instances in which no justification whatever exists for not accepting arbitration. I ask whether a persistent refusal to go to arbitration even when it involves no great stake is not a violation of at least the spirit of the Code?" The Chief Labour Commissioner pointed out that in many instances employers did not turn up for conciliation proceedings. Employers first refused to admit this but later Shri R H Mody of the Tatas made a candid admission that he himself had many times refused to attend conciliation proceedings. However, once again Nandaji amended his position in face of opposition from employers, and agreed that arbitration would be the second and normal step in labour disputes, except "where the employer feels that new rights with large repercussions are to be conferred or huge financial stakes are involved". Labour representatives were naturally not satisfied with this position.

On the question of victimisation, employers were adamant in opposing any curbs on their freedom to take punitive measures against employees as "this is absolutely necessary for keeping discipline in the industry", as Shri Bharat Ram maintained. The labour representatives complained that at present employers were both prosecutors and judges. Appeals to the courts in such cases are mostly ineffective since the courts do not act unless the employers have violated the Standing Orders or refused natural justice which, incidentally, amounts to just going through the formalities of giving a charge sheet.

Bigger Cake : For Whom ?

A vital problem which came up before the Conference was that of raising productivity. Though there was no detailed discussion on the question, the deliberation was sufficient to indicate the attitude of employers and workers on the question. Shri Naval Tata, President of the Employers' Federation of India, for instance, suggested that weekly holidays should be done away with to avoid wastage of good mandays and increase productivity. The section of the employees' representatives led by Shri S A Dange, took the stand that there was no justification in asking the workers to increase productivity if the entire benefits from increased productivity were not received by them at least till they attained minimum standards of living. As usual Shri Nanda struck another balance here. He did not agree that the entire benefit accruing from productivity should go to industrial workers. The benefits of higher productivity should not go to the better off but to those who are not so well off. Therefore, he suggested that some way of channelising most of the benefits of higher productivity in industry to agricultural labour had to be devised. Some of the benefits should of course go to those who actually contributed to the increased production.

Concentration on Minor Details

One of the most interesting features of the Conference was the Government's position as arbiter in employer-employee disputes. Both parties compete with each other to show the Government that while it has been co-operating with the Government's labour policies the other party has been violating it.

Most of the time of the ILC was spent on hair-splitting on minor matters. For instance, for over two hours it discussed the right of the recognised unions to stick notices on boards inside the factory without the managements' prior permission. Some of the basic issues raised by Shri Nanda went unheeded.

A Letter from Japan

Swing to the Right

THE election to half the Japanese Upper House took place on Sunday, July 1. Japan has a bicameral legislature with the Upper House chosen by the same voters as choose the Lower House but on a wider constituency basis. The national constituencies consist of the whole of Japan; the local constituency is the *ken* or largest organ of local government. Half the members retire every three years. Although the Upper House cannot block legislation desired by the Lower House yet to change the Japanese Constitution, 2|3 of the Upper House has to approve the change as well as 2|3 of the Lower House. Thus the Upper House elections are not without importance at the present time in view of the attempt to reconstitute the Japanese armed forces (at present specifically banned by the Constitution).

Both the Socialist and Liberal Democrats have increased their strength in the number of candidates and in the total votes cast for them as a percentage but in the national constituency (which is almost impossible to organise) the most successful candidates were film stars, wives of dead TV artists, the pilot who bombed Pearl Harbour and who subsequently became Head of the Air Self-Defence Force and so on. Most of these "non-politicals" stood as Liberal Democrats. The Democratic Socialists suffered a catastrophic defeat especially in the local constituencies. That shows very clearly that no party without an efficient political machine can possibly succeed. The second important thing to observe is the startling rise of the Sokka Gakkai in the national election. The Sokka Gakkai has been classified as a "Buddhist Sect" but this is by no means the case. It attacks all forms of Buddhism other than its own (as well as all other religions) and is extremely fascist in organisation, structure and beliefs (although opposed to revision of the constitution and the re-arming of Japan).

In the opinion of your correspondent, this election will confirm the Liberal Democratic Party in its noticeable swing to the right. When Prime Minister Ikeda was first chosen as head of the party, he took a "low posture" towards all other people and parties and tried never to put forward his own point of view and tried to be all things to all men, even to the Socialist Party. But during the riots against the Mutual Security Treaty last year, many of the right wing Liberal Democrats became concerned at the power of a minority opposition party such as the Socialist Party to create such widespread disturbances. If the American Government had taken a liberal attitude at that time and had regarded the demonstrations as merely a stage in learning about democracy, these right wing party members would have kept quiet. But the Americans, both private citizens and officials, kept on talking about anti-Americanism and "threat to democracy" so that the Liberal Democratic government was fortified to take extreme steps against the dissidents in the name of democracy. Prime Minister Ikeda was thus weakened in his middle of the road policy and from that date various reactionary moves have been introduced on the grounds of defending law and order. These are :

Reactionary Measures

(1) An attempt to centralise control over education. Opposition to this took the form last year of demonstrations by the Japan Teachers' Union (Nikkyoso) against the Teachers' Efficiency Grading System and a compulsory grading examination for school leavers. Nikkyoso was not powerful enough to bring out all teachers against this policy (because parents naturally resented their children not being taught during the dispute) and headmasters were used by the Ministry of Education to report on those teachers who were leaders of the demonstrations. During this year the Ministry has been discharging or suspending without pay for as long as six months various teachers who took part in the demonstrations and the Nikkyoso has taken no active part in defending these teachers because its strength was wasted in the futile head-on-clash with the Ministry last year.

(2) Fortified by the success of this policy of intimidation, the Minister of Education now proposes to bring all national universities (and hence in time private universities) under the direct control of the Ministry of Education. The Universities have always been a bulwark of independent thinking in Japan. The controlling body is in actuality the Faculty, which includes all teachers of the rank of assistant professors (or sometimes instructors) and above. The President of the University is elected by secret ballot by the Faculty. The Minister of Education is intending to introduce legislation by which a special body called the Central Education Council (likely to be nominated by the Ministry of Education) will be appointed and will be empowered to appoint presidents and make all teaching appointments. The Universities are organising their opposition but Prime Minister Ikeda has publicly supported the Minister of Education in his stand and, as shown by these elections, has certainly suffered no setback in voting strength.

It is quite clear that the Socialist and Democratic Socialist parties have not the strength to oppose these changes by refusing to cooperate with the Government outright. They can show their resentment only by periodical demonstrations. The outstanding failure of Sohyo (the trade union congress) to solve the Miike coal mine dispute last year shows up the weakness of the left wing very clearly. The defeat of the Democratic Socialist party will undoubtedly strengthen the hands of the left wing Communist factions in the Socialist party who will argue that the workers of Japan are opposed to "compromises" with the "Japanese capitalists". This is a disaster. The increase of Communist supporters in this election from 3.3 per cent to 4.85 per cent of the local constituencies is significant. As the Liberal Democrats become more right so will the Socialist party become more left with the voters in the centre having an increasingly difficult choice.

July 15, 1962 (*Delayed in post*)

From the London End

Silver Prices at Peak

SILVER has recently cornered all the limelight in the bullion market. Prices have been rising steadily in the past few weeks and last Monday the price of silver rose — both in London and New York — to its highest level for 42 years—92d in London and $109¼ in New York. The London price is now 7.5/8d higher than at mid-June and 12d higher than before the ending of industrial sales by the US Treasury last November.

The last peak for silver prices was in 1920 when they stood at 89½d per ounce, but this was silver of a lower purity; had the grading not been changed in 1945, when the system of assessing silver was altered, this price would be equivalent to-day to a price of approximately 96.5/8d.

In 1961 silver prices shot up, at the end of November, from 80d per troy ounce to a peak of just under 90d in the middle of December, after which they gradually came down in January and February 1962 to a little below 85d where they remained fairly steady until the beginning of June when they rose again to a peak just below 90d and then dropped at the end of June to about 86d per troy ounce. Through July and August prices have continued to rise steadily.

Expectations Belied

When prices began to fall at the beginning of July after the last great "leap forward", it was widely felt that nothing much would happen in the market until the industrial orders began coming forward again in the autumn. The consumer stocks seemed to have been sufficiently replenished, and the speculative activity was thought to have temporarily spent itself.

On Monday, London dealers marked spot and forward prices up by another 1½d to new high levels of 92d and 92.3/8d respectively, reflecting partly a rise of one cent in the New York price on Friday. There was a substantial demand for silver from consumer sources, both in the UK and on the Continent. As a result, the prediction in market circles last week that the New York price might well reach 110 cents before levelling out, may well prove correct.

The main question now is how far prices will continue to rise upwards, having risen in London by as much as 3½d in a week. Although, on the London market, speculative buying has helped to push up prices, there are now some signs of speculators taking accrued profits although this must be balanced against additional purchases by speculators who are confident that the market has by no means reached its peak.

Mexico, China Hold Back

What lies behind this dramatic rise in silver prices, particularly at a moment when most commodity markets are dull and even President Kennedy's "no dollar devaluation" pledge in the Telstar interview had only a temporary reviving effect on the gold market. There have been a number of factors which have contributed to the rise in silver prices. On the *demand* side, industrial and coinage needs have for some years been running ahead of mine production. On the *supply* side, the withdrawal of US Treasury sales at the end of November, 1961, put an end to disposals from the American free stock and meant that supply of the metal was restricted by the closure of one of the main sources of supply. Recently, very little silver has been offered for sale. Many refineries are closed for the season. There has also been a contraction of supplies from another important source — China. In 1961 the Chinese Government sold substantial quantities of silver, but this year sales have been practically negligible. Sales of silver from Mexico, another large source of supply, ceased early in the year and so far there have been no signs of any renewal.

The latest rise has been pushed up still further because of the widespread expectation of a firm market in the autumn when industrial demand is normally rising. Thus, many industrial users entered the market in an attempt to ensure their supplies before the onset of the much-heralded autumn rush. This combined with speculative demand helped to push up prices. It should be admitted, however, that although demand is greater than usual for the time of year, it cannot really be described as heavy, but it has come at a time when there is very little metal available. All the indications are that the impetus behind the present rise still seems to be very strong and further industrial demand will be forthcoming in the autumn.

Observers would not be surprised to see London prices go still higher before finding their level, while an eventual New York price of 110 cents or over is considered not unlikely. At current prices, there is nothing to be gained by shipping silver from London to New York.

Will Not Get Out of Head

However, there is little likelihood of the silver market getting out of hand. There are a number of factors that will control the market. First, and perhaps most important, is the existence of the 26 million ounces of free silver held by the US Government. When the Treasury withdrew from the market as seller last autumn, it was stated that the remaining stock would be used, if necessary, to prevent a "disorderly" market. In addition to this, the entry of the Mexicans into the market, as sellers, would probably mark the end of the speculative increase in the silver price. Because of the important mining interests in Mexico, the Mexican authorities do not like a widely fluctuating market and may decide to intervene in the interest of stability if the market shows signs of getting out of hand. There are rumours that when the price in New York reaches $1.10. Mexican sales may restart and this would, of course, prove a crucial factor in the market. Again, there is the question of Chinese sales which could have a significant effect on the market. Another factor that could help to stabilise silver prices is that so much silver is held in private hands throughout the world, that it is always impossible to know when an improvement in values will lead to a sudden increase in supplies.

Our Calcutta Letter

Raw Jute and Export Subsidy

THE booming demand and high prices that have sustained jute goods production at extraordinarily high levels since November 1961 now show every sign of tapering off. Prices of both hessian and sacking have appreciably declined over the last four weeks, and the undertone of nervousness is unmistakable. Opinions differ on the reasons for the break. Some hold that excessive speculation of the **fatka** trade has aggravated what was only a slight easing off of buying pressure. Spokesmen of the Jute Establishment would have us believe that the downward trend only confirms that overseas inventories which had been run down have now been built up almost to optimum levels. It does not concern us here which of the two interpretations is correct; the July-end stock figures show a sharp rise of 6,600 tons in sacking and 1,300 tons in hessian.

That is the immediate setting in which the first round of discussions on minimum prices for raw jute in the 1962-63 season opened in New Delhi this week. A high-powered delegation led by the Chairman of the Indian Jute Mills Association (IJMA) is at the time of writing in the capital for what has been officially described as an informal exchange of views. It may be assumed, however, that raw jute will inevitably figure in the exchanges, not least because IJMA is highly incensed over Shriman Narayan's strictures last month on the "half-hearted" and "halting"" manner in which buffer stock operations have been handled.

What Price Raw Jute?

IJMA in its memorandum to the Shrivastava committee has avoided taking a definite stand on the delicate question of a minimum price for raw jute. One may infer, however, that against the present floor of Rs 30 a price of Rs 25 per maund will be acceptable to IJMA. The memorandum takes a price of Rs 45 for 100 yards of 40" 10 oz hessian as the optimum and recommends a differential of Rs 20 between this price and the price of raw jute per maund. If the industry does not advocate Rs 25 per maund as the price for raw jute in so many words, it is because the Union Agriculture Ministry and the State Governments very strongly feel that even the present floor of Rs 30 is unfair to the cultivator.

IJMA's views do not have unanimous support among jute interests. One leading figure — active in the gunny trade and a director of a managing agency house running several jute mills — feels that anything more than a marginal fall in raw jute prices will seriously weaken the incentive to grow jute and lead to a sharp fall in supply next season. The disastrous conditions of 1959 and 1960 will be recreated when production had to be curtailed and prices both of fibre and jute goods shot up giving a big boost to alternative methods of packaging to the grave detriment of the industry. He thinks that there is a strong case for what Shri S K Patil calls an "impetus price" — the price at which the Indian industry would be assured of a sufficiently large crop to maintain full production. In his view the optimum price of Rs 45 for hessian recommended by IJMA as the basis for fixing raw jute price is at least Rs 5 below what the world market can comfortably bear. The argument that Pakistan gets its raw materials more cheaply does not impress him. Pakistan, he points out, has a large raw jute surplus and economic commonsense suggests that marginal growers should switch to other crops — the exact reverse of the Indian situation. In any case, Pakistan is also thinking of price support and buffer stock operations, which should firm up prices. The advantage that Pakistan enjoys because of lower raw material cost perhaps gives it an edge over India, made sharper by the export bonus scheme which gives hessian a subsidy of Rs 120 and sacking Rs 171. The remedy lies in some form of subsidy for Indian sacking which is steadily losing ground in all important markets because of price cutting by Pakistani exporters. In the view of this representative of the jute industry, the subsidy should be linked to price support for raw jute, thus ensuring that India's competitive strength will not be further undermined by shortage of raw material.

Four Factors

A *non-partisan* examination of the problem of raw jute prices suggests that the following four factors need to be taken into account in arriving at a rational decision:

(a) the cost of cultivation, which determines the return that the grower gets at any given price;

(b) a parity between jute and paddy prices to arrest excessive diversion in either direction;

(c) a parity between jute and jute goods prices so that high prices for jute goods may not encourage the adoption of substitutes in packaging; and,

(d) the price of jute in Pakistan, our chief, and indeed a most formidable, competitor.

These factors are easy enough to name but there is agreement neither on the weightage to be given to each nor on what each means in terms of rupees and naye paise. The optimum price has been variously estimated: the Jute Enquiry Commission of 1954 suggested Rs 25 to 27 per maund, while the Jute Enquiry Committee of 1957 favoured Rs 29-33. In 1959, IJMA would not agreee to more than Rs 23.50. A basic difficulty is the lack of data on cost of cultivation, the only figures available being those of the Indian Central Jute Committee which admittedly suffers from a number of defects. An expert investigation is now in progress and will take another two or three years to complete when more reliable data should be available. Even so, the wide differences in cultivation and other costs, particularly transportation, as between districts and States complicates the problem. A price which is economic for West Bengal may be unduly low for Bihar.

In the matter of parity between jute and paddy, a ratio if 1:2.7 was recommended by the Jute Enquiry Committee. The ratio is not intended to be very precise and could well be 2.5 or 3.0. At the usual level of Rs 12-13 per maund of paddy (the current price of Rs 16 is abnormally high), the floor for raw jute should be Rs 30-32.50. Much more thorough-going analyses of the relationship between jute and paddy will be needed to establish the guidelines for policy that have hitherto been attempted.

Of greater immediate relevance is the parity with jute goods because in this export industry, the overriding consideration must be the world market. Again, there is no unanimity on what is the optimum price at which jute goods may be expected to hold their own against substitutes. That IJMA's suggestion of taking Rs 45 for 100 yards of hessian as the optimum is unacceptable to some sections of the industry has already been mentioned. A review of exporters' opinion undertaken a year ago showed that the consensus was in favour of Rs 40 per 100 yards and Rs 100-105 per 100 bags of B Twills. At that time it was held that consumption would be curtailed at the level of Rs 42-45 and drastically reduced at above Rs 45. In sacking, a price of up to Rs 110 was unlikely to result in much substitution. according to this review. Against this it may be argued that the average weekly prices have been well above these levels for many months now, but that would ignore the fact that short-term inelasticity of demand is something quite different from longer-term trends. A FAO study has shown that a 10 per cent variation in the price of jute bags relative to paper bags resulted in a 7 per cent variation in the share of burlap in the total U S demand for packaging. An IJMA delegation which visited the USA in October 1960 considered 10-11 cents a yard (corresponding to Rs 40-44 per 100 yds in Calcutta) for hessian as an economic level at which lost markets might be regained. The evidence is thus heavily in favour of a reduction in jute goods prices well below the levels of the last six months.

Case for Subsidy

Finally, a comparison of costs with Pakistan is difficult to make because Pakistan's advantages of lower raw material cost and wages are offset by the higher efficiency of the Indian mill operative, lower cost of power, greater external economies in general and higher depreciation and interest charges in India. According to one view, the modernised industry in India had actually a cost advantage—though small—of Rs 70 per ton, leaving out of account the bonus vouchers. IJMA's latest view, recorded in the memorandum to the Shivastava committee, is that Pakistan has a cost advantage of up to Rs 400 per ton, taking into account the current value of bonus vouchers.

Taking all the factors that impinge on the price of raw jute, it seems unlikely that the maintenance of floor prices for raw jute can be dissociated from the grant of a subsidy on exports. I J M A's suggestion is an excise duty on internal consumption (already in force since this year's budget) the proceeds of which may be applied to a subsidy on the exports of sacking. India is at a particular disadvantage in sacking in the manufacture of which up to 40 per cent low grade cuttings may be used. The availability of cuttings to the Pakistan industry at Rs 10/12 per maund makes for a wide disparity in production costs.

Capital View

Nehru's 'Free Hand'

Romesh Thapar

EVEN as the Soviet Union establishes a startling lead in the race into Outer Space with two potential moonships orbitting the Earth, and political scientists discuss the cold war implications of Space Stations and such things, we in India are content to debate border problems and electricity crises at a tempo reminiscent of a slow-moving feudal age.

The China confrontation brings our enfeebled attitudes into sharp focus. The Prime Minister, although determined to use every stratagem to compel the Chinese to negotiate the tense border situation, is unable to carry conviction to the bellicose sections in Parliament and the numerous critics who have found a voice within his own party. He has for too long been the aloof, domineering mentor; now that the democratic processes force him to seek sanctions for an unpopular, but necessary, compromise, he has to face the unthinking hostility of men who imagine that they are free even to challenge his patriotism and honesty of purpose.

Over the past week, many publicists have been busy 'scrutinising' the text of the Prime Minister's utterances to find pointers which suggest that he is about to surrender to Chinese pressures. The Indian Government Note of July 26, which hinted vaguely about the absolute minimum adjustments on the border before talks could begin, is the subject of intense speculation despite the official attempt to suggest that 'nothing new' is indicated. This research has also been given much prominence in parliamentary interventions. Indeed, despite denials, the report is freely circulating that the Prime Minister is not against a visit to Peking to discuss matters which are causing dangerous friction between India and China. It would not be an exaggeration to say that this report is the cause of the present unrest among those who cannot conceive of normality in relations with our aggressive northern neighbour.

End to Thinking Aloud

Conscious that he has blundered in thinking aloud on the China question, and aware that isolated phrases torn from his speeches can be used to sow dissension within the ruling party, the Prime Minister attempted his own out-flanking operation. First, he called a meeting of the leaders of the major parties to persuade them to see the Sino-Indian problem in sober, long-term perspective. When this move failed to yield a necessary corrective, the Congress parliamentary party was tackled. Here, too, the doubts and confusions were not resolved.

To attempt to locate the reasons for the Prime Minister's increasing ineffectiveness in projecting his

foreign policy decisions in the period now unfolding is extremely difficult. But most intelligent observers of the scene agree that one of the main causes of the drift is the Prime Minister's quixotic effort to get unanimous support at a time when political life is being speedily polarised. The one attitude feeds the other. Until the Prime Minister rouses himself to give up his futile quest for unanimity and seeks majority sanction for a clearly and forcefully worked out foreign policy, there is no hope of any effective consolidation taking place behind it in times of crisis.

This, from all accounts, he is not prepared to do. During the meeting with the leaders of the parties, he did not argue the pros and cons of the various alternatives before India with regard to the border question with China. While defending the broad objective of Indian policy to achieve a peaceful, negotiated settlement with Peking, he failed to get his vociferous critics to offer their solutions, if any. A sustained argumentation would have encouraged irresponsible hotheads to face some of the serious repercussions of their suggested solutions. On the contrary, the meeting degenerated into attacks on the Defence Minister. These, too, were not given a fitting rebuff.

The performance before the Congress parliamentary group did not succeed in clearing the cob-webs. The Prime Minister complained at length about the manner in which the national press splashed headlines on the basis of single words in his statements. But this has been going on for years. All the more reason to be cautious in the selection of words. 'It's about time you started thinking out and writing down your speeches' — this advice would have had relevance, but within hours the Prime Minister was again extemporising in Parliament on the China question.

Extraordinary Debate

The debate in Parliament was extraordinary, to say the least. On the first day, suspicion about Government's intentions was dispelled with a patriotic peroration by the Prime Minister which amounted to a declaration that not an inch of Indian territory would be surrendered. This was enough to spark excited applause. On the second day, the Prime Minister lectured the same body of legislators on the subtle differences between 'talks' and 'negotiations', between the creation of a 'wrong' and 'right' atmosphere, and went on to demand a 'free hand', refusing to commit himself on the demand that there would be no negotiations with the Chinese until they withdrew to the international frontier. Now, the MPs believe that there will be 'talks' and 'negotiations' which will not involve the surrender of Indian territory. This is patently absurd whichever way you interpret it.

Of course the Prime Minister cannot be expected to do the job of educating the MPs and the general public on foreign policy single-handed. He should be assisted by leading spokesmen in his own party and by those in other parties who support him. All that is offered at the moment is undiluted praise or silent support. Nobody seems to be prepared to go beyond what the Prime Minister says, to cut new ground, to develop fresh ideas. Not a single front-bencher rises to face the music — only part-time Foreign Minister Krishna Menon, when he has no alternative. On the opposite side, the Communists indulge in a cowardly tactic — silent support, or the dittoing of what has *already* been said in favour of a negotiated settlement.

Fathoming the Chinese Mind

Meanwhile, the Chinese press on well beyond the line claimed by them in Ladakh in 1956. The Mandarins of Peking do not have to indulge in public debate to carry their people with them. They control the press, the radio and the public expression of views. These are substantial tactical advantages which they use to the full in their war of nerves against India. In Delhi, teams of experts try to fathom the nuances of meaning in China's angry diplomatic notes, thinly sugared with offers of friendship. There is no one to tell us what the Mandarins really think — not even Krushchov can help.

Without a doubt, no further public debate is possible on the subject amongst ourselves. Everything has been said. For this reason, it is being argued that if the Prime Minister is convinced that the overwhelming majority of the nation supports his decision to 'talk' and 'negotiate' a border settlement with China, then he should take immediate steps to clear the way of these discussions. To begin with, we must make known in the most categoric fashion that this policy line involves the acceptance of a compromise solution. Next, it implies the use of a variety of methods to make a success of these discussions, even mutually-agreed arbitration by an independent international committee or through the International Court of Justice. Failure would be disastrous; therefore, the need to be consistent in approach.

On the other hand, if the ruling party has doubts about the advisability of negotiating a settlement, which will inevitably mean a compromise or some give-and-take, then it is best to wait until such doubts have been dealt with. A noisy clash of opinion within the ruling party, once the discussions have been launched, would be seized upon by the Chinese to damage our little-publicised case internationally. In other words, the Prime Minister must first develop the firmness which once characterised him. Only then can he possibly hope to rally support behind him on this most controversial issue of territories and frontiers.

By now it is obvious to most that the only alternative to 'talks' and 'negotiations' is the present stalemate with its unhealthy overtones. There will be hosts of critics to describe these discussions as an act of surrender, of betrayal. But Asia, long ruled by the nations of the West and parcelled out between them, has to face intelligently these problems of undemarcated borders and pent up national animosities. Some have been resolved. Others await solution.

If India and China, even at this late stage, can achieve a generally acceptable settlement, they will restore the sadly-shaken faith of a continent. At least, we should let it be known in convincing manner that the obstacles were not of our making. This is probably the conditioning thought in the mind of Jawaharlal Nehru at this critical juncture in the continuing struggle of Asia to solve these continental problems peacefully, in maturity, without the senseless devastation of wars and violent conflicts.

Official Paper

Banking Trends

Trend and Progress of Banking in India during the Year 1961, Reserve Bank of India, 1962; pp *viii* + 225, price Rs 5.

THE chief characteristics of the banking situation in India in 1961 are summed up in the opening sentences of the report which read as follows :

"The year 1961, which largely covers the first year of the Third Plan, was a comfortable one for Indian banking. The pressure on the resources of banks prevalent in 1960 eased during the year and their liquidity position improved a good deal. This was the result on the one hand of a large accretion to their deposits and a moderate expansion in volume of bank credit on the other. These trends enabled banks to reduce their indebtedness both to the Reserve Bank and to the banking system abroad. The general economic background was one of a higher tempo of activity in the economy, in an environment of relative price stability. The year also witnessed a new phase in the consolidation of the Indian banking system. Measures designed to improve generally the operational efficiency of banks and especially to strengthen the sector of medium and small banks were taken. Legislation was enacted to set up the Deposit Insurance Corporation for providing some cover against loss to depositors."

Much of this is no doubt true. Also, reporting on a relatively major sector of the economy very soon after the period that is covered is often perforce incomplete since data relating to some other related sectors may not yet be available. Although it is recognised later in the survey of developments during 1961, the fact that the year witnessed, for various reasons, a significant slowing down in the rate of growth of industrial production has not been given due emphasis. But this slowing down cast its shadow on the banking system very perceptively.

Excluding PL 480 deposits, the deposits of scheduled banks increased by Rs 180 crores in 1961 against Rs 102 crores in 1960 (see Table 1). This is perhaps more due to the delayed action of greater economic activity in 1960 than to the broadening of banking habits, and even less due to the setting up of the Deposit Insurance Corporation which is cited in the report. The legislation for this corporation was passed only very late in 1961.

Time Deposits Grow Faster

The trend of increasing proportion of time deposits in total deposits continued in 1961. Demand deposits were 57 per cent of total deposits at the end of 1950 and 36 per cent in October 1960. Time deposits improved in this period from 27 per cent to 47 per cent of the total. Savings deposits remained at more or less 16 per cent of the total. How far these two trends, one of absolute increase in deposits and another of growth of time deposits in relation to demand deposits, will continue in the years ahead is a matter on which one could have expected some light. As for the absolute increase in deposits, the First Plan registered an annual rate of 3 per cent. The Second Plan raised it to 12 per cent. The average for the two Plans is 8.6 per cent. The rise in 1961 is 11 per cent. Thus, in the light of the expansion in the immediately preceding years, the increase in 1961 does not appear disproportionate. It acquires significance only when viewed against the, let us hope temporary, restricted use to which deposits can be put by the banking system.

The higher proportion of time deposits raises certain policy issues. At present the minimum balance which banks must maintain with the Reserve Bank are 5 per cent and 2 per cent of their demand and time deposits respectively. As the distribution of these two types of deposits within the total alters, as they have, significantly in favour of time deposits which attract the lower of the two percentages, banks have to keep less balance with Reserve Bank. This must affect the ability of the Reserve Bank to control bank credit. There is no doubt that the Reserve Bank is empowered — and has in fact used these powers — to raise the percentages

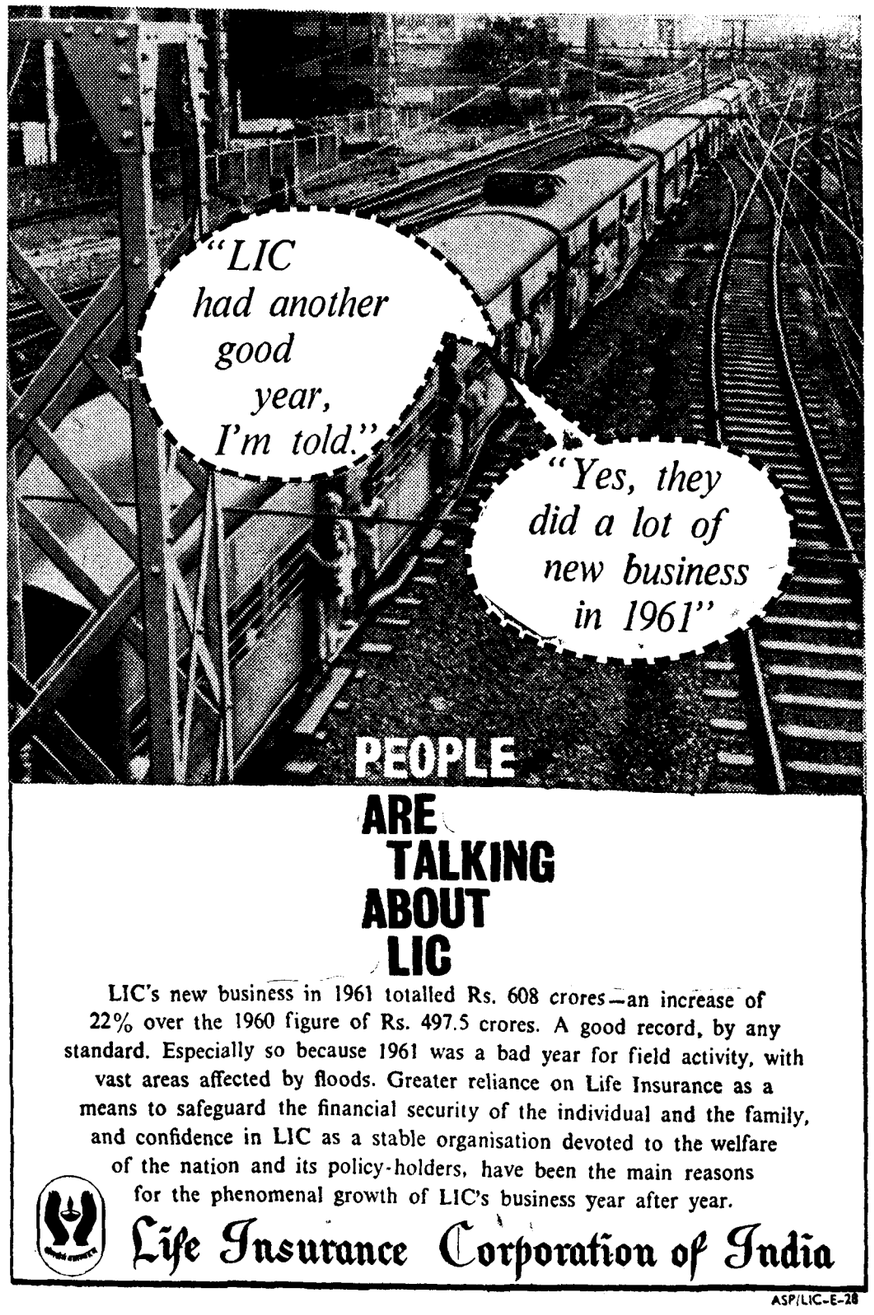
Table 1 : Changes in Sources and Uses of Scheduled Bank Funds

	1961	1960
	(*Rs crores*)	
Sources		
Increase in paid-up capital and reserves *	1.2	1.2
Increase in deposits (excluding P L 480)*	179.9	101.9
Increase in borrowings from Reserve Bank**	....	49.7
Inflow of funds from abroad†	....	9.0
Reduction in cash and balances with Reserve Bank *		
Impodnded	13.6	....
Others	....	....
Reduction in investments (excluding P L 480) *	....	99.9
Total	**194.7**	**261.7**
Uses		
Reduction in borrowing from the Reserve Bank**	42.8	....
Outflow of funds abroad†	8.2	....
Increase in bank credit*	113.5	208.1
Increase in cash and balances with Reserve Bank*		
Impounded	....	13.6
Others	7.4	34.5
Increase in investments (excluding P L 480) *	50.0	....
Total	**221.9**	**256.2**
Errors and omissions	+27.2	—5.5

* Based on Form XIII.

** Based on weekly returns of scheduled banks.

† Based on exchange control data of authorised dealers' claims on and liabilities to non-residents in foreign currencies and rupees; rupee balances of non-resident individuals and firms with authorised dealers are excluded.



up to 20 and 8, respectively, but these are more or less emergency powers. In addition, in the year under review, the large deposit resources have enabled scheduled banks to reduce very substantially their borrowings from the Reserve Bank and it is largely by setting the terms of such borrowings that the Bank normally influences credit policy.

Credit Control : How Effective?

Viewed against this background, and perhaps because the report is that of a Statutory Corporation, the judgement on the efficacy of credit control is somewhat halting. It is stated (paragraph 14) that after the busy season of 1960-61 closed, when there still was a substantial demand for funds from the Reserve Bank, banks showed distinct signs of reluctance to remain indebted to the Reserve Bank "possibly owing to the operation of the penal rates for borrowings". In paragraph 13, however, where an assessment of credit policy is attempted, it is stated that it is difficult to say precisely the extent to which the Bank's objective to prune less urgent demand and generally restrain borrowings was achieved by the penal rates on borrowing as the observed trends are the result of several factors. The air of certainty is abandoned here. Elsewhere, however, it is reiterated that "it appears that costlier borrowing from the Bank did induce some caution among scheduled banks".

In 1961 scheduled bank credit increased by only Rs 114 crores against Rs 208 crores in 1960. The reasons given are stability of prices and slower increase in industrial production. Since transport and power bottlenecks and import restrictions held down investment, the funds of industrial units were drawn into financing their current operations and the resort to banks was therefore less.

Banks' advances against various agricultural commodities were also well within the limits fixed for such advances under the different selective credit control measures operated by the Reserve Bank. But the reasons here are perhaps different from those governing advances for industrial purposes. A relative stability of prices which was largely the result of favourable harvests may have reduced the incentive for stock holding in anticipation of higher prices.

Strengthening Own Funds : Uphill Task

Perhaps one of the most important developments in 1961 was the Reserve Bank's proposals for strengthening the scheduled banks' own funds (i e, paid-up capital plus published general reserves). After some negotiation with banks, the Governor of the Reserve Bank in his letter to the scheduled banks dated December 27 1961, suggested that the banks may, by setting aside 20 per cent of their profits towards reserves and by issuing fresh capital or calling up instalments of already issued capital raise their paid-up capital and published reserves to at least 6 per cent of deposits (see Table 2). The very considerable profits that many scheduled banks have earned in 1961 should provide a good beginning and one of the banks has anaounced issue of fresh capital, perhaps largely as a result of the exhortation of the Reserve Bank. But the ratio of own funds to deposits has been allowed to fall so low that even reaching the modest figure of 6 per cent would take quite some years. Thus, with deposits of Rs 1662.5 crores as at the end of 1961, scheduled banks would need to have own funds of Rs 83.125 crores against an actual figure of only Rs 69.3 crores. The problem is made more acute by the fast growth of deposits. Thus, as stated earlier, deposits increased by as much as 11 per cent in 1961. It may become necessary, therefore, to think of some other methods of re-inforcing own funds than depending on larger allocation to reserves from profits.

Under the Banking Companies Act, the Reserve Bank has been given very wide powers of inspection and taking corrective measures in case of banks which are operating on not-so-very sound lines. By and large, one has reasons to feel that these powers are being exercised out efficiently. But some data presented in Statement 33 of the Report indicate a state of affairs which, in the case of some banks certainly, is not very happy. Thus a comparison of the position as revealed by the latest inspection of these banks with the position at the time of their first inspection shows that e g investments in unquoted shares and debentures remain at a substantial level; unsecured advances continue to be a high proportion of total advances and have even increased absolutely; the concentration of advances in

Table 2 : Ratio of Paid-Up Capital and Reserves to Total Deposits of Indian Joint-Stock Banks, 1939-1961

End of	Scheduled Banks	Non-Sch-All Banks	Banks
			(Percentages)
1939	13	25	14
1945	6	11	7
1949	9	20	9
1950	9	21	9
1951	9	22	10
1952	9	22	11
1953	9	21	10
1954	8	19	9
1955	7	18	8
1956	7	16	7
1957	6	18	6
1958	5	18	5
1959	4	16	5
1960	4	15	4
1961	4	17	4

Note : The ratios have been calculated from data available in the Statistical Tables relating to Banks in India for the years 1939 and thereafter from returns received from banking companies under the Banking Companies Act, 1949.

Table 3 : Scheduled Banks' Investment in Government of India Securities; 1960 and 1962

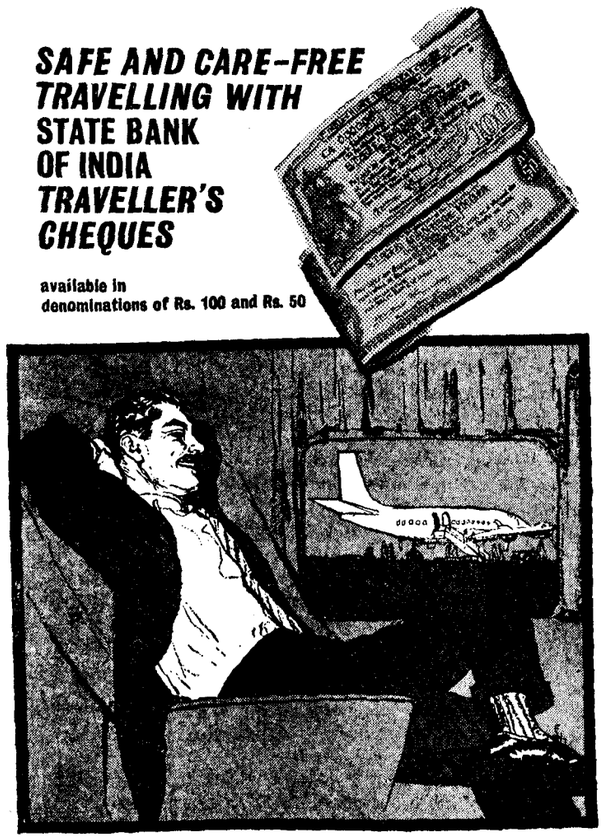
	March 31, 1960			March 31, 1961		
	Amount	Percentage to Group Total	Percentage to Total Investments	Amount	Percentage to Group Total	Percentage to Total Investments
	(Amount in Rs Lakhs)					
Number of reporting banks	91			85		
Central Government	611,44	82.9	..	455,74	78.5	67.5
State Governments	126,18	17.1	..	124.37	21.4	18.4
Others, mainly Postal*	24	..	..	30	0.1	..
Total	737,86	100.0	..	580,41	100.0	86.0

* Include Treasury Savings Deposit Certificates, Postal Obligations and for March 31, 1961 Prize Bonds also.

the hands of a few borrowers has gone unchecked as have advances to Directors, their relations and associates and concerns in which any of them are interested. More similar instances could be cited. It would be useful to know what steps the Reserve Bank has been taking in the case of such recalcitrant banks and for how long this state of affairs has been allowed to continue. The majority of these banks are, no doubt, non-scheduled banks and those which are scheduled banks are not perhaps licensed banks.

A comparison of Statement 11 in the Report, showing the advances of scheduled banks against principal types of securities, with Statement 14 giving an analysis of advances according to purpose reveals that the total advances, as at the end of October 1961, analysed purpose-wise, exceeded the total advances by securities on more or less the same date by as much as Rs 174.5 crores. These figures relate to scheduled banks only. Does this excess reflect the amount of unsecured advances of these banks, amounting to no less than 14 per cent of their total advances? If so, this is certainly a high figure and is surprising considering that the emphasis on securities is often overdone by Indian banks.

In many ways, 1961 was an important year for Indian banking. Deposits increased phenomenally and advances too recorded an all time high. The reduced borrowings from the Reserve Bank have, let us hope, brought to light the gaps in the credit control mechanism which should be effectively filled before the next busy season commences. With regard to the own funds of the banks, a major decision has been taken with concurrence of the parties concerned. Progress will be slow but at least some line of action has been chalked out. The rumblings of nationalisation have been officially quietened, although one hears of proposals to make it obligatory for banks to invest a fixed minimum percentage of their resource in Government securities. This may not be uncalled for. The Government have a sizeable programme of public borrowing ahead of them while banks have perceptibly reduced the proportion of their resources invested in Government securities in 1961 (see Table 3).



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Structural Linkages in the Indian Economy

Krishna R Bharadwaj

The purpose of this note is twofold.

First, it is attempted here to estimate quantitatively the structural linkages (meaning the interdependence relationships between the sectors of an economy as input-providing or output-absorbing activities) in the Indian economy as reflected in an open input-output table of the Leontief type using for this purpose the Indian Inter-Industry Transactions Table (1953-54) *constructed at the Indian Statistical Institute, Calcutta.*

Second, I have discussed the validity of using such relationships to draw generalizations regarding the fixing-up of investment priorities in an economic plan as suggested, inter alia, *by A O Hirschman in his "The Strategy of Economic Development" (Yale University Press,* 1958).

THE intersectoral relations on the production side could be of two types: An activity (using this term interchangeably with sector industry) could depend on another whose output it utilizes in its production. The linkage in this respect is of the 'backward' type and is represented by the columns of the input-output table. Alternatively, the structural relations could be analyzed in terms of an activity supplying its output as an input to other activities; this, represented by the rows of the input-output matrix, is designated as the 'forward' linkage. A very rough measure of the extent of a sector's interconnections with the others in the economy is provided, on the input side by the ratio of a sector's purchases from all other sectors to its total output (i e, $\frac{\sum_{i=1}^{M} Xij}{Xj}$ where M = number of sectors, Xij = deliveries from the ith sector to the jth sector and Xj = total output of the jth sector) and on the deliveries side, by the ratio of intermediate demand for the output of a given sector to its total demand or availability.

(i e, $\frac{\sum_{j=1}^{M} Xij}{Xi + Xis + Xmi}$

Where Xi = output of ith sector,
Xis = net changes in inventories of the ith sector, and
Xmi = imports in the ith sector.)

These ratios have been used to identify what have been called 'key industries', to study structural changes in an economy over time and to make international structural comparisons. These, in the case of the Indian Table were observed to be as in Table 1.

Although the numerical results as presented in the table speak for themselves, a few observations are in order. It will be noticed that the intermediate activities like metals, cement, chemicals etc have higher values for both backward and forward linkages. The consumption-oriented activities like textiles, food, drink and tobacco, etc possess a high backward linkage but a low forward linkage, naturally since a greater proportion of their output goes to final demand. The primary activities, like animal husbandry, plantations, etc show a weaker backward but stronger forward linkage.

However, the linkage effects calculated as above, are extremely aggregative. Also being an average measure they do not give the distribution of the inputs (or deliveries) amongst various sectors. They assume thus implicitly that the indirect or secondary linkage effects that might arise due to the simultaneous character of production relations are proportional to the direct or primary linkages in whatever manner the inputs (or deliveries) might be distributed. Thus, for example, they cannot differentiate between a sector with a very skewed input or deliveries distribution (meaning dependence entirely or highly on only a few inputs or deliveries entirely or in the most part to a few sectors) and another whose structural relations might be more evenly characterized. The use of these ratios to estimate structural characteristics intertemporally or internationally, or to draw generalizations regarding the relative importance of the sectors is rather limited since these aggregative rough comparisons do not allow for the variety of production structures which are to be estimated or compared.

Limited Operational Use

The operational meaningfulness of these ratios is extremely circumscribed. It would be erroneous, for example, to claim, in absence of other supporting evidence, that a high backward linkage necessarily implies that by increasing the particular sector's output we set into operation more powerful stimuli to expand the output of input-providing industries than in the case of a sector with a lower backward linkage effect. A high backward linkage ratio could come about either because of heavier reliance on purchased inputs measured in absolute amounts or as a consequence of low productivity of inputs used which makes the input-output ratio high. The economic implications of the two situations are extremely different. It could then be observed that a manufacturing activity operating with an advanced technique and on a large scale might have an equivalent ratio to that of a small scale household enterprise for the simple reason that whereas high market-reliance for the inputs in the case of the former tends to increase the numerator in the ratio as compared to the latter, its higher productivity *vis a vis* the latter might also tend to increase the denominator relatively to that in the case of the small scale enterprise. The two tendencies might balance to give equivalent ratios in the two cases, or might even in some cases give a lower backward linkage effect for the more productive technology enterprise. The same objection could be raised against international structural comparisons based on these ratios between countries of unequal develop-

ment. Moreover, even when two activities producing the same output and operating on different scales have the same backward linkage, the effectiveness of the stimulus provided by them to the input providing activities might be different since the scale of their operation would determine the absolute magnitudes of inputs required. This would be so especially when initiation and not merely expansion of inputs-providing activities is concerned.

A more refined way of estimating structural interconnections is suggested by Rasmussen.[1] He defines an index of power of dispersion as

$$Uj = \frac{\frac{1}{M}\sum_{i}^{M} Zj}{\frac{1}{M^2}\sum_{j=1}^{M}\sum_{1}^{M} Z_j} \qquad (j=1, 2 \ldots m)$$

where m = no. of sectors,

$$Zj = \sum_{1=i}^{M} Zij$$

where Zij is an

element in ith row and jth column of the inverse matrix $(I-A)^{-1}$, (A) being the matrix of input coefficients. The economic significance of the index Uj is akin to the backward linkage effect; as this index is based on the inverse matrix of input coefficients, it takes into account both direct and indirect intersectoral dependence and "describes the relative extent to which an increase in final demand for the products of industry no j is dispersed throughout the system of industries" or "the extent of the expansion caused in the system of industries in general by an expansion in industry no j".[2] The magnitude of the index exceeding unity would imply that any industry taken at random will need a comparatively large production increase to make feasible the unit increase in the final demand for the output of industry no j. Analogous to the forward linkage effect is defined another index, namely that of sensitivity of dispersion. Represented symbolically it is :

$$Ui = \frac{\frac{1}{M}Zi}{\frac{1}{M^2}\sum_{j=1}^{M}\sum_{1}^{M} Zij} \qquad (i=1, 2 \ldots m)$$

where $Zi = \sum_{j=1}^{M} Zij$

(other symbols as in previous representation.) It expresses "The extent to which the system of industries draws upon industry no i," or, in other words, the extent to which industry no i is affected by an expansion in the system of industries.[3] For reasons mentioned, these everage measures need to be supplemented by a measure of variability or characteristic parameters describing the distribution of Zij for given j and i=1,2 . . .n and vice versa. These are defined as two indices Vj and Vi, the former indicating the extent to which industry no j draws on the system of industries evenly or otherwise and the latter, in its turn, indicating the extent to which the system of industries draw evenly or otherwise on the output of sector i. Symbolically,

$$Vij = \frac{\frac{1}{M-1}\sum_{j=1}^{M}\left(Zij\,1-\frac{1}{M}\cdot Zij\right)^2}{Zij}$$

Table 1 : Structural Linkages in the Indian Economy

High (above 50 per cent) backward with High (above 50 per cent) Forward Linkage		Backward linkage $\frac{\sum_{j=1}^{M} Xij}{Xj} \times 100$	Forward linkage $\frac{\sum_{i=1}^{M} Xij}{Xi+Xis+Xmi} \times 100$
Other Metals	(7)*	70	86
Cement	(10)	55	98
Chemicals	(9)	53	71
Iron and Steel	(6)	57	85
Leather	(17)	57	52
Small Scale Metal Products	(20)	53	61
Food, Drink and Tobacco	(12)	66	23
Cotton Textiles	(13)	60	27
Other Textiles	(14)	59	36
Jute and other Fibers	(15)	57	20
Small Scale, Food, Drink, Tobacco	(23)	62	5
Small Scale others (n e c)	(26)	58	41
Other Transport	(28)	64	14
Constructions	(32)	54	**
Defense Materials	(35)	†	6
Low Backward with High Forward Linkage			
Plantations	(2)	19	95
Animal Husbandry	(3)	43	56
Coke and Coal	(4)	18	78
All Other Minings	(5)	9	74
Building Materials	(11)	36	58
Glass and Glassware	(16)	45	61
Electricity	(19)	33	68
Small Scale : Building Materials	(21)	21	70
Banks, Insurance, etc	(30)	17	67
Large Scale, unclassified	(36)	15	67
Communications	(27B)	11	52
Engineering	(8)	43	53
Low Backward and Low Forward Linkage		Backward linkage	Forward linkage
Agriculture	(1)	23	32
Paper and Paperboard		41	31
Small Scale : Textiles	(22)	41	3
-do- Glassware	(24)	22	—
-do- Leather Products	(25)	40	—
Railways	(27A)	25	33
Trade and Distribution	(29)	14	23
Personal and Institutional Services	(31)	14	17
Residential Property	(33)	3	—
Public Administration	(34)	n a	1

* Numbers in brackets indicate sector codes as in the input-output table.
** All deliveries to final demand
† No information was available regarding value added in the sector; output was equated to material inputs, consequently.

and $Vi = \frac{\frac{1}{M-1}\sum_{1=1}^{M}\left(Zij-\frac{1.\,Zi}{M}\right)^2}{Zi}$

Thus, whereas a high value for Vj implies that industry no j depends for its inputs heavily on a few sectors, that for Vi implies that the output of sector i is absorbed relatively highly by only a few sectors of the economy.

These four indices were computed for the Indian economy and have been shown in Table 2

Comparing Tables 1 and 2. we observe that the rankings of the sectors would be somewhat different depending upon which method is adopted. To illustrate, whereas sector 8 (engineering) has a low backward linkage and a high forward linkage according to Table 1, it has both high power and sensitivity of dispersion as in Table 2. However, the variability of the distribution of inputs and deliveries does not seem to create any great problem in this case since those sectors which generally have lower values for either power or sensitivity of dispersion or for both have generally a higher corresponding variability index. Interestingly enough, we notice that the small scale sectors — generally known for their low productivity in India — compare well with their highly organized counterparts in the manufacturing sector, strengthening our earlier contention that lower productivity might counteract lower intersectoral purchases to give a high backward linkage effect.

II

The backward linkages, especially have received considerable attention as a basis for fixing investment priorities, particularly in the 'productive' sectors[4] (meaning sectors producing physical commodity outputs), a sector with a higher linkage effect being favoured. A number of objections could be raised against such an approach. The inclusion of this tool in the criteria-box is based upon the fact of technological interdependence, namely, "that every non-primary economic activity will induce attempts to supply through domestic production the inputs needed in that activity (backward linkage effect) and every activity that does not by its nature cater exclusively to final demand will induce attempts to utlize its outputs as inputs in some new activities"[5] (forward linkage effect).

The backward linkage effects are considered to be stronger than the forward linkage effects in inducing development through compulsive sequences. It is, of course, recognized that the strength of these effects, interpreted as the probability that the derived demand for the inputs providing industries would succeed in establishing them or in expanding their output, is different from the potential importance of linkage effects and a realistic assessment of the total effective linkage effect will have to be based on the summation of the products of potentially inducible net outputs in other industries and the probabilities that they might so be induced.[6] Even with this modification these ratios might not be of much help in fixing up sectoral priorities. The very simultaneous character of economic relations on the production side which forms the theoretical justification of an input-output system would favour a choice between alternative programmes rather than between individual sectors. The combined backward linkage effect of two sectors might add greatly to the induced occurrence of an industry which, considered individually, might have had very little effectiveness. This might be particularly so in cases where the economically profitable size of the induced industries requires higher demand than set by either of the sectors individually.[7] The probabi-

Table 2

Sector Code (in brackets) and Description		Power of dispersion Uj	Variability Vj	Sensitivity of dispersion Uj	Variability Vi
High (exceeding unity) value of Vj and Vi					
Other Metals	(7)	1.2735	3.8336	1.2222	3.9431
Chemicals	(9)	1.1427	4.0356	1.4835	3.1474
Cotton Textiles	(13)	1.2138	3.9830	1.1951	4.0420
Iron and Steel	(6)	1.0728	4.3939	1.3997	3.7452
Engineering	(8)	1.0623	3.7118	1.1481	3.4459
High Value for U and Low (Less than Unity) for Ui					
Defence Materials	(35)	1.5222	2.7269	0.6709	5.8098
Other Textiles	(14)	1.2203	3.7416	0.8424	5.3834
Small Scale : Food, Drink, Tobacco	(23)	1.2173	3.4322	0.6601	5.7288
Small Scale : others (n e c)	(26)	1.2168	3.4225	0.8547	4.6285
Other Transport (Excluding Railways)	(28)	1.2151	3.1763	0.8383	4.4409
Large Scale : Food, Drink, Tobacco	(12)	1.1998	3.5897	0.8989	4.4386
Small Scale : Metal and Metal Wares	(20)	1.1793	3.2848	0.6522	5.7252
Leather Manufactures	(17)	1.1740	3.3112	0.7571	5.0979
Jute Manufactures	(15)	1.1209	3.6198	0.8006	4.8461
Cement	(10)	1.1092	2.8197	0.6729	5.8371
Trade and Distribution	(29)	0.7468	5.1230	2.7226	1.4217
Glass and Glassware	(16)	1.0113	3.7625	0.6470	5.8371
Agriculture	(1)	0.8443	5.0311	2.6492	2.1569
Animal Husbandry	(3)	0.9972	4.2885	2.0122	2.0696
Nonferrous Metals	(5)	0.7072	5.4956	1.7467	2.3034
Coal and Coke	(4)	0.7858	4.9946	1.1190	3.5092
Railways and communication	(27)	0.8384	4.4963	1.0724	3.4776
Low value for both Uj and Ui					
Plantations	(2)	0.7838	4.7811	0.8092	4.6175
Building Materials	(11)	0.9381	3.2006	0.6912	5.4348
Paper and Paper-board	(18)	0.9924	4.1975	0.8273	5.0096
Electricity	(19)	0.9138	4.3460	0.8284	4.7537
Small Scale : Building Materials	(21)	0.8293	4.4951	0.7055	5.2924
Banks, Insurance, etc	(30)	0.7574	4.9689	0.7136	5.2547
Personal & Institutional Services	(31)	0.7490	4.9674	0.8409	4.4346
Large Scale N E S	(36)	0.7874	4.7821	0.7733	4.8550

lity that one would attach to the potentially induced outputs, therefore, would depend upon the complete investment programme.

The structural relationships as depicted in the input-output scheme are instantaneous; still pictures abstracted from time patterns of inputs and outputs and investment priorities based upon the comparison of two activities as such will be very crude indeed. Moreover, the three most significant constraints, namely those of capital, labour and foreign exchange are kept out of the picture.[8] Treating inputs on a separate basis from domestic production would be ignoring the possibility of domestic production as a substitute for imports. Treating them, on the other hand, as not different from domestically available inputs would assume away the special difficulties in paying for imports. The labour constraint (specified either in terms of minimum employment desirable or maximum skilled labour available) or the capital constraint (the maximum available capital) cannot be explicitly treated, implying that both capital and labour of the specific type would flow into the industry as and when required and in appropriate amounts.

No Guarantee of Growth Potential

However, technological interdependence alone is no guarantee of the growth potential of a sector. The linear homogeneity and additivity assumptions underlying the input-output analysis neither allow for the existence of external economies or diseconomies nor for a divergence between marginal and average input requirements which are at the heart of the problem of growth and consequently crucial for investment decisions. The divergence between marginal and average input requirements might be predominant especially in land and natural-resource-oriented activities. Considerations of returns to scale are even more significant to the underdeveloped countries. Hirschman, among others, suggests that the input-output relationships as depicted in an advanced country's technology matrix could be utilized fruitfully to determine sectoral priorities since the technical relations are more or less evolved completely in their case. With many reservations,[9] such a technology matrix could be, at best, viewed as a terminal picture to be attained. It would not, however, offer the strategy to attain it. Such a procedure would assume away the real problem of growth, namely the maximization of productivity through reaping the maximum benefits of external economies and increasing returns to scale whose sectorwise magnitude and location is bound to be different in an underdeveloped country from that of a developed one.

Another equally important aspect of economic interdependence — namely that on the demand side — is totally left out, at least in the open input-output system, where consumption is exogenously determined: Thus income effects are completely ignored. Whereas the input-output scheme would be useful to approximate the production requirements of a given final demand vector or to adjudge the compatibility of a set of production targets, it would, in absence of complementary information, dictate very little as to the significance of different activities in the final goods sector.

Productivity of the activities will have to be separately considered. If the same output is produced by two activities and depicted as columns in the input-output scheme, one requiring twice the amount of inputs as the other per unit of output, the former would not be a desirable activity despite its higher linkages. What is required is not the maximization of a certain statistical ratio for whatever it stands. The targeted programmes will have their varying welfare contents depending upon their composition, and the problem as to which sector, in what magnitudes and at what 'cost' are the linkage effects propagated is an extremely important consideration.

As is clear from the Tables 1 and 2, the backward linkage effects (or the power of dispersion) and the forward linkage effects (or the sensitivity of dispersion) differ markedly in many sectors, for instance, in agriculture. The fact that a primary activity does not draw heavily on material inputs does not reduce its importance in the economic structure. It might be a very important 'input-provider' in which case the index of sensitivity of dispersion might be as important a consideration for growth as the index of power of dispersion. Whereas, it is true to a certain extent, that by setting high stimulus to provide inputs, growth could be more quickly generated. this process of creating compulsive sequences has its own limitations and especially those inputs whose production is more or less demand inelastic, whose economic scale of operation is much beyond the extent of the stimulus or whose marginal requirements differ significantly from average, might have to be provided for, to begin with, irrespective of their low backward linkages.

Thus whereas the input-output system could be used profitably for determining the compatibility of a targeted programme or to analyse static situations or even, within limits, for purposes of short run projections, its use for setting investment priorities is questionable.

[1] Rasmussen P N: "Studies in Intersectoral Relations" North Holland Publishing Company, Amsterdam, 1956.

[2] Rasmussen, P N: *Op cit*, page 135.

[3] Rasmussen, *Op cit*, page 136.

[4] That this criterion cannot be applied to sectors like transportation (where capital inputs are more significant than flow coefficients) and other social overheads like communications etc has been accepted even by the proponents of this criterion.

[5] Hirschman, A O: *Op Cit*, p 100.

[6] Hirschman, A O: *Op Cit*, p 101.

[7] Hirschman recognizes this fact explicitly (page 103-104) and points out the possibility of cumulative development through such occurrences. However, he does not carry the logic of his statements further which invalidates any probabilistic estimates attached to the derived demand effects independent of the entire investment programme chosen.

[8] A closed input-output model could bring within its framework the labour and foreign exchange inputs only at the cost of realism by assuming strict technical relations to hold in the foreign trade and the household sectors also.

[9] The optimal pattern of technical relations to be attained by an economy would be entirely based on its own resource-base and opheli-mity patterns.

Studies in Voting Behaviour

V Traditionalism and Modernism in U P: Faizabad Constituency

Harold A Gould

The real struggle in the Faizabad constituency was between two men and their factions, each tied in varying degree to a counterpart faction in the ruling party of the State through caste, social and other affinities, who in terms of philosophy and political organisation represented more or less opposite points of view.

The Kayastha-led 'municipal party' was in a way feudal in structure and orientation. Its leader saw himself as the hereditary successor to a kind of political fiefdom, the legitimate descendant of a line of men who had regarded the Faizabad Municipal Board as a sort of personal Zamindari.

To this man, the terms of his entitlement to power were personal, as was his following and his own sense of obligation to others. Ideology was secondary to personal loyalties between the leader and his followers. Loyalty to an abstract principle was less important than loyalty to a person.

The Congress candidate was not a zamindar nor were his kin group and caste identified with that pattern of life. He was a student and practitioner of law and was considered an expert on constitutional processes.

He saw himself as a party man; he believed in the Congress organisation as such and was personally attracted by the ideal of statesmanship. He was a man who placed dedication to abstract principles above individual loyalties.

The Faizabad constituency is one of more than 340 that elect representatives to the Uttar Pradesh Legislative Assembly. Located in the highly ruralized and economically backward half of the Province, this constituency is focussed upon the city of Faizabad and has an electorate of somewhat less than a hundred thousand (of which about half exercise their franchise) divided about equally between rural and urban voters. Faizabad itself is a rather small city (83,000 in the 1961 Census) but nevertheless the largest urban entity in the region. It is one of the oldest cities in Uttar Pradesh inasmuch as it had been the capital of the first nawabs of Oudh until the third (Asaf-ud-daula) shifted to Lucknow. Faizabad today is a divisional headquarters of the U P Government, a minor terminus of the Northern Railway, and perhaps most important of all, the urban outlet for a rather vast and densely populated rural hinterland consisting of innumerable peasant village communities. There is also a military cantonment containing an artillery training school for the Indian Army. Forming what is in effect a continuation of the Faizabad metropolitan system, is Ayodhya, the alleged birthplace of Ram, and on this account one of India's sacred cities and a centre of Hindu religious orthodoxy.

In the general election held in February 1962, the campaigns waged by the candidates for this Legislative Assembly seat, and the eventual outcome of their efforts, proved to be something of a microcosm of the issues and problems that beset both Uttar Pradesh and the nation as they move into the period of the Third Five Year Plan. It is for this reason that the ensuing essay has been undertaken.

Six candidates entered the contest for the Legislative Assembly seat in the Faizabad constituency. First, there was the Congress incumbent who had carried this constituency in 1957 by a margin of 12,000 votes over his nearest rival, a Jan Sangh candidate. Next was a new Jan Sangh choice who had for years been a notable figure in the politics of the area. There was an independent Muslim candidate from a smaller municipality several miles south of Faizabad who strove for a supra-Muslim catholicity by publicy opposing cow slaughter. The political left was represented by a P S P candidate. The Communists, who had effectively contested this constituency in 1957, decided to support the Congress candidate in order to give him every chance of defeating the Jan Sangh which was expected to make a formidable bid. Two Hindu independents completed the slate; both were of minor significance in the campaigning and eventual outcome.

Jan Sangh's Forceful Campaign

In the early stages of electioneering in Faizabad, the outside observer could easily have been misled into believing that the Jan Sangh was heading for an overwhelming victory. Their workers seemed to be everywhere; their loudspeakers bathed the city in an unceasing cacophony of electronically amplified sound; their orange flags waved from nearly every building and house-top in the city; their slogans and posters leapt out at one from nearly every wall; the **deepak** (the traditional lamp), their official symbol, burned itself into one's consciousness.

Congress, on the other hand, the party that had always emerged victorious here, was in evidence but by no means on such a bizarre scale. Jeeps and cars equipped with loudspeakers were to be seen making their systematic rounds, to be sure, but they were less frequent and the voices issuing from the loudspeakers were less animated, less tinged with that edge of fanaticism that was the unmistakable trade-mark of Jan Sangh propagandists. Perhaps more significantly, one became aware as the days passed of the frequency with which

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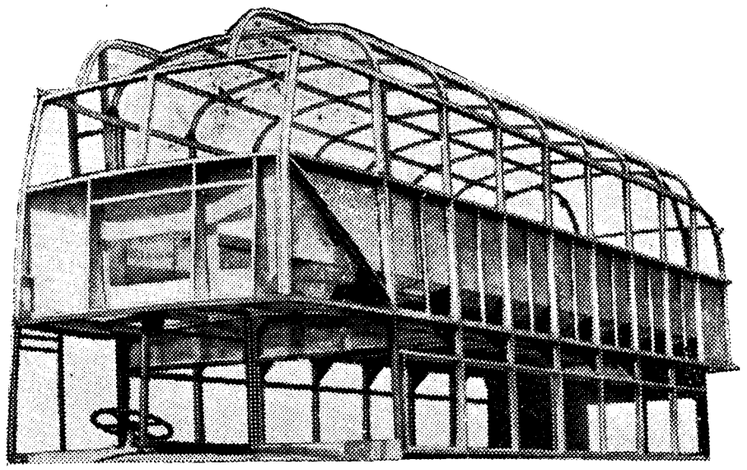

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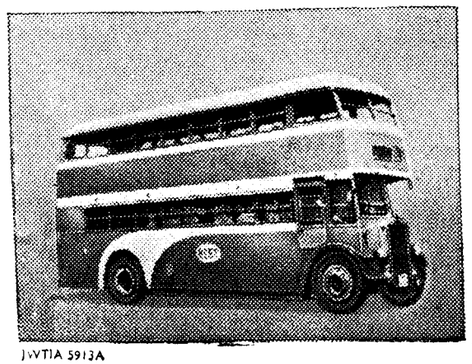

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one saw private automobiles with Congress symbols affixed to them, containing three or four men in white khadi caps, moving about in different parts of the city and along the roads leading into the surrounding villages.

The District Magistrate related an experience which vividly summarized the different amounts of zeal displayed by the Congress and Jan Sangh parties respectively. He said he had noticed that as the election campaign was gaining momentum the various parties, particularly Congress and the Jan Sangh, were frequently holding loudspeaker rallies in such close proximity to one another that the partisan remarks flowing back and forth within ear-shot were constituting incitements to violence. Therefore, the District Magistrate suggested that the parties hold such meetings at predesignated spots sufficiently spaced to avoid trouble, for which official permission would be granted. All agreed to this idea, so the District Magistrate invited the party leaders to submit lists of places around the city which they would like to have allocated to their group. When these lists came in the District Magistrate discovered that Congress had requested use of only one spot whereas the Jan Sangh had requested seventy-three: In the final compromise, they settled for twenty.

All parties, of course, were employing means to influence the electorate — loudspeakers, flags, bunting, posters, wall slogans, parades, entertainment programmes, street-corner rallies and mammoth meetings involving provincial and national party notables where the organization was good enough to make this possible.

Personal Contacts

But perhaps more crucial to the eventual outcome of the election was the work the party organizations conducted at what, by contrast with the foregoing, we may call the level of personal or direct contacts. The importance of the latter will be brought out presently after some further details about the political background of the contest are discussed.

As is so often the case in Indian politics, there was in this contest between the political parties in Faizabad a very strong undercurrent of caste, communal and other factional considerations whose interplay exerted much influence.

Faizabad's Municipal Board is the oldest in Uttar Pradesh. It was established in 1895 and its first president was a Kayastha zamindar, head of one of the most powerful families in the community. Their caste is the same as that of Dr Sampurnanand (the Chief Minister of U P until he was displaced in 1960 by the present Chief Minister, Shri C B Gupta) and of the former President of India, Dr Rajendra Prasad. This Kayastha family believes that it has a particular vested interest in the leadership and control of this Municipal Board. The present head of this family believes that he had a responsibility to maintain what he characterized as a 'municipal party' which basically retains the municipal power structure as a political entity organized and run not unlike the manner in which a traditional zamindari estate was once run as a network of personal ties knit together by the **noblesse oblige** of an hereditary leader.

The principal opposition to this Kayastha family's domination of the Faizabad Municipal Board has come from an equally illustrious and powerful Khatri kin group. This opposition also goes back to the founding of the Board when the head of this family became the first person to unseat and thus break the power monopoly of its Kayastha founder. This defeat was soon followed by the latter's death. The rivalry between the two families has persisted down the years. The Kayastha side claimed that their patriarch's demise had been caused by the pressures and heart-break attendent upon his loss of the board chairmanship. This could hardly have been the case, of course, but what is important is that it is believed by the survivors of this man and supplies them with a rationale for united and unrelenting opposition to their chief rivals for power and prestige in the community.

The present head of this Kayastha faction ran for no office in the recent election but his presence was very much in evidence in everything that occurred. He was, as it were, one of the chief forces behind the scenes. His role was severely hampered, however, by the fact that following his last defeat as Board chairman he had grown increasingly ill with a disease that had rendered him blind and necessitated that he leave the city and the Province for a long period of time. By his own admission, "My 'party' fell to pieces in my absence and when I returned I found it divided into four groups."

Ancestral Rivalry

The Congress M L A who had won in this constituency in 1957 and who was attempting to repeat his victory in 1962 was a locally successful lawyer, a man recognized for his secular, democratic outlook, and a Khatri by caste who had married the daughter of one of the descendants of the original Khatri gentleman who had successfully unseated the Kayastha founder of the Faizabad Municipal Board. Thus, he was being bitterly opposed by the present successor to the leadership of this Kayastha line who, even though blind, had especially returned to Faizabad to try to get the Congress candidate unseated. Caste and ancestral rivalry were never, of course, given by anyone involved as the primary reasons for the enmity between these two men. Only once did it force its way to the surface; this was in a conversation between the Kayastha ex-zamindar and the author when in an unguarded moment he hinted that caste and social background were together the animus of their quarrel but no sooner had the suggestion arisen than it was categorically retracted and denied altogether.

This basic rivalry, **albeit** with roots in the differing caste backgrounds of the Kayastha and Khatri antagonists, did indeed assume other forms and involve itself in more concrete matters. However, the two had virtually diametrically opposite political philosophies related to what their caste communities had perenially stood for in Faizabad. The Kayastha seemed always more aware of this fundamental difference in outlook and background than did the Khatri. He quite explicitly laid their differences to the distinctions between a traditional zamindari family and a business-oriented family with none of the grounding in the old virtues. The local Kayastha families had always been intimately linked up with the old zamindari-taluqdari class though not themselves directly members of it. The feudal, localistic, inward-

looking orientation of this class does indeed stand in marked contrast to the outlook of such urbane business castes as the Khatris whose sources of power and prestige arise heavily from extra-local linkages with the world of money, commerce and its politically secular concomitants. The Congress incumbent had, for example, obtained his law degree from Bombay and was obviously a well-established skilled lawyer with a good practice while his Kayastha antagonist had had a less practical education and lived in the decaying surroundings of a once-great zamindari house. Perhaps the most vivid symbol of what had taken place in the zamindar's life was a rusted, disemboweled pre-war Ford automobile that sat forlornly in the front compound.

Echo of State Politics

There are still other faces of the background of Faizabad politics which need to be explored. For example, it needs to be understood that the eldest son of the Khatri whose original opposition to the Kayastha zamindars led to the feud was the famous socialist, Acharya Narendra Dev. It will be recalled that he left the Congress Party in 1948 and became President of the Socialist Party. But when Acharya Narendra Dev bolted Congress, his private secretary, Shri C B Gupta, did not. Instead he remained and rose to his present position of Chief Minister of U P. Thus, in a general sense, the present Chief Minister is an 'honorary Khatri' in Faizabad (although actually a Vaisya), by virtue of his still warmly acknowledged ties with the friends and relatives of Acharya Narendra Dev, which makes him and the present Congress MLA from that constituency allies in politics. Just as inevitably, it makes him the opponent of the Kayastha-led faction who seek control over the Municipal Board and who, understandably, had been partial supporters of the previous Chief Minister, fellow Kayastha, Sampurnanand.

The Jan Sangh candidate was a Rajput whose career had linked him to the forces of tradition and Hindu orthodoxy in the area. Years ago, shortly after Independence, an incident occurred in the holy city of Ayodhya, Ram's birthplace, which witnessed rabid Hindu-Muslim riots. This was the so-called **"Ram-ki-murthi** incident" in which an image of Lord Rama suddenly appeared in the **Babar-ka-mandir,** a mosque supposedly erected upon the site of Ram's birth by the first Moghul emperor, Babar, after having first demolished the Hindu temple that had previously commemorated the spot. Word of the 'reincarnation' of Ram at his birthplace quickly spread around the region and before long multitudes of Hindus and Muslims were facing one another at the mosque — the Hindus to verify the reappearance of Lord Rama, the Muslims to protect their mosque from defilement by infidel Hindus. After the original emotional explosions had been quelled by the authorities, the question of which community was entitled to utilize the site as a place of worship, was tied up in inconclusive litigation that still drags on today.

Municipal Manoeuvres

The Jan Sangh candidate, at the time of this tragedy, was a civil servant, assistant to the then Assistant Commissioner of the Faizabad Division. Although there is debate about the role these two men played in the **Ram-ki-murthi** incident, the Government felt that there was sufficient culpability to warrant their suspension from service. Significantly, however, both subsequently became active leaders of the Jan Sangh movement in their respective areas (the man who was Assistant Commissioner now lives elsewhere). At one point, the Rajput who was now running for the Legislative Assembly seat, had been Chairman of the Municipal Board himself (as the aftermath of a complex split between the "municipal party" and the Congress organization, about which more will be said presently). While Chairman of the Municipal Board, this Jan Sangh leader had accepted a loan of 16 lakhs of rupees from the UP Government for civic improvement which, due to his affinities with the orthodox Hindus of the region, he utilized almost exclusively for the benefit of Ayodhya, the holy city, to the neglect of Faizabad proper, the secular city. The Government considered this to be misconduct and suspended the Chairman. The suspension was reversed in the courts, however, on condition that the Chairman make some kind of restitution of the misallocated funds within three months. But not long after his reinstatement, the Jan Sangh leader resigned as Board Chairman.

In 1961, some time after the Sampurnanand ministry fell, the Faizabad Municipal Board was superseded by the Government on the ground that it was indebted to the extent of 23 lakhs of rupees and had shown no sign of formulating a fiscal policy capable of dealing realistically with such a large debt. The Kayastha-led 'municipal party' at once cried foul and claimed that this was actually a manoeuvre by the C B Gupta Government to crush everyone associated with the Sampurnanand group. It was nonsense, they averred, to contend that the Rs 23 lakh debt was the real reason for supersession because there were at least two dozen municipal boards in Uttar Pradesh with greater indebtedness than this. The real reason for supersession lay in the Sampurnanand-Gupta fight within Congress, and in the fact that the present Congress MLA from Faizabad was a member of the latter camp. They alleged too that the incumbent MLA had come to them for help during the 1957 campaign because he feared he might not be able to win the election otherwise and that he had promised to give the 'municipal party' a major say in the selection of candidates for the next Municipal Board in exchange for this assistance. Not only was this pledge broken, it was charged, but the Khatri MLA had helped bring about the defeat of the Kayastha ex-zamindar for Board Chairman, tried to break his power on the Municipal Board completely, and then when that attempt had failed, helped get the Board itself superseded.

Thus, defeating the Congress candidate had become the sworn purpose of this Kayastha ex-zamindar. He said he would rather see the Jan Sangh candidate win, even though he was personally opposed to Jan Sangh methods and principles. His strategy was to draw away as much support as possible from Congress in order to facilitate the victory of some other party.

The Jan Sangh was only one potential beneficiary of these manoeuvres. Another, and one dearer to the heart of the 'municipal party' leader, was a young Muslim who in the past had been associated with the Socialists but who had been encouraged (by the 'municipal party' leaders, I believe) to run as an Independent after he had had differences with some of his fellow Socialists. The hope was that Muslim voters would be enticed away from the Congress Party (Muslims formed about 13 per cent of the Faizabad electorate) by setting up a Muslim candidate. Jan Sangh was running very strong and fanning the flames of Hindu-Muslim communalism. For although publicly espousing some kind of vague Hindu-Muslim brotherhood, Jan Sangh workers were privately pledging to Hindus that they would send all Mohammedans to Pakistan if they won. They were also promising groups like the Thakurs (the big losers in the Government's land and political reforms in the villages) that they would restore to them their traditional glory as lords and rulers. The effect of such promises was to throw a severe fright into the hearts of Muslims and many non-elite caste Hindus as well.

Personal versus Party Loyalty

The real struggle, then, in the Faizabad constituency was between two men and their factions, each tied in varying degree to a counterpart faction in the ruling party of the State through caste, social and other affinities, who in terms of both philosophy and approach to political organization, represented more or less opposite points of view. The Kayastha-led 'municipal party' was in a way 'feudal' in structure and orientation. Its leader saw himself as the hereditary successor to a kind of political fiefdom, the legitimate descendant of a line of men who had always regarded the Faizabad Municipal Board as a sort of personal zamindari. In a conversation one day, he put this cogently: "My party goes back to 1895. My grandfather was the first Chairman of this Municipal Board; my father was Chairman after him and it was but natural (**sic**) that I would inherit it from him." But, he asserted, the Congress MLA had set out to destroy this just heritage out of "jealousy".

To this man, the terms of his entitlement to power were **personal,** as was his following and his own sense of obligation to others. Ideology was secondary to personal loyalties between a leader and his followers. Loyalty to an abstract principle was less important than loyalty to a person and the latter invariably took precedence over the former.

The Congress candidate was never a zamindar nor were his kin group and caste ever traditionally identified with this pattern of life. He was a student and practitioner of law and was considered an expert on constitutional processes. The Kayastha ex-zamindar behaved like a king of yore, but the Congress candidate saw himself as a party man; he believed in the Congress organization as such and was personally attracted by the ideal of statesmanship. He was, in short, a man who placed dedication to certain abstract principles above individual loyalties. The contrast between the two men can be illustrated by examples taken from their actual conduct.

After the Jan Sangh leader had defeated him for Municipal Board Chairman during the period of the 'kaval' elections for Municipal board membership in 1959, the Kayastha ex-zamindar blamed his Congress opponents, as we have seen, because they had allegedly gone back on their pledge during the 1957 election to assure suzerainty of his 'party' over the Municipal Board. We saw that he attributed this to 'jealousy' (itself a revealing insight into his tendency to reduce all human actions to **personal** motives). But the basic conflict for control of the Board with all its patronage — was, between a 'party' whose interests lay in preserving its own position by avoiding subordination to outside political authority and the Congress Party that was the ruling provincial and national group whose survival locally depended upon its capacity to prevent the emergence and persistence of just such enclaves of insubordinate local political power as the Faizabad 'municipal party' represented.

However, when the Kayastha ex-zamindar lost his chairmanship of the Municipal Board his reaction to the situation was entirely characteristic. His one concern became the winning back of his traditional leasehold. To achieve this, "I got my men onto the Board no matter what ticket they had to run on to get there". Some ran as independents, some as Socialists, some as Jan Sangh, etc. He assumed that because these were 'my men' they would accept his personal directives once elected in preference to the dictates of whatever organization to which they nominally belonged. It was when this strategy succeeded that the Government counter-move of supersession followed.

The Congress MLA was a man with a certain warmth and charm, to be sure, but he could also be aloof and highly impersonal when the question of personal political favours arose. In his campaigns, he scrupulously used the organizational machinery as his chief means of getting elected and he told his potential supporters, both in public and in private, that they should support him only if they believed in the principles which he and his Party espoused. Until the last weeks of the election campaigning he reserved mornings for his law practice and flatly refused to discuss political matters with anyone at this time. At the meetings with his workers held at a dharamshala adjacent to his home there would invariably be persons to approach him for personal intercession with various government agencies. Invariably the petitioners were blandly told to make these requests through the appropriate channels. In the same way, the 'municipal party' and its leader were anathema to what this politician sincerely stood for with the result that a head-on clash was probably inevitable.

Congress Hopes Pinned on Rural Vote

Returning now to the election itself, the Congress candidate and his lieutenants believed that their hopes of a victory lay primarily in the villages where the majority of the population resided and where the controversy over the Municipal Board in Faizabad city had virtually no political relevance. The

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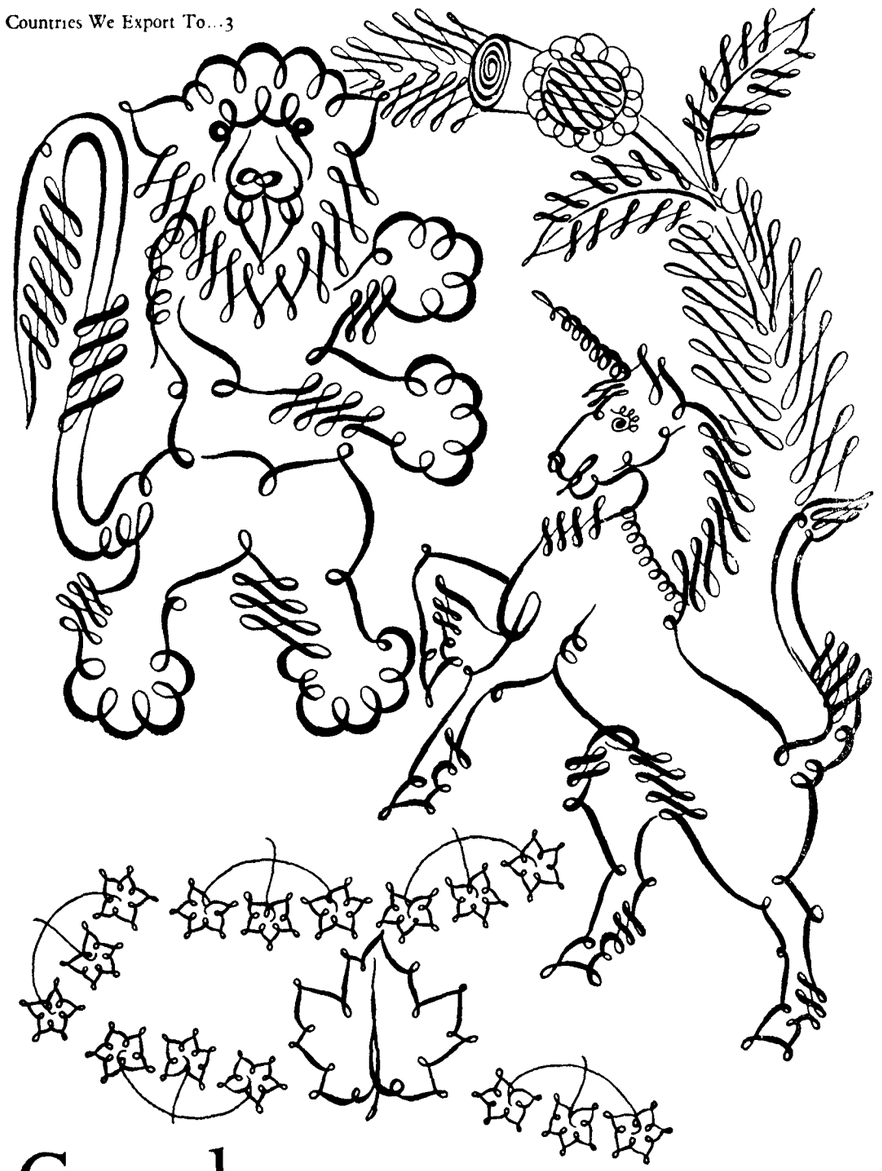

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Kayastha and his 'municipal party' could do damage to Congress in the city, particularly in the face of the rising challenge from the Jan Sangh. The encouragement by the Municipal Party of a Muslim candidate to capitalize on the communal fears created by the Jan Sangh was expected to further weaken the Congress. So it was taken for granted that the party will lose in the city and so it directed its efforts primarily toward the peasantry.

The Congress technique was personal. Caste, kingship and community ties were explored and exploited to the maximum. At their nightly strategy meetings, Congress workers spoke almost exclusively of their successes and failures at establishing personal contacts with influential persons in villages and city **mohullas.** The next day's itinerary of activities was formulated only after hearing these reports. It would be stated, for example, that in Village A the **pradhan,** an Ahir, openly declares that he is working for the Congress candidate while it has become known that he secretly supports the Jan Sangh. The problem: Who do we know in this village whose influence is capable of counteracting the machinations of this man? From Village B, an old Muslim shopkeeper who has supported Congress all his adult life. He says he thinks he can deliver the Muslim vote of this village if the Congress candidate will consent to address a meeting in the village within the next few days. He wishes to do this because he believes the Jan Sangh may win if the vote is split by Muslims flocking hysterically to a communal candidate who could not win even if he received every Muslim vote in the constituency. Throughout the villages, the Congress workers found that the bulk of the Jan Sangh support came from the Thakur castes and they set out to appeal to the more numerous non-elite castes who are opposed to the Rajputs.

The most significant events at the level of mass propaganda in Faizabad were the visits of Prime Minister Nehru, Shri C B Gupta, and the Jan Sangh national leader. All these men drew large crowds but Pandit Nehru outdid them all, to nobody's surprise. He drew more than fifty thousand people at each of the two meetings he addressed. What amazed this observer in later conversations with villagers was how much of Pandit Nehru's words were remembered, even those which didn't necessarily have any relevance to their own circumstances in Faizabad and which had obviously been uttered by the Prime Minister mainly for the benefit of the press corps. The best example was Shri Krishna Menon's fight in North Bombay. Pandit Nehru's endorsement of the Defence Minister was being widely seconded in the villages of Faizabad even though, prior to the Prime Minister's coming, the name of Shri Menon was virtually unknown in the countryside.

Outcome of the Election

The Congress candidate, won the election and although he carried both the rural and the urban components of the constituency, it is evident that the Congress leaders' belief that their main strength lay in the rural areas was entirely accurate. Whereas the total vote for Congress declined by 21 per cent in the city, it increased by 13 per cent in the countryside.

But the Congress victory was not as overwhelming as it had been in 1957. The margin over the next strongest party, the Jan Sangh, was reduced by about half, from about 13,000 in 1957 to approximately 7,000 in 1962. Their urban margin was reduced even more from over 6,000 votes to less than 1,400.

Yet this victory was a major one for the Congress forces because it had been taken for granted that this would be a hard-fought campaign, what with both the Jan Sangh and the formidable 'municipal party' out to beat them. All observers expected the outcome to be much closer than it actually was and the Jan Sangh gains (56 per cent in the rural and 102 per cent in the urban areas or an overall improvement of 75 per cent over 1957), although striking, was a disappointment to their partisans since they fell far short of what was expected. Even in the city they could capture a majority in only five of the thirteen polling stations; in the villages they captured none.

The greatest blow fell on the 'municipal party' and its embittered chieftain. His party's power seems to have been shattered by the outcome. Before polling had even begun the ex-zamindar had departed from Faizabad to try to assist another ex-zamindar friend in a nearby constituency (who also lost to a Congressman) and his last words to me were to concede that his Congress opponent would in all likelihood win. The effort to draw votes away from Congress to the Jan Sangh and a Muslim Independent had not been successful.

Table : Election Results in Faizabad Legislative Constituency; 1957 and 1962

	1957	1962	Change Absolute	Change Per cent
		Rural Vote		
Parties	10,277	11,601	1,324	13
Congress	3,887	6,049	2,162	56
Jan Sangh	2,715	633	—2,082	—330
Left Parties (PSP + CPI)	868	2,346	1,478	170
Muslim Independent	1,187	1,450	—263	—18
Other Independents	18,934	22,078	3,144	16
Total		**Urban Vote**		
	9,738	8,037	—1,701	—21
Congress	3,312	6,690	3,378	102
Jan Sangh	4,454	531	—3,913	—737
Left Parties (PSP + CPI)	573	4,177	3,604	629
Muslim Independent	672	536	—136	—25
Other Independents	18,749	19,971	1,222	7
Total		**Total Vote**		
	20,015	19,638	—377	—2
Congress	7,199	12,739	5,540	77
Jan Sangh	7,169	1,164	—6,005	—518
Left Parties (PSP + CPI)	1,441	6,523	5,082	353
Muslim Independent	1,859	1,986	127	6
Other Independents	37,683	42,049	4,366	12
Total				

Note : The figures in this Table may disagree slightly with those appearing in the press but the differences in no way affect the basic pattern shown here.

although the the reasoning which motivated this manoeuvre had some validity. The Muslim Independent drew a heavy Mohammedan vote compared to that of the Muslim who ran in 1957 as an independent. The proportionate increase was greatest in the city (629 per cent as compared with 170 per cent in the villages) where the 'municipal party' enjoyed its greatest strength, indeed its **only** strength . This would constitute **prima facie** evidence that their support made a difference because this Muslim candidate was from a town more than 15 miles south of Faizabad and was not known well enough in the city to have achieved such a remarkable vote as this unaided, despite the catalytic role played by Jan Sangh.

Communal Reaction

At the same time, it is clear that Hindu communalism breeds its opposite manifestation — Muslim communalism. The Muslims were frightened by the obviously increasing strength of the Jan Sangh and they showed the effects of this fear in their gravitation toward a communal candidate of their own.

Why did the rural area show a stronger inclination to vote Congress than the urban? The main reason seems to be that the non-elite agricultural or **kisan** castes (like Ahir, Kurmi, Gujar, Murau, etc) have profited most directly from land reforms, rural development and Congress government generally. After zamindari abolition, the **kisan** castes for the first time came into the ownership of the lands they had always tilled. The average amount per household that they came to possess was perhaps not large compared with what remained in the hands of the Brahman and Thakur castes, but it was enough to enable them to develop into middle class farmers, particularly with the help provided by the National Extension Service. They were thus able to attain enough economic independence from the old rural feudal elite to be begin to manoeuver politically. The introduction of universal franchise was an added factor because the kisan castes constitute a large proportion of the rural populace and this, of course, meant votes when it came to contests for the new village **panchayat** seats, the village **pradhan** and Assembly and parliamentary seats. Congress clearly enjoyed high favour in the eyes of this segment of rural society in the Faizabad constituency.

Scheduled Castes for Congress

Scheduled castes also probably showed a strong inclination toward Congress but there are some indications that their support was not as solid as that of the **kisans**. There are at least two reasons for this. First, the landless menials are still too economically dependent upon the Thakurs, who are disgruntled over their loss of land and power in the villages and who consequently support Jan Sangh. Many scheduled caste people were gathered together into little groups by their Thakur overlords and marched to the polls under Thakur supervision in order to ensure that they voted for the Jan Sangh. They were able to impose their will in this way, by threatening these impoverished folk with such economic sanctions as the denial of opportunities for field labour, withdrawal of sharecropping privileges and the calling in of loans.

Second, the scheduled castes have gained less economically from Congress rule than have the agricultural castes. Since they had no lands in the first place, and got none out of land reform, they could benefit little from better fertilizers, improved seeds, the Japanese method of rice cultivation, etc. Often scheduled caste families willingly supported the Thakurs and political ultra-conservatism because they genuinely felt that under the old feudal pattern they at least got the chance to cultivate **some** land on a shares-basis. Now they are lucky if they get this because it is technically illegal (although it goes on) and because those with surplus land are much more hesitant than before to give land on shares-basis that might at any time be legally seized by the tenant should there be new land reforms.

The overall political picture in rural Faizabad can be grasped by considering the results of a survey of 89 village panchayats in a N E S block stretching from the city limits southward for about seven miles. Of the total of 1,486 candidates for 1,360 **panchayat** seats contested last year, only 410 were Brahmins or Thakurs. Of the remaining 1,076, more than two-thirds were from the **kisan** castes. Most of the non-elite caste **pradhans** were also from the **kisan** castes. We can say, therefore, that it is this middle echelon of rural society that is gradually gaining control of political power in the villages. This has resounded to the benefit of Congress in the elections so far, thanks to their rural development policies and seems certainly to have been a major factor in saving Congress in Faizabad this year. One might say that the Congress party had lost effective control of their urban organization in the constituency and had nullified it for their opponents as well by getting the Municipal Board superseded. Having accomplished this, they then fell back upon their rural organization, whose roots are the economically and politically newly-emergent **kisan** castes in the villages, and for all practical purposes won their election here.

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From the Chair

Indian Sugar Mills Association

Presidential Address of Shri D D Puri, M P

Need to Reduce Excise Duty on Sugar to Ensure Stability in Sugar Industry

IN his Presidential address at the 29th Annual General Meeting of the Indian Sugar Mills Association, held at New Delhi on the 8th August, 1962, Shri D D Puri, President of the Association said:—

Intermination of Sugarcane Price

For a realistic assessment of the problem of the Sugar Industry, it has to be borne in mind that the production of sugar in the world is much more than its consumption. The potential is even bigger than the production achieved hitherto. That is why most exporting countries and some importing ones, notably the U S A, have imposed statutory restrictions on cane and beet acreages. In India, however, control of this type would present insurmountable administrative problems because of the large number of growers involved. Here the only way to stabilise the produuction of cane is to fix its statutory price at a level that is not so low as to be unremunerative as that would inevitably discourage cane cultivation and affect sugar production, and not so high as would divert additional land to cane cultivation and thereby disturb the economy of other food crops. Experience has proved that whereas the price of Rs 1.44 was too low resulting in shortages in sugar production, the price of Rs 1.62 was definitely too high and caused the crisis of over-production. The price was raised from Rs 1.44 to Rs 1.62 in 1959-60. Withit two years, area under cane registered an increase of about 20 per cent in the Northern zone alone. Thus in 1960-61 we produced 3 million tons of sugar when we consumed only 2.1 million tons. This rapidly expanding area under cane unless checked would lead to disaster. It would bring about a collapse of the Sugar Industry and with it wide-spread suffering to the millions of cane growers all over the country. That is why production of sugar had to be statutorily controlled in the last season. We have, therefore, to strike a balance between these two extremes to avoid measures like restriction on production becoming a recurring feature.

Basic Facts of Sugar Industry

The basic concept of a statutory price of cane, irrespective of its sugar content, has been a major obstacle in the way of cane development. It has acted as an incentive in the wrong direction; it has encouraged the grower to grow cane without regard to the sugar content thereof. There is no getting away from some basic facts of life in sugar economy. Let me state these as clearly as I can.

One, sugar is produced in the field; the factory only processess it. If India is one of the highest cost sugar producers in the world, the causes and the cures will have to be sought in the field.

Two, when cane is sold, it is the sugar in cane that is or should be paid for. The rest is trash, literally and metaphorically;

And three, the grower has to be helped into a correct concept of the common objective and provided with the wherewithal to achieve it.

In the light of these observations, I venture to suggest that the recent policy of Government fixing Rs. 1.50 per maund as the minimum price of cane upto a recovery of 9 percent and increasing it corresponding to increase in recovery is a welcome first step. One might be tempted into suggesting improvements even in this first step. For instance, a mechanism could be built into the scheme whereby factories should be entitled to pay a higher than minimum price for cane at a time when competition from gur is particularly fierce and adjust this additional payment later on without in any way deviating from the average minimum price payable to the growers. The Industry, however, has an open mind on the scheme and is prepared to give it a fair trial so as to be able to make constructive suggestions after working it for one season. Later on the scheme of incentives will have to be carried further to groups of growers and ultimately perhaps the individual grower.

Cane Development

Alongside the quality incentive price scheme, we have to provide the grower with the wherewithal to improve the production of sugar in cane. State Governments raise crores of rupees every year on account of cane cess. They have done so for decades now. By and large these monies have not been spent on cane development. Let it be understood clearly and without doubt that diversion of cane cess to general revenues is carried out almost entirely at the expense of the grower. There is no getting away from the fact that cane cess was first proposed and levied in the name of cane development. The most important single factor that can put sugar production on a sound footing is the utilisation of cane cess for cane development. The biggest beneficiary, if this ever happens, will be the cane-grower. And this step will bring about stability to all aspects of the Sugar Industry, including exports.

I am happy to acknowledge here the welcome step taken by the Punjab Government when they announced that the entire cane cess would be spent on cane development in the State and sincerely hope other States will emulate the example. I also welcome the announcement of the Chief Minister, U.P., for setting up a high power committee to suggest ways and means of improving the position of the Industry in the State. I hope this committee will be formed soon, will go deep into the problems and suggest a corrective that could be implemented expeditiously.

Moving now from sugarcane to sugar, I may express that an ex-

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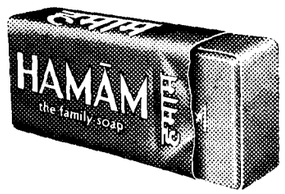

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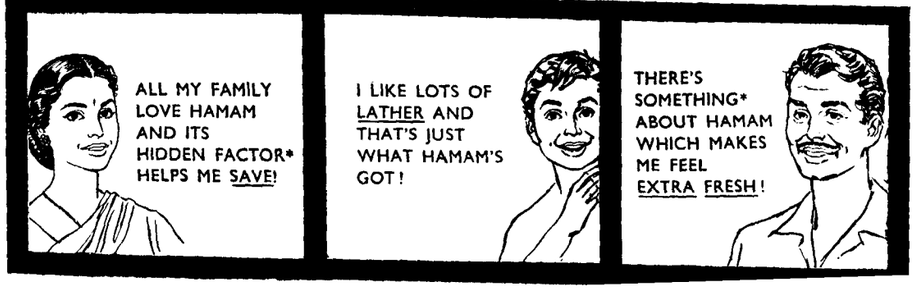

port target of 5 lakh tons for 1963 is a safe figure to start with. This could be improved upon progressively in the following years. Our national economy is entering a difficult phase. As time passes the foreign exchange position is getting more and more difficult and there is no hope of checking the strain at least in the next few years. We, therefore, must export. Our failure on this front would rob our hard-won freedom of its content and meaning and deal an irreparable blow to our economic growth. We have passed the stage of ifs, buts and whethers and must get on with the job. My appeal to every one concerned is to make an all-out effort to promote exports.

Need to Produce Raw Sugar

For the Sugar Industry, which is relatively a new comer in this field, exports on a large scale will present many difficulties. Take raw brown, to start with. Technologically switching over from the production of direct consumption white to raw brown which has to undergo further refining may appear to be a retrograde step. It may appear very easy. It may or may not be retrograde but it is certainly not as easy as may appear at first sight. We have to recognise the fact that a large part of the sugar that sells abroad is in the raw state. As more and more countries establish refineries, the raw market is expanding at the cost of white. The seller has no choice. He has to produce what the buyer wants.

This Association has given a very close look to the production of raw brown sugar. We convened two seminars followed by two meetings where the technologists discussed the problems involved. We have received valuable advice and assistance from the National Sugar Institute. As a result of all this, it is clear that with the exacting specifications demanded by some of the importers, the switch-over is not an easy matter. Apart from production, there are the problems of storage, handling and deterioration in transit. Nevertheless, I am confident that with cooperation and understanding at the hands of Government, the industry will and it must make an all-out effort to produce 2 lakh tons of raw sugar in the next season. Personally I have no doubts whatsoever, that the target will be achieved and valuable experience gained for expanding this production in later years.

Sugar Exports During Last Year

During the last year we exported about 2.47 lakh tons of which more than half was for the U S A and the balance for Malaya and other destinations in East and West Asia and East Africa. This was by far the largest quantity ever exported from India. Apart from affording some relief to the Industry in disposing of its stocks, exports of sugar have enabled the country to earn a substantial amount in foreign exchange. Its contribution to the foreign exchange resources last year was about Rs. 13 crores at a time when the most unsatisfactory aspect of the country's economic situation, according to the Finance Minister was "the persistent attrition of our foreign exchange resources".

Exports in the Current Year

This year, we have already exported about 2.25 lakh tons and according to the sales already contracted should ship 1.10 lakh tons before the start of the next season. We have this year also made a first entry into the Canadian market by selling about one lakh tons there. This has given us confidence in being able to develop markets in far-off places also.

U S Quota

I would also like to make a brief mention of our efforts to obtain a quota for our sugar under the new U.S. Sugar Act. I am sorry that our expectations in this regard have remained unfulfilled and that we have been able to secure only a nominal quota of 20,000 tons per annum for the next two and half years. We have not won a better quota in spite of our having successfully overcome the difficulties involved in shipping, bulk handling and making supplies available at short notice. I make bold to say, the performance of Indian sugar — and we have exported 1.37 lakh tons to the American continent in a short span of three months — will bear comparison to that of any nation in the world, including those well established over decades in this business of exporting sugar to America.

Regulation of Releases

Coming now to releases for sale within the country, we are at one with Government that a fair and stable price for sugar is desirable in national interest. We recognise that in a large country like ours, transport and other problems tend to create bottlenecks leading to ups and downs in prices here and there. These limitations are inherent and have to be borne with patience, without panic. We believe that regulation of releases can help build a statutory corrective to the forces of instability. We thus state that the Industry should be consulted at the time these releases are determined.

Reduction in Excise Duty Essential

Excise duty on sugar was first levied in 1934 at 97 Naye Paise per maund. Over the years it was increased to Rs. 4-12 per maund. In May 1957, this basic excise duty was doubled to Rs. 8.25 per maund. Further, an additional excise duty was levied in December, 1957, in replacement of sales-tax which together with the basic duty amounted to Rs. 10.70 per maund.

About one-third of the cane grown in the country finds its way to the vacuum pan sugar factory. The rest goes into the manufacture of gur and khandsari. There is no duty on gur. The duty on khandsari is nominal. Vacuum pan sugar alone bears this heavy burden. Whenever there is shortage of cane, the factories are unable to pay the price that khandsari and gur manufacturers can. In times like these, cane which is normally supplied to factories is diverted to gur and khandsari manufacture. This is a national loss, for the factory is able to extract between 33 and 50 per cent more than the gur and khandsari manufacturer is able to. And it leads to idling of capacity on the one hand and an over-all loss of sugar on the other. This phenomena acts most acutely when there is a shortage and aggravates this shortage. This situation leads to control and control in its turn inhibits production.

Sugar has swung between regularly recurring cycles of shortage, control, decontrol, glut and control again. In the three seasons ending 1955-56 we have imported 13.17

lakh tons sugar and later had over a million tons to export.

A major factor in this instability is the heavy excise duty on sugar and the economic disparity it generates between the different users of cane — vacuum pan factories on the one hand, gur and khandsari manufacturers on the other.

The only way to get out of this vicious cycle is to reduce excise duty on sugar. If the basic duty is reduced to the 1957 level, a part of the loss of revenue would be off-set by increased consumption. And yet the increase in production would easily take care of the increase in consumption, so that our export programme would not be endangered.

If the present disparity perpetuates itself, the Indian Sugar Industry will never be able to get out of regularly recurring cycles of surplus and shortage. Vagaries of weather are bad enough by themselves. The man-made disparity created by the excise duty, aggravates the climatic variations, in both directions. This keeps every one connected with the Sugar Industry, the cane grower, the Industry, the trade and the consumer in a perpetual state of instability, almost of crisis. Pray do not imagine our sugar export programme can remain immune from these crisis. Excise duty has to be reduced drastically. This Gordian knot has to be cut. No cheaper solution is available.

Installation of New Units *vs* Expansion of Uneconomic Units

Another matter which I must touch is that before licences for new factories are issued, the small uneconomic units must be allowed to expand to economic capacities. The latter must rank prior to the former.

Coal Shortage

The country has been passing through a period of acute coal shortage due to which the coal quota of the Sugar Industry was drastically reduced to 185,000 tons for the season 1961-62 against its demand for 250,000 tons. It was with considerable difficulty that the Industry was able to carry on the season. For the year 1962-63 a drastic cut was again effected in the steam coal and hard-coke quotas of the industry from 711 wagons to 365 wagons per month. However, I am glad to state that on repeated representations made, the cut in respect of steam coal has now been restored. But the cut on the hard-coke quota has yet to be restored. Hardcoke is essentially required by carbonation factories in the actual process of manufacture without which the factories cannot work. I would, therefore, like to urge upon the Mines and Fuel Ministry of Government of India to reconsider the matter and arrange for early restoration of the cut in the hard-coke quota to enable the carbonation units to have sufficient supplies ensuring smooth and uninterrupted working during the coming season.

The Bombay Gas Company Limited

Speech of the Chairman, Shri N K Jalan

THE following is the Speech of the Chairman, Shri N K Jalan, at the Annual General Meeting of The Bombay Gas Company Limited held on August 10, 1962 :

Gentlemen,

It gives me much pleasure to welcome you to the Annual General Meeting and to present to you the Balance Sheet and the Annual Accounts together with your Directors' Report for the year ended the 31st December, 1961. These have been in your hands for sometime now and with your permission, we may take them as read.

It is unfortunate that the said accounts reveal a very disappointing result of the working of the Company showing deterioration year after year. I am also sorry to confess that upto now all our efforts to get a reasonable increase in gas price have not borne any fruit. In the past several Annual Meetings I had given you a fervent hope of attaining success, but I am sorry all our efforts so far have turned into failure and the financial position of the Company is worsening year after year.

The Company's nett profit for the year was a meagre sum. It is only by encroaching upon the general reserves to the extent of Rs. 1,10,000/- that it has been possible for your Directors to recommend a dividend to the Stockholders @ 5 per cent, subject to deduction of Income-tax @ 30 per cent, i e a net dividend of 3.5 per cent, which compares so very unfavourably with the current level of dividends paid by Companies of similar status in this country.

The poor profits of the Company in the year under review, as in the preceding three or four years, are due entirely to the fact that while the costs of production and distribution of gas have been going up substantially year by year, the price of gas remains rigidly fixed at a level which is slightly lower than even what it was in 1926. The present management took over the Company in 1946. Sixteen years have passed by since then. Within this period, all major items of cost have gone up enormously, due to the pull of economic expansion and the impact of inflation. Thus, the cost of coal has gone up by 112 per cent, the wage bill by 98 per cent and the cost of amenities for workers by as much as 591 per cent, to take only three major items of cost. All this time, however, the price of gas, as fixed by the Government, continues unchanged. In such a context, it is not at all surprising that the financial results of the operations of the Company continue to deteriorate year by year. The Company is now faced with such a critical situation that, failing prompt grant of relief by the Government by way of an adequate price increase for gas, the Company will have to consider seriously whether it can continue any longer to carry on its business at all.

Coal Price

The price of coal which is a basic raw material for the production of gas, had further gone up considerably during 1961 and is mounting

up every now and then, as the coal price and the freight on the coal are being revised. The full impact of the incidence of the rise in the cost of coal (from Rs. 52.36 to Rs. 57.64) in 1961 would be felt in the current year i e 1962. Besides this rise, Railway freight has also been increased from 1st July by Rs. 1.05 per tonne. The Government of India have further notified a rise in coal price by Rs. 1.56 per tonne effective from July 1962. This rate of increase, in conjunction with the rise which occurred in 1961, would thus mean that the Company's expenditure on account of the cost of coal alone will increase by Rs 7.89 lacs per year. Besides this, increases have occurred in wages, amenities, etc and the following figures speak for themselves:

Items	1957 Rs	1961 Rs	Difference Rs
Price of coal per tonne	48.12	57.64	9.52
Cost of Coal used	43,14,132	54,83,862	11,69,730
Wages Cost	22,26,923	26,51,363	4,24,440
Amenities cost	4,03,634	5,41,602	1,37,968

You are also aware that the coal industry is clamouring for a higher price and I believe the Government will have to allow a further increase in their price, which will again mean a big increase in the cost of raw materials to the Company.

Incidentally, I would like to mention that the Gas Company is the only Industry in which the output from coal is as high as 80 per cent.

Coal supplies have been a matter of constant concern during the last few years. The position deteriorated considerably in July last year, and in the months of July, August, September and part of October, coal gas production and consequently gas supply to the city were considerably affected due to erratic and inadequate supplies of coal.

After strenuous efforts, supplies of coal were offered to the Company, but we were asked to take supplies in box wagons for which the Company has no arrangements. Inspite of these difficulties, the Company agreed to accept supplies in box wagons. You are no doubt aware that a box wagon is $2\frac{1}{2}$ times as large as a four wheeler ordinary wagon. The Company has been hard hit on account of the supply of coal in box wagons in two ways. Firstly, as the Collieries are asked to load such huge quantities in prescribed time, they load whatever stock they have, without any regard for the quality. This is instrumental in affecting detrimentally the production to a very great extent, thereby causing abnormal financial loss to the Company. Secondly, on account of under-loading of these wagons, as they are charged on the basis of marking of loading height at 1.7 metres of Steam Coal and there being no arrangements for weighment of these wagons anywhere in India, the Company is being charged excessively. In some instances, where the coal was weighed in the presence of the Railway authorities, shortage as high as 20 per cent was found. On our representation, revised marking at 1.82 metres has been introduced by the Railways, but it is regrettable that still the shortage found is very high. It is imperative that the Railway Ministry do look into it at a very early date. The Company is losing on account of a shorter supply of coal than paid for. It has also to pay additional Railway freight apart from the loss which the Company has to suffer on account of lower production due to inferior quality of coal supplies.

Shri N K Jalan

In spite of these short supplies of coal, the Company has been able to maintain production, which it would have been possible for the Company to step up further in 1961, if these difficulties of short supplies and poor quality of coal would not have adversely affected the same.

Gas Price

The price structure was examined by the Gas Advisory committee appointed by the Maharashtra Government (then Bombay Government) in 1959 based on the 1956 and 1957 accounts. Over these last five years the Company has not only been carrying on under a serious threat of financial crisis but has also been labouring all the time under an acute sense of injustice, because repeated price increases are being granted by the authorities for several important commodities like iron and steel, cement, coal, paper and heavy chemicals. The rates for public utility services, viz. Tram and Bus fares, Railway fares, Airlines fares and telephone charges have also been increased. Even the rates of electricity have been revised, which are governed by the Electricity Act. The anomaly of the situation becomes still more palpable when it is pointed out that in the case of a substitute article, namely, the so called "Bottled Gas", sold by Burmah-Shell and Stanvac Oil Companies, the Government has given complete freedom to the producers concerned to charge an "economic price" for this particular commodity. Incidentally, the price charged by the Oil Companies for "Bottled Gas" is three to four times as high as the rate fixed by the Government for "Town Gas", i e on a comparable basis. This entails, on the part of some 40,000 consumers of "Bottled Gas", an extra annual expenditure estimated at Rs 72 lacs.

In this connection I should also like to inform you that the selling price of our "Town Gas" at Rs 3.94 nP per thousand cft. is the lowest in the world, in as much as it is (equivalent to Rupees) Rs 7.15 nP in London, Rs 7.18 nP in Cambridge, Rs 9.69 nP in Melbourne, Rs 11.75 nP in Colombo. Even in Calcutta where the Gas Company is being managed by the West Bengal Government, the gas

"It's exciting—it really does look like a giant snake slithering into a snakepit". This very apt description was given by a visitor who saw a continuous strip of skelp moving at 400 ft. per minute into the furnace of the Fretz Moon Mill of our Works at Jamshedpur.

The Fretz Moon Plant is a highly efficient and mechanised unit that manufactures continuous weld tubes from the best quality open hearth steel skelp.

How are these continuous weld tubes used ? They have many applications, industrial and domestic. You will find them carrying gas, water and other liquids, and they are also used for structural and mechanical purposes.

INDIAN TUBE

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A TATA-STEWARTS AND LLOYDS ENTERPRISE
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rate is Rs 5.25 nP per thousand cft. while the Railway freight for coal from Bengal-Bihar Coalfields is only about 50% of what we have to pay here in Bombay.

Besides what I have already told you, there will be a significant annual saving in foreign exchange to the extent of about Rs 44.63 lacs if additional 20,000 consumers can get supply of "Town Gas", who are at present using Kerosene Oil for lighting and heating purposes. We have already given the calculation of this estimated saving in the Foreign Exchange to the Government. This Foreign Exchange can be profitably utilised in some other developmental projects in the State. This saving in foreign exchange is quite possible if your Company gets the gas price adequately increased as also proper facilities and scope for expansion, which the Company is quite willing to undertake.

I have given you only a few out of so many factors, which call for an immediate revision of our Gas price by the Government. It is incomprehensible why no increase should be allowed in the case of gas while increases in the price of other essential commodities have been granted so often. The gas price to-day unfortunately is lower than what it was in 1926. The Gas Advisory Committee which examined the gas price structure altogether omitted to take into consideration Depreciation, Bonus, Rehabilitation and other items which are recognised to be basic factors by the Tariff Commission.

In this connection, I would like to inform you that, even according to the official method of calculation, the Department of the Deputy Director of Commercial Audit has come to the definite finding that the Company had incurred a deficit of 46.68 per cent for 1959 and 54.52 per cent for 1960 on the "Reasonable Return on Capital employed." And although the auditing of Accounts for 1961 has not yet been undertaken by the Department, it is estimated on the same basis of calculation that the corresponding deficit for 1961 would be as high as 76.89 per cent. It should be noted that, in calculating these deficits no allowance has been made for bonus, for rehabilitation and for contingencies, which are almost invariably provided for as normal items of cost in every modern industrial undertaking and are ordinarily allowed by price fixing authorities, such as the Tariff Commission. In the case of your Company, it has been estimated that these three items would add up to approximately Rs 10 lacs. When this is taken into account, the deficits or shortfalls on the Reasonable Return would be larger still. You will observe that the recurring annual deficit is substantial and that it is going up appreciably year by year.

Your Company, on its part, has already expressed its willingness to give about 15,000 to 20,000 new gas connections gradually in three or four years if the gas price is adequately increased to enable the Company to raise the necessary finance from the market for expansion and assure the prospective investors of a reasonable return on their investment in the present money market, which has become dearer. You all know our Union Government and some of the State Governments have issued new loans at an increased interest of 4½%. The Reserve Bank of India has also brought into force a new four tier scheme of slab rates of lending to Schedule Banks which has made the Reserve Bank credit costlier, being as high as 6½% in some cases as against the Bank rate of 4%. Thus, you can well appreciate the condition of the money market. In this context of things, the return on our capital is practically nil.

In the light of the circumstances stated above, I have recently made a fresh appeal to the Hon'ble Chief Minister and to his Government for an early move to grant an adequate increase in the price of gas which should cover the enhanced costs of production and distribution and leave a reasonable margin of profit so that the Company may be in a position to carry out the necessary replacement and rehabilitation of the plant and undertake further expansion of production and give a substantial number of new connections within a reasonable period. Your Company hopes very much that the Government will be kind enough to grant this relief to the Company at an early date and enable it to continue to render its good services to the City of Bombay on an extended basis.

Plant and Equipment

You will be glad to know that Gasholder No 4, which, as I informed you on the last occasion, was under repair by two experts of Messrs Clayton Son & Co Ltd, has since been repaired at a cost of about Rs 10 lacs and recommissioned in the last week of June, 1962.

The Company has also taken up in hand the construction of one overhead Purifier Box. This will ensure complete gas purity.

Welfare Activities

I am glad to inform you that we have introduced a novel welfare scheme from "Lapse and Forfeiture Account" of the Provident Fund for the benefit of the members, ex-members and the children and other dependents of the members of the Provident Fund. The Hon'ble Minister for Labour was kind enough to inaugurate and bless the scheme. Extracts from the speech of the Minister, delivered on the occasion, were broadcast by the A I R in the 'News Reel' Programme.

Acknowledgement

I would like to express my warmest appreciation to the workers and members of the staff and officers for their wholehearted co-operation and specially to Shri S. Chowdhary, your General Manager and Secretary, and Shri A S Rao, your Deputy General Manager, without whose invaluable services it would not have been possible for your Company to carry on the production and distribution of gas with a wholly uneconomic selling price in the face of continually rising costs. Thank you.

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T. D. KANSARA, General Manager

B/C/128

Around Bombay Markets

Sharp Break in Oilseeds

Thursday, Morning

THE general sentiment in the oilseeds market has undergone a sudden change following a distinctly favourable turn in the weather. Reports of beneficial rains in almost all the producing areas, especially Saurashtra and Hyderabad, induced sizable hasty bull liquidation and a fair amount of bear selling in groundnut futures near the week-end. The January contract in groundnut which had been quoted around Rs 233.50 (per 250 kilograms) on 11th August was sold down to Rs 225.50 in kerb dealings on the 14th; the September contract declined from Rs 244.87 to Rs 238.50 within two days. Linseed September were marked down from Rs 42.50 to Rs 40.44 (per 50 kgs) and the March contract fell from Rs 41.44 to Rs 39.75. Castor September moved down from Rs 175 to Rs 170 and the March contract declined from Rs 172.25 to Rs 168.75. Cottonseed were also distinctly subdued.

Speculative interest centred mainly round groundnut which set the tune for the whole market. An outstanding feature of last week's trading in oilseeds futures was the marked increase in the spread between the old and new crop contracts resulting from the steeper fall in the new crop positions. The recent beneficial rains in Saurashtra and certain other areas have led market men to think that the new groundnut crop could again be a bumper one if weather conditions continue to oblige during the rest of the season. This is indeed a big 'if'.

Extractions Firm

Early strength in groundnuts which led to the suspension of futures trading because of the weekly limit on fluctuations was due to the sustained keen demand for the spot material resulting mainly from continued good export business in groundnut extractions. Export houses reported further large business in groundnut extractions during the week and the U K quotation of £ 37-5 per ton for August-September shipment is a record high for a long time. September-December position was quoted around £ 37. With overseas quotations recording a further marked rise of about £ 1-10 per ton, the local market displayed remarkable strength and both expellers and extractions were bid up to the highest levels for some years.

It is the continued good export business in extractions which has led to a virtual scramble for ready groundnut. This explains why the September contract in groundnut has continued to hold comparatively steady while the new crop January contract has suffered a substantial decline on prospects of a good crop following the recent beneficial rains. If weather conditions remain favourable in coming weeks, ready groundnut prices are also likely to develop a soft tendency unless the overseas buyers further bid up their quotations for Indian groundnut extractions. While most shippers seem optimistic about selling further large quantities of groundnut extractions during the year, few expect overseas buyers to pay more than £ 37/38 per ton.

The Outlook

It is difficult to say how groundnut prices will behave in coming weeks because it all depends on the weather. Prices can be expected to register a sizable decline if the weather continues to be favourable. The trend of linseed prices is closely linked with groundnut prices. Movements in castorseed continue to be guided by the changing moods of speculators rather than the export performance of castor oil. Export houses did not mention any fresh important business in castor oil last week. Castor oil has been moving rather slowly and the bulk of business this year has been with the Communist countries which does not earn any sterling. The U S has continued to keep off the Indian market. The authorities need to give special attention to the question of selling castor oil to America which has been taking as much as 15,000 to 20,000 tons a year in the past. Very little business was reported to have been put through in linseed cake last week, with the U K quotation placed around £ 36 per ton.

Cotton

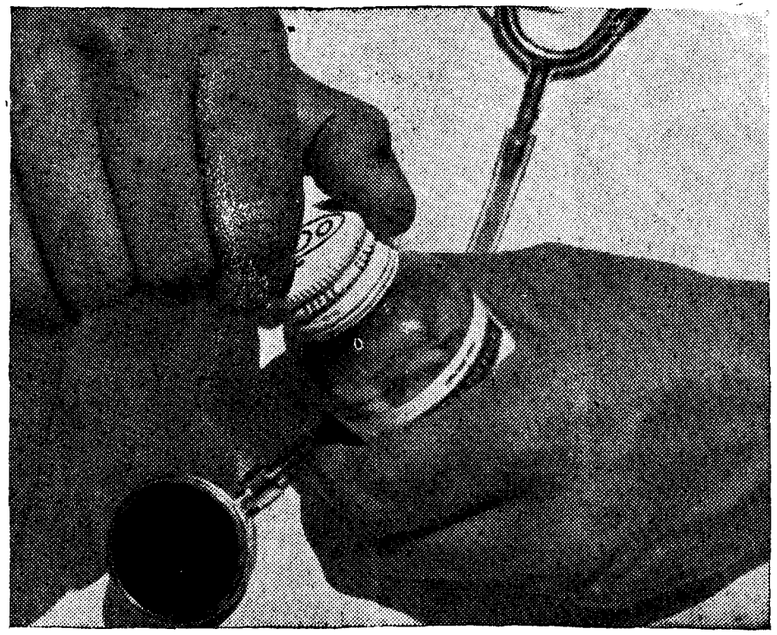
Futures Turn Easy

WHILE the scramble for ready cotton continues and mills are known to be experiencing serious difficulty in completing purchases against their quotas which are due to expire with the end of the current season on 31st August, the futures market has developed a slightly easier tendency with the favourable turn in the weather. The March contract which had touched a high of Rs. 749.75 on 8th August was marked down to Rs. 738.25 (per 3 quintals) on the 14th. Considering the preceding steep rise, technical considerations alone could have produced a moderate setback. But sentiment last week was influenced by favourable weather reports. Beneficial rains in Saurashtra and certain other areas which had been complaining about scanty rains have revived hopes of a good crop; good only in the sense that the crop could have been much worse if weather conditions had remained unfavourable. Few have anything to complain about the weather now. Even so, the new crop is not expected to exceed 52/53 lakh bales. Surprisingly enough a crop of 52/53 lakh bales is still thought to be a normal one even though this is the second year of the third Plan for which the cotton target has been set at 70 lakh bales. Not unless cotton is given a top priority and an all-out effort is made to step up production, can cotton production be expected to reach anywhere near the Plan target.

Spot Above Ceiling

It is precisely the prospect of a continued serious imbalance between demand and supply — demand is growing while production is almost static — which explains the prevailing high prices of cotton. Futures are quoted around the highest prices for over a decade. New crop cotton coming to the market from the irrigated areas of Pandharpur and Baramati — the total crop is estimated between 30,000 and 50,000

bales — is quoted between Rs 150 and Rs 250 per candy above the revised ceiling prices which reflects primarily the prevailing acute shortage. Some mills are said to have requested the Textile Commissioner to requisition new crop cotton since it cannot be procured at the statutory ceiling prices. If price control over cotton is to make any sense, compulsory survey and requisitioning have got to be enforced when prices keep above the statutory ceiling rates. The way things were allowed to drift during the current season shows that the authorities are incompetent to administer the cotton control order. That cotton was quoted well above the ceiling prices throughout the season is no secret.



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CURRENT STATISTICS

BANKING RETURNS

(*Rs. crores*)

Reserve Bank	Aug 10	Aug 3	July 13	Aug 11 '61
1 Note circulation	2063.71	2045.20	2090.32	1913.27
2 Rupee coin	119.64	119.83	115.61	122.76
3 Deposits				
(a) Central Govts	58.23	49.08	53.27	60.69
(b) Other Govts	23.15	36.07	17.46	13.89
(c) Banks	91.48	94.88	90.51	80.04
(d) Others	204.64	203.80	192.22	202.33
4 Foreign securities	89.34	92.84	91.09	116.86
5 Balance abroad	5.16	6.22	5.37	31.96
6 Rupee securities	1756.99	1733.49	1780.01	1563.42
7 Investments	277.81	305.37	252.29	289.47
8 Loans and advances to Govts	30.62	27.77	38.17	47.59
9 Other loans and advances	119.15	119.15	121.11	117.38
Scheduled Banks	**Aug 3**	**July 27**	**July 6**	**Aug 4 '61**
1 Aggregate deposits (net)	2045.80	2035.86	2015.17	1786.61
Demand (net)	794.10	794.45	775.80	711.95
Time (net)	1251.69	1241.40	1239.37	1074.66
2 Cash in hand	48.45	49.46	54.66	46.24
3 Balance with Reserve Bank	92.96	98.40	108.52	78.96
4 (2) + (3) as % of (1)	6.91	7.26	8.10	7.10
5 Borrowings from Reserve Bank	2.41	0.66	1.48	2.19
(a) Against usance bills and/of promissory notes	0.17	0.24	0.90	0.76
(b) Others	2.24	0.42	0.58	1.43
6 Advances	1211.97	1216.22	1245.15	1084.71
(a) State Bank	261.60	263.72	273.54	234.18
(b) Others	950.37	952.50	971.61	850.53
7 Bills discounted	129.62	123.88	130.15	109.16
(a) Inland	47.85	46.64	42.36	44.04
(b) Foreign	177.47	170.52	172.51	153.20
(c) Total	15.98	15.40	16.11	13.88
(i) State Bank	161.49	154.12	156.40	139.32
(ii) Others				
8 (6) + (7c) as % of (1)	67.92	68.12	70.35	69.29
9 Investment in Govt. Securities	672.12	655.00	598.72	589.39
10 (9) as % of (1)	32.85	32.17	29.71	32.99
Cheque clearance	234.05	228.38	201.64	210.28

Bombay Money Rates

(*Per cent per annum*)

Selected Scheduled Banks other than the State Bank	Aug 3	July 27	July 6	Aug 4 '61
Call Money from Banks	0.54	0.75	1.24	2.00
Deposits				
Seven days	3.00	2.97	2.81	3.00
Three months	—	—	3.50	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	Aug 16	Aug 9	July 12	Aug 17, '61
Gold (per 10 grams)				
Spot	126.30	125.25	126.60	122.85
Forward	126.05	124.95	125.65	123.45
Silver (per kilogram)				
Spot	214.75	213.55	214.05	202.50
Forward	216.40	214.05	214.55	203.10

INDEX NUMBER OF WHOLESALE PRICES

(*Base* : 1952-53 = 100)

	WEEK ENDED			
	14.7.62	7.7.62	16.6.62	15.7.61
Food Articles	**128.4**	**126.6**	**125.2**	**125.0**
Cereals	106.8	105.8	105.2	104.4
Pulses	105.0	103.9	101.8	91.3
Fruits & Vegetables	148.9	148.9	140.9	145.2
Milk & Ghee	127.3	123.7	129.6	122.0
Edible Oils	155.4	153.8	152.1	166.0
Fish, Eggs & Meat	146.0	138.0	138.2	138.9
Sugar & Gur	149.4	149.1	134.6	123.6
Others	171.8	169.1	168.5	186.0
Liquor & Tobacco	**99.1**	**99.1**	**98.7**	**98.2**
Tobacco	95.5	95.5	95.1	94.5
Fuel, Power, Light & Lubricants	**124.3**	**124.2**	**124.1**	**122.1**
Industrial Raw Materials	**138.5**	**137.4**	**135.9**	**153.4**
Fibres	130.3	128.8	127.4	158.3
Oilseeds	155.5	154.0	150.8	164.7
Minerals	93.4	93.4	93.8	95.2
Others	125.3	125.3	127.0	126.6
Manufactures	**129.5**	**129.8**	**129.0**	**128.0**
Intermediate Products	**142.9**	**142.1**	**140.0**	**142.5**
Finished Products	**127.3**	**127.7**	**127.2**	**125.6**
Textiles	126.7	127.5	127.1	127.9
Cotton	129.2	129.7	129.9	127.4
Jute	118.0	120.3	118.5	133.4
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	129.1	128.8	127.5	119.1
Metal Products	160.4	160.4	160.4	151.6
Chemicals	115.2	115.2	113.7	110.7
Oil Cakes	157.3	154.8	154.8	147.2
Machinery & Transport Equipment	117.8	117.8	117.7	112.7
Others	125.7	125.7	124.7	120.8
All Commodities	**129.5**	**128.6**	**127.4**	**129.6**

Coal Production and Despatches

(Monthly Averages or Calendar Months)

('000 *metric tons*)

	Raisings	Despatches	Stock at Pit heads*
1962 : Mar	5,190	4,576	—
1962 : Feb	4,844	4,070	3,735
1962 : Jan	4,978	4,330	—
1961 : Dec	4,897	4,265	—
1961 : Mar	5,524	4,308	5,567
1960	4,390	3,865	3,548
1959	3,892	3,513	2,729
1958	3,838	3,416	2,808
1957	3,683	3,190	3,331
1956	3,340	2,960	2,810
1955	3,236	2,789	3,685
1951	2,245	2,474	2,824

Source : Coal Controller, Ministry of Steel, Mines and Fuel, Government of India.

* At or about the end of each period.

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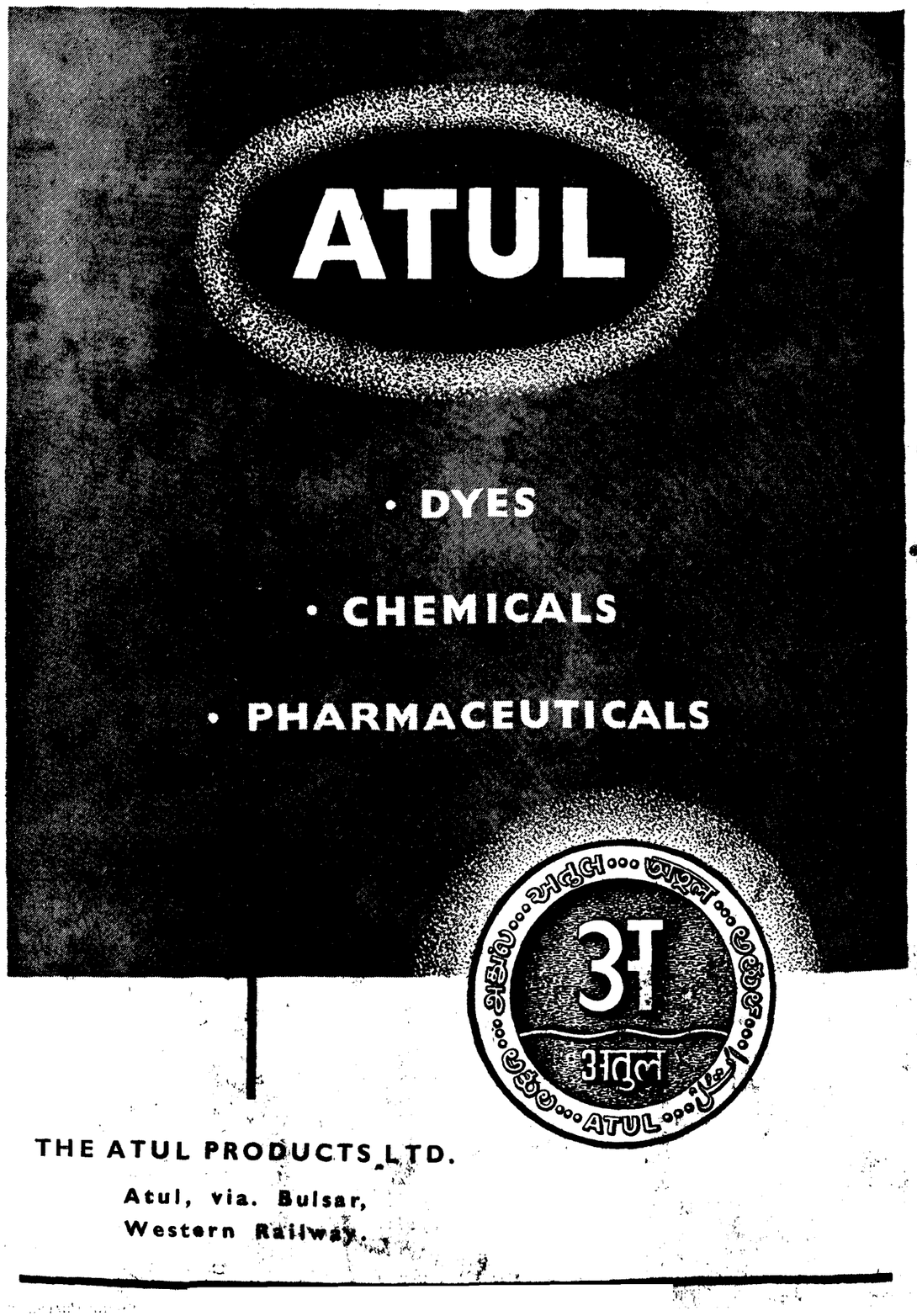

India's Terms of Trade : 1951-61

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A Journal of Current Economic and Political Affairs

FOURTEENTH YEAR OF PUBLICATION

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Civic Bombay — Its Lapses

BOMBAY is supposed to be a very progressive city and its Municipal Corporation is reputed to be not only progressive but also socialistic in its approach to the city's major problems. Generously, the city offers free parking space to its growing number of automobiles, both day and night, and in many of its busiest thoroughfares. It is not only the pedestrian who has to pick his way through these streets but also the motorist, for cars are often parked during office hours four abreast from end to end, as for example in Apollo Street, the city's crowded financial and banking district.

Even in some of the better class residential areas, where huge flats are coming up, most of the tenants of which own or use cars, it is not the landlord, but the Corporation which provides the parking and garaging facilities — free of charge, of course — all along the roads. Cars parked bumper to bumper, two, three and four abreast, bear testimony to the city's touching concern for the motorist. This free service is for one class of people, but not all the others are neglected, by any means.

The steady expansion of bus services, addition of new routes and extension of the hours of their working, as also the many housing schemes for lower income groups and industrial workers, bear equal testimony to the Corporation's civic consciousness. The middle class has, nevertheless, perhaps the most grievances, certainly it is the most vocal about such things. As in Madras and Calcutta, so in Bombay, there is no dearth of complaints that this particular class is steadily being squeezed out, that precious little is being done for the man whose income is modest, and sticky, and does not respond to the upward pressures which keep business and trading incomes moving ahead of price rises, or the sort of forces which keep working-class incomes trailing not too far behind the rising working-class cost of living.

Looking to the conditions of living in the city of Bombay, particularly those of the middle and lower middle classes, one notices a striking difference in attitudes in the matter of the city's gas supply, an important if not essential public utility and a great boon to the housewife. In the matter of gas, the city fathers have neither been benevolent in letting things go their own way as they have done in regard to parking of cars on busy thoroughfares, nor have they helped actively as in improving bus transport, or sponsoring housing schemes for lower-income groups.

Bombay's gas supply is the one public utility which has not grown with growth of the city; nor has it been allowed to be dislodged or pushed out. Victorias have nearly disappeared from the streets, small taxis have replaced them; trams are being replaced by buses and trolley-buses are already having their trial run; so many of the streets have been closed to bullock-carts, in fact all animal-drawn vehicles. The Bombay Gas Company has not closed down, neither has it made any attempt to keep pace with the growth of the city's population, the increase in the number of residential buildings or construction of new flats. It stays put where it was and the company still sells gas at the same price as before the war — the price it is allowed to charge is actually less than

what it was in 1927, according to its Chairman. Because it is not allowed to charge a rate in keeping with the present day costs of production, it does not — and is not able to — expand and it does not entirely peter out either.

It is not just a story of stagnation and decay. The phenomenon is one of morbidity which sometimes overtakes a living organism. No one knows and no one really seriously asks: "Why is it that Bombay, so progressive and socialistic in its ideas, does not take over its gas supply, expand it and run it properly ?" No one can answer why this city of vigorous private enterprises does not make a vigorous growth industry of its gas supply, with steadily expanding production, opening up new uses of gas and exploring new sources of supply. Yes, it is like a pathological specimen of a morbid organism, of great clinical interest.

No one has suggested yet, however, nor perhaps suspected even, that the civic-minded and progressive Corporation is in league with the oil companies, that the socialistic Maharashtra Government has been pretending innocently to be merely a 'dog in the manger', but that in reality it has been fostering and sustaining an ever-growing market for Burshane and Esso gas — the 'bottled gas', supplied in cylinders, which sells at four times the price of 'town gas' and over which there is no price control. Is the Maharashtra Government also in league with the oil interests abroad in both camps — has Malaviyaji also a hand in it, as a newcomer among oil importers ? — to push the consumption of kerosene in Bombay city, kerosene in which we will be perpetually short ? Is it not thus adding to the drain on foreign exchange, instead of helping to replace kerosene as fuel by gas by fixing an economic price for this essential public utility ?

If Maharashtra Government and the city fathers have set their face against private enterprise, why don't they take over the city's gas supply, expand it and run it as a public undertaking? Why have they chosen instead this 'dog in the manger' policy and stuck to it, impervious to all criticism and indifferent to public interest for these many years?

The Government will not take over Bombay Gas; it prefers to let it be pickled; the gas supply grows feebler, the pressure goes lower and lower, especially during the hours when people need gas most for cooking their meals; the company pays dividend by drawing down its reserves instead of utilising the latter for expansion and pays it at the rate of 5 per cent subject to tax, or 3½ per cent tax-free. This is a rate of return at which even the Government of India cannot raise funds. Indeed, the working of Bombay's gas supply is well worth a probe by social scientists, particularly those who live in the twilight world of welfare states and the socialism of municipal trading of the early Fabian days.

Stamping Out Spurious Drugs

THERE has been quite a furore in the Press as well as in the Parliament about the spurious drug racket which has lately been unearthed in various parts of the country. Will all this be just a flash in the pan, when something else hits the headlines or Parliament goes back to the perennial problems of prices or Ladakh ? Honest indignation at and violent condemnation of such anti-social acts, there is no reason to suppose, will stop the nefarious trade in spurious drugs. After lying low for a little while, it will revive and the business will be carried on as usual unless some positive action is taken. The threat to hang blackmarketeers from the nearest lamp posts does not bring down prices; what does are steps to increase supply or failing that, some effective form of controlled distribution. In the case of drugs, it will help sober thinking to remember that the Government is already adequately empowered with various Acts to deal with the situation and that a fairly comprehensive Drug Act came into force in 1945, but even after a decade of its operation, trafficking in spurious drugs has not been stamped out.

It is all to the good that so many cases of infringement of the Drug Act have come to light in quick succession. This is, of course, by no means accidental, for it does indicate that the Government has been shaken out of slumber a little. The promise of the Health Minister in Lok Sabha that the Government will take more effective measures against manufacturers and sellers of spurious drugs will not carry conviction, however, until the line of action contemplated is clearly laid down and there is some earnest of its being followed up. The problem is not easy for in the last analysis it boils down to one of implementation and effective administration and there's the rub.

The cases that usually come to light fall under these two categories:

(a) Faking of well known costly brands of patent or proprietary medicines; and

(b) Preparing of substandard drugs without proper precaution or control.

Both are equally dangerous. In the first case, the spurious drug manufacturer copies the container, label and the carton of the brand very carefully so that an unsuspecting buyer will not have any doubt about the genuineness of the product. In general, they copy a costly well known brand which is in good demand, so that there is a good margin of profit. They are hardly interested in faking a cheap product.

The second case is also one of easy profit but the offence may also be committed from sheer ignorance or negligence, though makers of spurious drugs do not put in the labelled amount of drugs in the container, and do not take the precaution and exercise the control needed for the preparation of these medicines. Either they have not got the proper equipments for medicinal preparations or they try to save money by not doing the tests.

The Government has enough weapons to fight these anti-social elements but has not yet made use of them properly : First, there is the Drugs Act of 1940, and rules formulated thereunder in 1945, with various amendments brought about uptill 1961. This is an Act of the Government of India regulating the import, manufacture, distribution and sale of drugs. It is quite an exhaustive piece of legislation meant to control the standard of the drugs as well as licensing of drug manufacturers. Though it is a Central Act, its implementation is vested in the State Governments. Each State has a Drug Controller who has a number of Drug Inspectors to help him to administer the Act in the State.

Unfortunately, due to various reasons, the enforcement of this Act has not been uniform in the different States, and as already stated by the Minister of Health in the Lok Sabha, many manufacturing licences have been granted without proper scrutiny as to the capability of the licensees to produce standard drugs.

Proper check and control of the channels of distribution are as important as the control over the manufacture of drugs because spurious drugs can get into circulation only through the unscrupulous dealers. The cooperation of the chemists and pharmacists is very important in detecting the culprits. The difficulty today is that many of the States do not have the field staff to carry out the responsibility vested in the Drug Control Department.

To operate the Drugs Act successfully, it is necessary :

(1) To implement and enforce the rules simultaneously with equal stringency in all the States;

(2) To have adequate staff to supervise and inspect manufacturing establishments and chemists;

(3) To scrutinise and carefully examine the equipments and facilities for quality control before issuing a licence of manufacture;

(4) To have a Government control and testing laboratory in every State to analyse the samples picked up by the inspectors; and

(5) To quickly dispose of cases of default with exemplary punishments.

There is another Act which has been in force since 1958: the Medicine and Toilet Preparations Excise Duty Act. According to this Act, all the medicinal preparations containing alcohol or any narcotic drugs have to be manufactured in a bonded laboratory or under the supervision of an excise officer. If this Act is effectively administered, as it deserves to be since Government money is involved, it should also enable control to be exercised on the standards of preparations containing alcohol and narcotics. There is quite a large illegal trade in narcotics which can also be partly checked by this Act.

Since April 1961, the Government of India has imposed excise duty on all proprietary medicines and at every manufacturing establishment Central Excise staff has been posted to check the production and clearance of goods. Patent and proprietary medicines have been defined in such a way that almost all the remedies used in modern therapy are covered by it. The Government can also help to stop or at least discourage the sale of spurious drugs by putting a control excise seal on every package leaving the drug factory. By this seal, the genuineness of the manufacture is established and the buyer can verify it while purchasing the drug.

The main impediment to effective control, however, is the loose dual control of the Centre and the State over the administration of the Drugs Act. This has been tried for quite some time with results painfully familiar to the public. Is it not high time that the controls were tightened?

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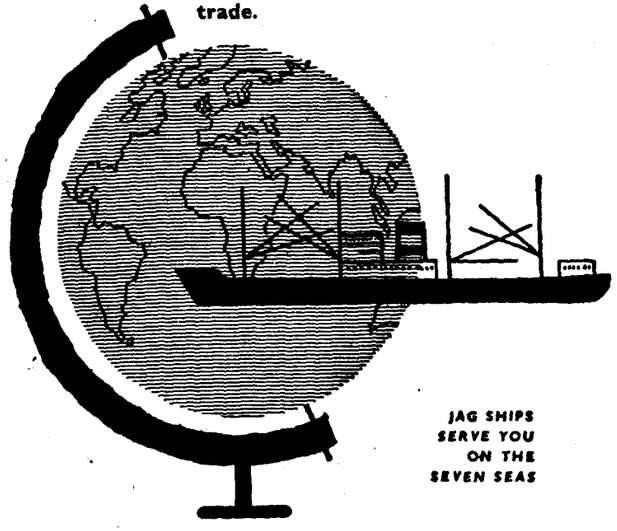

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Weekly Notes

Tory Government and Labour

Our London Correspondent writes :

FOR the U K 1962 may well turn out to be a year in which relations between the Government and the Trade Union have been worse than at any time in the past quarter of a century. With the Government flirting with economic planning, by setting up the National Economic Development Council (which the TUC reluctantly agreed to join), and the National Incomes Commission (which it has steadfastly boycotted) and the application for membership of the Common Market with all its implications, the TUC has to think of more positive steps to protect its own interests.

In these circumstances, it is not surprising that the Annual Report of the TUC General Council concentrates mainly on economic policy. The economic section of the Report is one long criticism of the Government's policies. Thus: "In a year characterised by economic inertia, the Government has allowed production to stagnate and men and machinery to stand idle. . . . . while it has persisted in policies of restriction which, it claimed, were the only way of improving the balance of payments. Evidence has been accumulating — and support growing — for the General Council's view that this is the wrong way to deal with the problem and that what is needed are policies based on economic expansion and direct action to deal with the balance of payments problem".

This critique of the Government's economic policy has been reinforced by the National Institute's latest survey published this month which expects that national output at the end of the year would be about 3 per cent higher than at the end of last year when it had dropped about 1 per cent below the figure in the middle of 1961. This clearly falls short of the target which NED has set itself. The survey continues :

> "The outlook for 1963 is most uncertain. If there were no Government action here or in US, there might well be a check to demand. The rise in exports would probably slow down, and the forces that are already depressing private fixed investment in Britain might get stronger".

The TUC grants that the case for economic planning is overwhelming. But it involves more than collection of data (the job which is being undertaken by NED); it also requires that the Government should, when necessary, take action to enforce priorities and reconcile competing claims on scarce resources. Planning must include some policy for incomes. But it is essential that such a policy should be effective and equitable. Profits cannot be allowed to rise at a time when wages are being restrained. Again, there can be no restraint on incomes if the Government pursues inflationary policies. Finally, there will be little chance of acceptance of any restraint on incomes if the economy is stagnating and if the cause of the stagnation can be clearly traced to the Government's policy or ineptitude.

In retrospect, it seems quite clear, therefore, that public hostility to the Government's "guiding light" for wages may in part be attributed to the stagnation in the economy. Men and women in industries, whose earnings were being depressed by loss of overtime or short-time working, could hardly be expected to take kindly to demands for restraint in pressing wage claims. It is against this background that the differences between the Government and the Trade Union on the proposed National Incomes Commission must be understood. Coming so soon after the pay pause, it was only natural that the TUC should look on the Incomes Commission as "simply another way of keeping wages down".

Indian Tea in U S

AMERICANS do not rate very high as tea drinkers. Of total world imports of tea, the U S share is a mere 3 per cent. As a market for Indian tea also, the United States can be hardly said to be important, accounting for less than 5 per cent of our total exports. Yet the facts about Indian tea exports to the United States are so striking that they deserve attention. In 1951 the Indian share of U S tea imports was almost 39 per cent but by 1961 this had fallen to less than 25 per cent. The fall in our exports is brought out even more sharply when compared with the rise in the exports of our chief competitor, Ceylon. Between 1951 and 1961, while our exports declined by 29 per cent, Ceylon's increased by no less than 49 per cent. Starting in 1951 with exports slightly below ours, Ceylon had by 1961 raised her exports to a level roughly twice that of ours.

The fall in our exports to the U S A was considered serious enough by the Tea Board to sponsor a delegation to visit that country early this year. The report of the delegation, which also visited Canada, was presented to Parliament last Saturday. Indian tea, the report concludes, is being steadily priced out of the U S market as prices of Indian 'mediums' and 'low mediums' are higher than those of comparable varieties from other countries like Ceylon, East Africa, Formosa, Indonesia and even Argentina. And it is the lower priced teas which constitute the bulk of U S tea packers' requirements. The better quality tea from India holds its own despite price differences but the majority of the U S tea-drinkers — or rather the blenders and packagers — are more price than quality conscious. Apart from meeting the demand of a small number of select buyers, the better quality tea from India is used for blending with the lower quality non-Indian teas. And, ironically, it is these blends consisting mainly of low quality non-Indian teas and small quantities of better quality Indian teas which are slowly driving out medium quality Indian teas from the U S market, according to the report. To quote from the report :

> "The large number of packers, importers and traders that the Delegation had the opportunity of meeting more or less unanimously pointed out that it was the unfavourable price factor which stood in the way of improved Indian exports to this market. While Indian quality teas were being purchased up to a certain degree at a premium to tone up the standard of the blend, this amounted to but a small percentage of the total purchases, and the bulk of the cheaper descriptions was often available at considerably lower rates from other producing areas."

Since the delegation is so definite that it is relative prices which account for the decline of Indian tea exports to the U S A, one would expect to find some statistics of relative prices of tea from India and from other countries in the U S market. Here, however, one is disappointed. We have to take the delegation's diagnosis on trust. This would have been easy enough, had there not been a certain amount of evidence pointing against such a conclusion. Even a rough comparison of prices fetched at the London auctions shows that the annual average price of Ceylon tea was never lower than that for Indian tea during the whole decade 1951-60, except in 1954, when it was 0.46d per lb lower than that of North Indian tea. But even in 1954, price of South Indian tea was lower. These are, of course, annual average prices and give no clue to the relative prices of different varieties. Even so, one would be surprised if in the U S market there has been so steep a rise in price of Indian tea or fall in that of Ceylon tea as to explain adequately not merely a relative decline in the share of Indian tea but also an absolute fall in Indian exports. In 1961, following a large increase in production over 1960, there was a fall in prices of Indian teas. And this year prices have been even lower, reflecting, partly, the Government's decision to reduce taxes on exported tea. The export duty on tea was lowered from 44 nP per kg to 25 nP per kg in the 1962-63 budget. It was also decided to allow refund of excise duty to the extent of 15 nP on all teas exported. Thus the effective export duty has been brought down from 44 nP per kg to 10 nP. Even if the simultaneous increase in excise duty varying from 5 nP to 10 nP per kg is taken into account, the relief granted under the current budget comes to about 24 nP to 29 nP per kg.

That Indian exports of tea to the United States should have fallen so sharply in recent years is certainly a matter of concern. But, in order to take the right steps to stop the rot, it is necessary to diagnose the causes correctly. It is here that one is left with the uneasy feeling that the delegation has perhaps too uncritically accepted the suggestion that it is the higher prices of Indian teas which have caused the loss of the U S market to Ceylon.

The above comments, it be better repeated, are based on what has appeared in newspapers. Perhaps the actual report will show — at least let us hope so — that the Tea Board has not been taken in by what the tea brokers told the delegation.

Another Effort in Congo

WITH the West Irian dispute apparently settled, the U N Secretary-General has turned his attentions once again to the problem of unifying Congo. The ten-point programme for ending the secession of Katanga which he announced this week appears to mix inducement and compulsion in judicious proportions. U Thant has proposed a federal constitution for Congo. He has already despatched U N experts to Leopoldville to draw up such a constitution. Lest the experts' work should get bogged down in the quagmire of Congolese politics, the Secretary-General has set a definite time limit of 30 days in which the constitution has to be got ready. Pending the formulation of permanent arrangements by the Government of unified Congo, the Secretary-General has suggested **ad hoc** arrangements to regulate financial relations between Katanga and the Central Government. These centre on sharing of revenues from all taxes, duties and royalties on a 50-50 basis. Congo will have one currency and a unified army. The division of powers between the Federal Government and the provinces will be defined in the constitution to be drawn up but the Secretary-General has clearly indicated that Katanga will be asked to close down its offices in foreign countries.

The Secretary-General hopes to induce Katanga to accept this scheme with the promise that the Central Government will be reconstituted to provide representation to all political and provincial groups. Mr Adoula, the Congolese Prime Minister has, it will be recalled, already offered Mr Tshombe the Vice-Presidentship in the unified government. The U N plan also suggests a general amnesty to all political prisoners as a gesture of conciliation.

But while these inducements are held out to Mr Tshombe, he is not to be allowed to sit over the offer indefinitely and hold up the unification of the country. Katanga will be asked to convey its acceptance of the scheme within a "brief time". But what happens if Katanga spurns the U N offer? The coercive part of U Thant's plan contains little that is new. The Secretary-General hopes to bring a recalcitrant Katanga to heel by imposing economic sanctions against it. This would involve among other measures, the blocking of Katanga's trade and financial relations with the outside world, particularly stopping its exports of cobalt and copper. To impose these economic sanctions against Katanga will require the cooperation of a number of foreign governments, particularly those of Belgium, Rhodesia, Britain and France. There is little reason to expect that this cooperation will be readily forthcoming. The idea of imposing economic sanctions against Katanga has been mentioned on more than one occasion in the past and all the Governments named above have openly declared their opposition to it.

Thus we are once again up against the U N tragedy in Congo : some of the very Governments which have committed the U N to its onerous task obstruct every step taken by the world organisation to fulfil this task.

By-Election in South

Our Madras Correspondent writes :

THE DMK victory in the election for the Tiruchengode Lok Sabha seat is a significant portent. The margin was narrow — just over 700 votes out of a total poll of about two lakhs. But it cannot be overlooked that the Congress candidate this time polled over 14,000 votes less than what was polled by Dr Subbaroyan only six months ago. True, the voting this time was poorer than at the time of the General Elections, as is normally the case with by-elections anywhere in the country. The DMK, however, maintained its vote at around 97,000

with the same candidate and with much the same manner and content of campaign. A notable difference from the General Elections was the absence of the PSP candidate, who had polled close to 40,000 votes. As a matter of fact, the drop in the poll is close to the size of the PSP vote six months ago added to the Congress losses.

Certain temporary and local factors helped the DMK. The voter in Tiruchengode certainly did not like that a by-election should be held so soon after the General Elections simply because the Congress High Command could not make up its mind about Dr. Subbaroyan's gubernatorial appointment. Then there was the local pique that in spite of there being four Congress MLAs in the Tiruchengode Lok Sabha constituency, the Salem District had not been represented in the Tamilnad Cabinet for over a decade. In addition the Government had not sanctioned the Cauvery-Tirumanimuthar scheme and the Mettur Left Bank Canal extension scheme, vital to this region's growth. Despite heavy pressure from local Congressmen, the Ministers would not make even vague promises about these schemes in their election speeches. The D M K cashed in on all this. Its main line was that it was only if the Congress felt unsafe in Tiruchengode would it be spurred to do something about its problems. Appeals to the narrow parochial sentiments of the people were, of course, repeatedly made. The D M K, it was also claimed, had no "northern affiliations" — and so it was the duty of every Tamil to vote for it.

It is not without significance, however, that despite its best efforts the D M K was able only to just maintain its base. It was not able to make inroads into the Congress following or into the floating opposition vote. The P S P leader of Tamilnad, P S Chinnadurai, emphasised this when he said that if his party had actively campaigned for the Congress, the DMK could have been trounced. As it was, the PSP directive to its supporters was a merely negative one: not to vote for the DMK because of the latter's secessionist policy. This was the stand taken by the Communist Party also. The party, according to some of its leaders, has about 30,000 voters under its influence. It is this neutralism of the two opposition parties and the passivity of a large number of local Congressmen that gave the D M K yet another representative in the national parliament.

Kamaraj's protestations notwithstanding, the left opposition in Tamilnad cannot help feeling that the Congress call for a crusade against the DMK is intended to get the other parties to pull its chestnuts out of the fire. After all, Kamaraj has not publicly disavowed the D K which also proclaims the ideal of Dravidasthan. Yet nobody with India's unity and Tamilnad's future at heart can ignore the need to forge a united front against the D M K. Tiruchengode reveals that such a front alone can beat back this chauvinist menace.

*

In five days the voters of Chittoor will decide if Shri N G Ranga, the Swatantra chief, should represent them in the Lok Sabha. The election has become a prestige issue for both the Congress and the Swatantra parties. Masani paid a flying visit and Rajaji is camping in the constituency. The Swatantra claims in Chittoor that it is not against planning but against what it calls the "huge size" of the plans and the Congress incapacity to execute them except by imposing enormous burdens. In this connection the recent enhanced land levy in Andhra is spotlighted. Much play is also made of alleged Congress corruption. The DMK has joined the fray quite actively on the side of the Swatantra candidate. It harps on what it calls the Congress design to impose Hindi everywhere, hoping thereby to rouse the apprehensions of the fair number of Tamil voters in the constituency. Another source of strength to the Swatantra will be the campaign of Tenneti Vishwanadham, one of the leading lights of the opposition in the Andhra Assembly and a greatly respected figure in the State. He and his supporters believe that the only way forward for the State is to defeat the Congress no matter who does it.

Against this formidable combination, the Congress has thrown in all the resources it possesses at the State level. Sanjeeva Reddy has not only stayed for some time in the constituency but has geared up the party's election machinery. Kamaraj has also paid a flying visit. The Communist Party has not only decided to support the Congress candidate but has also sent one of its most effective campaigners, Maqdoom Mohinuddin, to the constituency together with a hundred workers. As the Communists won two of the seven Assembly seats in Chittoor in the General Elections their support would be valuable to the Congress. This open Congress-Communist cooperation is a unique event in Andhra. Adjustments and unofficial alliances had been made earlier. But this is the first instance of a coming together of the two major parties in this State for a common cause.

For Donkeys Only?

AT a recent meeting in Mysore, Pandit Nehru upset some affectionate souls who had gone to garland him. Bearing the burden of the garlands, one should have thought, would have been a labour of love for the Prime Minister. But instead he roundly rebuked his admirers: "Garlands are meant for donkeys". He castigated them for their "wasteful habit" and asked them to spend money more usefully.

Since the habits of the people of our country are so often moulded by the fads and fancies of the man they love most, it looks as if the garlanding habit may die away after Pandit Nehru's outburst. This would be a tragedy. The garland is one of the few remnants of the once beautiful India. Is it to be wasted on donkeys? And what will the foreigners think? How will we greet our distinguished visitors?

The saree is a beautiful symbol of India, a worthy ambassador of our land and culture. The garland deserves this tribute no less, being at once a mark of esteem, love and appreciation. Pandit Nehru's modernism is well known; that people should live in the present and look to the future instead of glorifying the past is unexceptionable. But does that mean that we should do away with everything ancient?

The garland is an institution. Perhaps Shri Nehru will himself realise that his outburst against it was an impetuous act not intended to be taken seriously by his admirers.

Our Calcutta Letter

Towards Eighteen Million Tons

A series of meetings were held in Ranchi and New Delhi this week to initiate work on the Fourth Plan steel programme. These were meetings of the sub-committees set up by the Steering Group on Iron and Steel when it first met on June 26 and adopted, despite vigorous protest from Tata's Sir Jehangir Ghandy, a target of 18 million tons for 1970-71. Each sub-committee is in charge of some one aspect of advance planning, such as raw materials, economic and financial implications, analysis of demand to determine the product mix, training of personnel and manpower, indigenous manufacture of equipment, and technical studies on alternative technologies of iron and steel making, beneficiation of raw materials etc.

Whether these sub-committees will in fact make advance planning possible or not is quite another matter. The Perspective Planning Division (PPD) in a note circulated to the Steering Group before its June 26 meeting, had stated, elaborating the obvious point that the mere formulation of targets was not enough:

> "Detailed technical and economic studies need to be undertaken to work out the implications of the targets and define the steps which must be simultaneously initiated to make coordinated progress possible over a wide front. In the absence of such studies, coordinated under competent technical aegis, delays, difficulties and unforeseen obstacles will make orderly progress towards realisation of targets impossible. Nor would there be any assurance that development was planned with full knowledge of technical possibilities and costs were kept down to the minimum".

PPD had estimated that the work involved might require the deployment of a task force of 200 to 300. With the experience of many other Government committees presumably in mind, it had emphasised that these studies could not be undertaken by a "cell" or "committee" set up by the Government as there would then be great danger of such studies being turned into an academic exercise.

No progress appears to have been made so far to assemble this task force. PPD had recommended that the force should be assembled under "competent technical leadership", and that this was decisive to the success of the planning operation. It also considered it necessary that the task force should at all times have a continuing association at first hand with field problems of steel expansion and had, therefore, recommended that the force should "form an integral part of a larger organisation actively working on the design and engineering of steel plants". There is so far no assurance that these recommendations will, in practice, be implemented. In the absence of any moves in this direction, it is difficult to take seriously the Ministry's concern for long-range planning.

Competent Technical Leadership

The clear lesson of the last two plans is that long-term planning is nowhere as important as in iron and steel. Pointing this out, P P D had reminded the Steering Group that the installation of new capacity, and the development of ancillary facilities such as new mines, washeries and railways, is a time-consuming process which may extend from six to ten years. It urged, therefore, that the Third Plan should concern itself as much with the realisation of current targets as with advance preparation for the Fourth and Fifth Plans. The "paramount necessity" of taking a long view was urged for achieving any lasting and continuing progress in steel. It is all too easy to fail to include in a plan sufficient work for the future. "Immediate needs are so urgent and so large in relation to th scarce resources available, the fruits of such work seem so very distant that the need for an extra steel plant (or power plant) eight to ten years hence may seem very uncertain."

The development of the steel industry has in the past been hindered by an insufficient appreciation of the vital role of steel, as also the inability to view problems and possibilities from a long-term standpoint. The consequence of a failure on the steel front are brought out sharply. The requirements of steel are estimated on the basis of a projection of investment to be made in the next plan period. From a level of Rs 3400 crores in 1965-66, the projections expect gross investment to rise to Rs 5300 crores by 1970-71.

"About a third of this value will be comprised of machinery and equipment and the rest will represent construction of various works, dams, factory buildings, railway lines, roads, homes, schools, hospitals, etc."

Table 1 gives the supply of and demand for steel by product categories in 1970 showing an excess of demand of six million tons of finished steel over the capacity planned at the end of the Third Plan. Given the balance of payments constraints the ability to step up capital formation will depend very much on the success in creating production capacity within the country to meet as large a proportion of the demand as possible.

The perspective Plannnig Division has also outlined the possible pattern of expansion of the steel industry (See Table 2). The estimates of

Table 1: Supply and Demand of Rolled Steel by Product-Categories: 1970

(Million tons)

Product and category	Estimated Demand	Supply on Basis of Third Plan Programme	Deficit
Flat products	4.8	2.6	2.2
Merchant bars and sections	3.8	2.1	1.7
Structurals	2.1	1.4	0.7
Railway materials and others	2.4	1.0	1.4
Total	13.1	7.1	6.0

Table 2: Steel Capacity in 1970-71

(Steel ingots, million tons)

	1965-66	1970-71
Bhilai	2.5	3.0
Rourkela	1.3	2.5
Durgapur	1.6	2.5
Bokaro*	1.0	3.0
Tisco	2.0	3.0
Iisco	1.0	2.0
Others	0.8	2.2
Total	10.2	18.2

* Actual production from Bokaro estimated in the Third Plan at 300,000 tons by 1965-66, but not likely to materialise.

steel production assume expansion of existing units, including the two in the private sector to their maximum capacity. They also assume an output of three million tons from Bokaro by the end of the Fourth Plan. This generously estimated production capacity at the end of the Fourth Plan will still leave a gap of 2.2 million tons to be covered, presumably, by one or more new steel plants.

The Division of Perspective Planning has all along recommended that the Bokaro plant should right from the beginning be designed for an ultimate capacity of three million tons. That this suggestion has support in the highest political quarters is confirmed by the briefing which Shri Subramaniam is believed to have given to the U S Steel Mission which is making a feasibility study of Bokaro. The Prime Minister's frequent references to the expansion potential of Bokaro is also a significant pointer.

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Capital View

Our Parliament Today

Romesh Thapar

THE other day, someone was suggesting that the only way to inject some reality into the debates taking place in Parliament was to organise a 'living newspaper' for members. This should consist of **unsigned** petitions, memoranda and facts sent in by spirited citizens and officials. The material should be well displayed to assist MPs to take up issues which engage the attention of the nation. A little publicity for this 'living newspaper', it is pointed out, would probably turn it into a unique democratic institution. The suggestion was warmly supported. Indeed, it was even argued that if Parliament considered such activity not in keeping with its dignity, President Radhakrishnan could find some way of making materials collected at his 'darbars' available to MPS.

Without a doubt, such comments are excited by the barrenness of the debate in Parliament and the apparent incapacity of members to prepare their interventions in the tradition established by old stalwarts like Satyamurthi and Bhulabhai Desai in the pre-Independence days. True, membership of Parliament has become a profession for the non-specialists, but what prevents them from applying their minds to the problems under debate? It would be interesting to make a survey of the reading habits of our MPs. Perhaps, like the civilian and army personnel of the Government of India, they rely on what they can pick up from various 'digests' and newspaper clippings? But even a study of these should yield some modicum of fresh ideas.

Whether on defence matters, foreign policy or economic planning, the same old cliches are repeated and no one blushes at the repetition. Of course, when it comes to demanding attention or priorities for an industrial project, railway or other development, the MP concerned shows some knowledge but even here there is a surprising lack of understanding about the planning process and how it should be inter-woven with local needs. The attitude of the government front bench heightens the apathy; apart from the Prime Minister, the others are only too anxious to reduce 'question hour' to as tame an affair as possible. With bolder, more competent men on the front bench, this situation would soon transform. But, then, such are the ways of democracy . . .

'Red Lights' and 'Green Lights'

The dullness of the debates naturally encourages speculation about Cabinet reshuffles and such things. The Prime Minister, as usual, is tight-lipped — and the assumption is that he will spring the news on Parliament before it adjourns early next month. The speculation invariably centres on T T Krishnamachari. Until a few weeks ago, he was telling friends that he was 'fed up' and would one day pack his suitcase and 'push off'. Now, he seems to have found his bearings as 'coordinator'.

Krishnamachari's first speech in Parliament since joining the Cabinet did not succeed in clarifying the role he is expected to play as coordinator. In fact, he managed to create the unfortunate impression that he would not be answerable to Parliament because of the very nature of his behind-the-scenes coordinating activity between ministries. This is extraordinary, to say the least — but there was no one in the House to take up this question, not even the Communists who are away in Hyderabad trying to resolve the struggle for power within their own party.

Most members accepted Krishnamachari's colourful thesis about 'red lights', and 'green lights', and how he would control and coordinate the switchboard. His cabinet colleagues also seemed to accept the new role designed for them. A few back-benchers, handicapped by the bad acoustics of the House, picked up bits and pieces of the speech and came to the conclusion that TTK was about to take over the Railway Ministry from his friend, former Steel Minister Swaran Singh who seems fated to preside over 'accidents'!

Empire Builders, Big or Small

Those in the Capital who consider themselves better informed have radically altered their earlier theory that TTK is taking Finance and Morarji Desai is headed for Home. They now imply that a massive Ministry of Industries and Commerce is to be created for TTK which will include the portfolio at present held by Subramaniam. The inanity of the speculation can be seen from the simple fact that Subramaniam, who has shown silent efficiency in tackling the challenges of public sector enterprise, has been treated as if he were expendable. Clearly, only the headline-makers count in the Capital.

It would be more appropriate if our imaginative political pundits applied their undoubted talents to the problem of the paralysis which grips the Union Government and its constituent ministries. Each Cabinet Minister has become a law unto himself and seeks to operate an 'empire' independent of the others. Frequently, the empires overlap causing friction, further paralysis and tremendous waste. For example, we cannot meet the power needs of a few growing industrial centres and argue that this is due to foreign exchange shortages, but we thrill to the possibility of an atomic power station being established at considerable cost in foreign exchange. Then again, power and transport facilities have to keep well ahead of demand in a growing economy and need far-sighted planning but a host of ministries and authorities at State and Union level make decisive decision-making impossible. And now the Defence Ministry is building up a third industrial sector, totally independent of both the public and private sectors, negotiating alloy steel plants, breweries and what have you! As for the Planning Commission which does not seem to have a clue, it is be-

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ing rapidly reduced to an 'information desk' from which the flow of information has sunk to the thinnest trickle! This is the creeping jungle over which the Prime Minister reigns supreme.

With conditions as they are, only Parliament can cut a path through this jungle. True, general apathy, reinforced by the orders of party whips, makes the task doubly difficult. Then, there are the supporters of individual ministers, who, in the present struggle for power and vantage position, are wholly devoted to sniping at potential competitors. Yet, unless MPs mobilise themselves to analyse this forgotten aspect of the general crisis, we might well be missing our only chance to salvage the efforts and achievements of the last 15 years.

Delhi Power Failure Probe

Meanwhile, the citizens of Delhi are taking a lively interest in the investigation being launched into the power failure which disorganised the capital for a month. Several 'reports' are promised. Probably, each will negative the other so as to prepare the way for the transfer of guilty officials to more responsible positions. But very damaging 'facts' are being publicised. Apparently, modern transformers do not burn out due to overloading, but only as a result of neglectful maintenance. During the crisis, the Delhi Electric Supply Undertaking (DESU) managed to create 15,000 KW of power from unused or old equipment 'lying around'. We have also heard that DESU has never generated the maximum it is capable of. If these 'facts' are proved, there will be ground for investigating other electricity undertakings in the country.

Stories are also circulating of how certain roads where ministers reside were not included in the power shedding programme, and sometimes only symbolically. Whether the investigators will go into these and related questions is a moot point, for did not the MP flats also receive special treatment? Anyhow, it is fairly certain that the citizens of Delhi are not in a mood to accept 'wishy washy' reports. Here's hoping that the mood will prove infectious and create a ferment of thinking both inside and outside Parliament on the bigger, conditioning problems.

Our Delhi Letter

Response to Panchayati Raj

THE elections to Panchayat Samitis — the second tier in the Panchayati Raj set-up — in Punjab towards the end of 1961 provided an excellent opportunity to assess the interest evoked by the proposed new administrative scheme for rural India. The Union Ministry of Community Development and Cooperation conducted a survey immediately after the elections. The survey records the response of the Panchs and Sarpanchs to the functions and responsibilities which have devolved upon them under Panchayati Raj and also throws some light on the composition and quality of the new leadership in the villages. The sample chosen for the survey extended over 300 villages.

A Gram Panchayat in Punjab covers one or more villages with a total population of not less than 500 persons. Every person entered as a voter in the electoral roll for the State Legislature is entitled to vote in the elections to Gram Panchayats. There is a provision of co-option of a certain number of unsuccessful women and Scheduled Caste candidates who secure the largest number of votes, if a prescribed minimum number of Panchs from these sections of the population are not elected.

A Panchayat Samiti is constituted for each Community Development Block. It consists of

(i) 16 members elected by all Panchayats in the Block from among their members;

(ii) 2 members elected by the co-operative societies in the Block;

(iii) 1 member representing the market committees in the Block.

Every Panchayat Samiti must have at least two women and four Scheduled Caste members. If the required number of women and Scheduled Caste members are not returned in the elections, members belonging to these sections are co-opted.

Panchayat Samiti: the Linchpin

A study of the Punjab Panchayat Samitis and Zila Parishads Act, 1961, indicates that the Samitis occupy a more vital place in the new set up and are intended in due course to become the most powerful organ of Panchayati raj in terms of functions, power and authority. Zila Parishads form the apex of the hierarchy but are designed to play only a supervisory and co-ordinating role. Panchayat Samitis have the more important role of initiating policies and executing development plans in the rural areas.

That Panchayat Samitis have aroused interest among the people is evidenced by the fact that participation in elections to the Samitis appears to have been almost universal, 94.3 per cent of the Panchs and Sarpanchs in the sample stated that they had voted in the elections to the Samiti. One reason for this commendable interest in the elections may have been that the Panchs and Sarpanchs wanted their own friends or relatives to be elected (29.4 per cent of responding Panchs and Sarpanchs gave this reason). Only 13.3 per cent "were interested in electing capable and intelligent candidates". The Survey fully reveals the influence of caste in the village life. From among the responding Samiti members only 5.6 per cent could positively claim that the "caste factor did not operate" in their election. As against this 29.9 per cent admitted that they were elected by the support of either their "own caste members" or members of their "own caste and other castes".

The procedure for co-opting Harijan and women members in the Panchayat Samitis which is different from that followed in the case of Gram Panchayats (in Gram

Panchayats only losing candidates securing the highest number of votes are co-opted while in Panchayat Samitis any one can be co-opted) has been the source of many malpractices. Votes of Harijan members are often "purchased" on the assurance they would be co-opted later. As many as 41.4 per cent of the responding Panchs and Sarpanchs wanted the procedure for co-opting Harijan members in Gram Panchayats to be extended to the Panchayat Samitis.

That the Comunity Development programme has failed to create any lasting impression is borne out by the findings of the survey. For instance, as many as 80 per cent of the responding Samiti members and 68.6 per cent of the Panchs and Sarpanchs felt that compared to the Community Development set-up, Panchayat Samities would be in a better position to carry on the work of rural development. Almost half the responding Samiti members were either absolutely dissatisfied with the Community Development Programme or thought that there was much room for improvement in the execution of the programme.

The main reason for the dissatisfaction with the Community Development Programme is that it is being executed by official agencies. Respondents preferred Panchayat Samitis to Community Development Programme agencies on such grounds as that

"Members of the Panchayat Samitis being bonafide inhabitants of the local area and the people's representatives, will take more interest than the Block Development Agency in the problems of the area".

"A Panchayat Samiti can do better work because it represents all the areas, villages, castes and classes, and interests of every one will be safe".

"People would be more willing to obey the instructions of their own representatives (who are in the Panchayat Samiti) rather than the Government officials".

The most interesting part of the survey concerns the pattern of new leadership. It shows the class (on the basis of household income) and caste composition of village leadership as reflected in Panchayats and Panchayat Samitis. Groups having monthly income of more than Rs 301 which constitute 12.2 per cent of the population have 41.7 per cent representation in Samitis and 19.1 per cent in Panchayats. Groups having monthly incomes of upto Rs 150, though forming 62.9 per cent of the population have only 26.3 per cent representation in Samitis and 46.9 per cent in Panchayats. Similarly, the Jats who dominate the Punjab village, though only 37.7 per cent of the population, have 45.8 per cent representation in Samitis and 40.1 per cent in Panchayats. The social and economic elite in the villages has thus secured a disproportionate representation in the new institutions. They are in the controlling position in the Panchayat Samitis—the most vital organ of power in 'Panchayati Raj'.

This is a dangerous sign. If Panchayat Samitis are to be instruments of the ordinary people and effective agencies of development, they must be free from the domination of the village oligarch.

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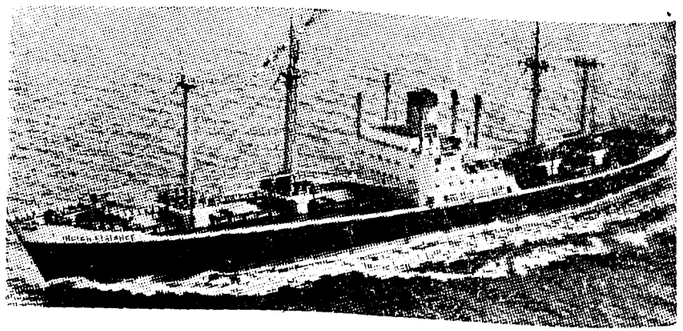

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Letter from Andhra

Nagarjunasagar Project: Whose Baby?

WHAT may be regarded as a battle of wits is going on between the Andhra Pradesh Government and the Centre on the issue of the execution of the Nagarjunasagar project on the Krishna river. The State Government wants the Centre to undertake the financial responsibility for the project as the cost of executing the project is proving a heavy burden on the State's limited resources. The Centre has so far refused to commit itself.

The State Government is not trying to "pass the buck" to the Centre. There is the legitimate anxiety that the execution of the project should not be held up for want of resources. Expediting the execution of the project calls for ready availability of finances and timely import and supply of machinery and equipment. The State Government has already spent about Rs 49 crores on the project since its commencement in 1955, of which about Rs 28 crores has been received from the Centre as a loan. The rest of the outlay was raised by the State from its own resources. The first phase of the project is expected to be completed only in 1971 and the original estimate of cost at Rs 91 crores, has been revised and is now expected to be nearly Rs 120 crores.

Because of its gigantic size and the large outlay it entails as well as the very substantial contribution that it would make to self-sufficiency in foodgrains, especially in rice, the project qualifies for being treated as a Central Government undertaking. When the first phase of the project is completed, it would be possible to bring under irrigation more than two million acres for cultivation of rice and sugarcane, while, at the end of the second or final phase, the acreage under irrigation would be increased to more than 3 million acres leading to a total production of 13 lakh tons of foodgrains per annum. Additional output from irrigation provided under the Nagarjunasagar project would go to bridge the gap between demand for and availability of rice in the whole country. In addition, some rice may also become available for export, it is claimed.

The State Government's case for transfer of financial responsibility for the project to the Centre rests on some other considerations also. The large capital expenditure on the Nagarjunasagar project will, the State Government claims, seriously affect its capacity to find funds for other essential schemes of development in spheres like education, road transport, medical relief, and relief of certain scarcity areas in Rayalaseema. If the State can save the capital expenditure on Nagarjunasagar, on which it has been spending on an average about Rs 3 crores annually during the last seven years (the allocation for this year amounts to Rs 8 crores), it could spend much more for other schemes which would bring substantial and more immediate benefits for the people. Interest charges on the loans advanced by the Centre for the project alone come to Rs 2.6 crores at present and would progressively increase as the amount of the loan goes up.

The basic issue is simple: It would be a national loss if a big project like Nagarjunasagar from which the whole country would benefit were held up or were executed in slow stages for want of funds. Even at present the Centre is in any event, finding the money, albeit in the form of loans. Obviously, therefore, neither logic nor public interest is served by the present arrangement.

Control over Singareni

Another issue on which the Andhra Government has been negotiating with the Centre pertains to control over the Singareni collieries. At present, the management of the collieries is vested in the State Government, though the Central Government has an important proportion of the shares in the company. An expansion scheme has been formulated for the collieries which is intended to achieve a target of 5.65 million tons of coal per annum by the end of the Third Plan period. The scheme is estimated to cost Rs 20.63 crores. The Central Government has agreed to provide funds for the expansion programme. In 1961 a loan of Rs 250 lakhs was sanctioned. But from all accounts the provision of further assistance is tied up with the question of control over the company, though the chairman's report at the annual general meeting of the company held in June mentioned that the Centre had promised Rs 325 lakhs towards share capital and another Rs 25 lakhs as loan.

The Centre had suggested that if the expansion of coal production at Singareni could not be financed by the State Government, the latter could transfer control of the mines to the Centre. This suggestion was accepted in principle by the previous State Ministry but the Sanjeeva Reddi Ministry is reluctant to act up to it. The coal produced in the collieries is mainly of the low grade variety, which, though not usable by railways and the steel plants, can be used for power generation. The position with regard to power supply in Andhra is admittedly acute and one effective solution for the problem is the construction of a power plant at Kothagudem. The World Bank has investigated this proposal and has already intimated its willingness to finance it. If, as a result of the transfer of control to the Centre, coal required for the proposed thermal plant at Kothagudem is not made available, Andhra would be a great loser and its hopes of relief from the power famine would be belied.

Whether the Centre would accept these arguments and be prepared to advance the major proportion of funds for expansion of Singareni without insisting on transfer of control is not yet known. In any event, there is no gainsaying the urgent need to enable Andhra Pradesh to overcome the present acute power shortage. And this has come to be linked with the thermal power scheme at Kothagudem. For, the Srisailam scheme, which is another potential source of power supply to the State, is entangled in the State controversy over the 9.2 of the Krishna waters therefore, take a long ti of Commer shape. tatistics.

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India's Terms of Trade, 1951–1961

Idris A Qureishy

It is of vital importance to find out the impact of economic development on India's terms of trade in the last decade.

So far attempts to analyse this problem have followed the movement in the commodity terms of trade only, and are, therefore, not very decisive. Commodity terms of trade relates to a unit of trade and, therefore, does not reflect the relationship between the total gain from trade and the total volume of trade.

Income terms of trade removes this shortcoming, and gives us total gain from foreign trade. An adverse movement in the commodity terms of trade is quite consistent with economic growth induced by the working of foreign trade multiplier, so long as there is a favourable trend in the income terms of trade.

The purpose of this article is to construct an income terms of trade index for India, and to examine the implications of the statistical findings.

THE income terms of trade is derived by multiplying the commodity terms of trade with the index of the volume of exports. We will use the following symbols[1]:

P or U	V =	Price or Unit value
X or x	=	Exports, or pertaining to exports
M or m	=	Imports, or pertaining to imports
Q	=	Quantity or volume
V or P Q	=	Value in money terms
Zx	=	Index of cost in terms of quantity of factors used per unit of exports
Zm	=	Index of cost in terms of quantity of factors used per unit of imports

Then the commodity terms of trade (Tc) is Px/Pm. 100 and the income terms of trade (Ti) is Px/Pm.Qx or Px Qx÷Pm. The method adopted for giving weights is not given in the "Monthly Statistics of the Foreign Trade of India" published by the Department of Commercial Intelligence and Statistics and, therefore, we are not in a position to find out the degree of inaccuracy because of the possible exclusion of some exported and imported commodities. The problems of weighting are also involved in the computation of commodity terms of trade, but the non-existence of data discourages us to introduce weights.

The period under study covers the two plan periods i e, 1951-52 to 1960-61 with 1950-51 as the base year. The statistics for 1951-52 to 1959-60 had 1950-51 as the base year, but the figures for 1960-61 had 1958 as the base. In order to make them comparable, we converted the 1960-61 data to the base year 1950-51 by the chain link method. Part I makes a comparative analysis of the movements of the income and the commodity terms of trade. Part II brings out the possible implications of the statistical results, and Part III analyses the conclusion.

[1] Following Kindleberger, C P, "The Terms of Trade — A European Case Study" Chapman and Hall Ltd. London, 1956, p xix.

I

Trends in the Income and Commodity Terms of Trade

The annual index of the commodity terms of trade for the period 1951-52 to 1960-61, with 1950-51 as the base year, is presented in Table 1.

Looking back at the decade, which covers the two plan periods, we find an adverse movement in India's commodity terms of trade in 1960-61 as compared with 1950-51. During the period the index moved against us by 21 per cent. In the first year of the First Plan it was substantially in our favour, but declined heavily in the second year. There was an improvement in the next two years, but the index again moved back in the last year of the First Plan by about 5 per cent. This adverse movement continued in the first two years of the Second Plan, but in the last three years of the decade there was a favourable movement of commodity terms of trade.

The major cause of the worsening of commodity terms of trade during the decade as a whole was the heavy fall by about 27 per cent in the export unit-value index (Table 2). In 1951-52 the index was at a high level, but it declined steeply the next year. This downward movement continued in the third year of the First Plan, though the rate of decline was much less. The export unit-value index became favourable to India in the fourth year, but moved against her by about 8 percent in the last year of the First Plan. In the first four years of the Second Plan the ex-

Table 1: Indices of Commodity Terms of Trade

(1950-51 = 100)

Year	Index
1951-52	124.3
1952-53	88.1
1953-54	88.8
1954-55	97.1
1955-56	92.1
1956-57	91.7
1957-58	85.9
1958-59	86.6
1959-60	94.2
1960-61	98.2

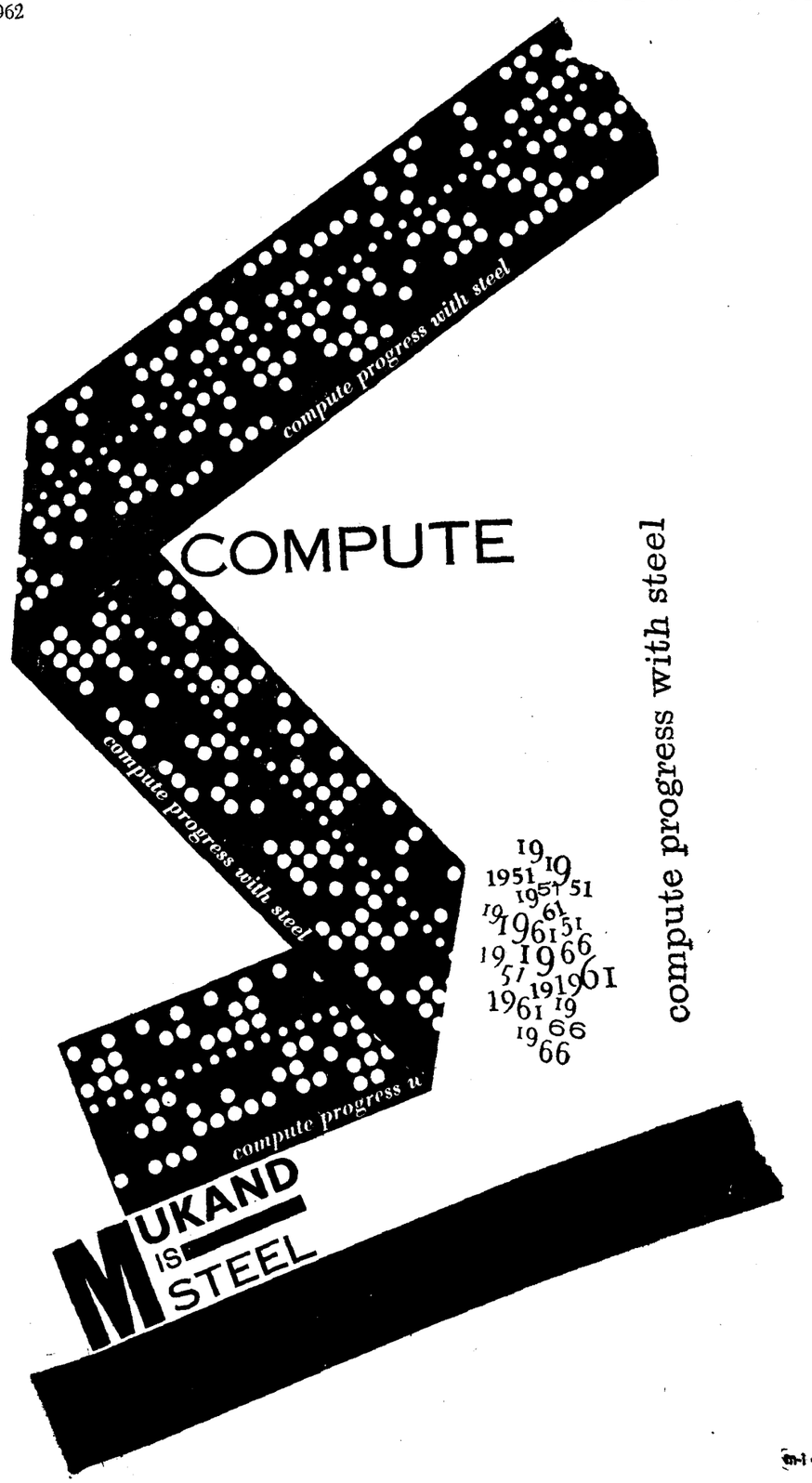
Source: Director General of Commercial Intelligence and Statistics, Government of India.

Table 2: Index of Export-Unit-Value

(*Base*: 1950-51=100)

Year	Index	Year-to-year percentage change of the index
1951-52	148	+48.0
1952-53	104	−29.7
1953-54	96	− 7.7
1954-55	102	+ 6.2
1955-56	94	− 7.8
1956-57	98	+ 4.2
1957-58	98	+ 0.0
1958-59	97	− 1.0
1959-60	98	+ 1.0
1960-61	108	+ 9.2

Source: Director General of Commercial Intelligence and Statistics.



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port unit-value index was, more or less stable, but it improved by about 9 per cent in the last year of the decade.

Table 3 shows that there was a decline in the import unit-value index also by about 7 per cent in 1960-61 as compared with 1951-52. But this fall was more than offset by a four times greater fall in the export unit-value index. There was a downward movement in the index of unit value of imports during the First Plan period. The index rose moderately in the first two years of the Second Plan, but showed a downward movement in the next two years. In the last year of the decade there was a rise of about 6 per cent.

Table 4 indicates that the income terms of trade under-went a decline in the last year of the Second Plan as compared with the first year of the First Plan. The differences in the movement of commodity and income terms of trade are better analysed by comparing the year-to-year percentage changes for each. This we have done in Table 5.

There was a wide divergence between the two indices at the beginning of the First Plan. While the commodity terms of trade were very favourable, the income terms of trade were against us. In the next three years the change in both the series is in the same direction. During the last year of the First Plan while the commodity terms of trade moved down by about 5 per cent, the income terms of trade moved favourably by about 4 per cent. The reason was a 10 per cent increase in the quantum of exports in that year. During the first year of the Second Plan the fall in the income terms of trade was greater than in the commodity terms of trade. In the next two years also there was a divergence in the movements of the two terms of trade. But in the fourth year of the Second Plan while the commodity terms showed only a moderate favourable movement, income terms of trade showed a very substantial favourable movement. On the whole the income terms of trade show an adverse movement when we compare the last year of the decade with the first year.

II
Implications of Statistical Findings :

The following implications emerge from the foregoing description of the movements in our commodity and income terms of trade:

(a) The marked deterioration in the commodity terms of trade was due to proportionately greater adverse movement in the export prices than the import prices.

(b) Constant or improving income terms of trade mean that the loss to the country due to the adverse movement of export price and/or import prices have been more than offset by a proportionately favourable change in the quantum of exports. But when the income terms of trade also show a deterioration, it in an indication that exports have not expanded proportionately.

We find that while the decline in commodity terms of trade was 22 per cent, the fall in the income terms of trade was only 3 per cent over the decade. This demonstrates that there must have been an upward trend in the quantum of export. But the increase of 22 per cent in the volume of exports (Table 6) was proportionately less than the fall of 27 per cent in the export prices, otherwise income terms of trade must have shown an improvement.

(c) Though the series of income terms of trade, gains from trade and volume of exports are not exactly comparable, there exists a relationship between them. The income terms of trade (Px Qx)/Pm less the index of the export volume Qx equals the gains from trade, $Qx. \left(\frac{Px}{Pm} - 1\right)$

Table 7 stresses a very useful implication. We find that changes in India's foreign trade position, measured by capacity to import (income terms of trade), are more frequently the result of changes in volume of exports than of changes in gains from trade.

(d) Inspite of the inadequacy of the available data we can

Table 3: Index of Import Unit-Value
(*Base*: 1950-51 = 100)

Year	Index	Year-to-year percentage change of the index
1951-52	119	+19.0
1952-53	118	— 0.8
1953-54	108	— 8.5
1954-55	105	— 2.8
1955-56	102	— 2.8
1956-57	107	+ 4.9
1957-58	114	+ 6.5
1958-59	112	— 1.7
1959-60	104	— 7.1
1960-61	110	+ 5.8

Source: Director General of Commercial Intelligence and Statistics.

Table 4: Indices of Income Terms of Trade
(*Base*: 1950-51=100)

Year	Index
1951-52	99.4
1952-53	78.4
1953-54	79.0
1954-55	91.2
1955-56	94.8
1956-57	89.8
1957-58	90.1
1958-59	83.1
1959-60	100.7
1960-61	96.2

Source: Computed from Table 1 and Table 6.

Table 5: Year-to-year Percentage Change of Commodity and Income Terms of Trade
(*Base*: 1950-51 = 100)

Year	Commodity terms of trade	Income terms of trade
1951-52	+24.3	— 0.6
1952-53	—29.1	—21.1
1953-54	+ 0.8	+ 0.8
1954-55	+ 9.2	+15.4
1955-56	— 5.2	+ 3.9
1956-57	— 0.4	— 5.3
1957-58	— 6.3	+ 0.3
1958-59	+ 0.8	— 7.9
1959-60	+ 8.7	+21.2
1960-61	+ 4.2	— 4.5

Source: Computed from Table 1 and Table 4.

Table 6: Index of Export Volume
(*Base*: 1950-51 = 100)

Year	Index	Year-to-year percentage change of the index
1951-52	80	—20.0
1952-53	89	+11.2
1953-54	89	0.0
1954-55	94	+ 5.6
1955-56	103	+ 9.6
1956-57	98	— 4.8
1957-58	105	+ 7.1
1958-59	96	— 8.5
1959-60	107	+11.3
1960-61	98	— 8.4

Source: Director General of Commercial Intelligence and Statistics.

reasonably conclude that single factoral terms of trade (Tc, $Zx = \frac{Px}{Zx} \div Pm$) must have shown a downward trend. Though there was some increase in productivity, but because of severe bottlenecks in transport and availability of raw materials, increases in productivity were intermittent and irregular. Therefore, they must have been less than adequate to counter the heavy decline in the commodity terms of trade.

III
Conclusion

Our conclusion is that economic development in the initial stages has worsened both the commodity and income terms of trade of India.

An explanation of the impact of economic development on the terms of trade of an underdeveloped country can be made in terms of price and income elasticities of demand facing her on the one hand and elasticity and adaptability of the resource use on the other. The price elasticity of demand for India's exports is less than unity as demonstrated by our findings. The response of export volume is less than proportionate to the decline in export unit-valued. Had the demand for our exports been price elastic, the income terms of trade would have moved in our favour. The income elasticity of demand for exports also appears to be inelastic. While income has increased substantially in the developed countries, export to these countries has increased less than proportionately.

Table 7: Income Terms of Trade, Gains from Trade and Volume of Exports, 1951-61

(*Base*: 1950-51 = 100)

Year	Income Terms of Trade	Gains from Trade	Volume of Exports
1	2	3	4
1951-52	99.4	+19.4	80
1952-53	78.4	—10.6	89
1953-54	79.0	—10.0	89
1954-55	91.2	— 2.8	94
1955-56	94.8	— 8.2	103
1956-57	89.8	— 8.2	98
1957-58	90.1	—14.9	105
1958-59	83.1	—12.9	96
1959-60	100.7	— 6.3	107
1960-61	96.2	— 1.8	98

Source: Columns 2 and 3 are computed. Source of Column 4 is D G C I S.

Indian conditions illustrate the Kindleberger thesis that the tendency of terms of trade to move against the under-developed countries is due to the low capacity of these countries to shift their resources[1]. India is still engaged in traditional forms of economic activity as she is in the early stages of development. Elasticity of supply is low. Capital formation is a slow and difficult process in the economic set-up of an under-developed country like India. Facilities for agricultural credit are inadequate and largely ineffective. Industry is eating up its entire savings and, therefore, no surplus is left for other sectors. The problem is solved by the inflow of the foreign capital in the form of aid and loans. Moreover, the technological advance is taking place at a snail's speed. Capacity to innovate is almost absent and ability to initiate or to adopt foreign productive techniques is low because of the high level of illiteracy.

[1] Kindleberger, C P "The Terms of Trade — A European Case Study", The Technology Press of M I T and John Wiley and Sons. New York, 1956, p 253.

In these conditions a shift in resources is extremely difficult. New entry into remunerative occupations is hard in a predominantly rural society like India, because it depends primarily on the discovery of new resources in land. In India we are trying to add new land by building roads, railroads and by means of irrigation; but it is difficult to raise internally the required capital at this stage of development, and therefore, the inflow of foreign capital becomes imperative. Exit from an unremunerative occupation is also difficult, which means long-run inelasticity of supply. As India has few alternative avenues of employment, the exercise of monopsony power on her exports greatly injures the terms of trade. Our resources are mostly committed to particular sectors, with the result that production does not adjust itself to decline in price, leaving us at the mercy of foreign monopsonists. The deterioration in India's terms of trade can best be explained by the incapacity to adapt use of resources to changing demand and price conditions. The only long-run remedy is to energetically work towards greater elasticity and adaptability of resources in response to a change in market phenomena.

Studies in Voting Behaviour

VI The Decline of the Left in Calcutta:

Muchipara Constituency

Robi Chakravorti

Muchipara is a central Calcutta constituency, one of 26 which form the Calcutta election area. In 1957 the C P I-supported Leftist Front won 19 of the e, and the Congress 7. In the 1962 election the Congress won 14 seats and the CPI-Left 12. Muchipara is one of the 7 seats which the CPI-Left lost to the Congress in 1962.

About the party's reverses in Calcutta, the West Bengal Council of the Communist Party candidly admitted that "considering Calcutta's special status and importance in Bengal politics these defeats have lowered considerably our prestige and hence it will not be proper to minimise the defeat". (New Age, April 21, 1962).

Special importance was attached to the de eat of the CPI-Left candidate in Muchipara by the Congress party as well as by the CPI-Left, for a variety of reasons.

First, it was one of the two constituencies in Calcutta where the sitting CPI-Left MLAs fought their 1957 rivals and lost. In four other constituencies where the CPI-Left MLAs were unseated, the Congress had put up new candidates. New candidates from the CPI-Left and the Congress fought in the seventh constituency which the CPI-Left lost to the Congress. Muchipara was, besides, the only one among these seven constituencies where a third candidate did not stand to confuse the picture.

Secondly, the CPI-Left candidate in Muchipara had, according to all reports "nursed" his constituency during 1957-62 with a care matched by few candidates in any other constituency. Jatin Chakraborty, the defeated candidate, had kept in continuous touch with the voters of the locality during the five years he was an MLA. He maintained an office in each of the three municipal wards in the constituency and regularly attended these offices at fixed hours in the evening. In addition, he would visit homes on social calls, and in almost all community gatherings on religious and social occasions. Chakraborty was a familiar figure.

In contrast, Pratap Chandra Chunder, the Congress candidate, had been comparatively inactive during the better part of five years preceding the election. Chunder had, however, lived near the constituency since birth and his family is well-known in the constituency (a main street is named after his father, who was a Mayor of the Calcutta Corporation), and so he had maintained social and cultural contact with individuals and organizations out of habit — not so much with an eye to the general election in 1962.

Thirdly, Jatin Chakraborty during his 5-year tenure had been a well-known figure in the legislature and outside. His performance in the legislature was extensively reported in the newspapers and among the Opposition speakers, he was one of the most vocal. In terms of publicity he received, to quote a prominent Congressman, he was second only to Jyoti Basu, the Communist leader of the Opposition.

MUCHIPARA is a Bengali term which means "a colony of cobblers". There had been a large settlement of cobblers in a section of the constituency in old times and the Election Commission used this age-old term as a handy description for the constituency. There is another section of the constituency similarly named—"Jelepara", which means "a colony of fishermen and fish-traders". These names are relics of past history which in some parts of the constituency can be traced back to 150 years. Parts of the constituency are mentioned in records of old Calcutta when large sections of what now passes as Calcutta was covered with forests uninhabited but for wild animals and thugs.

Being a part of old Calcutta, Muchipara has a large number of old families with roots in the locality. "Old Calcuttans" of Muchipara consist of three broad groups: (a) Aristocratic families, whose wealth and power have waned but who still retain a considerable amount of prestige and influence in their neighbourhood; (b) two sub-castes, who are an integral part of Muchipara — "subarna-banik" ("traders in gold") and "gandha-banik" ("traders in spices"). The very names of these two sub-castes are reminiscent of the early days of the East India Company. The subarna-banik community is concentrated in municipal ward No 45 which is contiguous to the Congress candidate's house, while the gandha-banik community is part of ward No 30. The third ward is No 43 which has a sprinkling of members from both communities but its chief characteristic is an unofficial "red light" district with about 1,500 prostitutes and their dependants.

Composition of Electorate

Among the voters, perhaps the most sensitive to "bloc-pulls" — or a-political factors such as organisational contacts with key members in these groups, etc — are approximately 7,000 non-Bengali residents of whom 4,000 are from Orissa, the rest from Bihar and other Hindi-speaking areas. This group is traditionally pro-Congress, but can be swayed by (a) the political "wind" in the States they come from, (b) an approach by elders of the locality where they come from. The voting behaviour of these groups can be swung en bloc.

The rest of the voters' list consists of the Bengali middle class, white collar and blue collar workers, and a large number of shop-keepers and shop-employees. Four main streets which cut the constituency east-west and two others which mark the eastern and the western boundaries

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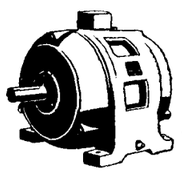
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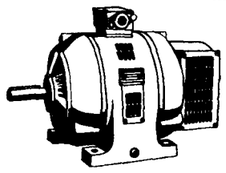
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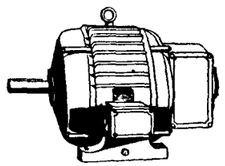
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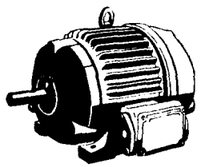
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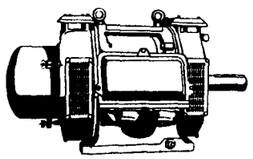
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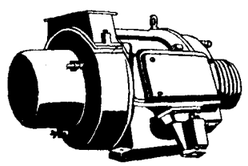
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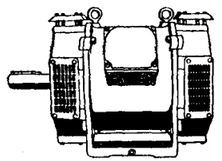
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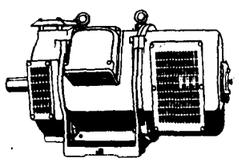
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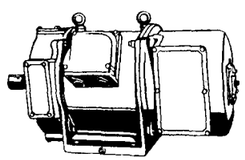
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teem with big, small and medium sized shops. There are few buildings on the main streets which do not have a shop downstairs. Besides, numerous alleys and sub-ways too have a large number of shops. The exact number of shops, and of their owners or employees is not known, but the Congress candidate thinks that shop-owners and shop-employees could constitute about 35 per cent to 40 per cent of the Bengali voters in the constituency. Approximately their number may be between 11,000 to 15,000.

For the purpose of the election, we have to take into account a section of Bengali voters who live in boarding houses of which there are quite a few perhaps because of the proximity of the Sealdah railway station. The residents of the boarding houses leave for their week-end homes by railway train on Saturdays or holidays returning on Mondays or after the holidays. At a fair guess, the boarding house dwellers number between 1,500 to 2,000. As the election day was a holiday, it is possible a large number of this group may have "gone home" providing an opportunity for what is called in election parlance as "proxy voting" (voting by impersonation).

Candidates and Strategy

Muchipara is a predominantly Hindu constituency—there are only about 100 Moslem voters. Chunder, 42, a Ph D from Calcutta University, has a bright record. He has been an attorney-at-law, a lecturer in the Calcutta University Law College and in a Commercial college, and member of the Calcutta University Senate. He is a member of the Central Calcutta District Congress Committee and a writer of novels, plays, stories for films. He visited China in 1955 as a member of an Indian lawyers' delegation, toured the United States on a State Department grant in 1958 and visited USSR as a member of the Soviet Afro-Asian Solidarity Committee in 1959.

Chakraborty, 51, is a graduate in arts and law from Calcutta University. In his college days he was a leading member of the All Bengal Students Association, which was banned by the British Government, and of the Students' Radical Party. The British government arrested him twice — in 1932 during the civil disobedience movement, and in 1942 during the "Quit India" movement. He has been arrested 13 times since independence for participation in political agitations. He is a prominent member of the Revolutionary Socialist Party and was a member of the AITUC and one of the secretaries of the BPTUC. He is now a secretary of the UTUC. He toured China in 1952 as a member of the Indian trade union delegation, visited U K next year under the Colombo Plan to study trade union movements, and toured USSR and East European countries in 1954 as a member of the Indian trade union delegation to the WFTU Congress. He is a member of the governing body of the National Productivity Council, and visited Czechoslovakia and the USSR in 1961 as a member of an Indian Productivity team.

Emphasis on Group Meeeings

There was a greater emphasis on group-meetings with voters than in 1957. During the last three months before the election each candidate averaged at least one meeting a day with groups in different localities. Public meetings were also held, on an average thrice a week, but both candidates seemed to have been aware of the greater necessity of the person-to-person approach. They paid visits to almost every home, sometimes accompanied by prominent members of the locality and their own workers. These visits were followed or preceded by the campaign staff who distributed campaign literature, gave 'pep' talks or explained the methods of voting with sample ballot papers. The Congress party, however, held more public meetings than in 1957 when in most constituencies the Congress seemed to have been afraid of calling public meetings for lack of public support.

Personal vilification was absent in the campaign. Party programmes were criticised and reflections were cast on the other party's claims or the candidate's political personality; but the private life of the candidate was not dragged into the election campaign. This unwritten understanding to fight the election on the political plane was evident from the fact that the campaign material of both parties (posters, festoons, hanging signs etc) were often put up side by side.

The campaign platform of Jatin Chakraborty could be summed up thus : The Congress "misdeeds" and his own "fearless" and "relentless" exposoure of them. The exposition of the anti-Congress theme was partly argumentative and factual, partly sentimental. Dramatic instances of the dearth of basic necessities of life, such as housing, food, fuel, schools etc were presented with undertones of allegations of corruption in high places. In public meetings, the police firings on political processions under the Congress regime were repeatedly cited as instances of the "undemocratic character" of the Congress government. The "food agitation" in Calcutta in 1959 when the police fired on leftist-organized parades by students and peasants was cited as a prime instance of leftist championing of people's causes and Congress "betrayal" of them. The other issues which figured prominently in the campaign were the transfer of Berubari (a small pocket on the West Bengal Border) to Pakistan and the riots in Assam on the issue of the Bengali language.

Congress Party's Answer

The Congress candidate's election campaign also blended logic with sentiment. He countered the allegations against the Congress party's "misdeeds" by a quoting statistics and from speeches by the Soviet and Chinese communist leaders. He quoted — and this formed part of his campaign literature — from Malenkov and Khruschev to show that corruption exists in the USSR. On complaints of poor housing in Calcutta, he said that this problem defied a quick solution as the density of population in Calcutta was much higher than in Delhi (about three times) or Bombay. He submitted comparative figures of housing, unemployment, food-prices, etc, from other parts of the world (as opposed to the leftists' criticism in absolute terms). At the same time, he pointed out the achievements of the Five-Year Plans.

The Congress campaign gave prominence to the police firings in Kerala under the communist government as a counter-blast to the leftist criticism of police firings on political agitators in West Bengal. Congress speakers criticised the ambivalent attitude of the communists on the Sino-Indian border dis-

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pute, and used this to offset leftist criticism of the transfer of Berubari to Pakistan. ("How can they complain about transferring a few square miles to Pakistan when they want to hand over thousands of square miles of Indian territory to China ?" was a typical question.) On the issue of Assam riots, the Congress countered by pointing to the suspicious activities of some Communist and P S P leaders in Assam.

The Muchipara constituency in 1952 had been completely different from what it was in 1957 and 1962. Only one ward of the existing constituency, ward 43, formed part of the Muchipara constituency of 1952. The rest, about two-thirds of the total area, belonged to what is now known as the Vidyasagar constituency where a popular communist candidate repeated his 1957 victory in the last general election. The main candidates in the 1952 election in Muchipara belonged to the Congress party and the leftist bloc consisting of the United Socialist Organisation (started by Sarat Bose, elder brother of Netaji Subhas Bose) and the C P I. The Congress candidate scraped through by a margin of only nine votes. Although the composition of the constituency had changed since the 1952 election and there was no similarity between the Muchipara constituency of 1952 and the constituency of the same name in 1957 and 1962, the following facts about the personalities involved in the elections in this constituency over the past ten years throw light on the course of leftist politics and the fluctuating fortunes of leftist leaders in Calcutta.

(i) Dhiren Bhowmick, the USO-CPI candidate who lost by the small margin of 9 votes in 1952, stood as an independent candidate outside the leftist alliance in 1957, and was able to poll only 347 votes.

(ii) Chunder, who won in 1962, had not contested the election in 1952; but Jatin Chakraborty whose party, the R S P, was not part of the USO-CPI alliance in 1952, stood as the R S P candidate against the USO-CPI candidate, Ganesh Ghosh, in the neighbouring constituency of Belgachia where he polled only about 500 votes and had his deposit forfeited. In other words, his fate in 1952 as a candidate outside the leftist-CPI alliance was the same as that of Dhiren Bhowmick five years later.

(iii) The Congress candidate who had won by a narrow margin in the Muchipara constituency in 1952, stood again in 1957 in the neighbouring Vidyasagar constituency which included two-thirds of the old (1952) Muchipara constituency. He was beaten by the left-CPI candidate by a margin of 3,421 votes.

"Nursing" of No Effect

A comparison of the election returns of 1957 with those of 1962 shows that the constituency has continued to remain marginal. But the victory of the Congress candidate is nonetheless significant. In 1962 the Congress candidate wiped out the deficit of 511 (by which margin he had been defeated in 1957) and won another 545 votes, thereby registering a gain of 1,056 votes. Thus Chakraborty's careful "nursing" of the constituency and his popularity as a prominent opposition legislator were set at naught by the Congress candidate. The Congress victory was made possible by the Congress candidate taking a larger share of the increase of 6,489 in the total votes polled in 1962. More people voted than in 1957, because both parties had more effective election organisations and had pinned their hopes of victory on heavier polling.

No conclusive statistical proof of the cause of the Communist reverse in this constituency is available; but there are some factual signposts to speculation. A comparison of election booth reports in 1957 with those in 1962 shows that Chakraborty remained strong in two wards (ward 30 and ward 43), while Chunder continued to be strong in 45 which is contiguous to his family residence. In 1957, Chakraborty won in wards 30 and 43 with enough margin to offset the deficit in ward 45 and to take a lead. In 1962, there was heavier polling, but Chakraborty's margin of victory in wards 30 and 43 was less and his margin of defeat in ward 45 bigger.

Election Returns : Muchipara

	1957		1962
Total voters :	**53,256**	**Total voters :**	**53,255**
Jatin Chakraborty	15,251	Jatin Chakraborty	18,141
Pratap Chunder	14,740	Pratap Chunder	18,686
Dhiren Bhowmick	347		
Total	30,338	Total	36,827
Margin of victory :	511	Margin of victory :	545

Split Voting

Since 1957, Chunder had strengthened his position among the subarna-banik community. In 1958, he became the president of the social welfare organization called the Shanti Institute which is the social focus for this community in this area. He claims to be the first man outside the community to be the president of this 40-year-old organization. But although the **subarna-banik** community seemed to have supported Chunder in larger numbers, it is noteworthy that the councillor in the Municipal Corporation from this ward, a subarna-banik, is a communist. He canvassed support for Chakraborty, but since he himself ran for re-election to the legislature from a neighbouring constituency where he was defeated (another communist debacle) he could not devote much time to Chakraborty's campaign. It appears, therefore, that while the subarna-banik community would vote for him in the Calcutta Corporation election, it preferred Chunder to Chakraborty in the election to the legislature. Chakraborty also had a powerful supporter in another popular Corporation councillor in ward 30, who was a **gandha-banik**, an important community in this ward. This councillor belongs to the Revolutionary Socialist Party of which Chakraborty is a prominent member. But in spite of his powerful backing, Chakraborty could poll only 383 votes more than Chunder in this ward. The Corporation Councillor from ward 43 originally belonged to the Left-front but later crossed the floor to join the Congress. He canvassed for Chunder.

More Oriyas voted for Chunder in 1962 than earlier. In 1957 their loyalty to the Congress had weakened in following the agitations in Seraikella and Kharswan in Bihar for their merger with Orissa. But by 1962 the emergence of the new youthful Orissa Chief Minister, Patnaik, bolstered up their traditional pro-Congress leanings. Both candidates agreed that this was the reason for the swing among Oriya voters.

Other possible causes of Chakraborty's defeat may have been :

(1) A section of the voters realised the futility of the C P I-Left's agitational politics. One of the main streets running north to south in the constituency had been the favourite passageway for political parades (Calcutta University and two populous colleges are near by) and many people living in or near these streets, particularly shopkeepers, voted against Chakraborty who had participated in almost all processions and agitations organised by the C P I-Left.

(2) Chakraborty seemed to have been too pleased with his performance in the legislature and outside and too complacent to assess the sources of his strength and weakness in the constituency. The Congress party, on the other hand, appeared to have measured their strength and weakness better and concentrated their organizational effort accordingly.

(3) Chakraborty "nursed" his constituency too obviously; by visiting homes on one plea or another, he perhaps made himself too readily available to the voters. As a member of his party pointed out, "perhaps Chakraborty made himself cheap". The distance between the leader and the led was effaced and therefore, he lost in "charisma".

(4) Chakraborty got himself frequently into print as a legislator; but the "image" he projected in the mind of his voters as a legislator ("sharp-tongued, witty, vigorous, courageous — but somewhat lacking in decorum") might have alienated a section of voters or, at least it did not win over more voters.

Candidates' Comments

This study may be completed by recording the views of the candidates themselves on the 1962 election.

The Congress candidate listed the following as the factors which, he thought, "swung" votes in his favour:

(1) The Congress machinery was better organized than five years ago.

(2) More time was available to the Congress candidate for preparing the groundwork for the campaign. His nomination was known as early as August 1961 (approximately seven months before the election), while in 1957, it was known only four months before the election.

(3) The Congress marshalled its supporters much better in 1962.

(4) A section of the voters had lost faith in the agitational politics of the leftists.

(5) The non-Bengali voters were better organized on behalf of the Congress candidate.

The Leftist camp listed the following as the reasons for the defeat of their candidate:

(1) Better election machinery of the Congress; the leftist machinery was over-confident and complacent. The Congress, they alleged, "padded" electoral rolls and organised a greater amount of voting through "impersonation". They also alleged that some of their workers in ward No 45 were "kidnapped" the night before the election and although they were released the next morning, this threw their election machinery out of gear in ward 45. (The Congress countered the first allegation by saying that the amount of "false" voting organised by both parties was the same and therefore, this could not have had any bearing on the election result. The Congress reply to the second charge was that Chakraborty's party workers must have been scared by the pre-election tension.)

(2) The non-Bengali voters were better organised on behalf of the Congress party.

(3) The performance of the leftist candidate in the legislature had not pleased a section of voters.

(4) The non-Bengali voters, particularly Oriyas, voted in larger numbers for Chunder.

Official Paper

Uneven Impact of C D Programme

M N K

Community Development and Economic Development : A Case Study of Ghosi Community Development Block, U P. Study prepared by the E C A F E/F A O, Agriculture Division, Bangkok, 1960.

IN discussions of structural changes in Indian agriculture, much emphasis is generally laid on institutional changes like tennurial reforms, the place of co-operatives and the role of Centrally-sponsored development schemes. The Evaluation Studies by the Programme Evaluation Organisation relating to Centrally-sponsored development schemes are in the nature of official reports covering the entire range of activities of the Community Development Programme and the National Extension Service. These studies do not delineate the role of a single institutional factor like the CDP in bringing about structural changes in agriculture. The present study, however, assesses the impact of a single institutional factor, viz CDP, on cultivation techniques, cropping pattern, use of agricultural resources and welfare levels attained consequent upon Block Development. The report purports to study the Ghosi Community Development Block in the context of Asian agricultural economy, the characteristic feature of which is "the predominance of rice cultivation and the existence of a relatively high density of population". It must be noted, however, that the Ghosi Block area cannot be taken as representative. At best, it can be said to represent typical Indian village conditions with the characteristic social structure of hierarchical caste and class groupings. The study has other investigational shortcomings also. For example, the analysis of consumption expenditure is based on data for a period of a single sample week only. Since the Survey was a Bench-Mark one, more details on quarterly and yearly consumption pattern ought to have been collected to give a full picture of the consumption pattern in the Block.

One of the basic purposes of an agricultural extension programme is to bring home to the villagers the economic advantages of adopting improved agricultural practices with a view to increasing agricultural productivity. To persuade the agriculturist to adopt improved practices, field demonstrations are carried out by the Village Level Worker. But even when the impact of such efforts is widespread, it is the medium and large cultivators who are the principal beneficiaries. That this is the case in Ghosi is borne out by the fact that medium cultivators covered 64 per cent of the area under improved rice seeds and large cultivators 76 per cent of the area under improved wheat seeds. Again, about 15-23 per cent of the medium and large cultivators have reported the use of chemical fertilisers. Only large cultivators have taken to the use of iron ploughs. Over 78 per cent of large cultivators have been returned as having benefited from loans and grants. On the other hand, the share of medium and small cultivators in such loans and grants has been negligible. Even the "frequency of consultation" with VLW and other extension staff is greater among medium and large cultivators as is seen from the fact that 21 per cent of the large cultivators and 26 per cent of the medium cultivators consulted the VLW over improved practices. One reason for this state of affairs, the study concludes, may be that "the large and medium cultivators are quicker to take up new seed varieties, etc, partly because their relatively bigger holdings make it less risky for them to experiment with new material and partly because they are better educated". Another reason may be that hard pressed to show results, the VLW does not find it practical to approach every small farmer, especially when he has to cover as many as ten villages with a population of five to six thousand within a limited time schedule.

Slow Progress of Industrial Extension

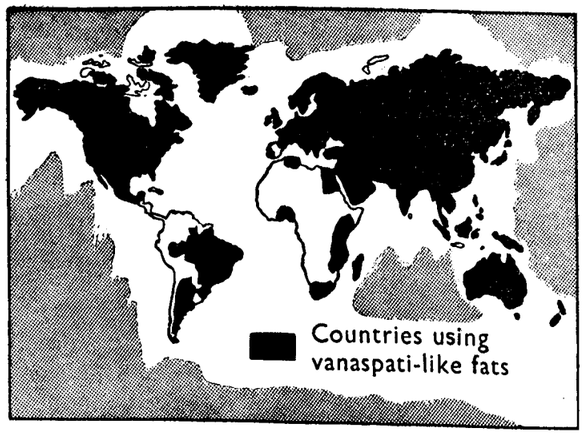
In the field of industrial extension, the progress is far from satisfactory. Figures relating to the training of artisans show that 18 people received training in carpentry in 1955-56 and in 1957-58 the number dwindled to zero, and 32 received training in sericulture in 1955-56 but in 1957-58 only seven were added. The slow pace of the extension programme affects the overall production potential sought to be achieved by the CDP. The additional production capacity in CD and NES blocks since their inception has been estimated by an expert committee at 10.7 per cent for U P, and 10.8 per cent for India as a whole. (Committee on Plan Projects, "Report of the Team for the Study of Community Projects and NES", Vol III, Part I, pp 246-47). Using the conventional relationship between inputs anl outputs, the additional production capacity in the Ghosi Block area as a result of distribution of improved seeds, adoption of improved practices, etc, has been estimated at 6 to 7 per cent. But, considering the poor progress in the field of agricultural extension, even the increase in production capacity achieved in the Ghosi Block is not insignificant.

In the field of institutional finance, the Ghosi Block presents a dismal picture. The number of co-operative societies decreased from 106 in 1956-57 to 86 in 1958-59, membership fell from 5,781 to 4,252 and loans advanced from Rs 208,647 to Rs. 106,029. This has been reflected in the lowering of capital expenditure per household in the different cultivating class groups. Capital expenditure per household among small cultivators decreased from Rs 80.1 in 1955-56 to Rs 42.0 in 1957-58 and among medium cultivators from Rs 145.3 to Rs 107.4. Among large cultivators, however, it increased from Rs 204.7 in 1955-56 to Rs. 262.5 in 1956-57 and was Rs 245.1 in 1957-58 By far the most important item of expenditure is litigation and rituals. Ten per cent of the total expenditure is on litigation and 12 to 20 per cent on rituals — both among large and medium cultivators. Expenses on rituals were much higher (22

per cent) among small cultivators. Expenditure on non-food items increases with the size of landholding — it is about five times as high for the large cultivators as for the small cultivators.

The social pattern prevailing in the Ghosi Block does not differ significantly from that in other villages surveyed by PEO. "Income" was more important as a means of improving social status than other factors like caste and holding of land or real estate. Fifty-eight per cent of small, 32 per cent of medium and 31 per cent of large cultivators gave "increase in income" as the powerful means of raising their standing in the social hierarchy. "Hospitality" comes next in importance — 13 per cent of small, 26 per cent of medium and 22 per cent of large cultivators giving it as the most important factor. The leadership pattern, however, is still caste-oriented and nearly 95 per cent of the leadership cases belonged to higher and intermediate castes and only about 4 per cent to lower castes (which may be due to compulsory representation of lower castes in village councils and panchayats). Age is still an important attribute of leadership, although young leaders are emerging consequent upon the formation of youth clubs. This has an important bearing on the future course of development in the Block area since the younger generation is more receptive to new ideas.

In conclusion, it needs to be emphasised that the success of the CDP in bringing about structural change in agriculture and in increasing the general tempo of economic advance, depends mainly on the extension staff at the Block level. The method of selection, training and orientation of the VLW must, therefore, receive closer attention. With improvement in his technical competence and a reduction in the work load (through reduction of the number of villages to be covered and the shedding of activities relating to supply of inputs to co-operatives and panchayats) the VLW should be able to perform much better and lend a new content to the CDP.



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Around Bombay Markets

Subdued Tendency in Seeds

Wednesday, Morning

THE oilseeds market last week continued to display a reactionary tendency under the influence of persistently favourable weather reports from all the important groundnut producing areas. Prospects of a good crop induced considerable up-country selling in the new crop January contract but with the nearby September contract continuing to hold remarkably steady because of the sustained good demand for the spot material, the selling in January contract was fairly well-absorbed. Groundnut January which had been marked down to Rs 225.50 in kerb dealings on 14th August recovered to Rs 230.12 by the 17th but later it drifted lower again to Rs 225.75 on the 21st and the closing was not much higher at Rs 226.50. The September contract which had touched a low of Rs 238.75 on the 16th improved to Rs 244.75 on the 20th. It receded to Rs 241 the next day but closed almost unchanged over the week at Rs 242.25 (per 250 kilograms). The widening spread between the old and new crop contracts reflects the tight supply position on the one hand and prospects of a good harvest on the other.

The demand for the spot material is based mainly on the continued good export business in groundnut extractions. The export of a further 2,000 tons of groundnut oil by the State Trading Corporation has also imparted a firm tendency in the ready market. If the Corporation persists in selling groundnut oil notwithstanding the huge loss of £ 50 to £ 55 per ton, groundnut prices cannot be expected to record any important decline even if the new crop turns out to be a bumper one, the more so if the export performance in respect of groundnut extractions continues to be encouraging. Despite the country's desperate need to boost exports anyhow, the wisdom of selling groundnut at a loss of over £ 50 per ton can be easily questioned. The latest U K quotation for groundnut oil is mentioned around £ 96/97 and the Indian parity works out to around £ 150 per ton. Fresh export business put through in groundnut extractions last week was limited. Overseas buyers were inclined to mark time in view of the slightly easier tendency in the Indian market on ideas of a good crop. The U K quotation for extractions declined from £ 37-5 to £ 36-5 per ton for August-September shipment. Prospects of selling further large quantities of groundnut extractions are considered to be quite encouraging though a good deal will depend on the supply position of feeding grains on the Continent.

Policy for Castor Oil

Castor futures suffered a further setback but the weakness was more pronounced in the September contract than in the new crop March contract. While the September contract declined from Rs 171 to Rs 166.50 (per 250 kgs), the March contract eased from Rs 168.75 to Rs 167. That the new Crop contract should be quoted at a premium over the old crop contract reflects mainly the disappointing export performance of castor oil. Sentiment last week was said to have been affected to some extent by the sale of 6.34 million lbs. of U S stockpile castor oil. Notwithstanding the release of stockpile oil, informed shippers take the view that it should not be difficult to sell a sizable quantity of castor oil to the U S if the Government of India followed a more helpful policy.

The view is gradually gaining ground that if the export of castor oil continues to be what it is at present and castor oil prices remain substantially below the prices of other vegetable oil, castorseed production is likely to suffer a serious decline. Castor oil is one commodity in which India has a huge exportable surplus. It would be unfortunate if castorseed production were allowd to suffer for want of an imaginative official policy. In fact, the authorities should be seriously thinking about stepping up the production of castorseed which has a considerable export potential. The export of castor oil entails a much smaller loss than that of groundnut oil or linseed oil and what is more, India has a large exportable surplus of castor oil. Linseed were subdued in sympathy with the easier tendency in groundnut and castor but the volume of speculative business was on an extremely restricted scale. The State Trading Corporation has been to sell very little of linseed oil over the past few months. Though the export of linseed oil is much less unremunerative than that of groundnut oil, linseed oil is more difficult to obtain internally. Visible supplies of linseed oil are said to be limited mainly because it is being increasingly used for mixing with groundnut oil.

Karmohom Conference

Discussions between the shipping delegation from London and representatives of the oilcake trade here over the increase in freight announced by the Karmohom Conference have failed to yield any important results. The British delegation was not prepared to concede a cut of more than 2 shillings in the proposed 12 shillings increase. Nor can the delegation's assurance to defer the enforcement of the increase by a month from October to November can be considered a big gain. The Indian trade pleaded in vain for a minimum reduction of 5 shillings per ton in the freight and for the exemption of outstanding contracts for the October-December period.

Cotton

Futures Subdued

THE cotton market had quite a dull time last week. Business in ready was limited only by the availability of good quality cotton. In futures, the turnover was restricted because while bulls were reserved because of the continued good weather, bears were reluctant to be aggressive in face of the prevailing tight supply position. The general tone of the futures market was somewhat subdued but that was due more to lack of fresh support than to any important selling. The March contract moved irregularly between Rs 741.25 and Rs 735.25 with the daily range of fluctuations seldom exceeding Rs 3 per 3 quintals. The

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futures market is unlikely to become lively in the near future. Current prices are rather too high to attract professional bull support in a big way. And with the present supply being what it is, bears too cannot be expected to risk big fortunes on the prospect of a good crop when all that it means is a crop of 52/53 lakh bales. Even that depends on the continuance of favourable weather conditions throughout the season.

With mills continuing to experience considerable difficulty in completing purchases against their quotas and in view of the possibility of the new crop being late, the Textile Commissioner has permitted mills to make purchases against their Indian cotton quotas issued prior to 1st August up to 30th September instead of 31st August. Purchases against the quotas issued after 1st August can be made up to end of October. The quotas in both cases refer only to the 1961-62 season's crop. Mills are not permitted to buy new crop cotton against the quotas issued for the 1961-62 season. As from 1st September, the deliveries of Indian cotton by mills against the quotas for 1961-62 season will require the permission of the Textile Commissioner.

Too Optimistic

The Union Agriculture Minister, Shri Ram Subhag Singh, told a recent meeting of the Informal Consultative Committee of Parliament that he was confident of achieving the third Plan target of 70 lakh bales of cotton. No one would expect the Minister to say anything different. But Shri Subhag Singh can scarcely derive any satisfaction from the increase in cotton production from 29 lakh bales in 1950-51 to 54 lakh bales in 1960-61 and the increase in the yield from 78 lbs to 101 lbs. an acre during the same period. The Union Minister for Agriculture and the members of the Informal Consultative Committee should not need the reminder that the average production for the past six years does not work out to more than 46/47 lakh bales, that the target for the second Plan had been originally placed at 65 lakh bales and that the production in the second year of the third Plan is not expected to exceed 52/53 lakh bales. According to Government's calculations, cotton production would be stepped up by about 10 lakhs bales through improved irrigation facilities and another 5 lakh bales will be added through increased use of fertilisers. Improved agricultural practices, inter-cropping, plant protection and contour bunding will yield a further 2-½ lakhs.

The Union Minister said that to ensure fulfilment of the Plan target, the Government proposed to increase the area under cotton in several States — Rajasthan, Uttar Pradesh and Maharashtra—and also to adopt more intensive agricultural methods. "Package programme" areas for intensive cultivation would be set up in the cotton producing States. Shri Subhag Singh also added that the State Governments had been asked to give high priority to sanction of minor irrigation schemes for the cotton crop, particularly in those areas where there are frequent crop failures. The proposed package programme for cotton would cover an area of 225,000 acres during 1962-63 and there would be a substantial increase in the following year. The State Governments have been asked to draw up on an emergency basis special schemes of cotton cultivation in newly irrigated areas.

Punjab's Project

The Punjab Government is stated to have launched a Rs 1 crore project to be known as cotton package programme from April next with a view to bring about an increase of 33 per cent in the yield of cotton. The project would be undertaken with the assistance of the Indian Central Cotton Committee. Under the scheme, cotton area has been divided ino two zones, the Punjabi zone and the Hindi zone. In the Punjabi zone, 320 F cotton would be sown and farmers would be provided with improved seeds free of cost, the quantity of chemical fertilisers to be supplied being estimated around 14,000 tons. For plant protection, farmers would be charged 50 per cent of the total expenditure. In the Hindi region, L 14 quality cotton would be sown in about 30,000 acres. The yield in this zone is expected to go up by as much as 50 per cent.

Stock exchange

Indecisive Mood

IT has been another dull week on the stock exchange. In the absence of any new driving force neither bulls nor bears are inclined to extend their commitments in a big way. Business has shrunk to modest proportions and activity continues to be predominantly professional and of a jobbing nature. Fluctuations are irregular but they are confined within a narrow range, reflecting lack of any big speculative interest. Automobile shares have turned slightly easier after Shri C Subramaniam's statement at the recent conference of the representatives of the automobile and ancillary industries that the present volume of production of motor cars could not be continued unless there was immediate and very rapid increase in the indigenous content of automobiles. And Shri T T Krishnamachari's stern warning to motor cycles and scooters manufacturers to reduce their prices drastically evoked considerable comment in market circles. Another factor which has been having a restraining effect on the general trading sentiment is the continued uncertainty about steel retention prices. But the market was not without its quota of bright spots like Century, Kohinoor, Bombay Burmah, Indu, A. C. C. and Telco.

Dalal Street has been moving up and down in quite an indecisive fashion since about the beginning of the month. Vyapar's equity share index which had recovered from 131.85 on 19th July to 141.59 on 2nd August has been drifting idly within a range of 2.5 points for the past three weeks. After easing to 139.05 the index is up again at around 140.50. Those who are inclined feel that the market has been trying to 'digest' the gains recorded since 19th July before making a further advance. Bears think that the recovery itself has spent all its force. While the market's overall pattern is still indecisive, odds seem to favour a rise. Of course, the market needs some driving force to give it a big push in either direction. The announcement of steel retention prices could have a significant bearing on short-term fluctuations in equity prices. It is high time that the Government took a final decision on steel retention prices because uncertainty in this regard has already considerable avoidable delay in the announcement of dividends by the steel companies — Tata Steel and Indian Iron.

CURRENT STATISTICS

BANKING RETURNS

(*Rs. crores*)

Reserve Bank	Aug 17	Aug 10	July 20	Aug 18, '61
1 Note circulation	2054.07	2063.71	2060.76	1899.86
2 Rupee coin	120.78	119.64	118.13	123.99
3 Deposits				
(a) Central Govts	67.31	58.23	49.33	89.03
(b) Other Govts	16.90	23.15	14.28	13.17
(c) Banks	95.37	91.48	108.60	87.93
(d) Others	162.23	204.64	193.64	159.61
4 Foreign securities	89.34	89.34	89.34	116.86
5 Balance abroad	5.08	5.16	4.51	29.52
6 Rupee securities	1742.00	1757.00	1751.83	1553.49
7 Investments	237.71	280.66	278.46	274.57
8 Loans and advances to Govts	35.44	30.62	41.73	52.40
9 Other loans and advances	132.31	131.32	128.69	116.87
Scheduled Banks	**Aug 10**	**Aug 3**	**July 13**	**Aug 11, '61**
1 Aggregate deposits (net)	2040.47	2045.80	1988.85	1790.04
Demand (net)	785.05	794.10	779.99	710.03
Time (net)	1255.42	1251.69	1208.86	1080.01
2 Cash in hand	47.52	48.45	51.74	44.61
3 Balance with Reserve Bank	91.37	92.96	89.54	75.48
4 (2) + (3) as % of (1)	6.81	6.91	7.10	6.71
5 Borrowings from Reserve Bank	1.76	2.41	2.19	3.46
(a) Against usance bills and/of promissory notes	0.06	0.17	0.55	1.80
(b) Others	1.70	2.24	1.64	1.66
6 Advances	1212.22	1211.97	1244.14	1086.31
(a) State Bank	260.87	261.60	273.68	235.50
(b) Others	951.35	950.37	970.46	850.81
7 Bills discounted				
(a) Inland	128.14	129.62	125.41	106.60
(b) Foreign	47.97	47.85	42.59	42.65
(c) Total	176.11	177.47	168.00	149.25
(i) State Bank	16.05	15.98	16.11	13.50
(ii) Others	160.06	161.49	151.89	135.75
8 (6) + (7c) as % of (1)	68.04	67.92	71.00	69.02
9 Investment in Govt Securities	670.25	672.12	578.66	582.40
10 (9) as % of (1)	32.85	32.85	29.10	32.54
Cheque clearance	**231.17**	**234.05**	**242.98**	**204.20**

Bombay Money Rates

(*Per cent per annum*)

Selected Scheduled Banks other than the State Bank	Aug 10	Aug 3	July 13	Aug 11, '61
Call Money from Banks	2.11	0.54	2.85	2.95
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	3.50	—	—	—
Six months	3.75	3.75	3.75	3.74

Bombay Bullion

(*Rs and nP*)

	Aug 23	Aug 16	July 19	Aug 24, '61
Gold (per 10 grams)				
Spot	—	126.05	125.75	122.90
Forward	126.70	125.80	125.15	123.05
Silver (per kilogram)				
Spot	—	214.55	213.35	203.70
Forward	217.40	215.05	214.45	203.80

INDEX NUMBER OF WHOLESALE PRICES

(*Base: Year ending March 1953 = 100*)

	WEEK ENDED			
	May 1961	April 1962	May 1962	% Increase (+) or decrease (—) in May '62 as compared with May 1961
Food Articles	**117.2**	**120.5**	**124.2**	**+ 6.0**
Cereals	99.5	102.8	104.1	+ 4.6
Pulses	87.3	93.6	98.3	+12.6
Fruits & Vegetables	122.0	140.0	141.6	+16.1
Milk & Ghee	113.9	123.7	129.4	+13.6
Edible Oils	159.6	150.9	152.1	— 4.7
Fish, Eggs & Meat	127.3	137.2	141.5	+11.2
Sugar & Gur	120.1	124.8	129.7	+ 8.0
Others	167.4	158.7	168.9	+ 0.9
Liquor & Tobacco	**104.1**	**98.8**	**102.0**	**—2..0**
Tobacco	100.9	95.2	98.6	— 2.3
Fuel, Power, Light & Lubricants	**121.6**	**122.4**	**122.3**	**+ 0.6**
Industrial Raw Materials	**153.2**	**135.1**	**134.9**	**—11.9**
Fibres	165.1	126.0	125.7	—23.9
Oilseeds	156.6	149.9	150.0	— 4.2
Minerals	95.4	94.5	93.8	— 1.7
Others	127.6	127.3	126.7	— 0.7
Manufactures	**126.9**	**126.9**	**127.5**	**+ 0.5**
Intermediate Products	**136.9**	**136.9**	**137.3**	**+ .0.3**
Finished Products	**125.3**	**125.8**	**125.9**	**+ 0.5**
Textiles	128.5	125.1	125.2	— 2.6
Cotton	127.7	128.4	128.8	+ 0.9
Jute	137.1	115.0	113.2	—17.4
Woollen	119.1	130.5	139.6	+17.2
Silk & Rayon	115.3	128.6	129.1	+12.0
Metal Products	151.4	153.1	159.9	+ 5.6
Chemicals	107.5	112.5	112.8	+ 4.9
Oil cakes	142.3	150.6	152.3	+ 7.0
Machinery & Transport Equipment	112.8	117.5	117.6	+ 4.3
Others	119.1	123.3	124.8	+ 4.8
All Commodities	**125.4**	**124.2**	**126.3**	**+ .0.7**

Working Class Cost of Living Index

(*Base adjusted to 1949 = 100*)

	Bombay	Delhi	Calcutta	Kanpur	Madras	All-India (average)
	G	G	G	G	G	G
1962 : Mar	143	149	105	129	115	127
1962 : Feb	143	149	107	129	115	127
1962 : Jan	141	149	107	129	114	128
1961 : Dec	142	149	104	130	117	128
1961 : Mar	138	148	101	124	112	124
1960	137	143	99	120	113	124
1959	134	133	98	120	110	121
1958	129	124	98	113	110	116
1957	120	116	94	114	105	111
1956	115	111	89	109	98	105
1955	110	99	78	99	92	96
1951	108	108	04	108	104	105

G = General

Source : Central Statistical Organisation, Cabinet Sec-

SMALL SAVINGS

(*Rs Lakhs*)

	'62 Mar		62 Feb		'62 Jan		'61 March		1961 Total		1960 Total	
	R	O	R	O	R	O	R	O	R	O	R	O
Total Small Savings	**48,83**	**850,12**	**24,71**	**826,80**	**27,71**	**821,58**	**46,05**	**770,80**	**342,30**	**850,12**	**329,98**	**770,80**
National Savings Certificates												
5 Years	—	86	—	89	—	91	—	1,24	—	86	—	1,24
7 Years	—	1,89	—	1,93	—	1,97	—	2,46	—	1,89	—	2,46
12 Years	—	65,75	—	67,31	—	68,37	—	81,50	—	65,75	—	81,50
National Plan Savings Certificates (12 years)	11,58	348,57	5,58	339,65	7,11	335,50	11,17	287,30	79,70	348,57	82,63	287,30
National Plan Certificates (10 years)	—	17,31	—	17,39	—	17,45	—	18,36	—	17,31	—	18,36
Annuity Certificates (15 years)	5	3,63	5	3,61	4	3,58	4	3,40	49	3,63	69	3,38
Cumulative Time Deposit 5 years	29	3,95	21	3,67	23	3,47	17	1,70	2,33	3,95	1,20	1,70
10 years	11	1,96	10	1,85	10	1,75	8	95	1,01	1,96	65	95
Post Office Savings, Bank Deposits	35,61	325,35	17,64	310,05	19,09	308,42	32,82	297,77	241,98	325,35	228,77	297,77
Cash Certificates, Defence Savings Certificates and Defence Savings Bank Deposits	—	—42,46	—	—42,42	—	—42,39	—	—42,00	—	—42,46	—	—42,00
Treasury 10 years Deposit (3½%)	—	27,50	—	28,14	—	28,78	—	38,80	—	27,50	—	38,80
Savings Certificates (4%)	1,19	53,35	1,13	52,31	1,17	51,38	1,77	37,34	17,69	53,35	16,14	37,34

Note : Annual figures refer to the year beginning April.

R = Receipts

O = Outstandings

Source : Accountant General, Posts and Telegraphs Department, Government of India and Reserve Bank of India

Production of Petroleum and Petroleum Products

(Monthly Average or Calendar Months)

Metric tons

	Crude Petroleum	Light Distillates	Kerosenes	Diesels	Lubricants	Bitumens	Heavy ends	Other Products	Total
1962: Mar	42,139	84,634	93,490	144,210	2,307	20,352	119,930	9,602	484,525
Feb	37,763	77,666	79,769	122,142	1,908	32,664	149,581	7,747	471,477
Jan	34,757	93,528	84,350	129,973	2,460	37,032	146,015	7,851	501,209
1961: Dec	39,894	83,672	81,903	140,158	2,411	39,400	120,919	7,949	476,412
Nov	38,216	77,720	83,921	133,688	2,623	25,497	128,773	8,258	460,480
Oct	38,568	94,253	92,263	146,573	1,500	38,453	162,935	7,227	543,204
Sep	34,371	92,822	86,800	126,652	2,457	34,202	152,260	5,396	500,589
Aug	32,315	96,692	82,697	157,975	2,412	37,037	144,033	4,913	525,759
Jul	40,036	100,160	95,857	156,188	2,425	36,577	166,298	5,123	562,568
Jun	38,620	97,223	89,192	159,839	2,095	41,911	160,869	5,095	556,224
May	39,360	102,360	93,267	148,722	2,100	44,070	174,368	5,823	570,710
Apr	29,949	83,779	94,024	141,196	1,312	28,816	177,119	4,400	530,646
Mar	35,596	114,352	96,295	154,846	1,619	44,887	171,455	5,979	589,433
Feb	38,126	72,280	65,431	118,521	1,917	24,948	123,767	5,272	412,136
Jan	39,007	81,831	73,350	121,913	2,072	29,360	12,371	5,398	437,295
1962	38,220	85,276	85,870	132,108	2,225	33,349	138,509	8,400	488,737
1961	36,844	89,066	84,783	139,050	2,107	36,530	150,940	5,895	508,370
1960	37,445	87,260	77,605	133,300	1,799	33,135	141,066	5,468	479,813
1959	36,768	79,248	61,330	118,264	1,794	24,201	140,218	4,303	429,358
1958	35,477	82,215	53,598	99,319	1,524	18,882	137,421	4,741	397,699
1957	35,731	86,788	51,480	77,220	1,439	14,733	133,272	5,757	370,689
1956	32,006	80,353	45,468	59,270	1,439	13,716	118,031	5,927	324,204
1955	27,941	66,467	37,424	49,363	1,355	7,112	83,994	6,266	251,980
1951	22,014	4,234	4,318	3,641	1,947	339	1,439	4,826	20,744

Source: Ministry of Mines and Fuel, Government of India.

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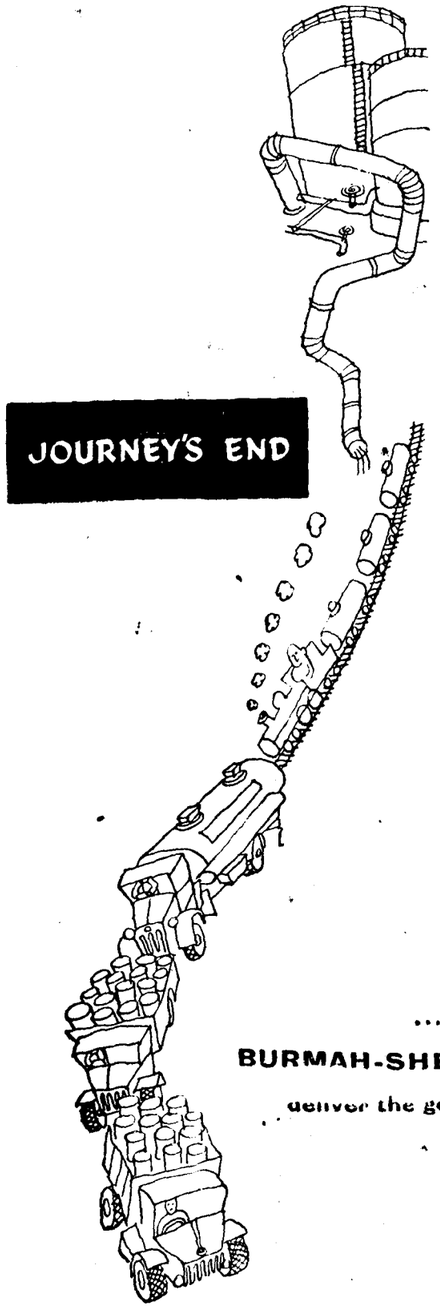

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New Banking Legislation

THE Government has introduced two amending bills in the present session of the Parliament relating to the banking companies, the Reserve Bank of India and the State Bank of India. The Reserve Bank is to be empowered to give accommodation to scheduled banks for export finance for 180 days (the present limit is only 90 days) and on the strength of only one endorsing signature, the State Bank will be empowered to grant medium term export credit up to seven years (in place of the present limit of 6 months). These two measures are long overdue. The eligibility conditions in regard to export bills had hitherto been so restrictive that no such bills had been discounted with the Reserve Bank.

This paper has long been advocating the rediscounting of export bills by the Reserve Bank as a measure for saving foreign exchange; currently, unless export bills are held till maturity, either by the exporters or the discounting bank, they are rediscounted in the London Market and the country loses foreign exchange through rediscount charges. This avoidable drain on foreign exchange will now be prevented. For promoting some types of exports, it is necessary to grant medium term export credits; the measure enabling the State Bank to extend such credits was also therefore very necessary.

An amendment to the Banking Companies Act makes it obligatory for banks to raise the ratio of their capital and reserves to their total deposits to 6 per cent. This, too, is a welcome measure as it would strengthen the financial basis of the banking system. The earlier move on the part of the Reserve Bank to secure this through voluntary agreement was obviously misconceived, as later experience painfully brought out.

This provision for strengthening the capital base of banks is also to apply to the banking companies incorporated abroad. Currently, foreign banks operating in India have to maintain a balance with the Reserve Bank of about Rs 20 lakhs in the form of cash or approved securities in lieu of paid up capital and reserves. This balance is to be gradually raised by transferring 20 per cent of profits every year to it till such time as the Reserve Bank feels that the amount is adequate. The building up of these balances by the foreign banks will mean that either they will bring out funds or reduce their remittance of profits. In either case, apart from strengthening their own financial position in the eyes of their Indian depositors, this measure would contribute to the country's foreign exchange resources.

Another amendment relates to the cash balances to be maintained by the banks with the Reserve Bank. The present system of two different ratios — one for demand and the other for time liabilities — is to be simplified and replaced by a single ratio of 3 per cent against total liabilities, demand and time. Apart from simplifying the procedure, the amendment will also put an end to artificial inflation of time liabilities and weaken somewhat the competitive biddings on occasions by banks actively canvassing for deposits.

All the changes discussed above are desirable and have been found necessary from experience. One cannot say the same about the change proposed for the liquidity ratio of the banks. This is not only a controversial matter but it also impinges on an area in which the Reserve Bank has neither been able to make up its mind nor formulate a sensible policy to meet the ends of planned economic development on which the country has launched. The banks had hitherto to keep 20 per cent of their aggregate liabilities in the form of cash and approved, unencumbered securities, subject to statutory requirements in regard to cash balances. This ratio is now proposed to be raised to 28 per cent, of which 3 per cent being the minimum cash balances, 25 per cent has to be held either in cash or approved securities. The one intention behind the proposed change is to force the banks to take up more of Government loans and thus to help the borrowing programme. This is undoubtedly one of the legitimate objectives of a monetary policy but surely, this is not the only or even the overriding consideration? The higher liquidity ratio may ensure the success of the government's borrowing programme for the Third Plan, but will it also meet the credit needs of the private sector and help the latter to fulfil the tasks set to it in the Third Plan? This aspect of the question does not appear to have received the attention it deserves.

The relevant factors to be considered here are the likely deposit resources of the banks and the credit requirements for the private sector during the Third Plan period. The latter was placed by the Governor of the Reserve Bank in one of his recent speeches at Rs 600-700 crores. An estimate of the likely deposit resources of the banks during the Third Plan was attempted in the August 1961 issue of the Reserve Bank *Bulletin*. On the basis of certain assumptions, it was found that an increase in the demand deposits of the order of Rs 320 crores was indicated. Assuming a slightly higher marginal ratio of time deposits to the demand deposits — say of 120 per cent in view of the past trend — the likely growth in term deposits during the Third Plan period would be around Rs 390 crores, given total deposits of the order of Rs 700 crores.

Even taking the credit need at the lower figure mentioned by the Reserve Bank Governor, viz Rs 600 crores, would the banks be able to meet it? Banks have to maintain a higher liquidity ratio in practice than is prescribed by statute for the smoothness of operations; with a statutory 20 per cent, they generally maintain a ratio of 25 per cent. So even with the existing statutory provision with regard to cash and securities, the banks would have to keep 20 per cent of Rs 700 crores in cash and securities and would need at least another 5 per cent of liquid assets for operational reasons, i e, Rs 175 crores. They will then have only Rs 525 crores left for meeting the demand for credit against the minimum of Rs 600 crores mentioned by the Governor of the Reserve Bank as the likely demand. And how are they going to meet credit needs of the above magnitudes if their resources are further curtailed by higher liquidity requirements?

The above arithmetical exercise may not establish anything substantive, but it does illustrate the situation into which a change in the liquidity ratio may force the banking system. Whether it is the private or the public sector makes no difference to the success of the Plan and provision of adequate credit is implicit in the Plan itself. This is a matter into which the Reserve Bank with all its expertise may usefully look again.

States' Right to Mine Coal

THE views expressed in these columns about the compromise reached by Shri K D Malaviya, the Minister for Mines and Fuel, with Dr B C Roy over the long-standing dispute of the West Bengal Government in regard to the State Government's right of exploitation of the coal in its coal bearing lands were based upon a certain assumption in regard to the nature of control actually exercised over the distribution of coal. What this assumption was, was not left vague or even left to be inferred. That assumption was that the scheme of coal distribution in operation was a limited scheme and that in any case, it functioned very perfunctorily. This is rather a question of fact than of interpretation of statutes. Government has powers to control prices and make allocations in respect of several commodities of which coal is one. And this control can be exercised both under the Essential Commodities Act and under the Industrial Development and Regulations Act. In fact, however, there is no strict allocation of coal; what allocation there is, is indirect, through allotment of railway wagons. If coal were centrally distributed, West Bengal's sole interest in exploiting coal bearing lands acquired by it would be to contribute to the general pool, and it was only to the extent it could augment the total supplies of coal that its approved projects, which would be entitled to allotment of coal by the Coal Commissioner in any case, would have a slightly improved chance of receiving adequate allotment. Its other interest in operating its own coal mines would be to earn profits on its coal mining operations but this was certainly not what attracted Dr Roy.

The reservation of coal mining to the public sector does not rule out mining by the State Governments on their own. Reservation, therefore, exclusively to the National Coal Development Corporation could not be seriously defended, and it is not surprising that all the coal-owning States are still fighting their case in the Supreme Court and that inspite of the settlement reached with West Bengal, the case is proceeding and has not been withdrawn.

The terms of the agreement now released to the press contain nothing at all about modifying or changing central allocation of all coal raised, whether in the public sector or by the private sector. Therefore, so far as the issue of coal allocation is concerned, the agreement reached by Malaviyaji makes no change and this is what one would expect.

In fact, the agreement released to the press very clearly states :

(i) That the State Government shall produce coal of the requisite type and quality only for the purpose of feeding such projects as are included in the all-India Plan, as finalised by the Planning Commission;

(ii) That it must obtain prior approval of the Centre for its programme of coal mining with particular reference to the State Government's approved plans;

(iii) That the operation would be conducted wholly in the public sector by a corporation formed for the purpose in consonance with the Union Government's laws and rules governing mining operations; and

(iv) That the distribution of the coal raised by such State Government corporations will be governed by the appropriate Central Legislation, and rules and orders issued by the Central Government from time to time.

Further, that for its coal mining operation, the State Government will have to find its own resources and that, if any foreign exchange is required for the purpose, the matter will have to be taken up with the Finance Ministry and the Ministry of Mines and Fuel who, as usual, will help the State Government in its efforts.

The only concession made to the State Government, if concession it be, is that it will receive priority in the matter of allocation from the mines operated by it, but any production which may be surplus to the approved projects of the State Government, will have to be handed over to the Centre or its agency for distribution.

While the State Government's own requirements will have prior claim on the coal mined from its collieries, this will not mean that the State Government will forego its claim on the central pool in regard to whatever priority its approved projects may have. There is a clause in the agreement which lays down that if in any particular year, the quantity of coal raised by it is not sufficient to meet the requirements of the *approved* projects, the Centre will, through the Coal Controller, endeavour to meet such deficit, subject to the general scheme of distribution and provided that the requisite transport is available. There is, however, another clause immediately following which seems to contradict what goes before. The clause in question states that "In case, however, when the phased target of production of coal by the State Government is not reached in a particular year, the Centre will not be responsible for meeting such a deficit".

Does it follow that any State Government which undertakes coal mining on its own thereby opts itself out from the central pool of distribution of coal? And how can this clause be reconciled with the earlier one which definitely states that in the event of a shortfall in the State Government collieries' production, the deficit will be made good or sought to be made good from the central distribution through the Coal Controller?

To the extent that coal bearing areas, the exploitation of which had been prevented so far by the continuing dispute, will now be opened up, the agreement is a net gain, and not to West Bengal alone.

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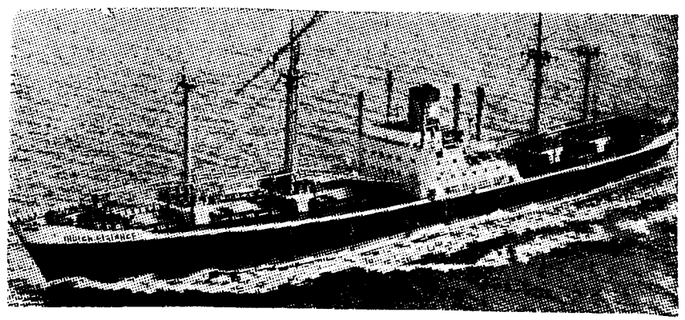

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Weekly Notes

Automobile Blind Alley

THE *small-car project* was killed by misconceived austerity, on the one hand, and misdirected prudence, on the other. The name given to it by the energetic and imaginative minister, who first conceived the project, brought upon it the ire of the pinks of the early 20's vintage (including this paper, among others!) who could not help asking "In what sense was it a Peoples' Car? For which people was it meant". One did not have to rush to the Committee on Distribution of Income to get it confirmed that even if the People's Car could be manufactured at a cost of Rs 5,100, the average Indian or even the average member of the middle-class would not be able to afford it. This is the angle later worked up vigorously by the Minister of Coordination. But how many people can afford the Lambretta ' either? The most austere of socialist countries also need cars for doctors, officials and others in essential services. They also need taxis for public transport. All these essential needs could be met much better by a cheaper car which further held the promise of being manufactured within the country without any net drain on the foreign exchange. Prospect of complete import substitution in three years is not to be lightly thrown away.

Then there is the voice of prudence to which we have been listening all these years. Having set up automobile production in the country, it is reasonable to argue that all energies should be bent on and all policies directed towards the one objective of increasing the scale of production of the units which have been licensed, so that the cost of automobiles may be progressively brought down and the indigenous content of the products progressively increased. The quicker all these can be done, the earlier will the country be able to stop the drain on foreign exchange on this account and the earlier we can have cheaper cars. There should be no deviation from this objective and no resources should be dissipated by setting up still other units — there are already too many—and nothing should be done which tends to reduce or bring down the scale of production of the units which are already in production.

Every time automobile policy is discussed, the question of manufacture of indigenous components and the urgency of stepping up the indigenous content come up and the same set of problems are paraded over and over again — reluctance of automobile manufacturers to decentralise production, the difficulties of standardisation or quality-control, which slow down decentralisation. The development of components, or common services for body-building, castings and forgings, etc, or whichever may be the line of enquiry, one soon bumps against the same stumbling-block —foreign exchange. If maintenance imports are to be reduced, more foreign exchange, which is always a multiple of the value of the import to be substituted, is needed for capital equipment.

The present Minister of Steel and Heavy Industry seems to have brought a fresh mind to his task. But his emphasis on increasing the indigenous content of automobiles will mean nothing until he is able to set a time schedule for carrying out the changes and is also willing to enforce this time schedule, not simply by issuing one more order or passing another Government resolution, but by some combination of incentives and disincentives which can reasonably ensure compliance. To be fair to Shri C Subramaniam, he does appear to be earnest since he has the courage to confess that uneconomic units had been licensed and also to commit the Government to an examination of the 'feasibility of mergers' and, in a few cases, 'abandonment'.

While announcing the decision in regard to the small-car project, Shri Subramaniam had also hinted at a reappraisal of the overall policy in regard to manufacture of automobiles. This he has not undertaken yet, but he did throw up some figures, from which one can see fairly clearly what kind of *cul-de-sac* we have got into. The foreign exchange allocation for the automobile industry in the Third Plan, he said, was about Rs 43 crores and maintenance imports for this industry was running at an annual value of over Rs 30 crores. For all this foreign exchange expenditure, what are we getting? — Some 50,000 cars and trucks and a third as many of Lambrettas and motor-cycles. The import cost of 50,000 cars and trucks at an average cost per car of £ 500 in simple arithmetic comes to a figure of Rs 33.3 crores. Against this should be placed the figure of foreign exchange released to the industry for maintenance imports alone — Rs 30 crores per year.

After ten years of toil, effort and colossal expenditure of foreign exchange, this is what we have got. It is indeed a blind alley we have got into, with no turning and no opening at the other end. How would a countervailing project of a small car in the public sector look, pitted against these figures? True, having started on something, the line of least resistance is to keep on to it. But is it also the way to rectify past mistakes? The losses of individual enterprises, which hold little promise of ever becoming economic in operation, are not necessarily losses from the social point of view. The physical stock of capital equipment does not vanish overnight with changes in its book value.

Unilateralists Fall Out

A London Correspondent writes:

RECENT correspondence in *Peace News*, the London pacifist weekly, indicates a deep-seated crisis within the Campaign for Nuclear Disarmament. Pat Arrowsmith and the Rev Michael Scott, leaders of its radical wing, have resigned from the CND National Council on the grounds that it bucked a Conference decision to add "industrial action" to its more traditional propaganda work; Canon John Collins, Chairman of the Campaign, has accused them of "the irresponsibility of those who, seeing their interpretations of things as the only possible ones, proceed to make statements and write letters in the press which cause . . . a disruption of campaign work . . ."; they have countered in the same coin; and rank-and-file Campaigners have begun to write letters about democracy in the movement.

Two years ago things were different. After a short but vigorous growth, CND looked fair to becoming a major political force in the country. It had managed to win over a number of trade union leaders and to swing the Labour Party to a policy of unilateral nuclear disarmament (Scarborough Conference, October 1960). All that was needed was a Labour Government to implement CND policy.

Or so it seemed.

The awakening soon came, however. Trade union leaders who saw in CND a handy broom with which to sweep Gaitskell out of the Labour Party leadership (for having lost the general election and for having tried to tamper with the Party constitution amongst other things) took fright when their broom turned into a sorcerer's apprentice. They made their peace with the political leadership and terminated their courtship with CND. Since the Campaign had pinned its hopes on the match and had made few and feeble advances to the union rank-and-file, Labour's unilateralist policy was easily reversed at the annual conference (Blackpool, October 1961).

Heart-searching within the Campaign were not too excruciating that year. 1961 was the year of the Committee of 100, a *satyagraha* movement that grew up alongside CND. It drew off much of the radical protest that might otherwise have turned on the Campaign leadership.

The reckoning has now come. The Committee of 100 has lost its impetus (further comment will be made after their forthcoming demonstration outside the Air Ministry); the Campaign has given ground even farther within the Labour Party now that Frank Cousins, General Secretary of the Transport and General Workers' Union, the unilateralist sheet-anchor and vote millionnaire, has been pursuaded to put Party unity before a restatement of policy or principle at Labour's forthcoming conference (Brighton, this October); and the radical anti-Bombsters are left with little but the high-minded, rather soft Campaign leadership to sink their energies and teeth into.

This they are doing with gusto. Basing themselves on a fluke resolution at the last CND Conference, they are pressing for token and real protest strikes at nuclear weapons plants and missile bases. Were these easy to achieve, there would be little reason for them to pursue their argument with the Canon. But it isn't. Scant success has attended their efforts at organizing this form of protest over the past year and they have been forced to conclude that the larger resources of the Campaign might evoke a response where they cannot.

Most probably they are wrong here. Nonetheless, overall, the radicals have the argument, while the Canon has the Campaign, and the Campaign has the dithers. Whether this will affect the ever-increasing numbers who make their annual protest by marching each Easter from the Atomic Weapons Research Establishment to London remains to be seen.

BEST in the Red

THE services that the Electric Supply and Transport Undertaking of the Bombay Municipality (the B E S T) offers for sale are very much in demand. The people to whom these services are sold can, by and large, also afford to pay a price which would ordinarily enable the BEST to operate on commercially profitable lines. Nationalisation, in this case, has brought no social benefits—nor was it expected to — which could be set off against a decline in profit.

The fact that it is a municipal undertaking in no way absolves the BEST from the necessity to earn a reasonable return on the public funds invested. Nor is this responsibility in any way reduced when the public funds so invested increase, as they have done in the case of the BEST from Rs 12 crores in 1947 to Rs 33 crores by 1962. When additional funds are invested in any commercial undertaking it is normal to expect that the fresh investment would yield a return at least as high as that on the original capital. In a particular situation, where the fresh investment enables the company to benefit from the economies of scale, the earning power of the company may be increased more than proportionately by the new investment. In the case of the BEST, however, this has not happened. For it, the increase in the size of capital employed has been accompanied by a steady decline in the rate of return on capital.

Of course, one can talk of the BEST as a single undertaking only in a formal sense. In fact, it carries on two distinct operations, viz supply of electricity and running the city's road transport system. And the transport section itself includes the bus division and the tramways division which show entirely different operating results. The tramways has never yielded any return on the funds invested in it. In fact, the loss on capital has increased year by year and is calculated at 3 to 4 per cent at present. However, not much attention need be paid to the tramways as they are on their way out and many routes have already been scrapped. Bus transport is a live and expanding operation, but even here the returns are today close to zero, having declined from about 10 per cent a decade ago. Taken together, the loss on the tramways so outweighs the meagre return from bus transport that BEST's funds employed in the transport section — some 53 per cent of the total—today yield a negative return of between ½ to 1 per cent.

Compared with this, the electric supply section looks like a money spinner even though the net return has never been much above 6 per cent and has declined steadily and is now less than 4 per cent. Taking the BEST as a whole, the return on funds invested has declined from about 5 per cent in 1949-50 and now the Undertaking makes about 1.3 per cent on public money which it has borrowed at 3¼ per cent and 4¼ per cent. Out of this it has to pay the interest on borrowings and the statutory Municipal contribution of Rs 40 lakhs per annum. Of course, the Undertaking pays interest on its loans at the rate of 3¼ per cent and 4¼ per cent, but what this means in practice is that some part at least of the interest payment is being met out of capital. Or, alternatively, assets in which public funds have been invested are being eroded away.

How to Make It Pay

THESE are the bare facts of the financial position of the BEST culled from the Report of the I L O Productivity Mission. Over the last five years the Undertaking's bus fleet has grown from 699 to 1,153. But the larger fleet has not led to any economies of scale. On the contrary; the direct cost of operating a bus during this period has gone up from Rs 49,750 to Rs 65,480 per annum, by 32 per cent. Revenue per bus has gone up by only 7.4 per cent and the margin per bus after meeting operating expenses has dwindled from Rs 21,396 to Rs 10,924 or by 49 per cent.

In fairness to the BEST, the report points out, nearly all the increase in costs has been due to factors beyond its control. The rise in costs is the combined product of higher wages and higher taxes and duties. Taxes in one form or the other now account for one-third of the total direct costs and absorb 3.1 nP out of 11.1 nP, the average fare collected. The rise in taxes and duties is most spectacular in the case of diesel oil. The cost of diesel oil to the Undertaking has gone up by 48 per cent in the last five years. Yet the price the suppliers get has been reduced by 55 per cent. Duties and taxes on oil have gone up nearly three-fold and out of every rupee paid by the Undertaking for diesel oil today, only 16nP go to pay for the oil while 84 nP are taken up by taxes and duties.

The present average revenue per annum per bus is Rs 22,170 which is less than the minimum needed for economically sound operation at present costs. In other words, to prevent loss of capital and to yield a return on investment at the minimum rate of 4¼ per cent recommended by the Mission, either costs of operation will have to be reduced by about Rs 22,000 per bus or revenue increased by this amount which is equal to 29 per cent of the present revenue per bus. As a result of further expected increases in costs, the gap would widen in another five years and would be 47½ per cent in 1966-67 at the present level of operating efficiency. If the Undertaking could improve its operating efficiency by then so as to keep 90 out of every 100 buses running, instead of 78 as at present, the shortfall in revenue would still be Rs 28,670 per bus or 37 per cent. This is the gap which has to be covered (i) by reducing costs, (ii) by increasing revenue at current fares, and by (iii) raising fares.

Possible saving in costs and any increases in revenue at current fares would not accrue immediately, but over the five years they would be sufficient to absorb the expected rise in costs. The immediate gap of 29 per cent in revenue will, therefore, have to be met by raising fares. The Mission has suggested a new fare structure which will raise revenue by about 30 per cent. It is proposed to replace the present 7 nP first stage with a 5 nP stage and distribute the increase evenly over the other stages, while still maintaining the tapering rates for longer distances.

The I L O Mission has suggested a new fare structure as well as the rationale for it. But its recommendations on maintenance and standardisation of the fleet are no less important. Some of the facts regarding maintenance, which the report brings to light are little short of shocking. The Mission considers the operating ratio of 78, which is all that the BEST has been able to achieve, ridiculously low. The ratio in question is an index of the serviceability of the fleet and the efficiency of the maintenance methods employed. The report estimates that some 27 per cent of the fleet is at present over-age. The average age has steadily increased since 1955 showing that replacement of buses has not been carried out as fast as they should have been. As a result, the average age of the fleet now is too high in relation to the useful lives of the buses and some of the older buses spend so much time off the road that they do not even recover their costs.

As might be expected in these circumstances, the frequency of breakdowns is exceptionally high. In 1960-61 every vehicle in service broke down on average once every four days. This rate is, according to the report, higher than that for any other fleet in India. And it was not the older buses alone which broke down frequently. Newer vehicles were no exception, reflecting the poor standard of maintenance. The Undertaking's maintenance schedules are out-dated. They do not conform to the recommendations of the manufacturers whose buses form the bulk of the acquisitions in recent years, nor are they in line with the practice found by other large city fleets to be the best. And what is worse, even these schedules are never fully adhered to.

Besides, the existence of a large number of different designs and types in the fleet naturally makes the task of proper maintenance difficult. Classified by chassis types, the fleet has 10 groups of single-deckers and 4 of double-deckers. And fitted to these chassis are some 18 types of bodies supplied by 10 different builders!

Standardisation of buses and working methods and reduction in the range of types handled feature prominently in the 20-point plan for better maintenance recommended in the report. Purging the fleet of the more ancient vehicles, the adoption of the unit replacement system of maintenance and the setting up of training schools are its other important recommendations. It is to be hoped that the BEST authorities will take this part of the report as seriously as the section on fares and that, having used the report to raise bus fares, they will not leave it to gather dust on the shelves of BEST House.

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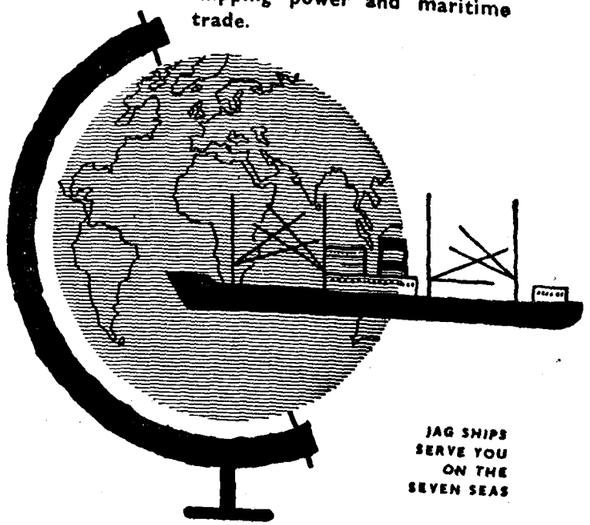

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Capital View

Economics in the Saddle

Romesh Thapar

DELHI is an amusing place these days, for the politically inclined are becoming economics orientated. Several factors have caused this shift in those who were wallowing in speculation about Cabinet reshuffles and such things: the sharp foreign exchange crisis, the creeping paralysis of the stock exchanges, the shelving of many projected industrial collaboration agreements and, not the least, the curbs on foreign travel. Even foreign correspondents are making a brave attempt to look intelligent when economic policies are under discussion. But, ironically, those very ministries of the Government of India most concerned with economics are engulfed by political speculation; there is uncertainty about which minister will move where in the course of the re-shuffle.

Let me try and capture for you some of the flashes of the debate now joined. Sarcastic comments can be heard about Planning Minister Gulzarilal Nanda's attempts to be optimistic with regard to future development prospects. The present foreign exchange crisis, unlike the last, it is pointed out, is bound to remain with us for a long time. Its full and damaging impact will be felt within about six months when foreign exchange will be strictly rationed even in the matter of servicing existing plant with spares etc. Every now and then a voice is heard forecasting a sharp drop in industrial production, what with coal and power shortages to intensify the foreign exchange crisis.

Spectre of Rising Prices Again

Attention is also directed to the state of our agriculture. Prices of foodstuffs are rising. This is, in part, due to seasonal factors, but the suspicion is fast growing that we are relying too heavily on defective statistics and are not aware of shortfalls in production. Bureaucrats, of course, shrug their shoulders and point fatalistically to the unchecked growth of India's population. 'Why aren't stocks being released?' ask the aid-conscious. 'Perhaps, they are not releasing them fast enough,' reply the all-knowing.

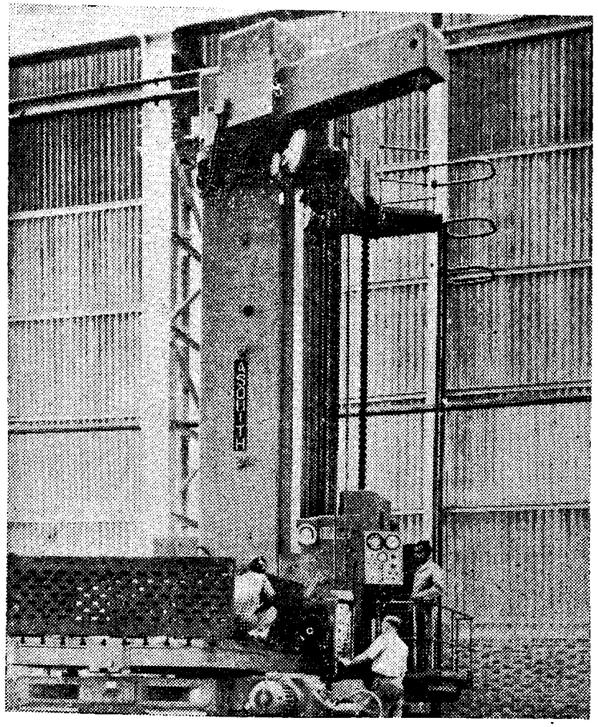
The rise in prices is persistent—and it certainly looks as if the ruling party is at last stirring itself to face the problem. The opposition parties will, of course, claim that this belated recognition of the crisis is the direct result of their haphazard, badly-organised and politically-opportunist agitation against the tax burden. Perhaps there is a grain of truth in this, but those in touch with the bosses of the ruling party claim that it is the logic of the projected export drive that is forcing the hand of Government.

Export Drive : Cost Reduction

For some time now, the official economists who preside over the ministries concerned with development have permitted pricing policies which enabled industrialists to recover their invested capital in a few years. This policy was justified on the ground that it encouraged capital to flow into productive industrial channels. High pricing, quick profits in a sellers' market, destroyed the initiative to produce more at a lower cost. The result today is that we are unable to produce goods which can compete in price with foreign manufactures in markets abroad. This reasoning is beginning to sway opinion within those sections of the party which believe that an effective export drive can only be organised after a thorough examination of the high costs of production. Planning Minister Gulzarilal Nanda reflected this mood during his recent intervention in the Lok Sabha, although he failed to define precisely what he intends to do.

Compulsory Exports or Export Sector ?

Certain industrialists who are already export-conscious maintain that any attempt arbitrarily to revise prices and the costing of goods will frighten away private capital from productive industry into profitable trading channels, that this would stifle growth at this critical juncture. They suggest a policy of compulsory exports with strict quality control. A fixed percentage of total production should be earmarked for ex-



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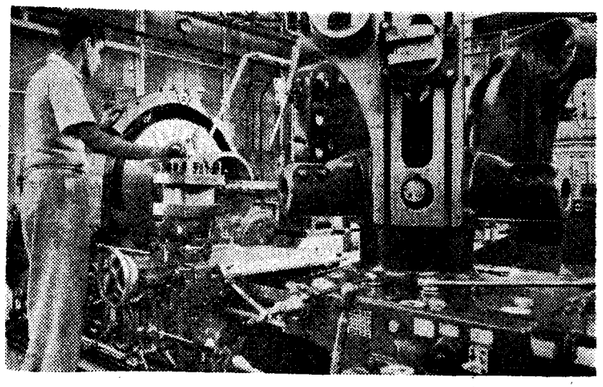

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export. A competitive price for the exportable percentage should be fixed. The loss so incurred by the manufacturer should be spread over the goods released in the internal market. There is confidence that family budgets in upper income groups, which are interested in the kind of goods that find export markets, can take the shock.

Another 'export' lobby is also taking shape in the capital. It argues that with the present industrial set-up there is no future at all for Indian exports, that Government must now apply its energy to organising an industrial sector solely geared to exports. Whether it is going to be possible to do this in the present crisis period is a moot point, but the protagonists of this point of view claim that even the United Kingdom and members of the European community would be willing to invest in export industries based on India which open the doors to Asian markets.

Even as these topics are hotly discussed, with expertise and without, students of economic affairs are taking serious note of the unused foreign aid that is piling up, particularly from the Communist countries. All are agreed that there has been a marked deterioration in the efficient execution of projects. Whether the joint committee of the two Houses of Parliament to be set-up to examine the functioning of public undertakings will consider these related aspects or not, is at the moment only a subject of speculation. At the moment, the members of the Lok Sabha and the Rajya Sabha are battling for vantage position on the committee.

Elite's Own Panchayat

Punctuating the discussions on the economic crisis, is the gossip about how defeated ministers and deputy ministers are found comfortable jobs, how members of the I C S are also developing an appetite for patronage appointments, and how those who fail to come through the scramble manage to get their honorary services accepted in return for a house, a telephone, chaprasis and a car — all income-tax free.

Defeated minister Keskar took over the National Book Trust. During his regime in the Information and Broadcasting Ministry, he saw to it that the Trust published only through the Publications Division. This amounted to a death sentence for the Book Trust. Now he is busy persuading the members of the Trust to allow him 'freedom of action' — and we are back at the beginning. Former Deputy Minister Satish Chandra has quietly taken over the Chairmanship of the British India Corporation, once part of the Mundhra empire. The allegation is that he was able to do this only by using the proxies made available to him by the GOI and the LIC. Tyabjee, a Secretary in the External Affairs Ministry, has been chosen for the controversial Vice-Chancellorship of Aligarh University. Educationists are wondering whether this extraordinary appointment marks the ICS 'break-through' into another field of employment! Officers in the armed forces are also encouraged by these developments. After all, aren't they trained organisers. And so it goes on, the ruling elite maturing its own system of **panchayati raj.** As for the technically qualified, they watch and wait, frustrated, embittered.

Who is going to call a halt to these and other goings on? Something drastic must be done; the bye Election results from Madras and Andhra are a pointed reminder. The Prime Minister, busy with preparations for his London visit next week, has asked four of his senior colleagues — Morarji Desai, Lal Bahadur Shastri, T T Krishnamachari and Gulzarilal Nanda — to offer agreed suggestions on the Cabinet reshuffle and the reorganisation of ministries. The meetings of this tormented committee have so far proved 'inconclusive', to use the vocabulary of diplomacy. Four men in a fix! One can almost see the future. The Prime Minister, we are 'reassured', will resolve the tangle when he returns from London via Africa.

And, finally, we have been warned that over the week-end the Capital will be blacked out. All power will be cut because the engineers of the Delhi Electric Supply Undertaking need 24 hours to instal a new Japanese transformer. How are these jobs done in Tokyo, London and New York? Apparently, nobody knows!

Our Calcutta Letter

Shortage of Raw Rubber to Continue

CURRENT efforts to diversify India's exports have led to attention being focussed on the contribution that may be expected from the rubber manufacturing industry. Last week the Ministry of Commerce and Industry confirmed its earlier decision to revise the target for automobile tyres and tubes from 3.7 m each to 5.14 m, linking it with an obligation to export a part of the additional production. The practical implications of the decision are that some of the 14 applications pending with the Ministry for expansion or for new units will now be approved.

It is learnt that the units that will be permitted to expand are: Dunlop's Sahaganj plant near Calcutta and the Ambattur plant near Madras, Firestone in Bombay, Premier Tyres in Ernakulam, General Tyres near Calcutta, and the Madras Rubber Factory. Four out of these six are likely to add to their capacity by 60,000 tyres while Firestone will go up by 3,25,000 and General Tyres by 1,25,000. Two new units, Southern Tyres of Madras and Podar Mills of Bombay are to be licensed each for 3,00,000 tyres and tubes. This takes care of almost the entire additional capacity to be licensed, and one wonders, therefore, what is to happen to Goodyear's plans, already announced, to double the capacity of their plant at Ballabgarh near Delhi.

The implications of this increase in tyre capacity on the raw materials situation need to be understood. From close to self-sufficiency in raw rubber in 1951 when the output of Kerala plantations met over 90 per cent of the country's

requirements, the gap between demand and indigenous supply that imports have to fill has widened to over 50 per cent. Total rubber consumption in 1961 was estimated at 63,848 tons while output was no more than 27,000 tons. Consumption in the current year is estimated at 72,000 tons which may require over 40,000 tons of imports, costing something like Rs 16 crores in foreign exchange.

Raw Rubber Target Revised

The Third Plan had assumed that raw rubber requirements would go up to about 1,00,000 tons. This was to be met by (a) raising natural rubber production by 70 per cent from 27,000 tons to 45,000 tons, (b) setting up synthetic rubber plants to produce 50,000 tons, and (c) setting up rubber reclaiming units to reclaim 15,000 tons. This target has to be revised now because it is clear that raw rubber requirements will be of the order of 1,40,000 tons and not 1,00,000. The revision of targets of tyres and tubes announced last week will make sense only if action is simultaneously to increase production of raw rubber.

We should begin by making a realistic assessment of the production potential of the plantations in South India. Over the last ten years, the increase in production has been no more than 55 per cent, achieved partly by higher yields and partly by extension of the acreage from 171,911 acres in 1951 to 3,48,121 acres in 1961. While the increase in acreage may appear very large, as much as 47 per cent of the acreage was not under tapping, the plants being young and immature. Five years ago, the corresponding figure was 20 per cent. Most of the untapped areas are those planted in recent years with high yielding varieties. According to one report, smallholdings of 50 acres and below, which account for 50 per cent of the total area have replanted more clowal than the estates in recent years. Today, over 30 per cent of the area under small holdings is planted with high-yielding saplings while this figure for estates is about 45 per cent. In 1965, the tappable area under high yielding plants will increase to 92,000 acres, from which an average yield of 600 to 800 lb per acre is reasonable to expect. On some estates, yields of 1,400 lb per acre have been achieved. Even areas under unselected seedlings could be made to yield 400 to 500 lb per acre (as Dr Rama Varma, the Rubber Board Chairman, said in a recent newspaper article) by better manuring, plant protection and wider application of yield stimulation. Even on a conservative estimate, the Rubber Board feels sure that the target of 45,000 tons can be fulfilled. More likely, it will be bettered. According to Dr Varma, production should be around 70,000 tons by 1970 and 1,00,000 tons by 1975, even without taking into account any new planting during the next three years.

Natural vs Synthetic Rubber

The Rubber Board is, of course, an interested party in the controversy over the shares of natural and synthetic rubbers in the future pattern of supplies of raw rubber. Independent corroboration of its optimistic estimates of future production comes from the Economist Intelligence Unit (EIU) which published a special report on the Indian rubber manufacturing industry in June. According to this report, developments indicate that India may be on the threshold of a major breakthrough in domestic rubber production. These are, first, the high and increasing proportion that the area under high-yielding varieties bears to the total area and second, the increase in total planted area under both small holdings and estates. EIU concludes that it is not too optimistic to assume that by 1966 average yields will be up to 350 lb per acre (against the 1961 average of 324 lb). If so, production by 1965-66 might increase by some 15,000 tons. An even larger increase should be possible after 1965-66 when more of the recent plantings mature. The current replanting programme in Kerala will not, of course, be reflected in yields until the late sixties.

It is safe to assume that natural rubber supplies should be close to 50,000 tons by 1965-66, or shortly thereafter. Even then, there will be a gap of 90,000 tons to be met by the production of synthetic and reclaimed rubber, as far as possible, and from imports. There is so far only one synthetic rubber unit in view — the Bareilly plant with a capacity of 30,000 tons which should be in production before the year is out. Another synthetic plant is likely to come up in Assam, to produce 20,000 tons of poly-isoprene types of rubber, utilising natural gas as its raw material. This proposal, in the air for some months, does not appear to have made much headway and an alternative idea of setting up two units at Bombay linked to the oil refineries is now being canvassed. According to one report, the licensing of these units is being actively considered but the grant of permission is dependant upon the setting up of naptha-steam cracking units to provide the basic raw material.

Imports will Continue

In the mean time, four companies have been licensed to produce reclaimed rubber with capacity ranging from 600 to 5,400 tons a year. It is confidently expected that the target of 20,000 tons will be fulfilled. Reclaimed rubber has several technical advantages, e g easier mixing. Its use in India has grown from 2,500 tons in 1955 to 7,200 tons in 1961. The establishment of indigenous reclaiming units will help to recover rubber worth many crores of rupees now being wasted as scrap.

Unless the proposed synthetic rubber units are quickly established, there is little hope of any substantial reduction in import. In fact, we may well find ourselves in a situation where an expanded tyre industry has to keep a considerable part of its capacity sealed because of shortage of raw rubber. Today imported materials account for as much as 75 per cent of the value of an Indian tyre, because not only rubber but also bead wire, rubber chemicals, carbon black and rayon cord need to be imported. Domestic manufacture of rayon cord has just commenced, while that of bead wire (6,000 tons covering both automobile and cycle tyres) is being set up in Maharastra. A carbon black plant at Durgapur is almost complete while a rubber chemicals plant is coming up near Calcutta. The manufacture of automobile tyre valves has also been taken in hand. But even with full import substitution in these directions, it will be clearly impossible for the tyre industry to achieve viability unless domestic supply of the basic raw material is assured.

In and Around Lok Sabha

Nomination Season

THE cool, green-carpeted Lobby and the Central Hall have been the centres of activity in the past week though legislative business itself has been limping in a slow and dismal fashion. The shrieking sound of the Quorum Bell was heard almost every afternoon. But this in no way helped to keep the M Ps very long in the House. In a few minutes they were out. For, this is the time when rumours are afoot about the change of portfolios; this is also the time for nominations on delegations going abroad and for appointments on committees. More things are wrought in the Lobby and the Central Hall than is ordinarily imagined; and more reputations are made or marred than one would like to admit. But there you are. The Central Hall is the Durbar Hall — a place where to be seen in the right group and talking to the right people is noticed and remarked upon. This is where important Ministers hold court and have informal talks after the Question Hour — a sort of "Meet the M Ps" effort.

On some days the Treasury Benches are crowded during the Question Hour and the House is full. These are the days when the External Affairs Ministry or the Defence Ministry Questions are in the list. The Prime Minister is there. Members on the Congress benches bob up more frequently and persistently in the hope that the Prime Minister will notice them; some ask irrelevant questions which bring a sharp dry rebuke from the Speaker or laughter from the House. To be noticed and to be in the public eye is after all an an understandable weakness in politicians. Shri Mani Ram Bagri (Lohia Socialist, Punjab) gets up and protests at the proceeding being in English. In a loud voice, he appeals to the Speaker.

"Speaker *Sahb* — Speaker *Sahb*"
"Order, Order"
"Speaker *Sahb* — — — "

He never fails to get himself noticed. Another member who, has so far contributed little to the work of the Lok Sabha except interrupt its smooth conduct is Swami Rameshwaranand (Jana Sangh, also from Punjab). Every time he says he is unable to understand what is said in English and therefore demands, with out-stretched hands and dramatic gestures, that the medium be changed from English to Hindi. He is an impressive figure in his flowing saffron robes.

Three delegations are going abroad: To Russia at the invitation of the U S S R Government; to Nigeria for the Commonwealth Parliamentary Conference; and to Brazil for the International Parliamentary Conference. The delegations will comprise of Members of the Rajya Sabha and the Lok Sabha. Who will be the lucky few to be selected?

Government as 'Land Agents'

The Land Acquisition (Amendment) Bill and the Planning Debate were the two important features of last week. There was a sharp difference of opinion between right and left wing Congressmen over the Land Acquisition (Amendment) Bill. All the persuasive powers of Shri S K Patil who moved the Bill were not enough to get it passed. The socialistic-minded Congressmen were more in agreement with the PSP and the Communist Members than with the Government that the passing of the Bill would empower the Government to acquire land for a private company, with the explanation that such acquisition was necessary "in the interest of the general public" as specified in the Amendment and that "it would be likely to promote the economic development of the country"; that the Government would become "land agents" of the private industrialists for whose benefit the legislation may be used.

The Amendment had become necessary to enlarge the scope of the Land Acquisition Act of 1894 after the judgment of the Supreme Court in the case of R L Aurora vs the State of U P (1962). As the judgment may have invalidated the previous acquisition of land by various States for companies engaged in industries "likely to promote the economic development of the country" or which were "essential to the life of the community", the Land Acquisition (Amendment) Ordinance (1962) was promulgated on July 20, 1962. The Bill is intended to replace the Ordinance.

The Bill will come up for further discussion later. It looks as if it will be passed with some modifications eventually.

The Planning Debate was a disappointment except for the lucid and well argued speeches of Members like Shri Indrajit Gupta, the Communist. Member from West Bengal and Shri U N Dhebar. It was obvious that even the Congress Members could not but deplore the shortcomings in the formulation and implementation of the Plan. No new arguments were offered for, the Plan is an ever-present factor in most Parliamentary debates. All that was said had been said before.

Prizes for Cooperative Consumers' Stores

A PRIZE scheme to encourage the organisation and efficient functioning of cooperative consumers' stores has been formulated by the Central Government. Three prizes — Rs 1000, Rs 600 and Rs 400 — will be offered under the scheme which will cover all consumers' stores organised in the Cooperative, Orientation & Study, Small-Scale Industries and Social Education Training centres as well as those run by the National Institute of Study & Research in Community Development and by Khadi Mahavidyalayas. Some 55 cooperative stores have been organised by these bodies.

All stores of this category, whether registered or unregistered, which were working for six months immediately prior to June 30, 1962, will be eligible to participate in the competition. Half the amount of the prize will be credited to the reserve fund of the consumers' stores and the balance will be utilised for welfare purposes to be determined by their members.

Punjab Letter

The Akali Rift

WHILE he has not formally set up a rival Akali Dal, Sant Fateh Singh has really formed a separate organisation of his own within the Dal. This, he claims, is the only "legal" body. Master Tara Singh continues to control the old offices but Sant Fateh Singh is appointing his own executive committee and is even starting his own newspaper. Both factions claim the sanction of the General Body of the Dal. The respective sides did indeed "elect" one of the two leaders as President and "expel" the other from membership — having taken care to invite only its own supporters to the respective meetings. About 200 'delegates' are said to have attended the meeting convened by the Sant, and about 50 or so, the one by Tara Singh, though the latter figure was put by the sponsors at a precise 231. Both the factions seem anxious to keep up the fiction of a single Akali Dal but the fact is that there are two parallel organisations at present.

Government intervention prevented an imminent trial of strength but a clash between the two factions may not be far off. The S G P C is to meet shortly to discuss the Sant-initiated no-confidence motion against the Committee President, Kirpal Singh Sherewala, a non-entity whom Tara Singh has propped up as President. If the meeting is held and a violent clash is averted Tara Singh may still prevail. For he has the vital organisational — and financial — control in his hands. All the same, he will not find it easy to "quell" the rebellion.

In the meantime, a long-standing tradition has been broken. Panicking at the determination of the Sant to convene a General Body meeting within the Golden Temple area, Tara Singh sought official aid to maintain "law and order", thereby permitting the entry of the police into the precincts of the Temple. Soon, of course, he saw his mistake, for it had given the Sant an effective propaganda weapon and so now he vehemently denies having called the police.

Sardar Pratap Singh Kairon, the Chief Minister, has benefited the most from the Akali rift. The police, once it entered the Gurudwara, occupied strategic positions and arrested a number of Akalis, belonging to both the factions, to prevent a clash. That hardly a murmur has been raised against the entry of the police into the Gurudwara indicates the people's indifference towards the whole affair.

Master Preferred to Sant

What will be Chief Minister Kairon's next move? The Akali rift definitely helps consolidate his position. The two factions are accusing each other of having played into his hands. He, of course, denies any understanding with either of them, but it seems likely that he would very much wish Tara Singh to continue as the Akali chief. The reason is that while Tara Singh does occasionally start a "movement" against the Government, he has not the determination to carry it to the end. Many times in the last few years Tara Singh has let an agitation get to a high pitch, only to ditch it ultimately. These Akali pinpricks actually strengthen Kairon's position in the Congress. He begins to look "indispensable" for the Congress in Punjab. A more determined and steadfast Akali leadership, of the type that the Sant may possibly provide, could, on the other hand, cause real discomfiture to the Chief Minister, either by carrying the opposition to his Government to a successful conclusion or by getting routed and thus ending the "Akali problem" which he so badly needs for his own continued supremacy in the State.

To return to the Pickwickian farce being staged at Amritsar, the rift was precipitated by Tara Singh, when it became apparent that he was facing the gravest threat to his leadership so far. Using the technique he has employed on many occasions during the last forty years, he tried to isolate Sant Fateh Singh in an attempt to force him into submission. He began the attack by expelling a number of the Sant's leading supporters for "anti-party activities" — a convenient enough charge. With his hold on the Akali organisation, which in no small measure is due to his personal control over the party funds, Tara Singh could be reasonably sure of scoring an easy victory over the Sant. But he gravely under-estimated the latter's popularity as also his determination to fight it out to the bitter end. For unlike his previous opponents who had either joined the Congress or left politics, the Sant, by his manipulations, almost succeeded in making Tara Singh appear as the "dissident". The Sant's decision to hold a convention of his followers inside the Golden Temple, a day before the Master was to hold his own meeting, put Tara Singh very much on the defensive.

Tara Singh Unmasked

Hitherto Tara Singh's strength lay in the picture he had created of himself as a Saint-Politician. Even his bitter critics seldom doubted his sincerity. This image has, however, now been tarnished. There have been uncomplimentary references to his "fast unto death" which few, even then, took seriously. The Sant has actually threatened to make public some "facts" about the fast.

As for Sant Fateh Singh, while his following is chiefly among the town-dwelling Sikhs (mainly shopkeepers), his popularity among Sikh peasantry is also considerable. The acute embarrassment that the Sant's campaigning on behalf of the Akali candidate caused the Chief Minister in his own constituency is proof of this. As against this, Tara Singh has the advantages of having control over the party's finances and a more vocal following. But even if he scores a tactical victory against the Sant in the forthcoming meeting of the S G P C, (which he may well do if the Government does not in the meantime suspend the Committee itself), the Sant will always remain a challenge to Master Tara Singh's leadership of the Akali Dal.

SECRETARY TO GOVERNMENT UNDER SECRETARY TO GOVERNMENT 4 SEP 1962 PUBLIC DEPARTMENT

Our Delhi Letter

Planning for a Minimum Level of Living

THE guiding objective of planning should be to ensure a minimum level of living by the end of the Fifth Plan. This is the view taken by the Perspective Planning Division in a recent paper. In deciding the minimum income objective, the paper points out, a balance has to be struck between what is desirable and what is feasible. For instance, food requirements on the basis of the balanced diet recommended by the Nutrition Advisory Committee together with a modest consumption of other items would cost Rs 35 per head per month. The assurance of this standard would necessitate a rate of growth of 10-12 per cent per annum, which would be hardly feasible. Hence the objective set by the Perspective Planning Division is the attainment of a minimum per capita consumption expenditure of Rs 20 per month by 1976. This modest minimum was recommended by a non-official Working Group set up by the Seminar on Some Aspects of Planning. It has been accepted by the Perspective Planning Division after considering, among other things, past achievements, the experience of the Third Plan so far, our capacity to mobilise domestic resources and foreign exchange of the requisite magnitude, our ability to realise an adequate rate of growth of farm output and to design, construct and operate large, complex projects.

Modest as the objective is, at present half the population does not enjoy even this minimum standard. This may be seen from Table 1 which throws some interesting light on the present pattern of income distribution. Mere redistribution of current output, however drastic, would not improve the situation materially. On the contrary, such redistribution would certainly affect savings adversely. Besides, a certain degree of inequality — which cannot be precisely determined — is necessary for sustaining incentives. What is necessary to achieve the minimum standard of consumption is a very considerable increase in the size of the total product. Some redistribution will be both desirable and necessary.

The distribution of income follows a remarkably similar pattern, even in countries at very different stages of development and with varying socio-political environments. The similarity is especially marked in regard to the proportion of income earned by the lowest three or four deciles of the population. It follows that as an economy develops the incomes of all sections of its population rise more or less in proportion to the increase in the total income. The attainment of a specified level of minimum income within a given period then becomes purely a function of the rate of growth of total income. At least this would be the position in an integrated economy, in which the effects of development are transmitted more or less automatically throughout the system. But when the economy is loosely integrated, as India's, the effects of economic development will not automatically percolate to the poorest segments of the population. Some 20 per cent of the population, it is assumed, would fall into this category. In the remaining 80 per cent which would benefit directly from the development of the economy there would be some accentuation of income inequalities. The proportion of high incomes, both from property and work, would tend to increase in the sectors requiring more investment in capital and technical personnel. As against this, the wages of unskilled labour would remain depressed because of less than full employment. But a force correcting inequality would also be operative. Since the greater part of the new investment would be in the public sector, a reduction in concentration of property incomes in the private sector could be expected. On balance, it is assumed that the distribution of income within the upper 80 per cent of the population in 1975 will not be very different from the present pattern.

Seven Per Cent Growth Target

To achieve the goal of a minimum level of living, therefore, there has to be an increase in the incomes of all sections of the population together with a degree of redistribution that would not affect continued growth. The paper sets down a growth target of 7 per cent per annum. With this rate of growth, the national income in 1975-76 (at factor cost) would be Rs 34,220 crores at 1957-58 prices. (These prices have been adopted to facilitate the use of the latest data on input-output relationships). The macro-economic relations which would prevail at this level of income are given in Table 2.

As for the required degree of redistribution, the average con-

Table 1 : Distribution of Income and Consumption — 1960-61

Decile of Population	Percentage Distribution of income	Percentage Distribution of consumption	Maximum Value of Consumption in the Group (*Rs per capita per month*)
Lowest	2.4	2.98	9.6
Second	3.4	4.45	12.6
Third	4.3	5.56	15.2
Fourth	4.8	6.61	17.9
Fifth	6.3	7.74	20.8
Sixth	7.8	9.00	24.3
Seventh	9.2	10.54	28.6
Eighth	10.6	12.57	34.6
Ninth	14.5	15.69	45.1
Tenth	36.6	24.86	62

Table 2 : Macro Economic Relations — 1975-76

	(*Rs crores at* 1957-58 *prices*)
Net national product at factor cost	34220
Gross national product at factor cost	37050
Add Indirect taxes	2790
G N P at market prices	39840
Minus Exports	1270
Plus imports and interest payments	1190
Gross domestic expenditure	39760
of which :	
Gross capital formation	9270
Public consumption	3300
Private consumption	27190

Assurance of Minimum Level of Living

sumption of the lowest two deciles of the population would have to be doubled; the consumption of the top 20 per cent of the population would also rise, but only by 30 per cent. The precise manner in which this is to be achieved is, however, not indicated.

The composition of final demand for 1975-76 is estimated from the total consumption and the pattern of its distribution (see Table 3). Per capita expenditure on food items as a whole is expected to increase by less than 50 per cent over the 1960-61 level. Demand for manufactures will be more than doubled, and that for services increased by nearly 75 per cent. Significant shifts in the pattern of demand within each of these major groups are also indicated. In the food group, the demand for milk and milk products, oil and sugar will rise much faster than the demand for foodgrains. Among manufactures, clothing will continue to be the most important item, though the rate of increase in expenditure on clothing will be relatively low. The demand for durables is expected to increase nearly four-fold.

Demand Pattern

Consumption (private and public), investment and exports account for only a part of the total demand for goods and services in the economy. A variety of goods and services are needed in the process of production and distribution. The demand for these intermediate uses is determined by the composition of final demand on the one hand and the prevailing input-output relations on the other. On this basis, the levels of output of some of the more important products required in 1975-76 are estimated. Consumer goods like textiles and soap would have to increase 2½ times over the 1960-61 level. But the output of coal and petroleum products would have to increase five-fold; electricity, cement and chemicals six-fold; and steel and machinery more than twelve-fold.

Any exercise in projection has to be based upon various assumptions. Here, for example, it is assumed that the pattern of expenditure in 1975-76 would be the same as in 1960-61; that the reliance on foreign assistance would cease totally by 1975; and that half of additional exports would be minerals and new manufactures. It is assumed even more unrealistically that the imports of foodgrains would be drastically curtailed. (Imports of agricultural products are anticipated to go down from Rs 320 crores in 1960-61 to Rs 155 crores in 1975-76). Finally, while technical co-efficients of production have been used with suitable modifications for likely technological changes, the quality of the results obtained must necessarily reflect the lack of adequate data and the uncertainty regarding future developments.

A structural change in the economy is naturally implied in a perspective of development that anticipates a three-fold increase in the national income. The contribution of all sectors to the total product would increase substantially by 1976 but their relative importance would change. The primary sector, which provided 46 per cent of the total national income in 1957-58 would account for only 37 per cent in 1975-76 while the importance of the secondary sector would rise correspondingly from 19 per cent to 27 per cent. The share of the tertiary sector would remain more or less unaltered.

But What about Employment?

There is one other crucial consideration. Consistent with the income objective and the required rate of growth, will it be possible to provide employment to the entire labour force? At an assumed rate of increase of productivity of 4 per cent per annum in agriculture and small industries and 5 per cent in mining and manufactures, the additional jobs available would be only 25 million, which would leave some 50 million new entrants to the labour force unemployed. These persons would have to be absorbed in construction, trade and services, but only at the risk of lowering their productivity. The position of this group, relative to the others, will worsen. The 7 per cent rate of growth will not, therefore, solve the problem of unemployment in a manner consistent with the minimum income objective.

To finance the requisite investment, the public sector will have to become an important source of saving. Its savings will have to increase from 0.3 per cent of national income in 1960-61 to 10.4 per cent in 1975-76. The private corporate sector will have to retain a larger proportion of its profits after tax, raising its savings from 0.7 per cent of national income in 1960-61 to 1.1 per cent in 1975-76. Personal savings will also have to increase from 7.1 per cent to 8.6 per cent. This would imply a marginal propensity to save of about 10-12 per cent.

Table 3 : Pattern of Household Consumption — 1960-61 and 1975-76
(At 1957-58 prices)

Items	1960–61		1975–76		1975–76 as per cent of 1960-61	
	Total Consumption (*Rs million*)	Per capita Consumption (Rs)	Total Consumption *Rs million*	Per Capita Consumption (Rs)	Total Consumption	Per Capita Consumption (Rs)
Food	66,900	153	137,700	220	206	144
Foodgrains	35,100		62,100			
Milk and Milk Product	10,500		28,400			
Fruits & Vegetables	4,300		9,900			
Meat, Egg & Fish	3,500		8,300			
Oil	3,300		7,700			
Manufactures	21,000	48	62,000	99	295	207
Clothing	11,300		31,200			
Durables	3,200		11,400			
Services and Others	30,000	68	74,000	119	247	173
Total	118,000	269	273,800	438	232	163

Book Review

Megalopolis — or Else?

Evelyn Wood

THREE persons were responsible for the conference of which this book * is a record. Kingsley Davis is well known as the population research expert, Richard L Park in political science and Catherine Bauer Wurster for city and regional planning. The conference discussed 26 papers, out of which 6 were contributed by persons who could not attend it. Of the total, 23 papers were printed. A notable omission is a joint paper by the geographers ATA Learmonth and VIS Prakasa Rao, whose Mysore study is a classic; but this is probably not closely enough focussed on the urbanization theme.

The Scale of the Problem

Kingsley Davis presents demographic projections which are terrifying. Among these are the possible populations of Calcutta, Delhi and Bombay at 66, 33 and 22 million respectively in 2000 AD. Even at three quarters of these figures for the megalopolis, which is half-way between the highest and lowest projection, the total Indian population is then estimated at 1000 millions against our 438 millions of 1961. The joint paper by the sociologists David J Bogue and KC Zachariah is immensely useful in interpreting Davis's overall figures, for it gives tables of urbanward migration for every district in India.

It is impossible to mention every paper which contains valuable material; but among those which are planners' obligatory references, Richard Ellefsen's is outstanding. It meets the problems of planning a city hinterland for Indian conditions, with an original and practical design for research. In their very different ways, Albert Mayer's two papers present the major practical problems which must be faced in laying out a plan for a city and its hinterland. It is to fortify these two contributions that one misses the geographers' paper.

* *"India's Urban Future"* Edited by Roy Turner. University of California Press and Oxford University Press, Bombay 1962. Pp 470; Rs 22.50.

Albert Mayer's are the only papers which make practical proposals over the entire field of urban planning combined with that of a rural hinterland, and the industries in both. Above all, (page 343) he outlines the need for communications with the people who are going to be affected by the changes which planning can make. It is possible to promote a feeling of pride in the place where one lives. Urban community development cannot do this job completely; other means are pointed out in a recent paper by Emiel J Christensen. *

With Tarlok Singh and Pitambar Pant of the Planning Commission we are back with the principles, statistics, and funds for planning on the All-India scale; but the necessary linkage of rural with urban problems is brought out by them. Only no means of action is propounded. The former, however, sees the impasse of local Government's capacity very clearly. So also does P R Nayak, but he, again, has no creative suggestions. Even Sachin Chaudhuri, the devoted critic of the planners, has no solutions to offer; but he injects the only note of traditional defeatism into the book —and this is extremely necessary.

What Can Be, from What Has Been Done

Rather more on the record side are Marshall B Clinard and B Chatterjee on the Delhi Pilot Project of Community Development. Their paper does not record the methods by which the people's wishes were consulted; and we are left in doubt, therefore, as to whether community action can ever prove to be self-generating. The means of communication and promotion used smell of official patronage.

S G Barve on Maharashtra State's urban problems is brief, but his paper concentrates on exactly what rural people really need to have when they move into towns — space, water and drainage—and how these are to be provided. He brings up the principle of providing plinths, on which immigrants can build their own structures. Since this author is now a Minister in the State, we may see these measures realistically planned. He should, however, know that there are consulting engineers available, but perhaps not at the fees he envisages.

The paper by V Nath, formely of the Programme Evaluation Organization, approaches urbanization from the rural end; it shows how the spatial nature of villages varies, and hence their communities. Finally (p 151 ff) he puts forward the proposal of the "service centre" in a large village or small town. It is not possible to see why the mandi and other market places have been bypassed in this context, as a place of expansion. Otherwise the proposal is eminently practicable. It has been tried and worked well, in Southern Maharashtra.

William Bredo's paper on Industrial Decentralization mentions rural aspects, but strangely misses the principal point which has always cropped up in connection with large industrial units in the country-side. This is a very simple proposition, already carried loosely into effect in Jamshedpur. It would seem to be a condition precedent to licensing such industrial units that they must accept responsibility for some definite extension work in the surrounding villages. The programme of urban growth around such an industry is not enough. It will in any case draw some of its labour from the villages, which will continue in existence. Such welfare as is provided for the industry's labour can very economically organize Extension work in those villages to start with — and in others as they ask for it.

Professional Reckonings

Catherine Bauer Wurster's study of overhead costs gets right down to the facts in terms of actual conditions, and costs of improving them. She works out proposals for experiment which seem to be quite essential. The difficulty here is the highly individual nature of both

* Christensen, Emiel J, University of Nebraska, Dept of Architecture: "Emphasis and direction in Community Planning", *International Community Development Review* No 8. pp 51/55.

towns and rural structures throughout this huge country. (Made plain by V Nath and John E Brush — for cities). An immense amount of experiment would consequently seem to be inevitable.

In contrast, Richard L Meier on the "very large city" sets impossible western standards for India, and winds up with the usual vision of an Utopia for robots. When he turns to the "urban village" his knowledge of the communications systems which are practicable seems to be deficient from sheer ignorance of rural sociology in India.

We shall have to make do without the radio links he suggests, not only because of poverty, but also because the persons to be handled naturally resist such intrusions on their lives. One wishes that he were right about the desire of local officials to set up "two-way" connections, though in fact multi-directional flow is needed through most rural channels, and is simple enough to maintain. However, it is firmly resisted by the official hierarchy of development. It is true that new methods of communications would galvanize development here, but they have to be tailored to Indian social structures and values.

The Observers of Pattern

Richard Park's documented description of the problems facing West Bengal, and particularly Calcutta, is very thorough and concise. An analysis of this nature, which links the physical issues with those of sociology and politics is badly needed for the other metropolises which are likely to grow — according to Kingsley Davis. Shanti Tangri makes a general exploration of these issues, although he dodges the issue when (on p 202) he refers to the traditional dedication and self-sacrifice as factors in political structuring. They were; but today the other traditional practice of accepting face-values, known to be such, has overcome the more laudable pattern.

We could have done with a bit more social anthropology in the record. Richard Lambert's paper is excellent; but it deals with the rural contacts with the town rather than with transmigration. What is badly needed is a study of some of the squatters in the principal cities; and, for that matter, those who have moved into towns of 50,000 population and upwards.

Would they go back to better conditions in the village if they could; or what do they prefer about the town that holds them to it. Would they improve their living conditions in the town, if they could; and what would be their programme for doing so, given the opportunity?

It seems horribly likely that we should find rather negative answers to these questions. The metropolitan squatters, anyway, seem to prefer the squalid way of life; and what holds them to the town is the greater variety of occupations, leisure as well as otherwise. If we could get some defined answers to these questions, it would be easier to plan the invaluable "counter-magnets" of which Albert Meyer writes.

This is most likely to be the real problem facing India's combined development of town and country: how to find out what people want? From this reviewer's experience of living in villages as far apart as in the Tamilnad and Maharashtra, it does not seem as if the general outline of villagers' newer wants differs very much. First, they want economic security, at a very low level; and are not, without promotion, interested in making efforts to raise the level, particularly if there be any risk attached.

The second line of wants is: more plentiful supplies of better water; freedom to live and worship in their own way; some simulacra of what upper-class people possess; and, above all, relief from the abysmal boredom of the village.

Today, one fresh want has made itself very clear: education for the children.

Economies of Scale, Distribution of Industry and Programming

Jagdish Bhagwati

If one analyses the industrial planning and licencing policy of the Government, it is difficult to escape the conclusion that the planners believe that the mere ritual of licencing is tantamount to a rational planning decision.

There are several agencies which are concerned with these decisions, including the Industries Division of the Planning Commission and the Development Wing of the Ministry of Commerce and Industry. It appears that efficiency of planning is in inverse proportion to the number of people involved in the planning process.

Perhaps the most startling of inefficiencies is connected with the technical work done by these agencies prior to the licencing process.

One would think that the government would attempt to choose optimum locations and sizes of plants by solving simultaneous programmes, thereby improving upon the uncoordinated laisser faire *system.*

However, the actual licencing procedure involves the standard mixture of politics and incompetence which almost certainly results in unnecessary waste.

IN choosing the scale and distribution of plants in any activity, several factors must be taken into account and the optimum solution can be quite intricate. It is not enough, for instance, to lay down a simple rule like the following: no plant smaller than the minimum average-cost (MAC) plant should be allowed to be set up. This may be wrong due to spatial reasons. If in an activity, there are two geographically distant consumption points, each with a level of demand lower than the MAC output, it may be more profitable to set up two uneconomic — scale plants, one at each consumption point, than to set up one MAC plant and ship out the output to the two consumption points. The decision to enforce MAC plants could be wrong because of the inter-temporal distribution of demand as well. Thus, if the current demand is for 10,000 units and future demand is for 20,000 units, it may be sensible to install only an uneconomic scale plant of 10,000 units now and to bring it up to 20,000 level (admittedly at higher-than-MAC-cost level) later. Indeed, numerous choices may open up: for instance, one could experiment with excess capacity now (i e have a plant of 20,000 now, produce 10,000 and have excess capacity but be optimal in the next period) or with building up stocks (i e have a plant of 15,000 now, produce and carry over 5,000 which, combined with 15,000 in the next period, gives the desired 20,000 units). An operational solution to this inter-temporal problem can be exceptionally difficult — one must choose from numerous possibilities, the terminal conditions have to be sensibly stated, stochastic demand projections may be relevant and so on. The central point, however, remains that it may be profitable, as with the spatial case, to have an uneconomic-scale (< MAC) plant set up, given certain inter-temporal distributions of demand. Operationally, these problems can be set up in programming terms, suitable assumptions made and the optimum sizes, locations and expansions-over-time of plants be determined by the planning authorities.[1]

The processes employed by our planners, however, have no resemblance to the programming procedures which can be employed to deal with such problems. The planners have, owing to a variety of non-economic reasons, adopted a policy of promoting uneconomic-scale plants. As argued here, these may very well be economic if spatial and inter-temporal factors are taken into account; but, if this is so, it is by sheer chance and despite the planners.

These uneconomic-scale plants have come up in many activities. In cars, there are already 3 firms with a current total annual output of under 40,000 and estimated 1965-66 output of 50,000! In refrigerators, there are 4 firms with a total annual output of around 12,000 units. In domestic portable air conditions, the current output is around 12,000 and there are already 10 firms! In aluminium, the recent additions to the industry have been characterised by what are admittedly less than MAC-scale plants. The list could be lengthened to include paper and pulp, cement (though some might debate this) and other industries.

Targets Not Broken Down

The reason why these uneconomic-scale plants have proliferated under the current licencing procedure, is overwhelmingly political. But it is a result of the technical-cum-intellectual vacuum in the planners' methods, to which I have already drawn attention. So far, there has been no attempt at all at developing systematic, spatially distributed industrial targets on the basis of explicit optimising procedures. This is partly a reflection of the failure to break down all national targets into spatial, regional targets of output, investment and income in terms of some efficiency criteria and satisfying certain objectives concerning the regional distribution of income.[2] In view of the failure to allocate economic activity between regions, politicians have quite naturally ended up trying to get a share in every activity that is "currently going" at the Ministry of Commerce and Industry. And precisely because the Ministry does not yet

[1] Such studies are frequently done by industrial planners. I and M Datta Chaudhury are doing one on the aluminium industry in India.

[2] Not merely is spatial planning absent but even the description of the national targets as "efficient" is ridiculous in view of the primitive methods that have been employed so far to derive them.

have the competence to work out the programmes and optimum solutions, it has so far capitulated to these political pressures and divided up most industrial targets among many plants.

In some cases, the applications for bigger plants have been pruned down to make room for other plants. In others, the applicants, anticipating such an axe, have deliberately approached the Ministry with smaller scales than they would like. Where the net result has been inefficiency, one would have expected that competition would have eliminated such successful applicants. However, competition has been virtually ruled out by the detailed target system of planning that is now practised in our country. Foreign competition is ruled out, thanks to the Ministry's heavy reliance upon QRs (quantitative restrictions)[3]. The adoption of the quantitative, target system of planning has led to the elimination of domestic competition as well. Since industrial capacity is closely watched (with quite absurd results sometimes, such as people being harassed about why they upvalued capacity) an efficient producer cannot increase output and drive out an inefficient producer, thus ruling out "actual" competition. (In fact, the rivals themselves are often saddled with equally uneconomic plants under the present system). Nor can a new firm enter, so that one cannot have even "potential" competition. (This has relevance to the one other factor that may be adduced to explain the Ministry's policy of licencing less than MAC-scale units. It may be that the Ministry, faced with limited targets, wishes to have more than one producer, even though at less than MAC-scale and at the cost of efficiency, just to prevent monopoly. But this desire, even if admitted to be sensible in this context, becomes impossible to satisfy meaningfully, as argued here, as soon as the target system of planning is adopted.)

How to Make Government Intervention Rational

Thus a constellation of factors, ranging from technical incompetence on the part of the bureaucrats to political pressures to obtain a raised share in the regional allocation of activity and income, has led to a system of industrial planning which is far removed from the ideal. Such a procedure of licencing, in fact, negates the very objective of planning.

Useful planning does not consist in merely multiplying the strength of the Development Wing and the Planning Commission with engineers who have no conception of economic planning. The vast staff of bureaucrats who plan industry usually end up being unnecessary nuisances in various ways merely because they have no clue to the type of planning that can improve upon the laisser faire system. We thus get numerous reports, statistics on output and capacity (which mean nothing), meetings and delays. The marginal benefit is almost certainly negative.

It is absolutely necessary that the Development Wing and the Planning Commission's Industries Division be instructed to carry out analytical work to determine optimal locations and scales of activity, at least of important items. These exercises would be necessarily expensive, as they would need estimates of costs which, in turn, demand consultation fees. However, once the problem has been viewed, for any industry, and solved in the programming framework, the locations, scales and expansions of plants emerge. The plants could be "handed over" to the successful applicants who could then be made to bear the expenses of the Ministry's investigations. We would then be able to secure the advantage of a rational governmental intervention.[4]

[3] I have already written elsewhere (*Oxford Economic Papers*, February, 1962) about the need for a devaluation and the inflationary plus iniquitous character of the current policy. Exchange is clearly scarce; in adopting a heavy export subsidy programme, the government have already admitted that devaluation (with offsetting duties on some traditional exports) would be effective; letting importers make excess profits and paying export subsidies is inflationary. Devaluation would instead pick up money from the importers and pay it out to the exporters. But, of course, the Government would naturally prefer to plan by maximising the bureaucracy. The recent activities of the Minister for International Trade are characteristic of the current attitude that if you have enough Committees on a problem, it has been solved. All that happens, of course, is an enormous waste of public funds on travel and hotels and also wastage of the private sector's energies and resources. One just has to read about the Board of Trade's activities, as reported in the press, to see the force of this point.

[4] I have not touched here upon important questions such as the need to raise the price of capital if proper choices are to be made; nor have I exhausted all the deficiencies of the current licencing procedure. I have merely sought to focus on the fact of the technical incompetence which characterises the bureaucracy in both the Planning Commission and the Ministry of Commerce and Industry.

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Studies in Voting Behaviour

VII The Decline of the Left in a Calcutta Suburb: Behala Constituency

(Contributed)

In the 1962 general election the Behala Assembly constituency returned the Communist candidate, Rabindra Nath Mukherjee, for the second time in succession, but with a smaller proportion of the total vote. The Communist defeated his two rivals, a Congressman and an independent, but secured only 55 per cent of the votes polled against nearly 65 per cent in 1957 and a combined leftist vote of about 62 per cent in 1952.

The factors which contributed towards the decline in the percentage of votes polled by the Communist candidate were :

First, the appreciation, though limited, by the middle class voters of the achievements of the Congress Government in the two five year Plans.

Second, the dormant anti-Communist feeling on the Sino-Indian border issue.

Third, the Communists' failure to make out any popular political issue against the ruling party. Their slogan of an alternative government actually created some resentment in the minds of the more sophisticated section of the electorate.

THE Behala Assembly constituency is comprised entirely of the local South Suburban Municipality. Situated on the south-western border of the Calcutta Corporation, the 13.92 sq mile area has a population of approximately 200,000 of which a little over 50 per cent are new settlers including a large percentage of refugees from East Pakistan. Over 70 per cent of the population consists of middle-class families composed of white collar workers. A little over 10 per cent are industrial workers of whom about half are employed by the 50 rice mills in the area and by small engineering factories. The rest of the population consists of artisans, agriculturists, shop-owners and small businessmen. Agitation by the rice mill workers, the majority of whom are women, against insecurity of service and very low wages organised jointly by the Communists and a militant splinter left party, the Socialist Unity Center, has been a constant feature of politics in the area.

A little over 5 per cent of the population are Muslims who solidly support the Congress party largely out of a feeling of insecurity as a result of the increased influx of refugees. Another 5 per cent are non-Bengalis, mostly Biharis, with strong pro-Congress sympathies.

Between 1957 and 1962 the electorate increased from 54,000 to 94,000 (see Table). Although this was primarily due to an almost 100 per cent increase in population, it also reflected, among other things,

(1) the greater eagerness of the electorate to register as voters;

(2) the efforts by the CPI mainly and, to a lesser extent, by the Congress to enlist as voters their supporters; and

(3) greater efficiency in the preparation of the voters' list. In addition to extensive publicity urging people to register themselves as voters, the Election authorities, in collaboration with the local authorities, did their best to prepare comprehensive voters' lists.

In Earlier Elections

In the first general election, the constituency comprised three rural unions besides the Municipal area. The seat was then won by an Independent against the Congress and a weaker leftist front composed of CPI, Forward Bloc (Marxist), RSP and other splinter left groups. The winning Independent candidate, Biren Roy, who comes from a wealthy local family of landlords which controlled the local Municipality since its inception in the mid-19th century, had been Chairman of the Municipality from 1936-48. He was also an MLC and for some time a Parliamentary Secretary in pre-Independence days. In the 1952 election he was elected as a nominee of the PSP-Forward Bloc (Subhasist) front.

Shortly after the 1952 elections, the Communist Party formed a United Peoples' Association (UPA) to contest the Municipal elections in 1954. The UPA won 5 out of 23 seats, while Independents supported by the sitting MLA, Biren Roy, won 3 seats. The Congress Party formed the Board with Sailendra Nath Roy, a cousin of Biren Roy, as Chairman. Sailendra Nath Roy later contested the 1957 elections for the Assembly seat as the Congress nominee.

Communist Win In 1957

In the 1957 elections the Communist Party set up its trade union worker, Rabin Mukherjee, for the Assembly seat and supported Independent Biren Roy for the Parliament seat (Calcutta South-West), which includes the Behala Assembly constituency. Shri Roy, it was reported, had earlier tried for the Congress nomination and failed. With Biren Roy's support, and helped by the pro-Communist swing in greater Calcutta area during the 1957 elections, the Communist Assembly candidate had a comfortable victory and for the first time the Calcutta South West Lok Sabha seat was lost by the Congress.

The 1957 electoral victory raised Biren Roy's political status in the constituency and his standing with the CPI but it caused some misgivings among a section of Roy's supporters who were opposed to

electing a Communist. This was soon reflected in the election of the Managing Committee of a local High School when Rabin Mukherjee was defeated by Biren Roy's supporters.

Biren Roy's election was, however, declared void by the Election Commission in 1959. In the by-election, the Communist trade union leader, Indrajit Gupta, won the seat with the full support of Biren Roy. This was at the height of the Sino-Indian border tension and the win further raised Biren Roy's standing with the State CPI leadership and he was elected to the Rajya Sabha by the CPI from West Bengal in 1960.

Municipal Politics

In early 1961, the CPI-led UPA contested the Municipal elections, this time strengthened by the alliance with Biren Roy. The Municipal elections, due in 1958, were twice postponed at the intervention of the High Court for wrong preparation of the voters' list. Held with limited franchise (only those paying tax or license fee or a member of a taxpayer's family having a minimum educational qualification are entitled to vote) even the final list allegedly contained many spurious voters. The Congress (though it did not officially put up candidates), won 12 out of 23 seats Of the rest, 10 went to the UPA (including 6 Communists) and one to a Congress-supported Independent. Despite the pro-Congress political swing, there was a sharp conflict within the local Congress Party. This, plus the factionalism within the District Congress leadership, led to the formation of a Progressive Coalition Board (two official Congressmen belonging to the anti-official faction led by Deputy Minister, Maya Banerjee, joined the Board), which elected Biren Roy's younger brother and chief lieutenant, Ramen Roy, as the Chairman and a dissident Congressman, Sukumar Mukherjee, as the Vice-Chairman. The control of the Municipal administration remained with the CPI-led UPA bloc which also derived the main political advantage from the improved Municipal administration.

At this stage, an offer was reportedly made through some Minister to nominate Biren Roy as the Congress candidate from the Behala Assembly constituency in the third general election. The State Congress Election Committee however, turned down the suggestion. With little hope of winning the seat, Congress selected Birendra Nath Ghatak, who did not belong to either of the local Congress factions, as its candidate for the Behala Assembly seat. Another move, made simultaneously, to form a Congress Municipal Board with Ramen Roy as the Congress Chairman also failed. It may be pointed out, in this context, that both Biren and Ramen Roy have always been denied positions by the official Congress party because of a family feud with Sailen Roy, who gained control of the local Congress organization shortly after the 1959 Municipal election.

The Candidates

The Congress candidate, Ghatak, is the son of a political sufferer from East Pakistan, and lives in one of the many refugee rehabilitation colonies in the area. His father, a former member of the KMPP formed by Dr P C Ghosh after his resignation from the Chief Ministership of West Bengal, contested the Assembly seat in the first general elections but forfeited his security money. To contest the 1962 election, Birendra Nath Ghatak had to resign his Government job in order to qualify as a candidate. He was, however, reportedly assured that if he lost, he would be compensated with a similar job after the elections. Young Ghatak is an M A and a good speaker but his organizational abilities are doubtful.

The Communist candidate, Rabindra Nath Mukherjee, is the Secretary of the Communist-controlled State Federation of Metal and Engineering Workers' Unions. Mukherjee is also the leader of the Communist group of Commissioners in the local Municipality, which is controlled by a Progressive Coalition Board dominated by the Communists.

A third candidate who entered the field rather late as an Independent was Dr Ramesh Chandra Majumdar, the eminent Indian historian.

Campaign : Late Beginning

The campaign, unlike in the 1957 elections or even in the Municipal elections of 1961, did not pick up until about three weeks before the polling which took place on February 25. The Congress nomination, which was first to be announced in September 1961, did not arouse much enthusiasm among the local Congressmen and some of them tried to solicit prominent personalities to contest the seat as Independent candidates to defeat the Communist candidate. However, the Congress candidate, almost unassisted by his party began his house-to-house campaign early in september and opened a Central Election office in November. He organized an extensive poster campaign in late December calling upon the electorate to ask the CPI candidate, the sitting MLA, as to what he had done for the locality during the five years of his membership of the Assembly.

The official Congress election machinery was set up only in mid-January following State Congress boss Atulya Ghosh's intervention. A poorly organized central election rally was addressed, among others, by Mrs Sucheta Kripalani, Minister in the Uttar Pradesh Cabinet. A leaflet introducing the Congress candidate, which high-lighted the sufferings of the family for the cause of the national freedom movement, was about the only special propaganda leaflet published locally besides the All-India and State Congress brochures on the Congress Government's achievements.

The Congress campaign rally picked up tempo only three days before the election when the then State Chief Minister, the late Dr B C Roy, and the State Congress President, Atulya Ghosh, jointly addressed a big public meeting on February 22.

Communists' Superior Organisation

The Communists, on the other hand, depended mainly on their organizational machinery and by the time the Congress opened its central election office, the Commu-

nists had already set up local offices in all the 23 wards of the Municipality. In reply to Congress charges the CPI candidate published a biographic leaflet highlighting his contribution to the improved Municipal administration, as well as to road development and other projects in the area.

The CPI opened its campaign with a big rally — with a large procession of rice mill and other workers addressed by the CPI candidates for the Assembly and Lok Sabha as well as the CPI leader of the Opposition in the State Assembly, Jyoti Basu. There was however, little evidence of active support from middle-class educated sections outside the periphery of the party for the CPI. About a week before the elections, when the prospects of its candidates for the Assembly and Lok Sabha seemed uncertain, the CPI succeeded in getting Biren Roy to address some four of its public meetings. The Roy brothers also realized that the Chairmanship of the Municipality may be endangered if they lost CPI support. The CPI used the support of the Municipal Chairman, Ramen Roy, to counteract a leaflet issued by supporters of the Independent candidate, Dr Ramesh Majumdar, questioning CPI claims of having improved the Municipal administration and the CPI MLA's contribution to the Government's road development and other projects.

P S P Ineffective

Dr Ramesh Majumdar, who announced his decision to contest the election at a small gathering of local educationists and anti-Communist political workers on December 30, was the last entrant in the field. He had to depend mainly on the support of the educated sections of the electorate and the ineffective local PSP workers. The sponsors of his candidature banked heavily on three factors, almost all of which ultimately failed them. These were:

(1) Support from pro-Biren Roy voters. This support was not, however, forthcoming since Roy actively supported the CPI election campaign.

(2) Support from a section of Congressmen who favoured Dr Majumdar as a more effective candidate to defeat the Communists. These Congressmen, however, ultimately supported the official Congress nominee following the Chief Minister's public meeting.

(3) The local PSP leadership which however, failed to build up any organization.

There was noticeable middle-class antipathy towards the PSP, and the Communist campaign against Dr Majumdar that he was virtually a PSP-sponsored candidate affected his prospects to a large extent. In fact, Dr Majumdar had to continually refute this CPI charge that he was a PSP-sponsored candidate.

For more than a month Dr Majumdar's campaign consisted mainly of local indoor meetings with groups of educated voters. He received an initial boost by the front page publicity in a widely circulated vernacular daily of one of his earlier meetings in which he castigated the Government of India for discrimination against Bengalis in the compilation of a History of the Indian Freedom Movement. He disclosed at the meeting that he resigned from the directorship of the Editorial Board on that ground. This, and the fact that he is one of the most prominent educationists from East Bengal (it should be remembered that people from East Bengal, formed over 50 per cent of the electorate) formed the main plank of his campaign. He issued two leaflets, one an appeal to the electorate explaining the need for a non-party leadership to safeguard the interests of the Bengalis. The other was an appeal in his favour by

Behala Constituency, West Bengal

1962 General Election

Total Electorate = 94,200
Votes Polled (Per Cent) = 69
Valid Votes Polled = 64,852

Candidates	Votes Polled	Per Cent of Valid Votes
Rabindra Nath Mukherjee (Comm)	35,650	55.0
Birendra Nath Ghatak (Cong)	23,212	35.8
Dr R C Majumdar (Ind)	5,990	9.2

1957 General Election

Total Electorate = 54,308
Votes Polled (Per Cent) = 58.8
Valid Votes Polled = 31,392

Candidates	Votes Polled	Per Cent of Valid Votes
Rabindra Nath Mukherjee (Comm)	20,683	64.8
Sailendra Nath Roy (Cong)	10,646	33.3
Jadav Mukherjee (Ind)	349	1.1
Dr Balai Mitra (Ind)	246	0.9

1951-52 Election

Total Electorate = 55,917
Votes Polled (Per Cent) = 40.88
Valid Votes Polled = 22,858

Candidates	Votes Polled	Per Cent of Valid Votes
Biren Roy (F B Ruikar)	9,539	41.73
Barendra Nath Ghosh (Cong)	5,959	26.07
Ujjala Rakshit Roy (United Left)	4,562	19.96
Jagadananda Mukherjee (Ind)	988	4.32
Madhab Ghosh (Jan Sangh)	747	3.27
Dhirendra M Ghatak (KMPP)	542	2.37
Jyotish Chandra Bhowmick (Ind)	307	1.34
Gopinath Dhali (Ind)	214	0.94

distinguished leaders of West Bengal including the National Professor, Dr Satyen Bose, eminent Jurist Dr R B Pal, former Hindu Mahasabha leader N C Chatterjee and a few others. Several meetings organized 2-3 days prior to the date of polling and his walking tours in some areas gave the appearance of a spontaneous local upsurge in support of his candidature. So it appeared on polling day that a strong triangular contest was taking place, which was also the impression created by reports in newspapers, including the **Statesman.**

Congress Success among Refugees

A booth-wise analysis of voting revealed that out of 101 booths, Congress obtained a majority in 17 and the Communists in the rest. This was in sharp contrast to the small Congress majority in just one booth in 1957. Congress did best in the refugee areas and the two Municipal wards held by the dissident Congress Commissioners who joined the Progressive Coalition Board. These areas were inhabited by rural agriculturists, small artisans and middle-class employees.

The returns also showed that the Communists failed to poll an absolute majority in 11 more booths with an upper income educated population where the combined votes of the Congress and the Independent candidate were greater then the CPI vote. In about 20 more booths the Communist victory over the combined Congress-Independent votes was marginal.

The booth-wise returns further showed that Communist performance was at its best in the working class areas and to a lesser extent, among the educated sections of the original settlers of the area.

Reasons for Pro-Congress Swing

The election revealed that the organizational machinery of the parties played a much greater role in the outcome than the personality of the candidates. This, and the impact of the general pre-election swing in favour of the Congress in Calcutta area were amply reflected in the voting in Behala where the election was held simultaneously with the Calcutta district.

The factors that contributed towards this pro-Congress swing were:

(1) The appreciation, though limited, by the educated middle-class of the achievements of the Congress Government in the two Five Year Plans despite the much-publicized corruption;

(2) The dormant anti-Communist feeling on the Sino-Indian issue which partly alienated a section of the middle-class; and

(3) The Communists' failure to make out any popular political issue against the ruling party. Their slogan for an alternative government apparently created some resentment in the minds of the more sophisticated section of the electorate who were provoked by it to come out in larger numbers to cast their votes.

The larger turnout in this election was partly the result of the determination of this section — usually careless about exercising their franchise — to prevent the election of an alternative government, and the Communists' efforts to counteract the pro-Congress swing and retain their seat.

One thing which helped the pro-Congress swing in Behala at the last stage of the campaign was the leaflet brought out by Dr Majumdar's sponsors which successfully refuted the Communist candidate's claims to take credit for the local development plans. It gave the credit to the Congress Government and the personal efforts of the State Chief Minister, Dr Roy. The leaflet was extensively quoted in the last Congress election meeting addressed by the State Chief Minister.

'Alternative Government' Slogan Misfires

On the other hand, the Communist threat to form an alternative government and some newspapers' colourful account of Communist and Leftist prospects brought about a change in the complacent attitude of the State Congress leadership and resulted in an all-out Congress effort to defeat the Leftist opposition.

An intensive political campaign by the Congress in which the State Chief Minister Dr B C Roy took a leading part, resulted in a favourable swing towards the Congress Party and a large turnout of the electorate. In Behala, the faction-ridden Congress organization failed, however, to derive full advantage of this pro-Congress swing because of internal disunity and rivalry, while the Communists mustered all their strength. It has been suggested by neutral observers that the Communists, besides mobilizing about 3,000 volunteers, the majority of whom were brought from the rural areas outside the constituency, spent a considerable sum of money, on the polling day, only a small part of which was locally raised.

In the face of this ultimate polarization of forces and the vast mobilization of resources by the two organized parties, the machinery of the Independent candidate virtually broke down.

Despite its large vote, the Communists seem worried about the future while Congressmen seem to have realised the need to reorganize their party apparatus. In a post-election evaluation, local Congressmen have reportedly recognized the need to revitalize the party and form a United Congress group in the local municipality. It is therefore possible that the hey-day of the Communists, now deprived of the support of a large section of educated middle class, is over despite their win in the 1962 election. The elections, in the final analysis, have brought about a new confidence in the local Congress, and Congressmen no longer consider the area as lost — as they were wont to do at the time of selection of the candidates for the last general election.

Protection to Antimony Industry

THE Government of India have accepted the Tariff Commission's recommendation to continue protection to crude antimony and antimony metal at the existing rate of protection granted to the antimony industry till December 31, 1963. The existing rates of protective duty are 25 per cent **ad valorem** in the case of crude antimony and 45 per cent **ad valorem** or Rs 88.60 per quintal, which-ever is higher, in the case of antimony metal.

From the Chair

The Life Insurance Corporation of India

Statement by the Chairman, Shri B K Kaul, I C S

THE following is the statement made by Shri B K Kaul, Chairman, at the Seventy-Fifth meeting of the Life Insurance Corporation of India, held in Bombay on August 27, 1962.

I have great pleasure in welcoming you to this sixth anniversary meeting of the Corporation. The draft of the Annual Report and the Statement of Accounts for the year 1961 have been circulated and are now before us for our consideration.

New Business

During the year our new business amounted to Rs 608.82 crores under 14.70 lakhs policies as against Rs 497.54 crores under 12.58 lakhs policies in the previous year, thus showing an increase of 22.4%. In the context of the rise in the price level during the year and of the natural calamities like floods in some parts of the country, the increase of more than Rs 100 crores in the level of new business may be considered very satisfactory.

It is also gratifying to note that as many as 10.24 lakhs policies were taken by persons who were insuring for the first time. Thus out of every three persons insuring with us, two were seeking life insurance protection for the first time.

Rural Development

Out of the new business, as many as 5.3 lakhs policies assuring Rs 182.59 crores were issued to people in the rural areas. I may mention that for the purpose of the definition of rural area we have now adopted the same criterion as was used in the 1961 census. As the earlier statistics were compiled on a different basis, we do not have the comparative figures for the previous year. There is, however, little doubt that we have made a considerable headway in our efforts of systematically expanding the business in the rural areas.

The main difficulty that constantly crops up in regard to the rural business is the lack of facilities for collection of premiums. We have launched early this year a pilot scheme in Rajasthan for collection of premiums through selected post offices. We are proposing to extend this scheme in due course to other areas, where banking facilities are not available, in consultation with the postal authorities.

Non-Medical Business

Another difficulty in propagating the message of life insurance in rural areas has been the paucity of medical examiners for conducting the medical examination of the lives to be assured. This has, to some extent, been solved by a wider application of non-medical schemes.

Under the general scheme, which now extends throughout the country, the medical examination is waived in respect of proponents within certain age groups, provided the total insurance on their lives does not exceed Rs 2,000. Under this scheme, new business of Rs 38.30 crores under 2.5 lakhs policies was completed during the year.

Besides this general scheme, we are also insuring, without medical examination, special categories of persons in civil employment upto a total sum assured of Rs 5,000/-, which limit was increased, during the course of the year, to Rs 10,000/- in the case of eligible persons, whose ages at entry do not exceed 30 years nearer birthday and also in the case of Category "A-1" of the commissioned officers in the Armed Forces. Under this scheme, new business of Rs 58.46 crores under 2.4 lakhs policies was completed bringing the total non-medical business to Rs 96.76 crores under 4.9 lakhs policies. Thus, one out of every three proposers was insured by the Corporation without medical examination.

The Corporation has no doubt provided adequate safeguards to ensure that the class of lives coming under the purview of these schemes are of the usual standard who would experience a favourable mortality.

It is my desire that the scope of the scheme is gradually enlarged as we gain further experience of this class of business.

Foreign Business

In some of the foreign countries, where we operate, the political and economic conditions were not quite favourable for the development of our business. However, due to sustained efforts of our officers and agents, our total foreign business in 1961 came to Rs 10.03 crores under 8056 policies, as against Rs 9.70 crores under 7736 policies in the previous year. Special mention must be male here of our London Branch which wrote in 1961 a new business amounting to Rs 92 lakhs.

Business in Goa

Since the beginning of this year we have started transacting new business in Goa, Diu and Daman. Details of the scheme for taking over the life insurance business of the former Portuguese Companies are being worked out. In the meantime, we have extended to the Indian policyholders of these Companies facilities for the collection of premiums.

Business in Force

The total business in force at the end of 1961 was Rs 2,737 crores under 86 lakhs policies as against Rs 2,285 crores under 77 lakhs policies at the end of 1960, thus showing an increase of 19.8% during the year.

Lapse Ratio

The ratio of net lapses to the mean business in force was 7.0% in 1961 as compared with 6.6% in 1960. The rise in the net lapse ratio of the Corporation seems to reflect the deleterious effect of the increase in the general price level on the saving capacity of the insured population. Apart from the monetary loss to the policyholders as well as to the Corporation, which the lapses bring in their trail, the termination of life insurance protection for several lakhs of families every year is a matter of vital concern to us. Accordingly, I have been impressing, in the course of my discussions with the Development and other Officers, the imperative necessity to reduce the lapsation of policies to the minimum and to improve the quality of business to the maximum extent. The necessary machinery has been set up to review the lapse position periodically so that any adverse trend may be detected at an early stage and checked by taking suitable remedial action without loss of time.

Premium and Other Income

For the first time in the history of life insurance in this country, the premium income has crossed the Rs 100 crore mark, the actual premium in 1961 being Rs 112.30 crores as against Rs 96.89 crores in 1960. It may be mentioned that the total premium income in the year preceding nationalisation i e, in 1955 was Rs 58.55 crores only.

The total income for the year 1961 was of the order of Rs 141 crores as against Rs 116 crores in the previous year.

Life Fund, Investments and Total Assets

The Corporation's life fund as at 31st December 1961 was Rs 631.59 crores registering a handsome rise of Rs 72.46 crores after taking into account the adjustments made to the life fund at the beginning of the year.

Of the total investments in India of Rs 503.56 crores, the public sector accounted for 77.9% and the private sector 22.1%. During the year, 52 new issues were underwritten to the extent of an aggregate sum of Rs 759 lakhs.

The total assets of the Corporation as at the end of 1961 amounted to Rs 696.31 crores as against Rs 622.85 crores in 1960. The net increase in the assets of the Corporation, since its inception, amounted to Rs 281 crores.

Rate of Interest

The income from interest, dividends and rents before deduction of income-tax rose to Rs 27.95 crores in 1961 from Rs 23.97 crores in 1960. The gross rate of interest at 4.80% on the mean life insurance fund (4.58% in 1960) is the highest during the last five years. I expect that the Corporation will be able to maintain this rate in future, if not improve upon it.

The steep rise in the net yield from 3.55% in 1960 to 4.68% in 1961 is, however, largely due to the fact that the net rate in 1960 was depressed, whereas the net rate in 1961 has been pushed up as tax refunds, accounted for in 1961, comprise refunds in respect of two years.

Expenses of Management

The overall expense ratio of the Corporation fell from 28.4% in 1960 to 28.0% in 1961, although the full effect of the ad hoc increase in dearness allowance sanctioned in 1960 was felt for the first time in 1961. The renewal expense ratio, which provides a better indicator of the economy of management, also fell from 12.9% in 1960 to 12.4% in 1961.

In the larger interests of the policyholders, the majority of whom consist of middle class people, there is an imperative need to keep a constant vigil on the expenses and to eliminate unproductive expenditure by strict budgetary control.

Claims

Claims for the year amounted to Rs 25.4 crores under matured policies and Rs 8.7 crores under policies becoming claims by death. The total claims for the year amounted to Rs 34.1 crores as compared with Rs 30.7 crores in 1960. The total benefits by way of claims during the period, 1st September 1956 to 31st December 1961, amounted to Rs 147 crores.

Mortality Investigation

The Actuarial Department at the Central Office set up, during the year, the necessary machinery for the collection of statistics for the purpose of continuous investigations into the mortality of lives assured with the Corporation. The object of this step is to keep the mortality experience under constant review so as to facilitate the construction of uptodate mortality tables.

Valuations

In exercise of the powers conferred by Section 49(2) (k) of the Life Insurance Corporation Act 1956, the Corporation framed regulations, with the prior approval of the Central Government, for the purpose of classification of policies for declaration of differential bonuses, and published the same during the year. These regulations came into force on 15th October 1961. The bonuses on policies which became claims by death or maturity before this date, were settled on the basis of the provisional classification of policies which was also approved by the Government.

The second biennial Valuation of the Corporation's business as at 31st December 1959 was completed during the year and, as a result thereof, Rs 24.29 crores were allocated amongst participating policyholders, the rates of reversionary bonus allotted both for policies issued by the Corporation as well as for policies issued by the erstwhile insurers being the same as those declared in respect of the first Valuation as at 31st December 1957. The amount allocated to the Central Government was Rs 1.28 crores.

The third biennial Valuation of the Corporation as at 31st December 1961 is in progress and the results of the same are expected to be available before the end of the year.

Building Activities

We have on hand construction of a large number of buildings to house our offices and also for investment purposes. Although the shortage of building materials has hindered our building activities to some extent, special efforts are being made to complete the various buildings, at different stages of construction, as early as possible. The housing of our offices in our buildings would relieve the present congestion and would lead to more efficient working. It is my idea that the Corporation should have its own buildings for its offices. Suitable plots of land are, therefore, being purchased for our Divisional and Branch office buildings at various centres.

Mortgages

The scheme for grant of loans on mortgage of immovable properties has now been extended to 21 cities. It is expected that an increasing number of property owners would avail of this facility. The scheme for grant of loans to policyholders for construction of houses is being revised with a view to en-

abling the middle class people to own their homes with the help of loan facilities to be provided by the Corporation. The scheme is to operate in the first instance in 56 cities.

Administrative and Development Training

I am glad to report that the work of training the administrative staff is progressing satisfactorily, the total number of assistants trained till 31st December 1961 being 5,597. The Officers' Training College at Nagpur is also doing good and systematic work and has by now trained 741 Officers. The effect of this training will, in course of time, be reflected in the increased efficiency of our offices. On the development side too, the training centres are doing useful work. So far 6,617 Development Officers and 10,665 agents have been trained.

I have always received sincere co-operation and valuable advice from my colleagues on the Board and on the Investment Committee. I offer my grateful thanks to them. I take this opportunity to record my appreciation of the services rendered by the officers and staff at all levels. It is their services which have solely contributed to the fine results achieved by the Corporation. Finally, I thank all the agents who have done such excellent work in enabling the Corporation to break its previous records in the matter of our new business.

Around Bombay Markets

Equities Rise, React

Thursday, Morning

AFTER edging its way further up Dalal Street hesitated for a while and later developed an easier tendency which was particularly marked at the week-end. Not only were all the early gains erased but most counters showed small losses over their previous week-end quotations. Early rise took Vyapar's equity share index back to its August 2 rally point of 141.59 but later the index came down to 139.35 on Wednesday and the closing was only a little higher at 140.05. The volume of business continued to be on the low side and interest was selective. Outside public interest was very poor due to lack of any exciting news to give a big push to the market either way.

Earlier rise was due more to scarcity of offerings than to any important bull buying. And the week-end setback was caused more by lack of support than by any aggressive selling. Only two counters, namely, National Rayon and Telco, experienced something like real selling near the week-end. The selling in National Rayon seemed to have been inspired by reports discounting prospects of a rise in rayon yarn prices. And the selling in Telco reflected market's disappointment over some of the observations made by the chairman at the company's annual meeting on 28th August. The shareholders did not seem satisfied with the chairman's assurance about the dividend being barely maintained. Nor were they happy with his statement that the production of trucks was unlikely to suffer to any noticeable extent as a result of the possible cut in foreign exchange allocations to the company. Apparently, the shareholders had gone to the meeting with high expectations, which, however, could scarcely be justified in the light of what the chairman had already said in his statement circulated along with the directors' annual report.

The weakness in National Rayon and Telco had an unsettling effect on the general trading sentiment. Steel shares, however, held steady-to-firm on hopes of an early announcement on steel retention prices. And if one could depend on the statement, made in the Lok Sabha on Wednesday, by the Minister for Steel and Heavy Industries, the market will not perhaps have to wait for long for the official decision on retention prices. In reply to a question, Shri C. Subramaniam stated that the decision on steel retention prices would be taken "very soon". The announcement on steel retention can have a considerable influence on the mood of the market which guides short-term fluctuations.

Cotton

Futures Steadier

COTTON futures which had been somewhat subdued in the preceding week were steadier again last week. The March contract moved up from Rs 735.75 to Rs 744.50 and Wednesday's closing of Rs 743 showed a net gain of Rs 6 per 3 quintals over the week. Last week's improvement was due more to scarcity of offerings than to any aggressive bull support. The volume of business continues to be on the low side. Outside public interest in the market can be said to be virtually absent. The authorities cannot blame the speculator for pushing up cotton futures which are quoted around the highest level for over a decade. Conditions in the spot market indicate near-famine conditions. New crop cotton coming from the irrigated areas of Baramati and Porbandar is quoted about Rs 150 to Rs 175 per 3 quintals about the revised ceiling prices.

Weather reports from almost all the cotton producing areas have continued to be fairly encouraging up to now and yet few expect the crop to exceed 51/52 lakh bales. The crop could be smaller if the weather takes an unfavourable turn in coming weeks. One can hope and pray for the best but who could ever be certain about the weather. Neither the upward revision of the 1961-62 crop estimate from 43 to 46/47 lakh bales nor the prospect of a good crop has caused any easiness in the market which only underlines the serious nature of the imbalance between demand and supply resulting from a virtually static production and rising domestic consumption. Total internal consumption of cotton in 1961-62 is estimated around 57 lakh bales against 53.73 lakh bales in 1960-61 and 51.05 lakh bales in 1959-60. Notwithstanding huge imports over the past three seasons, near-famine conditions prevail in the cotton market. With the upward revision of the 1961-62 crop estimate, the carryover at the end of August is now placed around 17.8 lakh bales. And if the new crop is to be around 51/52 lakh bales, it is apparent that the country will need to try hard to arrange large imports of cotton.

Control to Stay

Import prospects do not appear to be encouraging. Therefore there is little doubt that the cotton trade will continue to have a difficult time during the new season beginning with September. If anything, control measures are likely to be tightened up. Compulsory survey and distribution controls will stay. Possibly the new policy will incorporate the Cotton Advisory Board's recommendation for setting up expert zonal committees for undertaking the survey because the present system of a number of regional survey committees has been found to be unwieldy and cumbersome. The substantial upward revision of ceiling prices should facilitate the administration of price control which had been reduced to a sham in the 1961-62 season. The cotton trade is anxiously awaiting the announcement of an export quota for Bengal Deshi cotton and the need for an early release of a sizable quota can hardly be overemphasised in order to earn the much needed foreign exchange for the country and also to maintain the flow of supplies to the overseas buyers. Japan is reported to be willing to pay 22d a lb for choice quality of Deshi cotton.

A word about Shri Manubhai Shah's recent statement on cotton in the Lok Sabha seems necessary. Replying to a question on buffer stock, he said that the proposal was before the Government but "unfortunately, internal production of cotton is not enough to satisfy even current consumption." But who ever thought that buffer stock would be built mainly out of indigenous production? It would be too optimistic to expect cotton production to catch up with rising demand in order to fulfil the third Plan target for cotton textiles. Even more amusing is Shri Manubhai Shah's other statement that the difficulty was not in putting additional land under cotton, but in increasing the productivity. To emphasise the need for increasing the productivity — which is about the lowest in the world—is to state the obvious but it would be naive to suggest there is no difficulty in putting additional land under cotton. Despite low productivity, production of cotton could be easily stepped up by bringing more area under its cultivation. But the scope in this regard is extremely limited.

Oilseeds

Groundnut at New High

LAST week's trading in oilseeds was notable mainly for the exciting behaviour of groundnuts which established a new high for the season. On 27th August, the September contract in groundnut was bid up to Rs 249.50 (per 250 kgs), well above the season's previous peak of Rs 246.50 recorded on 19th February by the May contract which had later been sold down to Rs 202.62 on 25th May. Last week's rise in groundnut futures was caused by bull manipulation as well as nervous short covering. Bears seemed to have been scared by inspired rumours about substantial damage to the Saurashtra crop on account of pests. The market took no serious notice of the Planning Minister Shri Nanda's statement that the Government was determined to hold the price line and that it was planning legal sanctions against profiteering. But that is hardly surprising. This is not the first time that the Government has made known its determination to keep prices under check. Prices, however, must rise when the supply fails to catch up with demand. In a situation of scarce supplies, all that the authorities can do is to restrain demand from exercising an undue pressure on prices. This in turn implies a series of regulatory measures which the authorities seem unable to administer efficiently. Considering that there are a limited number of cotton textile Mills in the country, cotton control should be the easiest to administer. And yet cotton price control has been reduced to a farce.

To come back to the market story, groundnuts continued to display remarkable strength because of the tight bull grip over the maturing contract and the sustained demand for the spot material from crushers in order to fulfil their commitments in respect of oilcakes and oil, especially cake. Most of the extraction manufacturers are said to have sold to shippers to their capacity. Exporters are known to have put through very large business in groundnut extractions in recent weeks. Sales last week were mainly to the East European countries. The U K buyers were somewhat reserved, partly because they have mostly covered their immediate requirements and partly because they are inclined to watch the world supply in regard to soya meal and other feeding grains in the Argentine and on the Continent. The U K quotations for groundnut extractions were easier compared to the position in the preceding week, with the August-September shipment quoted around £ 35-17½ per ton.

The Outlook

As regard the price outlook, it will depend not only on the size of the crop but also on the Government export policy for groundnut oil, seed and expellers. Should the Government decide to continue the export of groundnut oil without any consideration for the loss it involves, the scope for a decline in groundnut prices would be limited; in fact, prices could record a substantial rise, notwithstanding Government's anxiety to hold the price line. The market awaits with interest official policy for the new season. The State Trading Corporation was said to have sold last week groundnut oil to the U K around £ 95 per ton as against the Indian parity of about £ 145. Will the Corporation continue to effect sales at such a heavy loss and for how long? The S T C alone can answer these questions.

Castor Neglected

After holding firm in sympathy with groundnut, linseed developed a slightly soft tendency due to lack of follow up support at higher levels. The September contract gradually drifted lower from Rs 40.94 to Rs 39.94. The new crop March contract, however, maintained a relatively steady tone and it fluctuated irregularly between Rs 39.87 and Rs 40.69 and closed almost unchanged over the week at Rs 40.19 per 50 kgs. Castor futures were dull and subdued. The September contract moved erratically

between Rs 165.25 and Rs 167.75 and wound up the week at Rs 165.75 (per 250 kgs). The new crop contract was steadier and showed a net rise of Rs 1.75 per 250 kgs over the week at Rs 168.75. Earlier in the week, the March contract had been bid up to Rs 170.50. Fluctuations were guided mainly by the general mood of the market because there was hardly anything in the export performance of castor oil to attract the attention of speculators. Export houses did not mention any fresh important business in castor oil last week and the overseas quotations showed small losses over the week. Castor oil Commercial was quoted around £ 106/107 per ton. In 1956, castor oil was quoted substantially higher than groundnut oil in the local market but today it is quoted about Rs 7 per 10 kilograms lower than groundnut oil. Castorseed production is bound to be adversely affected if the prevailing price disparity persists for long. This will be an unfortunate development because castor oil has an important potential for earning foreign exchange.

From Cochin to California

PRAWN CANNING is an industry wholly dependent on foreign markets. Prawn exports from the Malabar coast-line to the United States and other parts of the globe are today earning foreign exchange worth several crore rupees. Metal Box has helped the enterprise of India's exporters of prawns—and many other products—by supplying packages made to exacting international standards.

The Canning Advisory Service of Metal Box—the only one in the packaging industry—provides free advice to packers on every aspect of the complex problems of canning technology. As part of this service Metal Box helps develop special containers and closures to suit the requirements of individual products.

In providing all this assistance to packers Metal Box draws on 29 years of experience in the packaging industry and the accumulated technical resources of its overseas associates.

Today precision-made Metal Box packages carry annually to over 50 foreign countries more than Rs 4 crores worth of Indian goods—fish, cashewnuts, vanaspati, vegetable oils, fruit, toiletries, confectionery and biscuits.

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Company Notes

Ahmedabad Electricity

THERE has been an all-round improvement in the working of Ahmedabad Electricity during the year ended March 31, 1962. The sales of electricity have recorded a rise of 4.58 per cent to 790 million kWh, though the pace of increase is less than that in the previous year. This is evidently due to some restrictions imposed in the middle of 1961 by the Gujarat government on supply of power, though continuity of supply to consumers was well maintained. The rise in sales is reflected in the increase in earnings from Rs 5.42 crores to Rs 6 crores and in gross profit from Rs 140.17 lakhs to Rs 162.10 lakhs. The net profit too shows a sizable improvement from Rs 82.03 lakhs to Rs 96.33 lakhs, even after setting aside larger sums of Rs 9.29 lakhs (Rs 8.46 lakhs) for agents' remuneration, Rs 51.41 lakhs (Rs 49.68 lakhs) for depreciation and Rs 5.07 lakhs (nil) for taxation. The dividend has been stepped up from 7 per cent to 8 per cent, absorbing Rs 69.98 lakhs, against Rs 61.23 lakhs in the previous year, and reserves have been strengthened by Rs 26.13 lakhs on top of Rs 19.73 lakhs added in the previous year.

The restrictions of the power supply was removed in February 1962 with the commissioning of the 30 mW, at the Sabarmati power station. With a view to meeting increasing demand for electricity in the company area, it is proposed to expedite the second 30 mW set. Further the company is to get additional power from the Dhuvaran power station of the Gujarat Electricity Board to provide for this additional power supplies and to meet the growing consumer's demand the company has pledged to strengthen its distribution mains and others power service facilities.

In order to finance the additional projects the company has decided, subject to consent of the Controller of Capital Issues, to issue debentures carrying interest at 6½ per cent to banks. These debentures will be made over to the company's bankers as security for fresh borrowings. These debentures will rank **pari-passu** with the existing debentures except that they carry a higher rate of interest. The existing debentures of the value of Rs 3 crores carry interest at the rate of 5¼ per cent. As the listing requirements of the Bombay Stock Exchange insist that these debentures are to be offered in the first instance to the existing ordinary share holders of the company unless otherwise decided by them, the company has sought the approval of the share holders to offer these debentures to these bankers.

In pursuance of the programme of development the company incurred a capital expenditure of Rs 3.07 crores during the year under review. The capital work in progress at the end of the year stood at over Rs 1 crore. The additional expenditure is to be financed partly by borrowings from the Agency for International Development, Washington.

A C C — Vickers — Babcock

THE third annual report for the year ended March 1962 of ACC-Vickers-Babcock in which Associated Cement Companies has a fifty per cent interest, shows a deficit of Rs 44.31 lakhs after providing Rs 22.46 lakhs for depreciation. Together with the previous year's accumulated loss of Rs 1.72 lakhs an aggregate deficit of Rs 46.03 lakhs, is being carried forward. As the company has not earned any taxable income, it has not been able to avail of the development rabate of Rs 58 lakhs to which it is entitled. The directors observe that in view of the considerable time lag between the placing of the orders and the final delivery of the type of plant being manufactured, it will not be possible to show the true financial results the company is capable of until some units have been delivered.

The greater part of the construction work at Durgapur has been completed ahead of schedule. Some of the heavier machine tools are yet to be received from overseas, but it is expected that the initial construction programme will be completed and the work fully equipped by the end of September.

The company has received large firm orders for the manufacture and delivery of boiler plant, of an estimated value of Rs 8.23 crores and orders for a further five boiler units of the value of Rs 7.5 crores are expected under the Indian power projects programme. Orders for cement-making machinery and ancillary plant of an estimated value of Rs 68.76 lakhs have been received.

Greaves Cotton

THE substantial improvement in the turnover of Greaves Cotton during the year ended March 31, 1962 from Rs 6.61 to Rs 7.52 crores and in the income from investments from Rs 10.49 lakhs to Rs 12.87 lakhs is not accompanied by a corresponding rise in gross profit. The gross profit has gone up by only Rs 2.89 lakhs to Rs. 55.14 lakhs. The larger turnover has been achieved at a lower profit margin, it is stated, due to increasing competition and higher cost of sales and service. The increasingly difficult foreign exchange position has no doubt resulted in further restrictions on imports, but the company has been able to sustain its activity by securing a larger portion of its business from goods manufactured in India. A larger production could have contributed to a further improvement in the company's turnover but for the frustrating delays in the fruition of several new manufacturing projects.

The net profit, at Rs 30.61 lakhs' is only fractionally higher than the previous year's figures of Rs 30.38 lakhs, as the rise in gross profit has been offset by the increase in the provision for taxation from Rs 20.25 lakhs to Rs 22.25 lakhs and that for depreciation from Rs 1.62 lakhs to Rs 2.28 lakhs. The dividend has been reduced from 13 per cent to 12 per cent but the allocation to the reserves has not been affected. In fact a slightly larger sum of Rs 10.87 lakhs has been added to the various reserves against Rs 10.35 lakhs. The ordinary dividend absorbs Rs 16.20 lakhs, against Rs 17.56 lakhs and the preference dividend takes up Rs 3.57 lakhs.

The directors take a hopeful view that the company will be able to sustain its business during the current year. The initial difficulties in respect of several new manufacturing activities have been overcome and some contribution to the company's trading is now being made by these recently initiated projects.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Aug 24	Aug 17	July 27	Aug 25 '61
1 Note circulation	2029.06	2054.07	2036.73	1877.39
2 Rupee coin	122.81	120.78	120.56	125.79
3 Deposits				
(a) Central Govt	59.07	67.31	54.58	64.60
(b) Other Govts	11.92	16.90	25.59	19.93
(c) Banks	108.23	97.45	103.08	102.96
(d) Others	173.84	160.15	207.63	158.19
4 Foreign securities	88.84	89.34	96.34	116.86
5 Balance abroad	5.06	5.08	6.76	26.61
6 Rupee securities	1722.50	1742.00	1729.97	1553.55
7 Investments	256.97	240.56	310.57	284.51
8 Loans and advances to Govts	34.91	35.45	34.05	48.75
9 Other loans and advances	122.93	133.32	127.04	115.71
Scheduled Banks	**Aug 17**	**Aug 10**	**July 20**	**Aug 18 '61**
1 Aggregate deposits (net)	2049.33	2040.47	2022.58	1797.99
Demand (net)	794.46	785.05	786.48	714.88
Time (net)	1254.87	1255.42	1236.10	1083.11
2 Cash in hand	53.43	47.52	49.29	46.82
3 Balance with Reserve Bank	90.93	91.37	100.61	80.80
4 (2) + (3) as % of (1)	7.04	6.81	7.41	7.10
5 Borrowings from Reserve Bank	1.00	1.76	0.68	1.54
(a) Against usance bills and/or promissory notes	0.01	0.06	0.38	0.51
(b) Others	0.99	1.70	0.30	1.03
6 Advances	1208.49	1212.22	1227.77	1080.70
(a) State Bank	259.27	260.87	268.12	231.71
(b) Others	949.22	951.35	959.65	848.99
7 Bills discounted				
(a) Inland	129.58	128.14	123.64	106.92
(b) Foreign	47.45	47.97	44.78	43.67
(c) Total	177.03	176.11	168.42	150.59
(i) State Bank	14.72	16.05	15.41	13.28
(ii) Others	162.31	160.06	153.01	137.31
8 (6) + (7c) as % of (1)	67.61	68.04	69.03	68.48
9 Investment in Govt Securities	668.63	670.25	620.05	585.85
10 (9) as % of (1)	32.63	32.85	30.66	32.58
Cheque clearance	**171.46**	**231.17**	**221.93**	**176.84**

Bombay Money Rates

(Per cent per annum)

Selected Scheduled Banks other than the State Bank	Aug 17	Aug 10	July 20	Aug 18, '61
Call money from Banks	1.79	1.97	1.71	2.13
Deposits				
Seven days	3.00	3.00	2.71	3.00
Three months	—	3.50	3.50	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Aug 30	Aug 22	July 26	Aug 31 '61
Gold (per 10 grams)				
Spot	129.50	127.65	125.85	124.55
Forward	128.30	126.85	124.90	124.40
Silver (per kilogram)				
Spot	219.25	216.15	213.05	204.10
Forward	219.50	217.25	214.05	204.80

INDEX NUMBER OF WHOLESALE PRICES

(Base : Year ending March 1953 = 100)

Group and Sub-group	June, 1961	May 1962	June 1962	% Increase (+) or decrease (—) in June '62 as compared with June 1961.
Food Articles	**120.6**	**124.2**	**125.5**	**+ 4.1**
Cereals	101.9	104.1	105.0	+13.0
Pulses	90.6	98.3	102.5	+13.1
Fruits & Vegetables	126.1	141.6	142.0	+12.6
Milk & Ghee	113.6	129.4	126.7	+11.5
Edible Oils	163.3	152.1	152.2	— 6.8
Fish, Eggs & Meat	128.2	141.5	141.4	+10.3
Sugar & Gur	123.7	129.7	138.9	+12.3
Others	181.1	168.9	170.3	— 6.0
Liquor & Tobacco	**100.1**	**102.0**	**99.7**	**— 0.4**
Tobacco	96.6	98.6	96.2	— 0.4
Fuel, Power, Light & Lubricants	**123.3**	**122.3**	**123.3**	**—**
Industrial Raw Materials	**148.8**	**134.9**	**136.1**	**— 8.5**
Fibres	150.6	125.7	127.3	—15.5
Oilseeds	160.5	150.0	151.6	— 5.5
Minerals	95.2	93.8	93.6	— 1.7
Others	126.9	126.7	126.7	— 0.2
Manufactures	**126.2**	**127.5**	**128.9**	**+ 2.1**
Intermediate Products	**139.7**	**137.3**	**139.5**	**— 0.1**
Finished Products	**123.9**	**125.9**	**127.2**	**+ 2.7**
Textiles	125.5	125.2	126.9	+ 1.1
Cotton	127.3	128.8	129.5	+ 1.7
Jute	125.1	113.2	118.1	— 5.6
Woollen	123.7	139.6	141.3	+14.2
Silk & Rayon	116.5	129.1	129.1	+10.8
Metal Products	151.6	159.9	160.3	+ 5.7
Chemicals	109.4	112.8	113.7	+ 3.9
Oil Cakes	143.4	152.3	154.7	+ 7.9
Machinery & Transport Equipment	112.8	117.6	117.7	+ 4.3
Others	120.3	124.8	125.3	+ 4.2
All Commodities	**126.2**	**126.3**	**127.5**	**+ 1.0**

COAL PRODUCTION AND DESPATCHES

(Monthly Averages or Calendar Months)

('000 *Metric Tons*)

	Raisings	Despatches	Stock at pit heads*
1962 : Mar	5,190	4,576	—
Feb	4,844	4,070	3,735
Jan	4,978	4,330	3,428
1961 : Dec	4,884	4,245	3,290
Mar	5,524	4,308	5,567
1962	5,004	4,325	3,735
1961	4,675	4,190	3,290
1960	4,384	3,860	3,458
1959	3,984	3,522	2,729
1958	3,838	3,415	2,808
1957	3,683	3,190	3,331
1956	3,338	2,959	2,810
1955	3,236	2,789	3,685
1951	2,915	2,473	2,824

Source : Coal Controller, Ministry of Steel, Mines and Fuel, Government of India

* At or about the end of each period.

RAILWAY WAGONS LOADED

Aggregate from April 1,1962 to June 30, 1962

(In '000)

	Broad Gauge			Metre Gauge		
	1962-63	1961-62	Increase (+) or decrease (—) percentage	1962-63	1961-62	Increase (+) or decrease (—) percentage
Revenue earning traffic						
Coal and Coke						
(a) For public	365.51	349.00	+ 4.74	63.55	63.64	— 0.14
(b) For Non-Govt Railways	0.66	--	--	--	--	--
Grains and pulses	107.00	113.34	— 5.60	93.58	99.18	— 5.65
Oilseeds	14.34	16.76	—14.40	16.14	16.52	— 2.29
Raw cotton	7.31	7.07	+ 3.50	5.82	5.41	+ 7.50
Cotton manufactured	2.54	2.92	—12.80	0.60	0.81	—25.80
Raw Jute	15.64	8.00	+95.50	15.31	8.04	+90.40
Jute manufactured	1.62	1.33	+22.00	1.68	1.57	+ 7.44
Sugar	17.30	12.56	+37.70	19.42	15.65	+24.10
Sugarcane	11.73	12.60	— 6.93	70.28	66.49	+ 5.69
Cement	47.39	50.26	— 5.71	44.53	48.00	— 7.24
Iron and Steel						
Pig iron	26.86	13.33	+101.60	2.06	1.60	+29.00
Others	63.33	69.14	— 8.41	17.05	16.73	+ 1.90
Tea	1.60	1.39	+14.50	2.16	2.01	+ 7.16
Metallic ores						
Manganese ore	14.66	17.79	—17.60	3.95	4.58	—13.80
Iron ore	136.01	118.26	+15.00	14.55	16.92	—14.00
Others	6.12	3.30	+85.70	6.97	6.58	+ 5.99
Limestone and dolomite	65.05	61.96	+ 4.98	19.14	19.02	+ 0.60
Miscellaneous full wagons	406.29	394.92	+ 2.88	319.19	336.27	— 5.08
Miscellaneous smalls	83.49	86.27	— 3.21	70.14	77.37	— 9.35
Non-Revenue traffic						
Railway coal and materials						
Coal for home line	68.88	67.88	+ 1.48	68.49	62.47	+ 9.67
Coal for other Govt and railway manufacturing units	122.12	109.48	+11.50	5.69	11.04	—48.50
Other stores	46.04	41.59	+10.70	39.81	36.24	+ 9.83
TOTAL	1630.79	1559.74	+ 4.56	900.07	916.12	— 1.75

Source : Ministry of Railways (Railway Board), New Delhi.

CALCUTTA TEA AUCTIONS

Leaf

	Sale No 6, July 16, 1962			Sale No 7 July 17, 1961			Up to and including Sale No 6, July 16, 1962			Up to and including Sale No 7, July 17, 1961		
	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kilo (Rs)
Assam	11.2	5.46	6.86	12.6	6.20	7.25	40.9	20.43	6.21	45.4	22.48	6.35
Cachar	2.1	0.99	4.21	1.0	0.52	4.75	4.1	2.02	4.00	10.9	5.42	4.63
Darjeeling	3.0	1.27	11.14	3.7	1.52	9.23	45.6	19.65	7.75	42.2	17.85	7.51
Dooars	7.6	3.79	4.87	10.5	5.22	5.08	58.2	29.20	4.69	60.5	30.32	4.91
Terai	1.4	0.66	4.76	1.3	0.67	5.07	9.6	4.70	4.58	8.4	4.12	4.90
Tripura	0.5	0.23	4.16	0.7	0.33	4.93	2.1	0.99	3.99	4.0	1.84	4.69
TOTAL	25.8	12.40	6.32	29.8	14.47	6.43	160.6	77.05	5.84	171.4	82.03	5.85

Dust

	Sale No 5, July 11, 1962			Sale No 7, July 19, 1961			Up to and including Sale No 5, July 11, 1962			Up to and including Sale No 7, July 19, 1961		
	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)
Assam	8.23	3.36	5.51	5.92	2.34	5.98	13.86	5.64	5.45	17.32	6.92	5.74
Cachar	0.06	0.02	4.85	0.95	0.37	4.47	0.25	0.09	4.27	3.42	1.30	4.28
Darjeeling	0.08	0.04	5.19	0.01	0.05	5.59	0.98	0.42	5.47	1.36	0.56	5.42
Dooars	5.86	2.29	4.05	5.42	2.10	4.86	13.71	6.70	4.08	26.38	10.33	4.53
Terai	0.04	0.01	4.50	0.16	0.06	4.55	0.52	0.21	3.79	1.31	0.51	4.30
Tripura	0.10	0.04	3.10	0.15	0.05	4 49	0.13	0.05	3.21	0.75	0.28	4.14
TOTAL	14.37	5.76	4.91	12.61	4.97	5.36	32.82	13.09	4.71	50.55	19.90	4.95

Source : Department of Commercial Intelligence and Statistics, Government of India.

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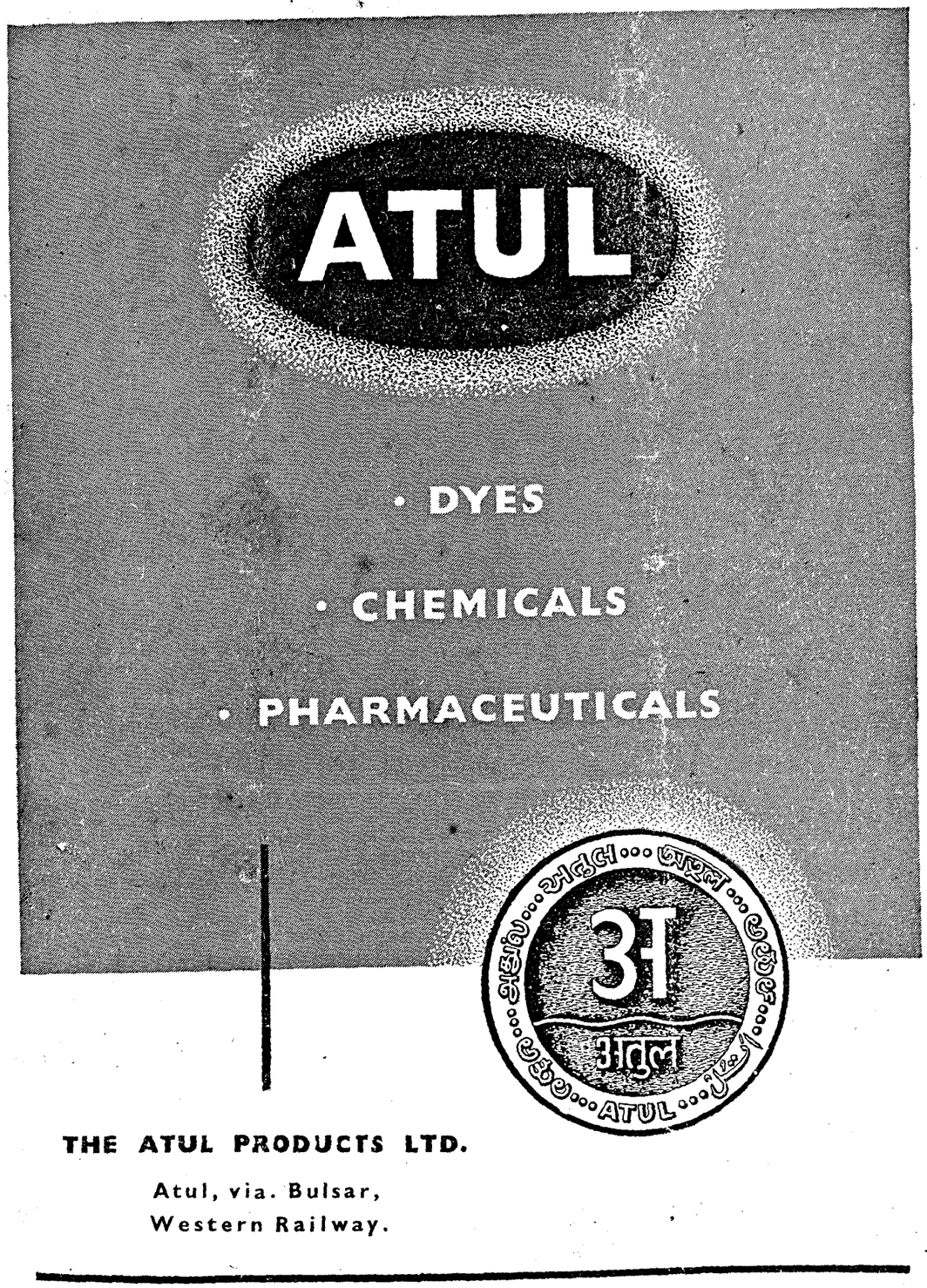

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When Parliament Obliges

ELSEWHERE in this issue our Parliamentary Correspondent has sought to bring out how misguided or uninformed public spirit on the part of Members of Parliament defeats desirable legislation or distorts such legislation when the Members cannot stop the bills. Focussing on the legislative process in the case of the Bill to amend the Land Acquisition Act and carefully describing the many pulls and pressures which gave it the shape which the amendment took, the Correspondent traces the unhappy transformation which the Bill finally went through due to lack of proper briefing as also to the ignorance on the part of legislators who would rather listen to the gossip than study the Bill and the background material supplied to them.

In the case of Land Acquisition Act, at least Parliament felt strongly and did something, however misguided its enthusiasm or ignorant its criticism. But what could one say of the apparent lack of interest on the part of Parliament in such important measures as the bunch of bills which were passed during the last week, bills which sought to re-cast the banking system of the country, and with the gravest bearing on monetary policy, and the bills to bring transactions in gold and silver under official control?

To take the latter first, if the purpose was to bring transactions in gold and silver under control, surely some explanation was necessary why this was sought to be effected through the Industries (Development and Regulations) Act and not the Essential Commodities Act. True, there are the Mysore Gold Mines to be taken over as a public sector undertaking under the Centre. But this was merely a formal or technical change, for the Mysore mines have long been nationalised and whether the State Government runs the mines and the Centre pays the subsidy, or both operations are combined in the hands of the Central Government, does not make much of a difference.

But control over all transactions in gold and silver and the wide powers taken by the Government to regulate such transactions, surely, is quite a different matter and a very important matter in all conscience. Since the Industries (Development and Regulations) Act has to deal with industries, one would think that production and the problems arising directly from production would be the primary concern of this particular Act. On commonsense reading of the Act, therefore, one would imagine that the power to control supply, distribution, price, etc of the products of the industries which are brought within the purview of this Act would be an off-shoot of the development of the industry concerned. Not that these powers are not pervasive enough. They are. They range from "the equitable distribution at fair prices of the articles or classes of articles" relating to any scheduled industry, and regulating by licence "the distribution, transport, disposal, acquisition and possession of such articles" to acquiring stocks, prohibiting any commercial transactions in them, "collecting information and statistics without regulating or prohibiting any of the aforesaid matters" and so on.

Now gold is a subject of perennial interest to people the world over; it is of especial interest to the Indian people. India had been a bottomless sink for the precious metals ever since the days of Pliny and it is only for a few years just before the war that she disgorged some of this gold acquired over the centuries. That there is a lot of gold in the country, no one will ever doubt. But with due deference to Government economists, one must still say that no attempt has been made so far to assess even very roughly the volume of hoarded gold which could conceivably be recovered for monetary purposes and mobilised to meet a part of our foreign exchange needs. All are agreed that the gold in ear-rings or bangles would not be much of a balance of payments support.

It is rather difficult to fancy Shri Morarji Desai in the role of a successful speculator outwitting the dealers and hoarders of gold. Yet that is the role in which he has chosen to cast himself and the poor Minister of Commerce and Industry had to play second fiddle to him in trying to explain why the Government had introduced the bill to bring gold and silver under the non-ferrous metal industries scheduled under the Industries (Development and Regulations) Act. But Shri K C Reddy was not going to let out any secrets. All that Morarji had hinted before was that the Government was thinking of doing something about it. Government economists have been thinking about the possible means of turning gold into base metals for many years. And occasionally they have appeared in print, too, in their individual capacity. But all that they have been thinking of is that there is a lot of gold in the country, that the hoarded gold could help to alleviate our foreign exchange problem, if it could be mobilised and that, with the latter end in view, a modest beginning could probably be made, say, with the registration of dealers and recording of all transactions.

By scheduling gold and silver as non-ferrous metal industries under the Industries (Development and Regulations) Act, is the same humble beginning going to be made in a circuitous manner? This must be a strange way of doing things. Since industrial development has primarily to deal with production, the controls that stem from it would be normally expected to subserve this primary purpose. At least in the case of gold, one could technically say that there is a production programme for it insofar as the Centre will have the Mysore Gold Mines as a public undertaking. But what about silver? Is the intended control over distribution and stocks also to be thought of as an off-shoot of the development of a silver industry in the country?

This is surely much more than the tail wagging the dog. But no Member of Parliament even asked this question. The bill was introduced on a Thursday with no explanation and it was passed on the the following Wednesday, after the cryptic comment from Shri Reddy that no one should expect the Government to announce in advance the steps that it was going to take "in order to see that the proper thing is done". One has to wait for Morarji's next act.

In regard to the bunch of bills amending the Reserve Bank Act and the Banking Companies Act, one would have thought that legislation of such great importance would be made the subject of a full-length debate and that discussions would extend to more than one session, in the course of which the complex problems of monetary policy of a planned economy would be thrashed out and perhaps the bills would be found deserving of examination at a fairly expert level by a select committee, then debated clause by clause. Nothing of the kind happened. All the three readings-were gone through in a single day.

If the legislature is so understanding and accommodating, why is the Government so hesitant to act?

Asian Games Fiasco

THE organisers of the Fourth Asian Games at Jakarta could not surely have been unaware that by not inviting Israel and Taiwan, two Asian nations accredited to the Asian Games Federation, to the Games, they ran the risk of having the International Olympic Committee withdrawing its recognition of the Asian Games. Should this happen, the status of all athletes and sportsmen who participated in the Games would be seriously jeopardised and they would even become liable to disqualification from participating in events arranged under the International Olympic Committee's auspices, including the Olympic Games.

The suggestion to change the name of the Asian Games which was made by Shri G D Sondhi, the Indian senior Vice-President of the Asian Games Federation, was, therefore, in fact, a compromise intended to safeguard the status of the competitors and to save the face of the organisers. The organisers of the Games did not see it in this light and, instead, regarded it as an affront to them and dubbed it, ironically, as a move to introduce politics into the Games!

The vilification of Shri Sondhi that followed was fantastic and would have been unbelievable had it not been so well planned. The way his statements were taken to express the official views of the Government of India was really infantile. The organisers of the Games, the Indonesian Press and the Government, spared no pains to misrepresent the Government of India and insult the Indian contingent to the Games. The Indonesian Minister of Trade even went to the extent of instructing his Ministry not to enter into any new trade agreements with India. And on September 3 a violent, but well organised, mob of several thousands demonstrated before the Indian Embassy, breaking into the Embassy.

And all this, notwithstanding the Government of India's unequivocal statement that it "completely dissociated itself from the statements and activities of Mr Sondhi". This was no doubt technically the correct attitude for the Indian Government to take since Shri Sondhi was not in Jakarta as a representative of the Government of India. He was not even a member of the Indian contingent. He was at the Asian Games as the Asian Games Federation's senior Vice-President and as the official observer of the International Olympic Committee.

The nations which participated in the Fourth Asian Games deserve praise for their restraint in the face of the decision of the Indonesian organisers to exclude Israel and Taiwan from the Games, a decision which must have been most embarrassing, to say the least, to most of the participating countries. That these countries did not revoke their decision to participate was earnest of their desire to save Indonesia embarrassment and of their anxiety not to disrupt the Games. By their outbursts against Shri G D Sondhi and against the Government of India, the organisers of the Games, the Indonesian Press and the Indonesian Government, have shown little sense, much less common gratitude.

★

In his Lok Sabha statement on the anti-Indian demonstrations in Jakarta, Prime Minister Nehru hinted at the possibility of the Chinese having had a hand in these demonstrations. The following paragraph from an article entitled "No 'Two Chinas' Scheme Will Be Tolerated" in the *Peking Review* of August 24 gives the Chinese angle on the question of participation of Taiwan in the Asian Games:

> "Another instance of the collusion between U S imperialism and the Chiang Kai-shek gang in the scheme to create 'two Chinas' is found in the gang's recent attempts to worm its way illegally into the forthcoming Fourth Asian Games in Djakarta. As is well known, the People's Republic of China and Indonesia have long since established diplomatic relations. The Indonesian Government has consistently recognised the Government of the People's Republic of China as the sole legitimate government representing the 650 million Chinese people. But the Chiang Kai-shek gang, under the direction of the U S, is preparing to dispatch its so-called sports organisation to this international sports meeting in Djakarta, in defiance of the strong opposition of the Indonesian people and public opinion. It is attempting to hoist its 'national flag', play its 'national anthem' and create a 'two Chinas' situation on Indonesian soil as well as to sabotage the friendly relations between China and Indonesia".

Weekly Notes

Abortive Debate on Prices

THIS is the time for the annual debate on prices both in Parliament and outside for these are the months when food prices are at their highest, having started to move up in the beginning of the year. This year the wholesale price index of food articles (1952-53 = 100) has risen from 118.3 in January (average of weeks) to 132.5 in the week ended August 18. Compared with this, last year food prices rose from 116.4 in January to 124.3 in August, and in 1960 from 117.5 in January to 123.8 in August. Thus the rise in prices this year has been distinctly higher than in the past two years. This has given an edge to the current debate on the subject. But more than that there are the prospects of a none-too-good crop and also the chinks which have become apparent in the Government's buffer stock operations.

From newspaper reports it would appear that the entire attention of Government departments concerned with economic affairs is now engaged in devising measures to give effect to the Planning Minister's promise in Parliament to "hold the price line". Twice the Secretaries of the economic ministries have met in conclave with the representatives of the Planning Commission. As for ministerial pronouncements, there has been no count of them. But it would be more than reasonably optimistic to expect that any definite policy will emerge from all this apparent activity. The Planning Commission, with an eye on the cost of living, is believed to have suggested that price policy must focus on holding the price of foodgrains primarily and of a few articles of common consumption like coarse cloth and kerosene, for example.

But what is the Government going to do about it? The Planning Minister has ruled out rationing and the Minister for Food and Agriculture has emphatically expressed himself against the idea of statutory control of foodgrains prices. Shri S K Patil has a point here, it must be conceded. For while foodgrains prices show seasonal fluctuations, over the last few years they have remained more or less steady. Thus the index of food prices was 117.5 in January 1960, 116.4 in January 1961, and 118.3 in January this year. Against this, the wholesale price index of all commodities rose from 118.8 in January 1960 to 123.3 in January this year, and the index of manufactures from 116.0 in January 1960 to 126.3 in this January. It is possible, therefore, to argue, as the Food Minister did recently, that statutory control of foodgrains prices, while other prices are left free to move upwards, will adversely affect the agriculturist.

This is, of course, not a new argument. It only underlines the need for a price policy which aims not only at stable prices of this or that commodity or group of commodities but at stable relative prices. Is such a policy on the anvil? Not by a long shot. Instead, the Government is busy building castles in the air. In the best of all possible worlds of the Government's conception, the wholesale trade in all agricultural commodities — why foodgrains alone?—will be cooperativised and consumer cooperatives spread all over the country, in the villages and in towns, will maintain prices not only of foodgrains but of all consumer goods. This vision may not do for policy, but certainly helps to stall — till the kharif crops begin to move. That will not be long now and then, with attention turning to other subjects, the question of price policy could be shelved till prices begin to rise again next year. But what if the crops don't oblige and buffer stocks fail to work?

Land Acquisition Bill

IN its decision in the case of R L Aurora vs the State of U P (1962), the Supreme Court had ruled that the provision in the Land Acquisition Act which permitted acquisition of land for works likely to prove useful to the public was applicable only when the work to be

constructed would be directly useful to the public and the public would be entitled to use the work as of right for its own benefit in accordance with the terms of agreement.

Under the Land Acquisition Act of 1894, land may be acquired for a public purpose as also for companies. The purpose for which acquisition of land for companies may be made are, however, restricted and specified. Such acquisition may be made for obtaining land (a) for the construction of houses for workmen or for the provision of "amenities directly connected therewith"; or (b) for the construction of some works which are "likely to prove useful to the public".

The Supreme Court's decision thus had far-reaching consequences since many State Governments had acquired land for companies and it was doubted if all such acquisition would come within the stringent interpretation given to the Act by the Supreme Court.

Some of the State Governments made representations to the Central Government that the Supreme Court's decision would not only render planned development of industries difficult but would also make the acquisition of land for companies already made in the past questionable in courts of law. Claims might be made by previous owners whose land had been acquired for the restoration of their land or for payment of damages. It was to forestall any such possible developments that the Land Acquisition (Amendment) Ordinance was promulgated in July this year, amending the Land Acquisition Act and also validating all past acquisitions of land made by the Government for companies.

The Land Acquisition (Amendment) Bill which was introduced by Shri S K Patil in the Lok Sabha on August 1 was intended to replace the ordinance by an Act of Parliament. The amendment was to permit acquisition of land by the Government for companies provided "such acquisition is needed for the construction of some building or work for a company engaged or to be engaged in an industry which is essential to the life of the community or is likely to promote the economic development of the country". Thus there could be no doubt that the amendment gave the Government sweeping powers to acquire land for a company engaged almost in any industrial activity.

No Improvement

HOWEVER, in the face of criticism in the Lok Sabha the Government accepted a compromise and moved a fresh amendment that the acquisition of land would be made only when "such acquisition is needed for the construction of some building or work for a company which is engaging or is taking steps for engaging itself in any industry or works which is in the interests of the general public". This amendment, while it clipped the powers sought to be conferred on the Government under the original Amending Bill, was still not acceptable to the Members who complained that acquisition "if the interests of the general public" was not restrictive enough and that it was subject to interpretations which could still give the Government too extensive powers. Ultimately, the Minister for Food and Agriculture had to accept another amendment proposed by Shri H V Kamath stipulating that the Government shall acquire land only for a company which is engaging in an industry or work which is for a "public purpose" and not merely "in the interests of the general public". Two other modifications made in the original Bill deserve mention. In the first place, the Government has accepted that it would acquire land under the Act only for public limited companies and not for private companies. Secondly, it is proposed that the rules framed by the Government under the Act would be laid before both Houses of Parliament for approval. The Houses would thus be empowered to make modifications in these rules. This is presumably intended to ensure that the Act is uniformly applied in the different States and that the provisions of the Act are not misused by the State Governments, a fear which not a few Members had expressed.

However, the most significant amendment of the Bill is the one which restricts acquisition of land to companies which are engaged in an industry or work which is for a "public purpose"; how is this different from acquisition of land for some work "which is likely to prove useful to the public", which is the condition attached to acquisition of land by Government for companies in the original Land Acquisition Act of 1894. Apparently the Members were so overwhelmed by the concessions made by the Minister that they did not pay adequate attention to the import of these concessions and the one or two lone voices which asked for an elaboration of the term "public purpose" went unheard.

The purpose of moving the Amending Bill to the Act of 1894 was to broaden the conditions governing the acquisition of land by Government for companies and to make them less ambiguous. The Amending Bill as it was finally passed by the Lok Sabha did not really achieve this purpose. Shri S K Patil is perfectly aware of this as is clear from his statement that he intends to soon introduce in Parliament "a comprehensive amending bill" to the Act of 1894.

Dearly-Bought Sweetness

THERE is something intellectually dishonest about the way the Government handles the sugar problem. The Planning Commission goes on shouting that they wish to maintain the price level. Members of Parliament would not let their voters, the cane-growers, suffer by reducing the price of sugar-cane, and Ministers dare not oppose the powerful sugar mill-owners' lobby which insists that sugar prices must be maintained or *increased*, if the industry is to keep its head above water.

Now there is no doubt that everyone cannot be satisfied. If it is desirable to bring down the prices, at least in the case of sugar, it should not be difficult. Last year, production was 3 million tons and there was a carry over stock of 400,000 tons from the previous year, out of which consumption and exports were approximately 2.2 million tons, leaving a carry over of about 1.2 million tons. This season, production is expected to be around 2.7 million tons, consumption around 2.4 million tons and exports around 300,000 tons, still leaving a carry over of 1.2 million tons. If these large stocks are released, sugar prices would undoubtedly come down.

There is also no doubt that such a move would hurt the U P and Bihar group of sugar mills. They cannot sustain a fall in price as they are already working pretty close to the margin. Besides, they are far too powerful a group to be jockeyed out of their position by the Planning Commission. They suggest a reduction in the price of sugar-cane to bring down the cost of production and thereby enable the prices of sugar to come down. That remedy, however, immediately raises cries in Parliament where discussions of the Sugar Cane Control Act clearly showed how powerful the sugar lobby was. Incidentally, this Act is interesting to the extent that it was an attempt at introducing some form of profit-sharing scheme between the growers and mills. The growers were induced to accept *reasonable* prices for their sugar-cane and, subject to profits being made, they were to be paid more in the form of bonus.

There is, however, perhaps an alternative solution to the sugar problem. The actual production of sugar (including gur and khandsari) is approximately 10 million tons per year. Now, although gur may be considered a valuable cottage industry, it is, in fact, a waste of sugarcane because the recovery in the manufacture of gur from sugar-cane is only 6 per cent, while the recovery in the manufacture of sugar is about 9½ to 10 per cent. There is no reason why, therefore, this wasteful method of production should continue to be encouraged. Therefore, one way of lowering the price of sugar would be to encourage sugarcane-growers (who also normally are gur-manufacturers) to start co-operative factories with help from the Government and enable them eventually to convert their profits from gur into profits from sugar. In fact, the most advanced State in sugar production, Maharashtra, has already licensed many co-operative sugar factories which are running extremely successfully to the benefit of the growers. The result has been a rapid decline in the production of gur in this area and a healthy diversion of cane to the production of sugar. The change-over from the production of gur or khandsari to that of sugar could be speeded up by combining the encouragement of the sugarcane-growers to take to co-operative crushing with some disincentive for gur and khandsari production in the form of a small duty on these products.

The trouble is that the Government tends to be bogged down in its own fads. It has for so long been convinced that nothing should be done which may be detrimental to the farmer even temporarily that it prefers no change rather than experiment with some boldness and endeavour to modernise an ancient industry in the country.

That, however, is perhaps a long-term solution. The sugar mills (Bihar and U P excepted) have never had it so good. Meanwhile, the poor sugar-consumer will have to go on paying a high price, while Morarji & Company continue to preach that there is no reason why people should eat so much sugar.

Letter to the Editor

The Case for Devaluation
A Comment

DEVALUATION is identical in its impact on foreign trade to the imposition of a general and *uniform* subsidy on exports and tax on imports. The advantage of an export subsidy-cum-import tariff system lies, however, in the fact that it can be operated to produce an overall (i e average) impact equivalent to a desired degree of devaluation while at the same time differentiating the impact on specific items of exports and imports in tune with the individual price elasticities and other relevant considerations. The choice between a straight devaluation and such a policy of selective tariffs-cum-subsidies is equivalent to the choice between a single and a multiple exchange rate system. I feel that by concentrating on the inflationary aspect of devaluation, Bhagwati (*Economic Weekly*, August 4, 1962) has bypassed this more important aspect of the question.

The selective measures of export subsidy which are now being operated by the Government do not, as argued by Bhagwati, in themselves constitute a sufficient proof of the price elasticity of our exports *as a whole*. A case for devaluation has yet to be established through an explicit proof that (i) the major portion of our exports are price sensitive, and (ii) that the price elasticities are more or less uniform over a large area of exports. Again, on the import front, it is not sufficient to argue that the domestic price impact of devaluation is similar to that of import tariffs since this argument implicitly assumes that the tariff rates are *uniform*. The present system, however, enables differentiation in respect of the tariff burden depending upon the nature of the imported good and its importance to the economy.

A second distinction between devaluation and a tariff-cum-subsidy scheme is that, while the former affects *all* foreign payments and receipts, the latter affects only the goods (and services) side of the transactions and does not affect the value of profit remittances of foreign investors or the capital value of their investments in the country. This is an important consideration since the loss of capital values and profits by foreign direct investors following devaluation could seriously affect the future rate of inflow of private foreign capital, especially, if an initial devaluation creates apprehensions of further devaluation in the future.

Thirdly, it may be pointed out that subsidy-cum-tariff scheme has the advantage of greater flexibility in the sense that the rates of export subsidies and import duties can be frequently adjusted to meet the needs of changing situations while devaluation has to be a fairly long-term move. In this sense the former is more akin to a *flexible* exchange rate system without, however, introducing the uncertainties which such a system will impose on foreign investors.

I submit that until these various issues are analysed and discussed, the case for devaluation can not be considered as established.

RAJIV

Studies in Voting Behaviour

"Extent and Limits of Community Voting : The Case of Baroda East" by Rajni Kothari and Tarun Sheth, the eighth article in the series "Studies in Voting Behaviour" will appear next week.

— Ed.

Our Calcutta Letter

Coal Looks Up

IT was a major tactical victory for Shri K D Malaviya when the Joint Working Committee of the four coal producers' associations disowned FICCI as its spokesman, and stoutly maintained that no one other than the JWC was entitled to speak on behalf of coal producers. This caused quite a flutter in FICCI dovecotes. Attempts were made to have the statement rescinded by bringing pressure to bear on at least two of the associations represented on the JWC which are affiliated to FICCI. This move did not succeed because the two associations felt they could not act separately from the rest of the JWC. Meetings were, therefore, held in Calcutta and New Delhi to bring the whole JWC round but again without success. Quite obviously, Shri Malaviya has outwitted and out-manoeuvred FICCI in this round.

The skirmishes will, no doubt, continue. Later this month, FICCI will return to the attack at the conference on power fuel and transport to be held in New Delhi, and demand that the fulfilment of the coal target of 97 m tons calls for less restraints upon the private sector producers. This is not a new demand but FICCI's spokesmen have yet to specify what exactly they want done for the private sector which is not already being done. Licenses to work new areas, contiguous or otherwise, have been assured in deserving cases, the only stipulations being that the applicant should have the technical and financial resources to develop a new property adequately. Far too many lessees are sitting upon valuable reserves without making any effort at all to develop production to a rate commensurate with the wealth of deposits. Some of them derive quite comfortable incomes and there is no compulsion, therefore, to bestir themselves. The Ministry has made it a rule that applicants for new leases must satisfy it that existing property owned by the applicants is being worked fully and adequately, and has less than 10 years' reserves. Both these safeguards are clearly in the national interest if total output is to be rapidly expanded, not merely to 97 m tons by the end of the Third Plan but to double that figure by 1970.

Another private sector grievance relates to the level at which prices are controlled. The increases granted two months ago failed to satisfy the producers who had asked over Rs 5 per ton against the maximum of Rs 1.50 that Government found it possible to concede. In fixing coal prices the final decision must strike a balance between the need for an incentive and the Government's anxiety to hold the general price line, since an increase in coal prices inevitably tends to push up costs in most industries and services. FICCI itself would not welcome a steep rise of the order that JWC suggested. It is possible that the recent price rise does not fully compensate all the cost increases the coal producers have had to bear since the last revision in 1959. But since production is on the rise, the economies of scale should reduce costs. This is a factor for which due allowances do not seem to have been made in the calculations of JWC, and which undoubtedly weakened its case.

World Bank Loan Likely to be Fully Used

While he could not accede to the producers' demands in the matter of a straight price rise, Malaviyaji has offered compensation in other directions such as increased rates of subsidy for sand stowing or working difficult mines. The revised rates for the former were announced last month at the end of the New Delhi conference. These new rates are expressly designed to encourage more stowing and take into consideration the wide differences in costs that obtain from unit to unit, depending upon the distance from which sand is brought and the mode of transport used. Knowledgeable people in the industry concede that the new rates will persuade many collieries to take to stowing for the first time, although the benefit to those who have made long-term investments in ropeways will not be striking. Since there are several hundred million tons of coal standing in the form of pillars, extension of stowing should make possible a quick spurt in production.

While the other subsidy for working deep and difficult mines is still being negotiated, Malaviyaji has already made known that he will be willing to consider the extension of the benefits to Grade II or Grade III producers in outlying fields. This will, if finally agreed to, constitute an important concession, and will be an earnest of the Ministry's anxiety to accelerate output from the fields in Madhya Pradesh and Maharashtra to meet the needs of West and South India.

Until a few weeks ago, some misguided champions of the private sector went round complaining that the World Bank line of credit (covering the foreign exchange required by the private sector of the coal industry) of 35 million dollars might remain substantially unutilised because Government's unhelpful policies were discouraging expansion. In fact, judging by applications for import licenses, the loan is likely to be almost fully utilised. Up to the end of last month, only $4 million remained to be applied for, with some applications still coming in. There is undoubtedly a need to help collieries to mobilise rupee finance because the weaker among them do not have either internal resources or sufficient standing to attract outside investment. The coal producers have claimed that special loans will be needed to the extent of Rs 30 crores, or 50 per cent of the total investment envisaged in the Third Plan. This appears to be an exaggerated figure, put forward more for bargaining than for serious discussion. Even in this matter, the Ministry has shown itself to be accommodating. A circular has just been issued by the Joint Working Committee at the instance of the Ministry to ascertain the real requirements. This is the first step towards provision through institutional channels of the finance really needed to fulfil the promise made to the industry by Shri Malaviya.

The assistance that has already been given to private sector producers in all these ways is not to be lightly dismissed. Among most sections of the industry, there is genuine appreciation of the purpose-

fulness and speed with which the Ministry has lately acted. Major issues like a rise in the basic price and increase in subsidies have been settled across the table without recourse to committees, the familiar camouflage for inaction. These improvements, already reflected in the industry's improved morale, are beginning to show themselves in production statistics.

The latest figures show that production in April-June of this year was 1.63 million tons higher than in the corresponding months of 1961 (See Table).

The sharpest rise has been in the case of NCDC which increased production by 37 per cent. That it may do even better in coming months is indicated by reports of the preparations being made for intensive work in Karanpura and other areas from October onwards. Transport availability, even if it is still short of the original phased targets for coal traffic during the Third Plan, shows substantial improvement. In some parts of the Bengal-Bihar field, there are already more wagons than the collieries can use. The big bottleneck now is power, but some relief is already in sight — the six 1.5 mW package units of West Bengal Government have arrived and are being installed, while arrangements for diversion of Rihand power are almost complete.

Coal Production

	Total Production	Private Sector	N C D C	Singareni
April–June 1962	14.95	12.45	1.78	0.72
April–June 1961	13.32	11.40	1.29	0.63

Judging from the rate of production established in the first quarter, it is realistic to expect that the 62 million ton target for 1962-63 announced by Shri Nanda recently to Parliament will be achieved, particularly as further improvements in power and transport may be confidently assumed as the year progresses. FICCI's dire prophecies about coal are already beginning to sound false and one can only hope that no unexpected setbacks will occur to reverse the very encouraging trend that has now been established in coal production.

Capital View

Markets and Marketeers

Romesh Thapar

BY the time these lines appear in print, Jawaharlal Nehru will have reached London for the annual Prime Ministers' Conference. There is speculation in the Capital whether this will be the last of the series held since the end of World War II; for if the United Kingdom joins the European Community, the Commonwealth will become a relic of the past and a special political forum for it will become an anachronism. However, judging from the off-guard reactions of the higher-ups here, there does not seem to be any attempt to assess the implications of these far-reaching economic-political developments for our future.

Yes, the ministries concerned with foreign trade and the balance of payments are obsessed by the idea that they have to mount sufficient pressure on the United Kingdom to safeguard Indian markets in Europe and to prevent the raising of insurmountable tariff barriers by E C M. Some success has already been registered. Eighty per cent of our present exports to the United Kingdom and Europe (and this includes commodities such as tea) will be assured. But the remaining twenty per cent, constituting the expanding element of manufactured commodities like textiles etc, is seriously threatened. And it is a lone fight, for other under-developed or developing members of the Commonwealth, like Ceylon, Ghana and Malaya, are not very much affected by the ramifications of Britain's entry into the Common Market.

Nonaligned but Multilateral

The Prime Minister is of the opinion that this is not the time to create new tensions over Commonwealth relationships. Information from our Missions abroad suggests that the possibility of the United Kingdom joining the Common Market is now fifty-fifty. Therefore, our effort at the London talks will be to stress the dangers to peace of polarising Europe, of raising tariff barriers which have the effect of restricting growth in developing countries, of creating neo-colonialist structures in those newly-freed territories of Africa which are being 'associated' with or 'attached' to the Common Market. Positively, our position will be to urge multilateral trading for the world; it is our belief that in this we will receive substantial support from the U S administration, sections of which are now perturbed over the political and economic repercussions of Britain joining the E C M. U S support, we have persuaded ourselves, will not be withheld because of our bilateral agreements with the Communist countries.

This summary of our position at the London talks indicates the general confusion which prevails on the subject. Both the U S A and the U S S R do not quite know what attitude to adopt to the growth of E C M. And the reasons for their ambivalence have a common source. A consolidated European Common Market embracing a population of some 300 millions will, it is true, heighten the cold war on the continent, but at the same time there is every possibility of a serious economic tussle between E C M and the U S A. Then again, the under-developed world, confronted by tariff barriers in Europe, is likely to increase trade with the Communist world. In other words, to put it crudely, anti-communist political and economic consolidation in Europe will release pro-communist trends in the developing, non-aligned world.

Moscow and Washington are compelled to choose their partners, however complicated the relationship, and the choice inevitably leads to a farther polarisation in world affairs. Is it possible, then, that in the interests of peace and disarmament, the enlightened in both countries will work to prevent such a choice being forced upon them? Prime Minister Nehru obviously believes that it is absolutely necessary for the non-aligned to help

make effective the voice of the enlightened in the opposed power blocs. Hence, the plea for multilateral trade.

Japan Studying the Map

Of course, it is possible that the situation is already out of hand. For example, Japan, which sends approximately thirty per cent of her exports to the American market, has come to the firm conclusion that whether ECM expands or not there is danger that the U S A will be forced to close her markets to Japanese goods when balance of payments are disturbed by Europe's refusal to buy American manufactures and when Africa also becomes reluctant. The situation is also developing when Japan will not be able to exploit US bases on her soil to bargain for the preservation of her markets across the Pacific; missile warfare does not need far-flung bases. Characteristically, Japanese industrialists are moving to adjust their markets in time.

High-powered Japanese delegations are roaming the world, conducting serious and down-to-earth talks on the potentialities of new markets. Reports reaching the Capital indicate that, contrary to public speculation, the Japanese are not over-anxious to sponsor an Asian Common Market for the moment. They are more interested in probing the scope for trade with the communist countries, particularly the USSR. They believe that such trade has immense advantages: the market is huge; raw materials are plentiful; the demand ranges from consumer goods to heavy industrial equipment; and negotiations are simpler and more straightforward than with unstable, developing economies in the non-aligned countries of South Asia.

It does not need emphasis that the realists who rule the Soviet Union will see the possibilities in such trade. They may well say: 'Let Japan's workshops feed us with equipment — and we'll feed the under-developed world.' Khrushchov spoke in such terms not so long ago.

Our worried experts are digesting all this information. They are aware that the negotiations being conducted by them with the United Kingdom and the European Common Market are in the nature of a 'rearguard action' intended to gain time for carrying out adjustments in our own economy to meet the new challenges which have been posed. Any sudden rupture of our present trade relations with the West would seriously dislocate our economy and perhaps destroy the little that we have so painfully achieved.

Time is the crux of the matter. Meanwhile, economists and policy-makers are at last stirring themselves to investigate the extent to which the under-developed and developing countries of Asia and Africa can develop mutually advantageous economic cooperation and trade. At the moment, it must be admitted, even the minimum data on production potential in the region is not available. But stray probes suggest that there is an immense field of fruitful cooperation and trade in the region, if the governments concerned are prepared to view problems regionwise rather than from a national standpoint.

Revive Bandung Spirit

Take one example. The United Arab Republic, using its superior long-staple cotton, has been able to break into the European Common Market with high quality textiles. Sales of these manufactures have shown a sharp increase over the past year. Is it not possible for the Indian textile industry to negotiate for the UAR's entire surplus long-staple cotton so that high quality textiles made here also find ready markets? In other words, the pledging of the finest raw materials to the developing industries of Asia, Arabia and Africa by the producers of these materials in the region would strengthen their capacity to surmount the tariff barriers raised against them. Naturally, in this particular case, we would have to provide the UAR with equipment which it would otherwise have been able to obtain from the more advanced industrial nations. This would mean re-thinking certain planning priorities in terms of the needs of the region. Probably, the wisdom of speeding heavy engineering projects in India would soon be seen.

As has already been stated, investigation into these possibilities is only just beginning because we have until now been only too anxious to follow the trodden path, avoiding the heavy responsibility of finding new and supplementary roads to development. But it is encouraging to know that at last the quest is on. It may well find powerful support in the projected second Afro-Asian Conference due to be held in Bandung towards the end of this year — that is, if the Indonesians show more good sense and maturity than they have done during the Asian Games!

Indeed, one of the most serious handicaps which Asia, Arabia and Africa suffer from is the quality of leadership. Apart from single individuals who have given direction and perspective to their peoples, by and large the leadership of Asia and Africa still rests in the hands of emotional mobsters and immature political opportunists. These elements are unable intellectually to view the common problems of their transitional societies. The most minor and irrelevant issues continue to ignite ferocious tensions in Asia, Arabia and Africa, tensions which harm the common cause of our peoples. For this reason, serious observers of the scene have been urging frequent contacts between political philosophers and policy makers in the non-aligned, developing world. The business of getting to know each other's problems has too often been drowned in the noise of high-sounding empty slogans. We had better put a more serious content into our relations before it is too late.

In an age of competing markets and cold war tensions, only a serious minded, realistic, rational and disciplined leadership can survive. Somehow, soon, a way must be found to neutralise or isolate the hysterical fringe which subsists at the peripheries of power in Asia, Arabia and Africa. This can only be done by building bold, clearly-demarcated perspectives for our peoples. Perhaps, even as we despair of tariff barriers, restrictive trade practices and the ramifications of politically orientated 'aid', we are on the edge of new and dramatic developments which will dissolve the crises which threaten to engulf us.

From the London End

Aircraft Industry Boom Over

THIS year's Farnborough Air Show is of particular interest, coming at a time when redundancy, labour lay-offs and plant closures on an unprecedented scale have hit the aircraft industry. This year's Show will be held against the background of the decision not to hold the Show in 1963. Thus, for the first time since 1948, the unbroken sequence of annual Shows will be broken. This in itself is an acknowledgment that the great days of the British aircraft industry are over.

The British aircraft industry has exported, since the war, more than £ 1,300 million worth of aircraft, aero-engines and equipment, which is approximately 10 per cent of total exports of the British engineering industry. The decline of Britain's aircraft industry is reflected in the export figures. Over the last three years, the industry's exports have been high — £ 154.1 million in 1958, a peak of £ 156 million in 1959, £ 142.3 million in 1960 and £ 154 million in 1961. But during the first five months of this year exports are running at the substantially lower annual rate of £ 128 million and there is little likelihood of an improvement until the next generation of airliners reaches the delivery stage.

Aero-Engines Export Leaders

Aero-engines are providing an increasingly important part of total aero exports. During the late 1950's, for the first time, Britain was asked to provide engines for large American-built transport aircraft — Boeing 707 and Douglas DC-8. All of Britain's new series of rear-engined airliners, BAC One Eleven, de Havilland Trident and FV-10, have Rolls-Royce engines. Large numbers of British engines have been exported in British combat aircraft and have been manufactured in quantity abroad, under licence. The Bristol Siddeley Orpheus turbojet engines are manufactured under licence in India, Germany and Italy. Total exports of aero-engines rose from £ 20 million in 1955 to £ 233.7 million in 1961.

Aero-engine manufacturers have been looking for business during the past few years increasingly to the export market in civil aviation. In 1955, 67 per cent of aero-engine sales by Rolls-Royce went to the British Government and only 33 per cent to commercial customers. In 1961 the position was almost exactly reversed. This is in sharp contrast to what is happening in U S. In 1961, 77 per cent of the sales of America's United Aircraft Corporation, of which Pratt and Whitney is the major division, went to the U S Government.

Critical Period

There is no doubt at all that the British aircraft industry is going through a very critical period indeed. In the past, military requirements had encouraged research in the aircraft industry, but of late Britain has been withdrawing more and more from the role she had taken up in the immediate post-war period. The British aircraft industry concentrated on military development in the Second World War, while the Americans developed civil transport. After the War, the Brabazon Committee's civil projects were intended to make up lost ground in airliners, while military developments also went steadily ahead. It was in 1957 when the Defence White Paper was published that it was decided that no further research was to be carried out on supersonic bombers and no new fighters were to be designed. Research work would, however, continue on civil aircraft.

The reduced emphasis on military aircraft and missiles has been reflected in plant rundowns and shutdowns and labour lay-offs as orders placed some years ago have been executed and few new orders have replaced them. This position looks like continuing for some time to come.

The development of rocket engines has made military and civil aviation increasingly separate activities. Whereas military needs once paved the way for development of new civil airliners, the services are now content to pick their aircraft from among those designed for civil uses; military planners are now primarily interested in what might be called "black box" technology. Their requirements in power plants, metallurgy and instrumentation have increasingly less relevance for the modern commercial airliner.

Consolidation of Aircraft Industry

In these circumstances, drastic reorganisation of the large number of independent U K aircraft companies became essential, and a large number of mergers took place, both among aircraft and aero-engine manufacturing companies. There are now two large groups — the British Aircraft Corporation, which includes Bristol, English Electric, Hunting and Vickers Armstrong, and the Hawker Siddeley group which includes Avro, Blackburn, de Havilland, Folland, Hawker and Whitworth Gloster. This leaves only two companies outside the main groups — Handley Page whose prospects are uncertain and Short Bros of Belfast who are currently in great difficulty.

In the last fifteen months there has been a further re-grouping within the British aero-engine industry. Rolls-Royce entered into an association with English Electric to form Napier Aero-engines and take over Napier's aero-engine activities. Bristol Siddeley have recently acquired de Havilland and Blackburn companies.

With the cancellation of Blue Streak and Blue Water, the British industry has now withdrawn from the field of military rockets. With the establishment of the European Launching Development Organisation, it has also withdrawn from advanced space rocketry. There is yet no sign of an independent British space programme. As far as military development is concerned, Britain's main role lies in developing vertical take-off and landing aircraft — a field in which she has been particularly successful.

The Hawker P 1154 supersonic vertical take-off fighter is not only short-listed in the NATO list, but has been selected by the RAF and

the Royal Navy. U K power-plants (of the Bristol Siddeley Vectored thrust principle or the Rolls-Royce jet lift principle) have been selected for virtually all the V/STOL fighters and transport aircraft in NATO. The Hawker Group is also one of the pioneers of project-sharing in Europe and India. Many Hawker Hunters were constructed on the Continent, and the the AVRO 748 and the Folland Gnat are being produced under licence in India.

The civil aircraft market is going through a bad period coinciding with the petering out of demand for the Viscount and the heavy investment by airlines in the kind of long-range jet airliner that Britain has been unable to supply.

It is against this rather depressing background that British manufacturers are putting on a brave show at Farnborough. Indeed, this year a record number of new British aircraft are to be on view, and these models, both in the air and on the ground, represent the biggest challenge ever made by the industry for a larger share of world markets.

The plane on which most of Britain's hopes rest is the BAC One Eleven which is already well over a year ahead of any possible competitor and might well become a major success, perhaps matching the Viscount in this respect. This plane is particularly suitable for shorter distances and the short-distance market is a particularly big one. The company is congratulating itself on the fact that two U S airlines have already ordered the plane and another order has been received from an undisclosed foreign buyer. All these orders have been placed before the aircraft has flown.

Another plane with prospects in the world market is the de Havilland Trident — the successor to the Comet. It is claimed to be the World's fastest short-haul jet. This plane faces competition from a small jet that Boeing have produced from a scaled down version of their large 707. Two of the Trident planes have been ordered by Kuwait Airways. Certain developments which are under way, including wing modifications and high lift devices, will improve the Trident's take-off and landing performance and improve its range and payload capacities and help it to satisfy the needs of a number of overseas airlines.

Particular interest will also attach to the Anglo-French supersonic aeroplane which is to be produced by the British Aircraft Corpoation and Sud Aviation of France. The aim is to get the aircraft flying by 1967-68. This aircraft will be capable of cruising at Mach 2.2 (1,400 m p h) powered by four large turbo-jet engines. It is anticipated that the aircraft mile costs for such a plane could be lower than those for the best subsonic airliner because of its greater annual carrying capacity which will enable the operators to run a smaller fleet.

Business aircraft will be represented at Farnborough by the new baby jet DH-125 and the bigger Beagle aircraft. Business flying is on the up-grade. This field is dominated by the U S A. In the U S in 1961, business flying accounted for 16.7 million flying hours and 82 million passengers compared with 3.5 million flying hours and 62 million passengers by airlines. In the U K in July 1962, out of a total of 1,562 active civil aircraft registered, 491 were classed as business and private, and 407 as airline types.

Has the British industry been right to put so much effort into civil projects at a time when competition is intensifying and demand has declined as a result of the severe financial crisis afflicting the majority of the world's airlines?

In the 1950's, the average annual increase in civil aviation was about 14 per cent but now rates of growth are much slower. The International Civil Aviation Organisation estimates that in 1961 the world's airline industry had a record operating loss of $ 140 million (£ 50 million) against a profit of $ 70 million (£ 25 million) in 1960 — a fall in profits of £ 75 million over twelve months. At the same time, the industry's overall load factor fell by three points to 56 per cent — the lowest level since the War. With too many aeroplanes chasing too few passengers, civil airliners, have an excess of big jet airliners and have, therefore, been disinclined to buy more. At the same time, competition to the British aircraft industry has continued to intensify, especially from the U S and French suppliers.

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In and Around Lok Sabha

Bad Briefing

NOISE and confusion — angry waving of hands and loud shouting disturbed the usually tranquil and almost lethargic atmosphere of the Lok Sabha when Ram Sewak Yadav and Mani Ram Bagri (both Socialists — Lohia Group), aided and abetted by some members of the Opposition, created a pandemonium. The Prime Minister's mention of "decorum" in reference to Parliamentary behaviour only made matters worse and finally the Speaker had to suspend Ram Sewak Yadav from the Service of the House for a week. This sort of thing is depressing and makes one realise what a long way we have to go to attain a peaceful and orderly parliamentary form of Government.

It is a well-acknowledged fact that the standard of parliamentary debates has deteriorated in the last ten years. In the past, we had eminent Parliamentarians, such as Bhulabhai Desai or Syamaprasad Mukerjee and more recently, Acharya Kripalani, Ashok Mehta and S A Dange who made Parliament lively, interesting, forceful. It is a pity that today members of the Opposition have to rely on cheap exhibitionism to attract attention to themselves.

Parliament Prevails, But...

After the open disapproval voiced by members of both the Congress and the Opposition parties, S K Patil was compelled to make some concessions and modifications in his proposed amendments to the Land Acquisition Act of 1894. In his attempt to placate the M Ps without really curtailing the power of the Central Government and State Governments to acquire land, he has sacrificed the clarity of his original amendments. While it is encouraging to see that Parliament does control the Executive on occasions, it is just as well to remember that M Ps are liable to be carried away by the talk and gossip in the lobbies; that very few really take the trouble of reading up the background material, such as previous legislation and its effects; or to consult people of some experiences in the particular subjects; and that — this is most important of all — Ministers acquire reputations — they are leftists or rightists. Give a dog a bad name ... ... S K is a rightist and the Bill was doomed before it ever came to be considered in Parliament. And since S K was known to be rightist, his must be a bill to help rich industrialists! There was endless talk in the lobbies.

"The Congress Members do not really understand the implication of this bill."

"You see, how Patil favours the Birlas and the Tatas?

"How can we have a Socialist pattern of Society if the Government is allowed to pass such bills?"

One almost got the impression that had the Bill been moved by some other Minister who had a reputation for Socialism, as for example by the Prime Minister, the Congress Members would not have condemned it so vehemently. The Bill, said S K Patil, had given him several sleepless nights, and although the Law Ministery was responsible for drafting it, he had to move it, merely because it concerned agricultural land and as such, it came within the scope of the Food and Agriculture Ministry. After a long and tedious debate, the Bill was finally passed. But it now appears almost certain that the old 1894 Land Acquisition Act will have to be re-enacted. S K Patil made the announcement that "before long a comprehensive Bill would be brought forward to make further amendments in the Land Acquisition Act."

One cannot help feeling that the Congress party could have handled the Land Acquisition Bill much better had they taken the trouble to explain the implications of Patil's amendments to the members. As it happened, the members seemed to have had no briefing and the result has been the passage of a bill which will inevitably lead to harassing litigation. With the adoption of the new Bill, land can be acquired by the Government for an industry or work which is "for a public purpose" or for a public limited company or a Government company. It is not clear whether the Bill will have retrospective effect. In fact, the whole Bill is so full of ambiguity that company law experts will flourish and industrialists will share Patil's sleepless nights.

The original Bill, as presented by Patil, was fairly clear and well drafted. But misguided legislators are a dangerous force and have to be handled with care. The result is a piece of weak and confused legislation. However, there is always a way out of inconvenient legislation. State and Central Governments can acquire land and give it on long lease to industrialists. They can thus avoid coming within the purview of this amended Act altogether. In fact, this could have been done instead of enacting this Bill which, will only be a source of nuisance to all concerned.

Land Acquisition Essential

It is interesting to note that without the right of acquiring land, Governments can have no planning of industrial, housing or other such areas. In England, for example, the Distribution of Industry Acts, 1945 and 1950 and the Town and Country Planning Acts, 1947 control the location of industry throughout the country. The responsibility for controlling and locating industrial areas rests with Government authorities. It is their duty to see that industrial development fits properly into existing and expanding communities and that the best possible use of land is made to suit the changing social and economic conditions of any given area.

The Congress M Ps were certainly taken for a ride when they were told repeatedly that the Government had become "land agents". If legislators had any apprehension of the Government's misuse of its power to acquire land, they have in no way helped matters by passing this Bill, which does not prevent Government from acquiring land and leasing it to an individual or a company of their choice.

What legislators must remember is that their main function is to legislate and that it is the main function of the Government to govern.

BANKING ONLY ON SUNDAYS

A 'bank' operating on Sundays only was started in 1799 by the Rev. Joseph Smith of Wendover. The object was to help the poorer sections of his congregation who were often in distress during the winter. The Rev. Smith encouraged them to bring pennies to church on Sundays during the summer, on the understanding that they'd be returned at Christmas increased by one-third "to enable them to purchase a warm garment, half a load of wool or any other domestic comfort they may want at the most inclement season."

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Letter from South

The Meaning of Chittoor

THE swing of Chittoor to Swatantra may not have the impact that the victors would like. It could lead to the kind of Congress rethinking which all radical elements in the country have long wished for. It could give a push to the Congress to the left, a stiffening stand towards Swatantra blandishments and a certain revision of policies which led to the Chittoor landslide.

In the last General Elections, the Congress won the seat with 1,30,026 votes as against the Swatantra poll of 1,06,062 with an Independent candidate securing 51,126 votes. A better indication of the pattern of the electorate's choice was provided by the results of the seven Assembly seats within this Lok Sabha constituency. The Congress won Punganur and Palamaner; the Communists, Kuppam and Madanpalle; the Swatantra, Chittoor and Tavanampalle; an Independent, Vepenjeri. This time the Swatantra poll went up to 1,32,309 while the Congress secured 1,30,656. Assembly-wise the voting was a Swatantra victory in Chittoor, Tavanampalle (with a very slender margin in this Swatantra stronghold), Vepenjeri and Palamaner (with a 13,000 margin for the Swatantra in what was regarded as a Congress bastion). The Congress retained its position in Punganur, had a slight edge in Kuppam (where the polling was poor) and swept ahead in Madanpalle (a margin of 16,000).

Land Levy Boomerangs

Thus, it will be seen that the big Swatantra advance was registered in the Congress constituency of Palamaner; indeed, a retention of this constituency would have meant the rout of Ranga. Equally, the big Congress gain was in Madanpalle, which almost brought it to victory —and this is the home constituency of Ranga and a Communist safe seat. It is quite evident, if the Kuppam votes are also considered, that the Congress lost heavily to the Swatantra but were able to stage a photo-finish because of Communist support.

Everybody agrees that the main reason for the big shift away from the Congress was the direct consequence of the enhancement of land revenue — the first post-election gift of the Congress. Rajaji, Ranga and Tenneti Viswanadham made this almost the sole campaigning point. They argued that the Congress would treat a victory in Chittoor as a plebiscite in favour of the iniquitous revenue enhancement Bill. Another theme with considerable popular appeal was the need to strengthen the anti-Congress benches in the Lok Sabha, quite irrespective of the political affiliation of the candidate concerned — Ranga was presented more as an opposition man rather than as a Swatantra leader.

The Communist support of the Congress was the most effective antidote to this insidious propaganda. Campaigning independently of the Congress, the Communists (represented by their most powerful spokesmen like Sundarayya, Nagi Reddy, Basava Punniah, Rajsekhar Reddy) insisted that the Land Revenue Bill was not the issue before the electorate. They had been the foremost and most powerful opponents of the Bill, while the Swatantra had engaged mainly in theatrical walkouts. They were planning further steps to scotch the implementation of this Bill and to shape it nearer an agricultural income-tax, which would hit the Swatantra no less than the Congress. And, above all, the strengthening of the Swatantra opposition would only add more power to the elbow of those within the Congress who wanted the Government to engage in further sorties against the people.

It is one of the most significant aspects of the Chittoor contest that this Communist explanation did entice, did make sense to the people and did influence their voting behaviour. It is, perhaps, no exaggeration to say that such a campaign helped to raise the level of the conflict to that of a policy battle and to educate the electorate.

Expediency, Not Self-Sacrifice

It must also be added that this Communist tactic was no act of self-sacrifice. Either joining the Swatantra bandwagon or remaining neutral would have meant serious erosion of the Communist base itself. It was evident in the Third General Elections, and after, that the future progress of the Communists depends no less on its demarcation from the Right opposition than on its identification as the champion of the downtrodden against Congress misrule. With the Swatantra and the D M K's take off on to the electoral field, the bifurcation of the opposition to the Congress has become a determining factor in politics — of Andhra and Tamilnad, at any rate. Quite apart, therefore, from the wider national issues involved, the sheer need to survive and grow dictated the Communist policy.

The caste factor did play a certain role and it was certainly fully mobilised by both the Swatantra and the Congress. Ranga made no bones about the fact that he was an outstanding Khamma leader, while Viswanatha Reddy also made insistent calls upon his fraternity. But caste was not the predominant force, otherwise with the Reddys' preponderance among the landholders in the constituency Ranga would have gone down. Still, it is a fact that the bulk of the Khammas swung to Ranga, while it is likely that the majority of Reddys stood by the Congress.

It also appears that the Brahmins by and large were captured by Rajaji with his parable-persuasions from the Hindu scriptures. Here the previous Congress candidate (wearing the Ayyangar colours on his forehead) had stood as a symbol of vanished Brahmin glory but persisting aspirations. It is an exaggeration but not far from the truth to state that political compulsions — apart from other more unsavoury forms of pressure — exerted greater influence among the so-called Backward Castes, who naturally form the bulk of the agricultural labourers and the poorer peasants. Not directly involved in the Reddy-Khamma imbroglio, they could look upon this strife with a certain detachment and make a political choice. It is difficult to estimate but there are some grounds for holding the view that the bulk

of those who stood away from the polls (there was a 60 per cent turnout) came from this section, except in the areas where the Communists had influence.

D M K Repays Swatantra Debt

The small but significant Tamil population in the constituency was much wooed — Chittoor is only some fifty miles from the Madras border. The D M K arrived in strength. They took up their usual postures of Tamil chauvinism and made much of the fact that the Swatantra support had won them Tiruchengode and that debts had to be paid. They also ran a rather strong smear campaign that Sanjeeva Reddy was a great protagonist of Hindi and had, therefore, to be humbled.

Despite Munshi's protest and Rajaji's ingenuous disavowals, a D M K Swatantra alliance is consolidating and developing. It should be recalled that it was on the advice of Rajaji that Annadurai, about a decade ago, broke away from Naicker's D K and set up his party. It is strongly rumoured that he will use his very considerable prestige to persuade the D M K, at a later stage, to establish more formal organisational links with the Swatantra and even later to merge with it. Rajaji knows well enough — and Annadurai and his colleagues know that he knows — that the D M K uses the Dravidasthan slogan and its radical economic programme merely to ride the wave of Tamil chauvinism. He believes that given time and patience, the Ganatantra Parishad change of labels could also be used as a pointer to the future for the D M K.

The Congress also mobilised its Tamil stalwarts — Kamaraj, Bhaktavatsalam and T T K — who pleaded that the Congress alone could deliver the goods and that with Congress Ministries in both States, their grievances would find easier redressal if the Tamils stood by the Congress in a prestige contest. But the bulk of the Tamils seem to have voted for Ranga, despite the fact that the Congress appeal was reinforced by by some of the leading Communists from Madras campaigning in Chittoor.

A point in Ranga's favour was the fact that he and his wife spent some four months in the constituency and did their best to approach as many people as possible — at least all the opinion leaders — on a personal basis. In these more intimate gatherings he pointed to his Congress past and, of course, to Rajaji's record and made the point that they were the true heirs to all the truth there was in the Congress, before it was seized by the socialist aberrations.

Congress Propaganda Futile

The Congress threw in all its resources. Sanjeeva Reddy camped in Chittoor for as long as ten days. Various other Ministers came and went. But it was clearly on the defensive with regard to the Land Revenue Bill. It talked of development planning and the future that this promised, even if it meant burdens and hardship in the present. It tried to use Nehru's prestige and the need to rally behind him. It sharply assailed the Swatantra and its "rich man base" — but the affluence of its own candidate was an inhibition in this regard. Despite every effort and surprisingly little dissension, it was not even able to hold its own.

One point has to be said in favour of its main campaigners, particularly Sanjeeva Reddy. While never campaigning together with the Communists, they took care never to embarrass the latter. Actually, one or two Congress campaigners who tried to make out that they were as good anti-Communists as the Swatantra were tactfully removed from the scene.

The general Congress answer to the Swatantra sneer that the Congress acceptance of Communist support was unethical was the one given by T T K on the eve of polling : "the alternative to Congress leadership today, he said, could only be Communism or any movement which was leftist to the Congress and not to any movement that was rightist and that, too, to a party like the Swatantra Party, which joined hands with the Dravida Munnetra Kazhagam, which did not depend upon the apparatus of democracy to get into the saddle of power but which believed purely in the fascist methods". (**Hindu, August 24**).

A pointer. Not, of course, the only or even the most crucial pointer. But a bifurcated opposition is bound to have a polarising impact on a heterogenous ruling party. And that is the true meaning of Chittoor.

Book Review

Bertrand Russell Speaks His Mind

Parthasarathi Dasgupta

WHENEVER Bertrand Russell speaks his mind (which has been often over the past sixty five years) he creates a stir in the intellectual, and strangely enough, in the non-intellectual world as well. The present volume* will prove to be no exception, though perhaps all of what he says here has appeared in one form or the other in his past writings. The book consists of the thirteen dialogues between Mr Woodrow Wyatt and Mr Russell that were filmed for television in 1959. The dialogues are in the form of questions and answers and the subjects range from philosophy, religion, war and pacifism and power, to happiness, the role of the individual, the H-Bomb, and the possible future of mankind.

The range is considerable, and Mr Russell, whose joy in uninhibited discussion is well-known warms up right from the beginning, and he replies to the questions in his inimitable way with quips and jokes even in the most austere moments. The questions that Mr Wyatt puts forward are varied in their nature. Some are commonplace and yet many have a deceptive appearance in them. For example, he begins these dialogues by plumping the uncomfortable question 'What is philosophy' and asks it as blandly as he would if he were asking for the plane time, or the fare from London to New York. Mr Russell is not to be put off, as he says, ".. philosophy consists of speculations about matters where exact knowledge is not yet possible," and on the difference between science and philosophy he says, ".. you'd say science is what we know and philosophy is what we don't know. For that reason questions are perpetually passing over from philosophy into science as knowledge advances." There are of course difficulties in such an answer. One wonders where he would place Ethics which deals with the question of values. Science won't tell you what is good and what is bad. How can ethical questions then ever become a field for scientific inquiry?

* *Bertrand Russell Speaks His Mind* Arthur Barker Ltd, London, 1960

Perverted Nationalism

It is stated by way of preface that there was no prepared script and so the dialogues are quite spontaneous. There seems to be no order and plan other than that each dialogue runs for some ten pages. Each answer generates its own questions and all this makes the reading lively. There is so much of wisdom in every page that it is perhaps not possible to single out any dialogue as definitely more outstanding than the others. However, the one which is perhaps the most interesting is that on nationalism. Mr Russell distinguishes between the two aspects of nationalism, the cultural and the political. While he advocates the former he considers the other as unmitigated evil. To him the State is primarily an organization for killing foreigners. The state has also the power of propaganda, there is propaganda control over education with an idea to make people think what the State thinks and that primarily consists in loving one's own nation and thinking ill of other nations, in inculcating the view that one's own country is always right in everything whereas other countries are always wrong. Russell even recalls a verse that he was made to learn as a child — "Confound their knavish tricks, frustrate their politics and make them fall," and emphasises how a person is taught from his very childhood what a grand thing it is to kill foreigners.

We, coming from a nation which is not much integrated emotionally or otherwise, find this rather strange. Goaded by the many disruptive forces operating in our country and burdened with the problem of general poverty our government have possibly forgotten to instruct our schools to teach us to hate foreigners. The kind of nationalism that we have is possibly exemplified by Mr Podsnap, who in Dickens says, "Foreign nations, I am sorry to say, do as they do," — all of which indicates that may be too much of national integration is not good, as we shall then be all too ready to cut our neighbours' throats. However, one wonders if at the moment nationalism poses a very great problem.

While nations have drawn apart on account of ideological differences, they have also come together by virtue of ideological commonness, so much so that possibly today an average American hates a leftist countryman more than he hates a fellow Canadian, whom in fact he does not hate at all. The countries which are intensely nationalistic, like those in the Middle East or the newly born nations in Africa are so puny that when disturbances arise in them, what finally emerges is the struggle between the two great blocks. Mr Russell admits that it is the tension between the Communist and the non-communist nations that is the greatest threat to world peace and it is to these considerations that he turns in the fourth dialogues 'Communism and Capitalism', 'The H-Bomb' and 'The possible future of mankind'. That one side thinks ill of the other does not cause much concern. What does is the fact that each has the capacity to kill off the other, and with all the military build up, the chances of a war, and with it those of total annihilation, go on increasing.

The Solution : World Government

What then is the solution? How are we to make sure that the human race survives? Russell does not suggest that we take recourse to religion and start looking for the 'higher things' in life. To him, the only way to ensure man's survival is to establish a world government with a monopoly of all the important weapons of war, a world government whose business it should be to take account of all conflicts between different states.

With the possible exception of the first dialogue on philosophy, the topics chosen for discussion were those that interest not only Russell but also the public. There is no dialogue, for example, on the nature of mathematics, a subject on which Russell spent the greater part of the first twenty years of his intellectual life. May be Russell is somewhat inhibited because his audience is the general public, but from the passion in his views and the note of urgency in his remarks one cannot help feeling that he has undergone a complete change, a change which has been gradual. Writing as far back as 1910 in his "Philosophical Essays", Russell had said, "In a world so full of evil and suffering, retirement into the cloister of contemplation, to the enjoyment of delights, which, however noble, must always be for the few only, cannot but appear as a somewhat selfish refusal to share the burden imposed upon others by accidents in which justice plays no part. Have any of us the right, we ask, to withdraw from present evils, to leave our fellowmen unaided, while we live a life which, though arduous and austere, is yet plainly good in its own nature?"

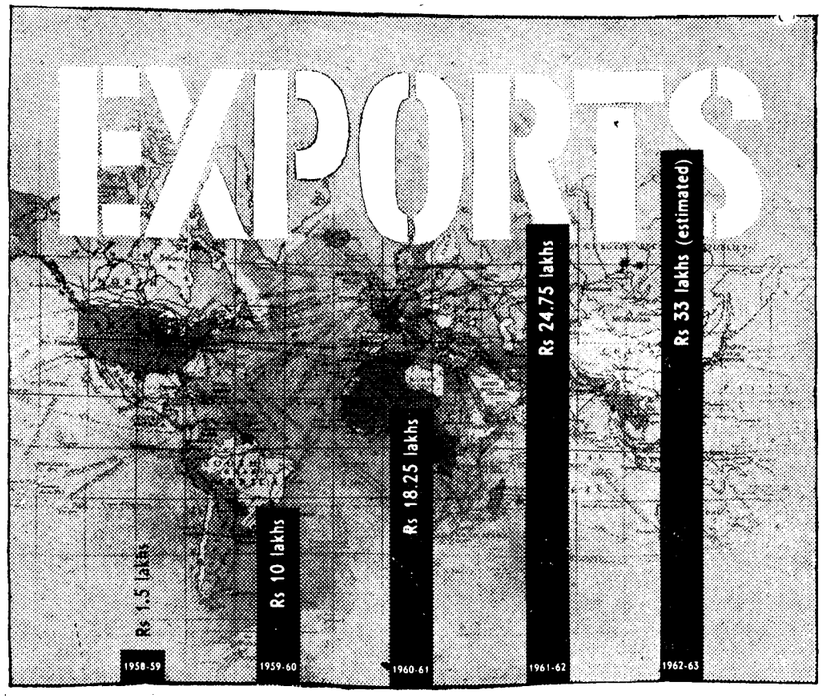
What in 1910 was perhaps a doubt appears now to be a certainty, and at 87 (at the time of the interview), he seems somehow to shy away from discussions on abstractions. At any rate, the occasion presents a wonderful opportunity, and he lashes out at his television viewers about their parochialism, prejudices, fanaticisms, and taboo-moralities, conventions against which he has been battling for some forty years now. He is often pungent; ".. only about one per cent of my writings are concerned with sex, but the conventional public is so obsessed with sex that it hasn't noticed the other ninetynine per cent of my writings." Often he appears to be cynical: "The human race has survived owing to inefficiency, but inefficiency is now diminishing, and therefore the human race is threatened with extinction." And as always, he is liberal in the best English tradition: "The East-West tension which is threatening us all in the most terrible fashion is mainly due to the fanatical belief in communism and anti-communism."

Enlightening Realisation

Throughout these dialogues one can discern a note of angry futility in Russell's tone as he moves from subject to subject and brings out the many many defects that are in us and in the systems that we have created, defects which he feels can easily be removed by a little bit of reason, which somehow seems to elude us. And as we read through every dialogue and come to the very end we are struck by a sudden realization which, though commonplace, seems now to be very rich and very

rare. The world, we realise, is indeed yet very imperfect.

As I have said in the beginning, by way of content there is nothing new in this book. All the questions are old; and the answers that Russell gives are very old too. He has said them many times elsewhere. But what is novel about this little volume is its form, the form of questions and answers. It is not like the common exposition in which the author makes a number of propositions and tries to illustrate and substantiate them with examples of his own. In such expositions the general reader has nearly always a large number of questions which the author does not anticipate. Wyatt is one of us, and as Russell goes on expressing his views, Wyatt puts forth questions and counterquestions which would have occured to most of us. It is perhaps in this sense that the book is valuable. And when one adds to this that the original television viewers could observe Russell as the dialogues were under way, one hopes that may be now, the public will have a true image of the last of the rationalists, the image of a brave old man, who has loved the world not only well but wisely too.



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"Excessive Competition" in a Japanese Context

M Bronfenbenner

Simultaneously with Leftist concern over "monopoly capitalism" and its consequences, the economist finds in Japan today concurrent concern over kato-kyoso *or "excessive competition" in Japan's export and import-competing industries.*

To one brought up, like this writer, in Marshallian tradition, the immediate reaction is "Impossible!"

But before condemning the whole discussion as rationalization for monopoly or cartelization, let us disentangle the various things that various Japanese do in fact mean by this catch-all term, and consider the validity of the orthodox rebuttals.

THERE are, of course, in Japanese business circles like any others, "free enterprisers" aplenty who view **any** competition (for themselves or their firms) as "excessive", particularly when **price** competition is involved. But in fairness to the "excessive competition" arguments as arguments, let us grant — realistically, in the writer's present opinion —the relative unimportance of such extreme interpretations.

It will also clear the air to exclude from "excessive competition" two other forms often included within its scope by Japanese (and other) commentators. The first of these is "unfair competition", which includes a broad range of misbranding and adulteration along with such obvious devices as false advertising, libel, espionage, sabotage, intimidation, etc. The second excluded form is "cut-throat competition", as practiced by relatively small numbers of concerns aiming directly at monopoly by a single survivor, or at market-sharing by a plurality of survivors.

I

Decreasing-Cost Industries

Perhaps the most frequent use of "excessive competition" relates to decreasing-cost industries with important internal economies of scale. The Japanese automobile industry is a common example. Were there only one Japanese firm, it is argued, it could produce **OQ** units per period (Figure 1) at a long-run average cost of **OP**. At **OP**, the argument continues, the Japanese product could compete with foreign imports without protection, or at worst with a slight degree of protection. In some circumstances, the Japanese product might become exportable to neighbouring Asian countries at this level of cost. With several producers each using separate plants however, the representative Japanese firm is restrained by lack of domestic demand from producing more than OQ′ at an average cost of no less than OP′. At this level it is protected on the Japanese market by a network of tariffs and quotas; but except when dumped abroad, the Japanese product is excluded effectively from the world market.

If there were less competition among Japanese firms, the Japanese consumer could receive from international competition the benefits he now receives from domestic competition, but at a lower product price. At the same time, the volume of world trade might increase, and the Japanese trade balance might improve.

This argument seems valid as far as it goes. (We need not accept the occasional corollary, that anti-monopoly legislation was imposed on Japan by the American Occupation with deliberate intent to reduce Japan's international competitive power.) The argument, however, includes an implied promise to balance reduced competition among Japanese firms by increased competition at an international level. It is not the amount of competition so much as its nature which is to be changed. Use of the term "excessive competition" for the original situation is to some extent a misnomer — unless, of course, the trade-liberalization part of the "package" is a mirage.

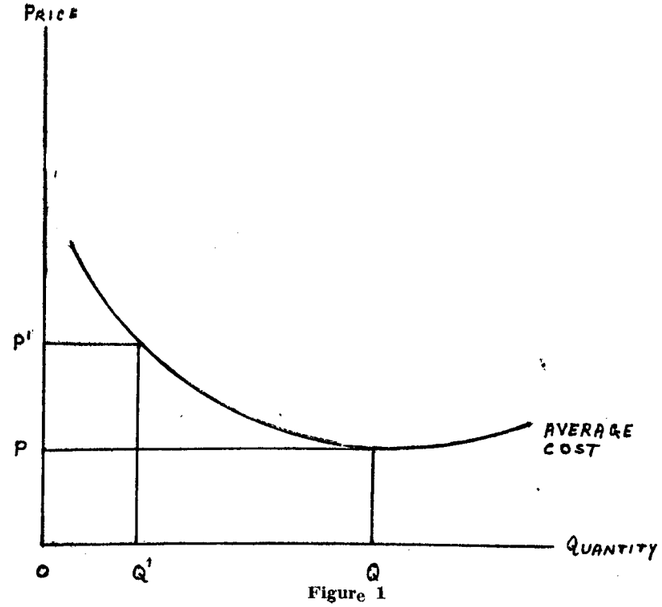

Figure 1

II

Sick Industry

A second sense of "excessive competition" fits with approximately equal ease into the standard framework of competitive price theory, under the heading of the "sick industry".

Let the reader recall from his dusty college textbook that short-run competitive price, under equilibrium conditions, tends to equal the marginal or incremental cost of all producers, but that it may be less than the average cost of any or all of them. Provided only that price exceeds average variable cost (essentially, raw materials plus direct labour) each competitive firm loses less by producing up to the point of approximate equality between marginal cost and price than by withdrawing from business altogether. Only in the long run, where the number of firms and the scale of each firm's plant are variable (and where, in fact, no costs are fixed) does competitive price cover average as well as marginal cost. (The two are equal, as it happens, when average cost is at its minimum.)

The key issue here, often pointed out by bright undergraduates, is: "How long is the long run?" Lord Keynes' answer, "In the long run we are all dead", was not intended to be helpful. The fact is that, in industries with heavy investments of fixed capital, "the long run" may be very long indeed, longer than most firms can afford to wait. In a sick industry, many or most firms are running losses. Many of the exceptions have purchased their assets at a discount below their depreciated cost of production; the profitability of these exceptional firms is built on the capital losses of their predecessors.

In a capital-poor country like Japan (or India), "destruction" of capital, as by downward recapitalization, seems very like sacrilege. (In Japan, it seemed even more so, before the rapid growth of the 1950's.) The temptation to avoid capital losses when firms fail or sell out is accordingly a strong one. Why not avoid competitive adjustment by raising the price (in Figure 2) from OP″ to say, OP′ where most firms can operate profitably? At the same time, output for our representative firm can be cut from OQ″ to OQ′ per period, OQ′ being the quantity which some authority estimates our firm can sell at that profitable price. On the Japanese scene, it is common to refer to a sick industry as suffering from "excessive competition". The process of price-raising and output-cutting is ordinarily done by a trade association under the supervision of a group of bureaucrats, often connected with the Ministry of International Trade and Industry (M I T I), and the process itself is one aspect of what is called the "guided economy" (**yudo-keizai**) of **Japan.**

In the terms of economic theory, this solution is called a "misallocation of resources". Too much capital, labour, and managerial ability are frozen into "sick industries", and too little left for the rest of the economy. Price exceeds marginal cost for the representative firm in those industries; the economy would be better off with fewer firms in the industry, with each firm producing a larger output. On the other hand, the "guided" adjustment is usually faster than the automatic competitive one, and is less traumatic to particular firms who might otherwise go bankrupt, not to mention their employees who might otherwise face unemployment or wage reductions.

III

Too Little Competition

In considerable contrast to the cases just considered, which do in fact imply some degree of temporary or permanent "excessive competition" in a context of rational competitive economic behaviour, are the two other cases we shall consider now. These, at least in my view, imply too **little** competition (on one side of the market) rather than too **much** (on the other), or too **much** planning and control (albeit of a blundering variety) than too **little.**

To the Japanese exporter, there is no devil like the buyer, who may be either a private individual or a public purchasing agency, who operates on an "all-or-none" basis. For example, if we may refer once again to Figure 2, such a buyer not only forces the helpless Japanese business man into a price below his average cost, but also forces him into producing a quantity more than is justified by the marginal cost considerations of this diagram. The Japanese supplier in what the Japanese call this **shukketsu-yushutsu** ("export of blood") situation must not only accept an unprofitable price like P″ in the diagram, but must produce, as a condition of getting or keeping his contract, an amount substantially in excess of Q″ per period. The foreign buyer characteristically gets him into this position by visiting Japanese exporters one at a time and inducing each in turn to undercut the last offer he (the buyer) has received.

But, the astute reader may inquire, what about competition between the foreign buyers? This is precisely our point: there is none, or very little. This, rather than the alleged "excessive competition" among the Japanese suppliers, is the real key to the **shukketsu-yushutsu** situation.

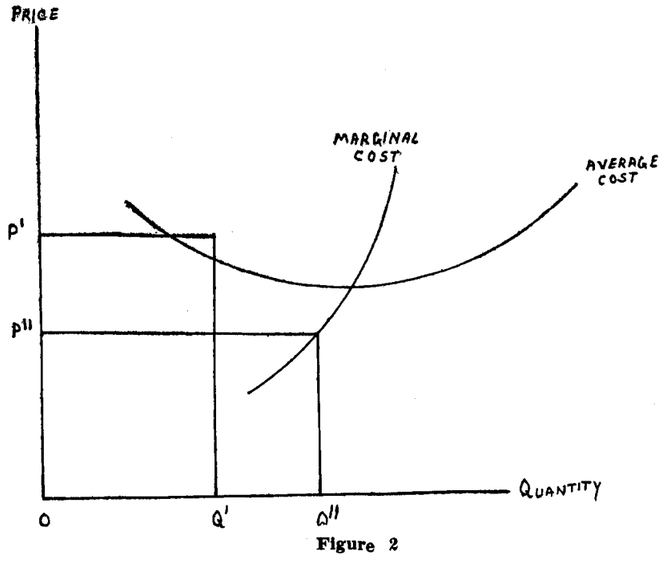

Figure 2

This case, incidentally, is of particular interest in India, since the transgressors allegedly include a more than proportionate number of Indians, some operating on their own account, some for private Indian companies, but most of them agents of one or another branch of the Indian Government or of an Indian public corporation.

In my view, the remedy for all-or-none purchasing does not lie in the "organization" of the Japanese exporters, or in "disciplinary" reduction of competition between them, although this is the typical approach of M I T I. It lies rather in prosecution under Japanese anti-trust legislation, or alternatively in expulsion from Japan, of the particular purchasers who engage in all-or-none buying tactics.

But surely, the astute reader will again insist, there can be no profit to Japan in breaking off relations with the Indian Government, or in expelling any particular Indian purchasing commission from the country, because of the offenses of some few Indian representatives. This is of course correct. The remedy, in the case of a public or semi-public agency, is not to stir up an international incident, but simply to declare particular individuals **personae non gratae** (as is done with diplomats who abuse their privileges). A few such expulsions, either permanently or for a term of years, should suffice in bringing the Indian cases under control, since the individual Indian usually lives on so much higher a standard in Japan, as in most other foreign countries, than at home in India, that expulsion is a severe penalty to face.

IV

Excessive Expansion

Convenient though it be to blame the foreigner, at least one major aspect of Japanese "excessive competition" may be laid at the door of present and prospective controls by Japanese Government agencies themselves, with M I T I, as usual, the chief villain. This aspect of "excessive competition" is the propensity of Japanese firms to extend (unsold) output and (excess) capacity far beyond the limits of present and near-future demand at reasonably profitable prices, even allowing for the high Japanese growth rate, and once again without reference to marginal cost considerations.

While this unsalable output and unusable capacity exaggerate Japan's apparent growth rate, the calculations of the individual companies responsible are not dominated by considerations of patriotism or international prestige. The argument, rather, can be paraphrased and simplified somewhat as follows: "Of course there is too much output and capacity in this industry, and that is why we call it excessively competitive. So why do we increase our own output and capacity? Because we expect the Government to do something about the situation before many of us go bankrupt. M I T I, or somebody, will step in, set minimum prices, allocate output, distribute imported raw materials or foreign exchange, in such a way that everything becomes profitable again for all of us. In such a control scheme, the larger our share of the industry's capacity or output, the better off we are likely to be, and this is why it is good business to expand the way we do."

This is not the place to moralize a la Schumpter on "capitalism in the oxygen tent", or to raise embarrassing questions about the excuse for profits in a regime where salaried bureaucrats make most of the decisions that guarantee such profits, or to inquire whether such a system as we have described should be called "mixed economy", "controlled economy", "guided economy', "State capitalism," or "conspiracy against the public". Our limited point here is only to show that "excessive competition" is in these cases not the consequence of the working of the competitive market mechanism, but rather of its opposite, the working and expected working of the public control mechanism. Rather than excessive competition, there is too little, and rather than insufficient public control, there is too much "planning" of one of the numerous wrong kinds.

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Export Promotion Through Devaluation

A K Das Gupta

Jagdish Bhagawati has tried to make out a case for devaluation of the rupee (The Economic Weekly, *August* 4, 1962).

It is the purpose of this note to see how reasonable the arguments are on which this case is based.

THE Government of India, Bhagwati argues, has accepted the principle of giving subsidy to non-traditional exports as a means of export promotion. It is an admission that elasticities of foreign demand for these exports are sufficiently large. Therefore — so runs the argument — a case can be made out for devaluation as a substitute for export duty.

Now the approach, to begin with, is unsound methodologically. Whether the elasticity of a group of exports is high or low is a fact which has to be empirically tested. One must not depend in a matter like this on an inference from a certain behaviour of the Government. If the Government is "foolish" in not making an easy gain through devaluation, as Bhagwati argues elsewhere, it could also be foolish in not having investigated the measure of elasticity before resorting to the "export subsidies programme".

But what if the elasticity of the non-traditional exports is found to be high, as presumably it will be? If the finding justifies export subsidy, does it also justify devaluation? Export subsidy, let us remember, is on specific commodities which you can pick and choose, having regard to their possibilities of expansion, whereas devaluation is a general measure which affects equally the traditional items and — what is no less significant — imports, too, some of which surely enter into the production of our export goods.

After all the so-called non-traditional items form a small proportion of the total exports of the country. Following the division shown by Monmohan Singh (**The Economic Weekly**, Special Number, 1962, p 1220), one would find that they are just about 25-30 per cent of our total exports. Now, since the exports of most of our traditional items have low price elasticity, devaluation may well result in a deterioration in the receipts from these exports, and even a small deterioration here may more than offset the gain that non-traditional items might yield.

Why This Devious Course?

Bhagwati is not unaware of this eventuality. Thus he prescribes a matching export duty on traditional items. "I would recommend, in view of the fact of short-run inelasticity of supply, that the entire devaluation be neutralised by export taxes and that the export taxes be removed on the non-traditional items." (**op cit**, p 1266)

Why then have devaluation at all? Why this complicated procedure of inviting a monster and then using weapons to kill it? Why not accept the simple and straightforward device of export subsidy to 'infants' such as the Government is supposed to be pursuing? Because, — so Bhagwati argues — export subsidy does, while devaluation does not, involve inflation. As he puts it "assuming that trade is balanced, under a devaluation the extra money paid to the exporters because of the devaluation would be picked up (by the Reserve Bank) from the importers", whereas "under the current system, the Government pays out money to the exporters by way of effective subsidies but does not pick up an equal amount from the importers." (**op cit**, p 1266) This, one almost suspects, is wilful sophistry. Where, one may surely ask, is the export subsidy assumed to come from. If indeed the indirect subsidy that devaluation provides to exporters is picked up from the importers, may not direct export subsidies be picked up from tax payers in general? What is there inherent in export subsidy that makes for inflation?

The fact is that export subsidy, as it is practised here, is itself of an indirect sort. Supply of power and transport and sales of raw materials at concessional rates, rebates of excise duties, refund of import duties on components, retention quotas etc — these are the various forms in which the exporters receive subsidy from the Government. They mean to the Government not so much an increase of expenditure as a loss of income. Whether such losses (a part of which is perhaps not identifiable) involve inflation or not is a question that is related to the overall position of the budget and can hardly be seen in contrast with the impact of devaluation.

Devaluation Is Inflationary

On the other hand, it is possible to turn Bhagwati's arguments against his own contention, namely that devaluation only transfers money from the importers to the exporters and does not lead to inflation. The purpose of devaluation is surely not to shift the external balance from one equilibrium to another; it is rather to shift it from a disequilibrium to equilibrium, — at any rate to reduce the extent of balance of payments deficit. And in this context Bhagwati's own line of analysis would show up devaluation as an expansionary force. In so far as devaluation reduces the balance of payments deficit, the increment in importers' outgoings surely is more than offset by the increment in exporters' receipts. This is not to argue against a reduction in balance of payments deficit — that would be absurd. This is just to show the logical error in the hypothesis of balanced trade in the context of devaluation which Bhagwati allows himself to indulge in.

Putting the matter in a different way, devaluation could be shown to be inflationary exactly in the same sense in which export subsidy is supposed to be. Devaluation will raise the price of imported goods, and in so far as such goods enter into investment in the public sector, the domestic cost of investment will rise. Unless, therefore, more financial resources are mobilised in the public sector than is contemplated in the Plan, there will be more of deficit-financing and hence inflation.

But, of course, even here Bhagwati will find a built-in countervailing operation; if costs rise, prices of products can be raised also!

Why Raise Costs to Charge Higher Prices?

And this is precisely how Mr Bhagwati argues elsewhere. He argues that where, as in the present Indian case, imports are considerably in excess of exports in view of foreign aid, and where the foreign aid is used substantially by the public sector, devaluation would operate as an indirect tax, offering an opportunity to the Government to charge higher prices for its imports and thus to "syphon off purchasing power" from the private sector. "Thus", so runs the argument, "if the Government enterprises work on a cost-plus basis, a devaluation will give rise to a substantial indirect tax and abstraction of purchasing power from the private sector". This opportunity of collecting purchasing power from the private sector through devaluation and using it for investment purposes is found to be so attractive that it is contended that "it would be foolish to lose such an opportunity". (**op cit** p 1266)

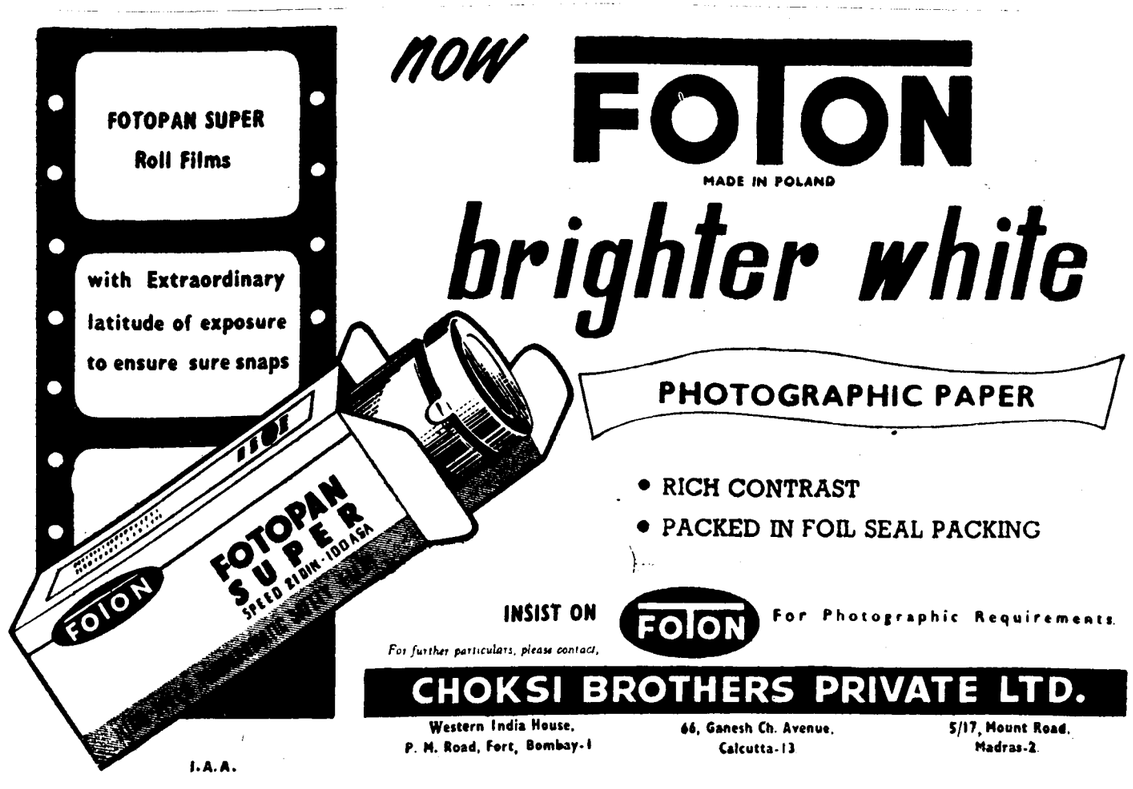
Now, despite the confidence with which it is stated, the proposition is difficult to swallow. Why should the Government have to raise costs in order to be able to charge higher prices for its sales? In the circumstances envisaged, the Government operates as a kind of monopolist and its products are in short supply. Nothing should prevent the Government, in these circumstances, from charging for such products as much as the market would bear—devaluation or no devaluation. If, on the other hand, Bhagwati had any grivance against the pricing policy of public enterprises, as he might well have he should have turned straight to that, instead of asking the Government to take a devious route and forcibly raise the cost of investment.

In dealing with a matter so delicate as devaluation, one would expect an economist of Bhagwati's standing to have shown a greater sense of proportion.

Exports of Bauxite and Manganese

THE Regional Mineral Advisory Council (Western Region), which held its fourth meeting in Bombay on August 20, emphasised the need for conserving bauxite in view of the large expansions expected in the aluminium industry in the near future. The Council also discussed the question of putting a ceiling on the export of bauxite from Saurashtra ports. In this connection, it was stated that two aluminium plants in the private sector are coming up in the near future — one in Chiplun and the other in Karwar.

The working of the manganese mines at Shivrajpur, which is more or less completely closed, also came up for discussion. A joint venture similar to Manganese Ore (India) Ltd as formed recently by the Government with the former CPMO Company, Nagpur, was suggested to work the manganese mines in Shivrajpur.



The Case Against Devaluation

Pranab Kumar Bardhan

Even granting that the demand for our non-traditional exports is price-elastic, the values of price-elasticities will vary a great deal and, accordingly, different rates of subsidy will be called for. Devaluation, being essentially a blanket measure, cannot take care of this.

True, fixing the appropriate rate of subsidy for each commodity is a difficult task. But then, deciding upon the necessary extent of devaluation would be more difficult still. There is besides the problem that bringing the domestic price-structure in line with the international price-structure through exchange rate depreciation may leave the adjustment short of what is required for some commodities and carry it too far for others.

WHEN at the beginning of the Second Plan we found ourselves in the midst of a serious foreign exchange crisis, some people cried themselves hoarse for devaluation arguing naively that the rupee was overvalued. Now once again when our chronic payments difficulties have assumed threatening proportions, we hear the familiar cry for devaluation, albeit in a more sophisticated form.

Jagdish Bhagwati (*The Economic Weekly*, August 4, 1962) argues that the Government's present policy of (indirectly) subsidising exports is cumbersome and at times self-defeating, that the Government's implicit admission of the price-elasticity of foreign demand for our non-traditional exports removes one of the traditional arguments against devaluation and that the inflationary dangers of a devaluation are, under the existing circumstances, entirely illusory.

It is difficult to understand, however, how devaluation can secure anything that cannot be ensured by a system of selective taxes and subsidies. As I have argued elsewhere (*The Economic Weekly*, Special Number, July 1962), in view of the installed capacity in many engineering, chemical and other industries lying underutilised for shortage of imported materials and equipments and in view of the availability of structurally unemployed domestic labour at a very low social opportunity cost, each additional unit of foreign exchange earned and spent on maintenance imports may increase domestic production several times its value (one can easily work out some sort of a 'multiplier' here, but one feels a bit hesitant in multiplying the 'multipliers' in economic literature); and in this context, the case for export subsidies and for taxes on imported equipments etc are rather strong (even apart from infant-industry or external-economies arguments). One might say that the same argument may hold good for devaluation too. But the difference is that while taxes and subsidies can be discriminatory both in coverage and rates, devaluation will be unnecessarily pervasive.

Even if one grants that the demand for our non-traditional exports is price-elastic, the relevant values of price-elasticities (however measured) will conceivably vary from a little above 1 (neglecting signs) to far above it, and accordingly different rates of subsidy may be called for. Devaluation, being essentially a blanket measure, can hardly take care of this. True, fixing the appropriate rate of subsidy for a commodity is a tough job. But then, deciding about the proper extent of devaluation is tougher still, and added to that remains the problem that bringing the domestic price-structure in line with the international price-structure through exchange rate depreciation may carry the adjustment too little for some commodities and too much for others.[1]

Then again, while devaluation will attract widespread notice in the international money market, possibly shaking the already dwindling confidence in the Indian rupee, discriminatory taxes and subsidies can easily wear thin disguises without inviting much international retaliation or GATT disapproval[2]. That the existing subsidy measures are 'cumbersome', nobody will dispute. But that is no reason why one should not try to make them more efficient. Similarly, if "under the current system, the Government pays out money to the exporters by way of effective subsidies but does not pick up an equal amount from the importers", the next step is certainly not to argue for outright devaluation but to tighten our tariff system.

Jagdish Bhagwati has certainly a point when he demolishes the contention that a devaluation would be inflationary,[3] but inflation is *not* "the only argument which can possibly be cited against a devaluation" (even if one admits that the foreign demand for our non-traditional exports is price-elastic). As a matter of fact, at the present moment "the central obstacle to a devaluation" is not that it might cause inflation but that it is unnecessary. The onus of proving that devaluation would be better than a system of selective taxes and subsidies is still on Jagdish Bhagwati.

1 Jagdish Bhagwati recommends a devaluation that would be offset by export taxes on some of our (price-inelastic) traditional exports. But one wonders if our traditional exports are price-inelastic even for price rises, although they may plausibly be so for price falls. One may conceive of a Sweezy-type 'kink' in our export demand functions. In that case, export taxes may adversely affect foreign exchange earnings.

2 Any devaluation will also be in the nature of a once-for-all change for quite some time, but taxes and subsidies can be more flexible in response to changing requirements.

3 In case of imported essential consumer goods directly entering the cost of living index, the effect of a higher rupee cost will be tantamount to that of an indirect tax on consumers, mainly of the poor and lower middle classes. Although such indirect taxes do not generate inflationary pressures in the 'Keynesian' sense (assuming, with Jagdish Bhagwati, that trade unions are ineffective in securing a wage-push), it is not clear why further indirect taxation on the poorer classes has to be imposed (without ensuring that the other classes are paying their dues according to their ability)', or why the rates of such indirect taxes have to be uniform for all types of imports (as would automatically be the case after devaluation, if nothing else is done about it). If one wants indirect taxation to impinge on purchasing power, a tariff system with suitable rates and exemptions would be more efficient.

From the Chair

The South Madras Electric Supply Corporation Ltd. Tiruchirapalli

Speech of the Chairman, Shri K A P Visvanatham

THE following is the text of the Speech delivered by Sri K A P Visvanatham, Chairman, The South Madras Electric Supply Corporation Ltd, Tiruchirapalli, at the 22nd Annual General Meeting of the Company held on August 30, 1962:

It is my privilege to once again preside over and welcome you to an annual general meeting being the Twentysecond meeting.

Since we met last year about this time, I am glad to say that we have generally done well as would have been revealed to you by the Directors' Report, the Auditors' Report on the accounts, the Balance Sheet and the other statements which have been in your hands for sometime now and which I have no doubt have had your careful scrutiny and attention. I therefore will take these documents as read and will invite your comments on them after the close of this address.

Capital Extension

As has been mentioned in the Directors' Report, we executed capital extensions to the value of nearly Rs 20 lakhs, which I consider a fair and satisfactory achievement. At the same time, I hasten to add that the demand for electric power is so great that there is yet a large measure of dissatisfaction from the unsatisfied applicants for agricultural and other categories of power, a state of affairs which, while causing us a lot of mental exercise, is from the national point of view a healthy sign being an index of the rate of growth of our prosperity.

The Government of Madras were pleased to give us loans to the extent of Rs 15,24,634 for executing rural schemes in the year under review. We propose to execute all these schemes in the current year besides urban extensions and system improvements to the extent of Rs 10 lakhs from our internal finances.

It is the declared policy of the Madras Government to electrify all the villages in the State in this plan period and we have agreed to wholeheartedly participate in this venture, by accelerating and executing construction programmes on the one hand and also by handing over to the State Electricity Board such parts of the area which are more contiguous to their expansion plans. We have also submitted to the Government of Madras that the loan assistance should be substantially increased to meet the demands of such an enlarged programme of work and we expect that this request will receive the Government's sympathetic consideration.

Position as regards construction materials like poles, conductors and cement has not been too good and these contributed in some measure to delays in construction. But our Managing Agents & Chief Engineers have been alert and have risen to the occasion by scouting round and securing substitute materials wherever possible. I have every confidence that with their ingenuity and enthusiasm our Engineers can fulfil any reasonable programmes we place before them.

Power Shortage

We had a short spell of grave power shortage towards the end of June, 1962. This was on account of the delayed onset of the monsoon. Fortunately the crisis was over in a few days, thanks to rains. It is a matter for gratification that one 50 MW set of the Neyveli Lignite Corporation has been put into commission recently. We are informed that the storage position in most of the hydro-electric reservoirs is satisfactory and with the expected commissioning of further power plant at Neyveli in the course of this year, we may not be put to any inconvenience this year. It is however pertinent to point out that the demand for power far exceeds the pace of development throughout the country and this critical race between demand and supply is bound to be there, in spite of the vast and ambitious power development programmes envisaged in the Plan. You would have read in the papers of power shortages in Delhi, Bombay as well as Calcutta areas. I think we got out of the trouble much earlier than the others.

In this context, I would like to pay a special tribute to Sri V P Appadurai, who has been the architect of the Madras State Electricity development over the last decade and has been a worthy successor to such stalwarts as Sri Henry Howard and Sri G Sundaram. He is doing a wonderful piece of work and has successfully placed the Madras State in the forefront of all the Indian States (why all the Asian countries!) in rural electrification and in the planned development of the State's power resources. He has been recently elevated to the position of the Chairman of the Madras State Electricity Board and I would like to tender to him on your behalf and mine our sincerest good wishes and many years of association with the Madras State Electricity Board as its chief administrator.

Electricity Rates

Besides leading in rural electrification, this State had also the reputation of having had the lowest tariffs in the Republic for electricity supply to industries in particular and comparably advantageous tariffs for agricultural and domestic lighting. This position is likely to suffer a setback now — I mean the enviable status as a producer and seller of cheap power — in view of the costlier thermal power that has to be injected into the power system from Neyveli, Madras and Madurai thermal stations. We should be prepared to accept soon, increases in all tariffs and I may say that this is inevitable, if we take into account the enormous increase in cost of construction and management.

The Government have also decided to levy a graded tax on the electricity supplies made to different

classes of consumers, to augment the resources of the State mainly to meet the capital requirements in the plan period. This proposed levy has been received by the consumer-public with mixed feelings — the industrial consumers feeling particularly apprehensive, as even with cheap power they have been at a disadvantage when compared to manufacturers of the Bengal area. I sincerely hope the Government will take cognisance of these indications and afford whatever relief is possible in the interests of industrial growth.

The long standing disputes with the Income-tax authority, which related mainly to rates of depreciation on fixed assets were settled in our favour by the Income-tax Appellate Tribunal; but the Income-tax authorities have appealed against these decisions to the High Court. I should imagine that this will take some further considerable time for a decision to be reached.

Consumer Service

Relationship with consumers and power supply applicants has been satisfactory in spite of the inevitable delays in extending supplies to villages. The Directors and the executive of the Company have been constantly exercising their minds as to how best to improve consumer services and accelerate supplies. (If in spite of their efforts there are delays, I appeal to the consumers for patience with the assurance that every effort will be made by us to serve them better and these delays are mainly because of the enormous demand which necessarily involves a planned execution of schemes).

The Company has made a special appropriation of Rs. 1,21,600/- this year also (making up the total of such appropriation to Rs 2,47,600/-) for augmenting the Company's capital resources. The appropriation is with reference to the suggestion given by the Federation of Electricity Undertakings of India as a result of their talks with the Government of India and is subject to approval by the Madras Government.

Electricity Supply Act

The Federation of Electricity Undertakings has also been ceaselessly working to get some of the stringent provisions of the Electricity Supply Act relaxed or modified so that profitability in Electricity investments is made more attractive to enable private capital to flow in, in a larger measure. I hope this effort will succeed. The indications are, the Government of India are sympathetic and are appreciative of the need of some such measure if capital is to be attracted to the supply industry.

At the level of the Government of Madras, the fact that Sri R Venkataraman has been assigned charge of Electricity besides industry augurs well for both. He has been an outstanding success as Minister of Industries in placing Madras truly on the industrial field. He is fully aware and conscious of the role played by electricity as a tool to industry and I have no doubt that as Electricity Minister he will bring to bear his unbounded enthusiasm to increase our power resources and power distribution and have always a soft corner "for the private sector" which promises to implement his programmes.

Dividend

Your Directors have recommended to you for consideration a slight increase in dividend making up 10% for this year as against 9% in the previous years. This has been possible due to slightly increased earnings and I hope we will be able to keep this up in future years.

The Company's staff have been as usual hardworking and devoted to their duties and relations with the Workers' Union have been cordial. I take this opportunity to thank all ranks of staff for their rewarding work.

I would also like to record my sincere thanks to the Managing Agents for their continued and efficient services and take this opportunity to congratulate Mr H K Ramaswami, the Director of the Managing Agents in charge of the South Madras Electric Supply Corporation Ltd., on his nomination by the Government to the Electricity Board's Consultative Council, to represent electricity supply undertakings. I also thank the Government for having selected the right person for the post.

I now move that the Directors' Report, the Auditors' Report and the Balance Sheet as on 31-3-1962 and the Profit and Loss Account for the year ended 31-3-1962 be approved and adopted.

Note : This does not purport to be a record of the proceedings of the Annual General Meeting.

World's Population Grows at 1.8 per cent Yearly

BY mid-1961 the world's population had passed the three billion mark, representing an increase of almost one-half billion since 1950, according to a United Nations study. An average rate of population growth of 1.8 per cent a year, greater than in any earlier 10-year period, has been shown in the results of population censuses taken during 1960 and 1961 in many countries. There are now 22 persons for each square kilometer of land, compared with 18 only 10 years ago.

One of the facts which recent census results have revealed is that among 15 countries of Asia the total population is approximately 35 million persons greater than had been anticipated. The fastest growing region of the world is Central America, where the average annual rate of growth is 2.7 per cent, but the countries of Southwest Asia have grown almost as rapidly, with an average annual increase of 2.6 per cent. The slowest growth is found among the countries of Northern and Western Europe, in which the population increased by an average of only 0.7 per cent a year.

The increase in the total population of the world has been accompanied by an increase in the density of the population, U N studies show. The greatest absolute increase has taken place in South Central Asia, where there are now 109 persons for each square kilometer of land. Although this region as a whole is still not as crowded as is Central Europe, the most densely populated region of the world with 137 persons per square kilometer, South Central Asia had added 12 persons for each square kilometer since 1955, while Central Europe has added only five.

Around Bombay Markets

Cotton Calendar Needs Revision

Thursday Morning

SEPTEMBER marks the beginning of a new cotton season, but this is a month too soon because, excepting Bengal Deshi and a few thousand bales of cotton from certain irrigated areas, the new crop does not reach the market until about the beginning of October. In fact, September and early October is about the most critical period for cotton. In the past, crop estimates are known to have been upset generally due to unseasonal rains during this period. And this is also the time of the year when stocks are usually at their lowest. A change in the cotton calendar could help the authorities in evolving a more rational policy for the marketing of the new crop as it would be based on a more reliable assessment of the supply position. Certainly no one can say with confidence today what the new crop will be like because it all depends on the unpredictable weather in coming weeks.

1961-62 Season

But since the 1961-62 season has ended with August it would perhaps be unceremonious not to make a brief mention about it here. Despite a fairly satisfactory carryover of about 22 lakh bales and import allocation of 9.03 lakh bales, cotton prices shot through the statutory ceilings very early in the season because the indigenous crop turned out to be around 46|47 lakh bales —a miserable performance for the first year of the third Plan which has set the target for cotton at 70 lakh bales. The crop failed because of the bad weather. But if the crop is to be dependent almost entirely on the weather there is not much sense in fixing production targets.

With prices piercing the ceilings, distribution control and compulsory survey were enforced quite early in the season. These only made honest business impossible. Price control was reduced to a farce. Futures trading during the season was confined to March delivery only. Starting at Rs 604.25 on 13th July 1961, the March contract (Moglai fine 25|32") recorded a low of Rs 588.50 on 8th August whereafter it kept moving up and up until it went off the Board at the ceiling rate of 693 per 3 quintals without attracting any tenders. While the overall supply position was very difficult, the record crop of Bengal Deshi around 5.65 lakh bales enabled the country to export 2.76 lakh bales of this variety fetching nearly Rs 11 crores of valuable foreign exchange. The export performance could have been a little better if the authorities had accepted the trade's plea for a further export quota of Deshi cotton which seemed amply justified by its supply and limited internal consumption.

The Outlook

The 1961-62 cotton crop had at one stage been talked down to around 43 lakh bales but the latest trade estimates place the crop around 46.50 lakh bales. Total internal consumption of Indian as well as foreign cotton is estimated around 57 lakh bales and the 1962-63 season is likely to start with a carryover of a little over 17.50 lakh bales, of which indigenous cotton will be around 14.50 lakh bales. The outlook for the new season depends on the size of the new crop and the quantum of imports. Few expect the crop to exceed 51|52 lakh bales and that too provided weather continues to be obliging during September and October.

This means that the new season will continue to be a difficult one unless the Government is able to arrange large imports but the outlook in regard to imports is far from very promising. In view of the rising trend in internal consumption, cotton prices are not likely to keep much below the ceiling which has been raised by Rs 105 per 3 quintals for the basic variety. The price differentials for other varieties have still to be announced. Prices might pierce even the revised ceilings if the imports are restricted for one reason or the other. Cotton futures continue to display remarkable strength, with the March contract improving from Rs 743 to Rs 747.75 last week. Turnover, however, continues to be restricted due to lack of public interest.

Deshi Export Quota

The Government has released for export two lakh bales of Bengal Deshi cotton. Of this 10,000 bales have been earmarked, as usual, for distribution among cooperative societies in areas growing such cotton. Export will be licensed on a first-come-first-served basis as before. The period of shipment will be from 11th September to 31st August 1963. No quantity of this quota is allowed to be exported under the rupee-payment arrangement. Exports can be made from the old as well as new crops. The export trade has every reason to feel happy over the export quota announcement because the quantity is largest ever announced in one instalment and the shipment period is very long. There is sufficient scope for the trade to show its skill in disposing of this large quantity on the most favourable terms. And if the new crop turns out to be as good as in the previous season, which is considered very likely, the trade can confidently expect a further quota once it has disposed of the present two lakh bales. Along with the announcement of the export quota, New Delhi has also released 55,000 bales of cotton stapling 1-1|16" and above but below 1-3|16" for import from the U S in pursuance of the Agricultural Trade Agreement between the two Governments. This quantity will be allocated to mills on the basis of their consumption of cotton of similar staple length during the calendar year 1960.

Oilseeds

Groundnut Firm

THE oilseeds market made a mixed showing last week. While groundnut continued to display a firm tendency, castor futures were distinctly subdued, particularly the maturing contract. Linseed managed to record a modest gain over the

week but cottonseed maintained a quietly steady tone with nominal turnover. After a small early profit-taking setback groundnut futures firmed up on short covering and renewed bull support, with the September contract rising from Rs 246.50 to Rs 250 — a new high for the season — and the January contract from Rs 230.25 to Rs 233.87. Tuesday's closing prices, however, were slightly lower due to corrective profit-realising. Apart from the sustained export demand for extractions, sentiment in groundnut last week was greatly helped by disquieting weather reports from some of the important producing areas. The prolonged dry spell in most parts of Saurashtra and insufficient rains in certain parts of Gujarat have caused considerable anxiety about the outlook for the new groundnut crop. The crop in Saurashtra is said to have already been affected by inadequate rains and the damage could be serious if the dry spell were to persist for another week or so.

The prospect of a smaller groundnut crop is disturbing because of its adverse repercussions on the general structure of oilseeds prices. If the Government is at all interested in keeping edible oil prices under check, the least it can do is to ban the export of groundnut oil. It should not be difficult to make good the loss of foreign exchange resulting from a ban on export of groundnut oil by a more imaginative export policy for other oils, particularly castor oil. Though fresh export business in groundnut extractions put through last week was not large, exporters continue to take an optimistic view of the export prospects atleast for the near future, presumably because of the marked strength in soya meal prices. The U K quotation for August-September-October shipment was mentioned around £. 36-5, about 7½ shillings per ton higher than at the previous week-end.

Castorseed Subdued

WHILE linseed followed the trend in groundnut and developed a firm tendency near the week-end with the September contract recovering from Rs 39.81 to Rs 40.31 and March contract from Rs 39.87 to Rs 40.50, castor futures showed pronounced weakness because of the continued lack of any important export business in castor oil. Though the current domestic prices are around the prevailing U K quotations for castor oil, export houses report virtual absence of overseas inquiries. The September contract was marked down from Rs 165.75 to Rs 161.25 on anxious bull liquidation induced mainly by fear of large tenders. Actual tenders issued against the September contract in castor at 250 metric tons are, however, much less than those in groundnut September which add up to 600 tonnes. The figure for linseed is 150 tonnes. The premium on castor March 1963 contract increased further from Rs 3 to Rs 4.75 per 250 kilograms because of the relatively smaller setback in the distant contract from Rs 168.75 to Rs 166.75.

Following are the figures (in metric tons) of shipments of oilseeds, oils and oilcakes from Bombay between 1st January and 24th August: groundnut 8,028, sesame seed 68, nigerseed 15, kardiseed 117, groundnut oil 10,418, linseed oil 451, castor oil 17,626, rapeseed oil 10, groundnut expellers 8,998, groundnut extractions 1,23,404, linseed cake 15,749, cottonseed cake 17,082 and mowra cake 376.

Stock Exchange

Equities Recede

HOLIDAYS restricted trading on the stock exchange last week to barely two sessions but Dalal Street was in no holiday mood. On the contrary, a feeling of despondency pervaded the market and equities which had been moving up and down indecisively for many days took a downward plunge, with several counters slipping back to the lowest levels for some weeks. Vyapar's equity share index which had touched a high of 141.59 on 25th August and had receded to 140.05 by Wednesday of the previous week declined to 138.42 on 1st September — the lowest point since 30th July. The index recovered to 139.79 on the 4th but the closing was lower around 139.27.

The sudden deterioration in the trading sentiment was due mainly to reports from New Delhi suggesting that the Government might fix steel retention prices lower than what had been recommended by the Tariff Commission—Rs 550-per ton for common categories against the prevailing rate of Rs 512. While the Government is still to take a decision on retention prices, stock exchange operators were in no mood to wait for the Government's final verdict. Steel shares came under considerable pressure, with Indian Iron down from Rs 27.50 to 26.45 and Tata Steel from Rs 149.75 to Rs 145.75. The pronounced weakness in Steels had an unsettling effect on the general trading sentiment but the volume of business continued to be restricted and interest remained selective. All eyes are now on Government's decision on steel retention prices which might be announced any day. The market will find it difficult to push its way up if the increase in retention prices does not come up to its expectations though prospects of any serious break in equity prices are generally discounted.

Forward Trading in Groundnut Oilcake

THE Ministry of Commerce and Industry, Government of India, have accepted the recommendations of the Forward Markets Commission made in its Report on the recognition of the associations for forward trading in groundnut oilcake. Regulated forward markets would be established at Bombay, Saurashtra (five rings), Adoni, Hyderabad and Madras. With a view to implementing these proposals and to bring forward trading in groundnut oilcake, which is at present free, under regulation under the Forward Contracts (Regulation) Act, 1952, as early as possible the Forward Markets Commission recently held discussions with the representatives of the associations to be recognized for the purpose and the concerned trade interests.

The consensus of opinion at the meeting was in favour of having only an expeller cake hedge contract to begin with, the basis of the contracts as 52% O and A subject to appropriate discounts for tender of goods below 52% O and A upto a minimum tenderable O and A of 47%, and premia for goods upto 54% O and A. It was also agreed that the months of delivery would be January, April, July and September at both Bombay and Saurashtra.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Aug 31	Aug 24	Aug 3	Sep 1 '61
1 Note circulation	2011.38	2029.06	2045.20	1872.62
2 Rupee coin	124.43	122.81	119.83	126.25
3 Deposits				
(a) Central Govt	92.12	59.07	49.08	52.51
(b) Other Govts	34.85	11.92	36.07	19.83
(c) Banks	81.13	108.23	94.88	101.25
(d) Others	164.19	173.84	203.80	158.66
4 Foreign securities	88.34	88.84	92.84	116.86
5 Balance abroad	5.75	5.06	6.22	19.59
6 Rupee securities	1722.99	1722.50	1733.49	1553.56
7 Investments	236.32	256.97	305.37	275.43
8 Loans and advances to Govts	26.27	34.91	27.77	53.32
9 Other loans and advances	146.07	122.93	131.33	116.78
Scheduled Banks	**Aug 24**	**Aug 17**	**July 27**	**Aug 25 '61**
1 Aggregate deposits (net)	2054.15	2049.33	2035.86	1807.48
Demand (net)	798.01	794.46	794.45	716.48
Time (net)	1256.14	1254.87	1241.40	1091.00
2 Cash in hand	52.21	53.43	49.46	45.59
3 Balance with Reserve Bank	98.78	90.93	98.40	97.11
4 (2) + (3) as % of (1)	7.35	7.04	7.26	7.89
5 Borrowings from Reserve Bank	0.73	1.00	0.66	1.27
(a) Against usance bills and/or promissory notes	—	0.01	0.24	0.11
(b) Others	0.73	0.99	0.42	1.16
6 Advances	1195.10	1208.49	1216.22	1071.87
(a) State Bank	253.35	259.27	263.12	225.38
(b) Others	941.75	947.22	952.50	846.49
7 Bills discounted				
(a) Inland	130.47	129.58	123.88	107.10
(b) Foreign	48.66	47.45	46.64	44.68
(c) Total	179.13	177.03	170.52	151.78
(i) State Bank	14.38	14.72	15.40	13.07
(ii) Others	164.75	162.31	155.12	138.71
8 (6) + (7c) as % of (1)	66.90	67.61	68.12	64.99
9 Investment in Govt Securities	680.84	668.63	655.00	600.35
10 (9) as % of (1)	33.14	32.63	32.17	31.77
Cheque clearance	**192.94**	**171.46**	**228.38**	**198.19**

Bombay Money Rates

(Per cent per annum)

Selected Scheduled Banks other than the State Bank	Aug 24	Aug 17	July 27	Aug 25 '61
Call money from Banks	1.66	1.79	0.75	2.00
Deposits				
Seven days	3.00	3.00	2.97	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Sep 6	Aug 30	Aug 2	Sep 7 '61
Gold (per 10 grams)				
Spot	126.95	129.50	125.45	123.45
Forward	126.70	128.30	124.75	123.65
Silver (per kilogram)				
Spot	219.60	219.25	212.80	202.70
Forward	219.90	219.50	213.55	203.25

INDEX NUMBER OF WHOLESALE PRICES

(Base : 1952-53 = 100)

Monthly Average

Group & Sub-group	July 1962	June 1962	July 1961
Food Articles	**128.4**	**125.5**	**124.2**
Cereals	107.2	105.0	104.1
Pulses	105.5	102.5	91.3
Fruits & Vegetables	148.0	142.0	147.5
Milk & Ghee	127.3	126.7	119.1
Edible Oils	155.3	152.2	165.5
Fish, Eggs & Meat	144.1	141.4	139.0
Sugar & Gur	149.8	138.9	123.2
Others	170.8	170.3	184.2
Liquor and Tobacco	**98.6**	**98.7**	**98.6**
Tobacco	94.9	96.2	95.0
Fuel, Power, Light & Lubricants	**124.5**	**123.3**	**122.1**
Industrial Raw Materials	**138.8**	**136.1**	**151.4**
Fibres	130.1	127.3	152.5
Oilseeds	156.3	151.6	165.4
Minerals	93.4	93.6	95.2
Others	125.3	126.7	126.7
Manufactures	**129.4**	**128.9**	**127.6**
Intermediate Products	**142.6**	**139.5**	**141.9**
Finished Products	**127.2**	**127.2**	**125.3**
Textiles	126.5	126.9	127.3
Cotton	129.4	129.5	127.5
Jute	116.5	118.1	130.5
Woollen	141.3	141.3	123.3
Silk & Rayon	129.7	129.1	119.1
Metal Products	160.4	160.3	151.6
Chemicals	115.1	113.7	110.6
Oil Cakes	157.1	154.7	146.8
Machinery & Transport Equipment	117.9	117.8	112.8
Others	125.7	125.3	120.8
All Commodities	**129.6**	**127.5**	**128.8**

Summary of the Latest Crop Estimates, 1961-62

Area (thousand acres)

Crop	Current estimate	Previous year's corresponding estimate	Percentage increase or decrease
Rice	83,669	82,947	(+) 0.9
Jowar	40,913	41,121	(—) 0.5
Bajra	27,029	25,373	(+) 6.5
Maize	10,724	10,337	(+) 3.7
Ragi	4,983	4,949	(+) 0.7
Small millets	9,051	9,478	(—) 4.5
Wheat	32,259	31,191	(+) 3.4
Barley	8,083	7,942	(+) 1.8
Gram	23,166	23,496	(—) 1.4
Tur	5,632	5,727	(—) 1.7
Kharif Pulses other than Gram and Tur	13,026	12,369	(+) 5.3
Sugarcane	5,951	5,700	(+) 4.4
Black Pepper	254.1	253.8	(+) 0.1
Tobacco	932	877	(+) 6.3
Groundnut	15,848	15,461	(+) 2.5
Sesamum	5,283	4,911	(+) 7.6
Linseed	2,972	3,174	(—) 6.4
Rapeseed and mustard	2,739	2,607	(+) 5.1
Cotton	18,186	17,804	(+) 2.1
Jute	2,259	1,512	(+)49.4
Mesta	951	689	(+)38.0
Sannhemp	647	707	(—) 8.5

Source : Economic and Statistical Adviser to the Government of India, Ministry of Food and Agriculture.

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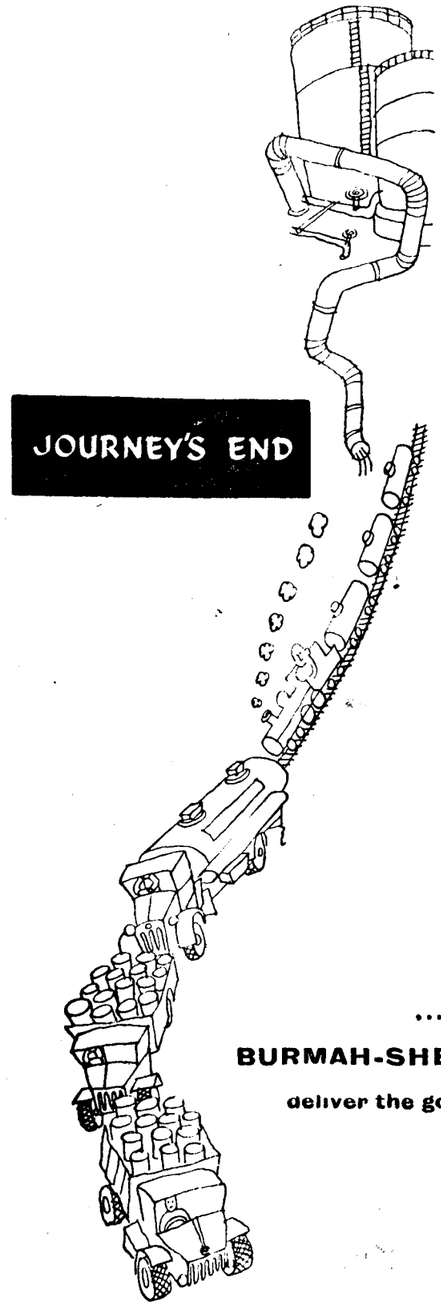

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Steel Prices Once Again

THIS is not the first time that the Government has differed from the Tariff Commission or that the retention price fixed for steel has created a situation. Price-fixing is a difficult job in any situation. It is naturally much more difficult in a mixed economy in an industry like steel, where the private sector and the public sector have to co-exist, especially at a time when the industry is undergoing rapid expansion, and conditions of production have yet to attain even that limited measure of stability which a well-established industry can expect in normal times.

It will be readily conceded that the determination of fair prices for an industry like steel cannot be altogether an objective, scientific operation which can be left entirely to a body of experts, however eminent or competent they may be. An element of value judgment enters into it. But surely the area of uncertainty could have been reduced and along with it, a needless and potentially acrimonious controversy avoided if the terms of reference of the Tariff Commission had been made a little more precise.

To add to the complexity of the problem, neither the Government nor the expert body is free to decide the question exclusively on its merits. Along with the many factors in the situation, due regard has to be paid to the past commitments made by the Government and the industry and the agreements subsisting between the two.

The Minister for Heavy Industries and Steel has not, however, stopped with rejecting the recommendation of the Tariff Commission which has investigated the question, he has gone much farther and questioned the utility, if not the competence, of the Commission, and dismissed it as completely 'out of date' and 'hinted that 'other machinery would have to be evolved in its place'. For a youthful, purposive and energetic Minister, exuberance can at times be an amiable quality but it has to be tempered by good sense and some regard for facts.

One may ask, when did the Tariff Commission become out-moded ? When it was set up a decade ago, tariffs had already ceased to be the instrument for the protection of industries. Industries were then and are now being protected by other means. There is such a thing as import control, which has been in continuous operation for much more than a decade. There were the two five year plans and a third one is on.

What's in a name? Granted the Tariff Commission had never much to do with tariffs, but it has been, instead, making various investigations into important industries and recommending fair prices for them. There is not only precedent in plenty of the Government rejecting its recommendations, and even reversing it, as it did once in the case of steel, but even for price enquiries, Government can and does employ other agencies. If the Government is not satisfied with the competence of its work, the sensible thing would be to strengthen the Tariff Commission or set up some other body. For steel, such a body has been long overdue.

But since a planned economy — even as partially planned as ours — cannot be run without controlling prices of at least some of the key or strategic products, determination of fair prices is a fairly serious affair, calling for a rare combination of expertise and sound judgment. It is not enough for prices fixed to be fair; people must come to accept them as fair and have faith in the body which fixes the prices.

A fair price for steel, which will ensure smooth production and steady expansion and will also at the same time enable technological progress to be maintained, has eluded the Tariff Commission and the Government all these years. It is nothing surprising, therefore, that the Government should fail to see eye to eye with the Tariff Commission on this question. But with its newly-acquired knowledge of the operation of steel plants and confidence gained from experience, the Minister for Heavy Industries and Steel could have been a little more patient with those who lack expert knowledge and explained for their benefit what exactly does capacity production mean, and whether working cent per cent of capacity is the normal, standard thing in the steel industry. It is on this very assumption that the Government has reduced the retention price recommended by the Tariff Commission which had taken production at 90 per cent of capacity as the optimum. And the Minister should not complain if those who are less knowledgeable than he in steel technology are puzzled.

And then there is the many-year-old, vexed and recurring problem of adding an element to the price to pay for the development financed out of Government loans. It need not be worked into the price. The steel companies have to pay for the World Bank loans out of their normal earnings and there is, of course, the alternative of raising fresh capital. Judgments about the new issue market may also differ. The Tariff Commission thought that "it would not be expedient or feasible for the private sector steel companies to raise further capital at this juncture" and it found it difficult "to project even an approximate time by which the companies would be in that position". Those who had to wade through the series of Tariff Commission reports on the retention price of steel will sympathise with the Commission. Well, there is plenty of time for re-thinking. We have by no means seen the end of the dispute. Many things may happen. The steel plants may not be as obliging as the Parliament and what happens, if they fail to produce up to their full rated capacity, either because the materials fed into them are not of the right quality or they do not flow smoothly and fast enough? When the steel retention price was fixed last and that was six years ago — the subsequent four rises were according to the escalator clause — it was remarked in these columns:

> "Whatever may be the outward form, there is little of private sector left in steel today. Prices are fixed, production programmes are approved and even resources for development are either provided for or elaborate directions are given for raising resources. If ever there has been trusteeship in operation, it is in steel. But even after all these years of trusteeship in operation, it is sad to find that disputes still arise on such fundamental points and that the method of solving the disputes continues to be the old one of Tariff Commission enquiry and 'dharna' at the doors of New Delhi. While price fixation runs its tortuous course, the public is kept guessing whether it is the producers who are at fault and have failed to win the confidence of the Government, or whether it is Government which has failed the producers. It is time that at least in the case of steel, a better working arrangement were evolved. For steel will continue to set the standard, even though the public sector may come to occupy a larger and larger part of the field, if only because it is the industry where collaboration with the Government has been of the longest standing".
>
> — 'Steel Prices Again', February 11, 1956.

It is no pleasure to repeat what had been written six years ago, but unfortunately it is just as relevant today.

Nothing has been fixed really, for the retention prices announced last week are for the period which ended on March 31. The Government Resolution on the subject is cryptic: "Final prices to be fixed after 1st April 1962 will be decided after further consideration." It is no longer binding that uniform prices have to be fixed for the private and public sector steel plants and this is fair enough, for they operate under very different conditions, conditions which are not changeable at will or at short notice.

Commonwealth Speaks Out

IT is indeed ironic that the biggest conference of Commonwealth Prime Ministers should be held against the backdrop of a babel of voices which may ultimately crystallise into the death-knell of the Commonwealth. It was an achievement when this hoary institution survived the metamorphosis from a small group of self-governing dominions, tied to Britain's apron strings, to a growing family of sovereign, equal States. The secret of this was that the bonds which tie the members of the Commonwealth, in spite of the rather thick coating of sentiment, are really those of self-interest. And now it is self-interest which threatens to doom the organisation. Pursuing what it believes, rightly or wrongly, to be its self-interest, the British Government has chosen a course which is clearly contrary to the interests of the rest of the Commonwealth.

It did not take the Prime Ministers assembled in London long to dispel any hopes, if such hopes had lingered at all, that they would at least acquiesce in, if not accept, the terms of the draft agreement reached between the U K and the Common Market countries over the terms of Britain's entry into the E C M. The opposition of the Commonwealth's 'white' members—Canada, New Zealand and Australia — to these terms had been known and Macmillan must have been prepared for it. But the Asian and African members, who in many respects have more at stake — the developed countries could be expected to fend for themselves — have shown themselves equally opposed to British entry on the present terms. Even the Indian Prime Minister was forced to the conclusion: "I do not see how the Commonwealth will survive unless a radical change is made in the present proposals".

The British Government knows well that the terms it has been able to secure for its Commonwealth partners do not go even half-way to compensate them for the loss of preference in the British market. The compensations it has held out are: for exporters of agricultural products the prospect of international agreements on agricultural commodities; to countries like India, Pakistan and Ceylon the chance of concluding comprehensive trade agreements with the E C M, including Britain, in 1966; and to the African countries the chance of linking themselves to the E C M as Associated Territories. The Commonwealth countries have, however, refused to fall for these jujubes.

From India's point of view, as Pandit Nehru emphasised, what mattered most was the immediate impact of British entry into the E C M. If her exports of textiles and other important foreign exchange earners were affected, she would be in serious difficulties. The prospect of a trade agreement with E C M five years hence, dangled before her, could not tempt her since such an agreement, however liberal, could help only in the long run, if at all.

There is also a deeper fear, which is shared by other members of the Commonwealth. And that is that the Common Market even with Britain inside it, may not blossom into the liberal, progressive and outward looking association of prosperous European States keen to share its prosperity with the rest of the world and vigorously assisting under-developed countries to industrialise. Instead, what if the Common Market should turn out to be a closed, insular organisation indefinitely perpetuating the tariff restrictions against outside trade? Indeed, as President Ayub Khan asked, might not the Common Market turn itself "into a powerful international cartel denying access to our manufactures to their markets and forcing us to remain primary producers to feed their factories, dictating terms of trade and forcing us to pay several times more for their finished goods"? These fears have not been in any way assuaged by the impression sought to be created by President de Gaulle and Chancellor Adenauer in their recent speeches that they couldn't care less whether Britain joined the ECM or kept away. Under the circumstances, it is not difficult to understand why the Commonwealth countries should not want to give up the advantages in trade they now enjoy in the hope of doubtful liberal treatment in the uncertain future.

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Weekly Notes

Automobile Break-through ?

IT cannot have escaped the attention of careful newspaper readers that the Government has been more than ordinarily concerned over the automobile industry recently. There was the annual meeting of the Association of Automobile Manufacturers last month in New Delhi which was inaugurated by the Minister for Steel and Heavy Industries, Shri C Subramaniam. This was followed by a two-day conference of representatives of the automobile industry to review the problems of the industry. And this time, besides Shri Subramaniam, Shri T T Krishnamachari, Minister without Portfolio, and Shri T N Singh, Member for Industry, Planning Commission, were also present.

No startling policy announcements followed these series of meetings between the industry and the Government. Shri Subramaniam's statement that the Government would give top priority to the manufacture of commercial vehicles was played up as marking a change in Government policy though, in fact, it was nothing of the kind. The priority for commercial vehicles is already there in the Plan and is reflected in the targets. Thus the production of passenger cars is to be raised from 20,000 in 1961 to only 30,000 by 1965-66 whereas that of commercial vehicles is to increase from 21,000 to 60,000. There was, of course, the exchange of pinpricks, customary whenever representatives of the Government and private industry come together. The Minister complained that the industry had failed to fulfil the target of indigenous production and the industry replied that if this was so, it was because the Government had failed to provide the foreign exchange needed for the import of capital equipment to set up manufacture of components. And so on.

However, it now appears that last month's discussions between representatives of the automobile industry and the Government have not been entirely fruitless. According to a newspaper report appearing this week the Government has decided to release foreign exchange of the value of Rs 24 crores to the automobile industry for import of machinery to expand indigenous manufacture of components. No details are given except that the release of foreign exchange is vaguely related to the highly ambitious target of 90 per cent indigenous production by April 1963.

The Third Plan target of indigenous production is 85 per cent by 1965-66. To achieve this target and also the target of expansion of production, the Plan envisages an investment of Rs 85 crores, with a foreign exchange component of Rs 40 crores. Even if indigenous production expands according to the target, the drain on account of maintenance imports for the automobile industry is estimated at no less than Rs 175 crores over the Plan period. The Government's decision to raise the target of indigenous production to 90 per cent by April 1963 is a reflection of the difficult foreign exchange position. Currently, maintenance imports for the automobile industry are running at around Rs 30 crores per annum and with expansion of production this would steadily increase unless the indigenous content of vehicles is raised. Thus expansion of the automobile industry is closely linked to its success in increasing domestic production of components.

But it is not enough to set an overall target for the industry, since different units have achieved varying success with their indigenous production programmes, the indigenous content varying roughly between a little over 50 per cent and 80 per cent. It is necessary, therefore, to fix targets of indigenous manufacture for individual manufacturers and on the basis of these targets it should be possible to determine the requirements of foreign exchange of the different manufacturers. This will give an idea of the total foreign exchange required for achieving the target of indigenous manufacture for the industry as a whole and also make it possible to evaluate the progress of the different units. This is particularly important since as the Ad Hoc Committee on Automobile Industry pointed out in its report in 1960, though the progress of indigenous manufacture by the various units in the automobile industry has been slowed down by foreign exchange difficulties, inadequacy of rupee finance and lack of technical competence have been even greater obstacles than shortage of foreign exchange.

There is another aspect to the problem of indigenous manufacture of automobile components. It has been the Government's constant complaint that the automobile manufacturers are trying to do too much by themselves to the detriment of the ancillary industries the Government has been trying to foster. In their recent speeches, both Subramaniam and T T Krishnamachari have attacked the tendency towards vertical integration in the automobile industry. If the Government is serious about encouraging ancillary industries, then this is the time to do something about it. The licensing policy announced in April this year under which the spheres of production of the automobile manufacturers and the ancillary producers were clearly demarcated must be strictly adhered to while issuing licenses to import equipment out of the foriegn exchange allotment now announced. Once the automobile manufacturers import the equipment and set up production, it would be too late to complain about excessive verticle integration.

Or, faced with the current foreign exchange difficulties and the consequent need to raise indigenous production rapidly, will the Government after all decide to pocket its objection to vertical integration ?

Raw Rubber Target

A knowledgeable rubber planter writes :

IT is intriguing to find from the Calcutta Letter in the issue of September 1 that the estimate of the requirements of raw rubber has now been raised from 100,000 tons to 140,000 tons. It is a little difficult to understand what made the Development Wing revise the demand estimate for tyres and tubes upwards from 3.7 million to 5.14 million a year. The demand of automobile tyres and tubes will naturally depend on the progress we are making on the automobiles front. It is quite uncertain whether we are going to attain the target for automobiles fixed for the Third Plan due to foreign exchange difficulties.

Secondly, the capacity for tyres and tubes has been linked up with exports. Here again there is a snag. Most of the new units licensed are too small to benefit by the economies of large scale production. They will not be able to absorb their overhead costs and bring down their prices.

Further, the raw material cost in India whether it is for natural rubber or synthetic rubber, chemicals, cords, etc, is 20 to 30 per cent, if not more, higher than that in other tyre manufacturing countries. Carbon black which will be produced shortly in India will cost 20 per cent more than its landed cost in India after paying 50 per cent duty. Similarly, the price of SBR rubber to be produced by Synthetics & Chemicals is not expected to be less than that of domestic natural rubber. That would mean a cost difference of Rs 50 to Rs 60 per 50 kg between the domestic product and the imported one.

Fourthly, the performance of tyres is judged by wear resistance, heat build-up, groove cracking resistance, chipping resistance and ageing resistance. A tyre good for Indian conditions need not necessarily be suitable for another country where road and climatic conditions are different. It may require certain adjustments in mixing and composition. We do not have the technical know-how for that. And will our technical collaborators co-operate to produce in India tyres for export to different markets, if they can make higher profits by exporting tyres made in their own factories to these markets?

Neither the trend of our automobile production nor the export possibilities indicate that the demand for tyres would go up from the original estimate of 3.7 million to 5.14 million a year. To make out a case for more synthetic plants without any consideration of cost at this stage looks more than a little cockeyed.

In the Third Plan period there was only provision for production of 50,000 tons of synthetic rubber. For any additional capacity, foreign exchange will have to be diverted from some other sector which can be justified only if it can be proved that the net foreign exchange saving by doing so will be greater than that by using the foreign exchange in any other sector.

Built-in Anti-Apartheid

IT is worth listening closely when Harry Oppenheimer speaks. Not only does the company he chairs — the Anglo American Corporation of South Africa — overlap with every other major mineral producer in the southern half of that continent, including de Beers (80 per cent of world diamond sales), the British South Africa Co (straddling the Rhodesias), Tanganyika Concessions (Benguela Railway) which in turn overlaps the Union Miniere du Haut Katanga and the Societe Generale de Belgique, and the major Northern Rhodesian copper companies; not only does he himself sit on the Boards of de Beers, Tanks', British South Africa, Rhodesian Anglo-American, Rhokana Corporation and Mufulira Copper Mines, but his is a voice raised against the South African government's policy of Apartheid.

Addressing Anglo-American shareholders in Johannesburg this summer, Oppenheimer stressed the precariousness of the economic stability achieved since the Sharpeville massacre two years ago. "One thing at least seems clear", he said, "nowhere can a stable social order be established in an environment of poverty. Government policies which aim at social and racial solutions at the cost of economic development are sure to be self-defeating".

There was a practical edge to these views: "We have started to make a number of changes in the way in which African labour is used . . . A residential training school has been established . . . for the training of our African employees for the more responsible jobs. We have taken steps . . . which will reduce the total number of Africans employed, and so make possible the payment of increased wages to the more highly skilled Africans without affecting profits to any material extent".

Too much should not be made of these moves. Oppenheimer stressed that they were to remain within "the legislative colour-bars which are imposed upon industry in South Africa". Nor are they entirely disinterested, what with the growing scarcity of unskilled labour at the price ruling throughout the area. Nevertheless, they are the first practical steps along a road that must ultimately challenge the Government's policy of Apartheid and "separate development", for they are the beginning of a skilled African labour force able to hurt when it hits.

It is unlikely that the progressive ranging of the biggest companies against it will deflect the Government from its course: Apartheid will continue. But if the Oppenheimer initiative is followed by other large groups throughout southern Africa, if they act quickly to form a skilled, or even partially skilled African labour force, there is hope that the bastion of white supremacy in South Africa will tend to be isolated and that the *Gotterdammerung* threatening that country will be, to that extent, shorter.

Mobilising Hoarded Gold

EXASPERATED by the futile cogitations of Government economists and the inability of successive Finance Ministers to act to mobilise the vast hoarded gold in the country, an irate reader writes:

"What would the Government lose by banning the hoarding of gold in private hands? There must be some people who would come out and surrender their gold to the Reserve Bank. The Government could perhaps impose penalties against those who would not hand in gold immediately. A good form of penalty would be to rapidly lower the price, the later the day of handing in. Within the first fortnight the Government could pay the current Indian market price. After that, the next fortnight could see a drop of 20 per cent, and the fortnight after a drop to the international price. This would at least not be an invitation to the smugglers to help themselves. At the same time, it would assure that those who handed in their gold promptly would not be penalised excessively. If the International Monetary Fund would not permit us to mobilise our own resources in this way, then they should give us some of theirs."

Our Delhi Letter

Steel Price Lacks Basis

IF Tatas are shocked by the new retention prices for steel, the reaction would be understandable. Tata Iron and Steel is nowhere near its target of 2 m tons (equivalent to 1.5 m tons of saleable steel). In the latest year ended March 1962, its output was 1,643,400 ingot tons or 18 per cent short of full production. Production in the five months ended August was 707,196 ingot tons against 666,210 ingot tons in the corresponding period last year, showing that substantial progress towards attainment of the target must wait until additional equipment and facilities, now being installed, are in position. If one may paraphrase Shri J R D Tata's statement to the last annual general meeting, the target will continue to elude Tatas for some time yet.

In the case of Indian Iron, the shortfall in production, though smaller than at Jamshedpur, is still sufficiently serious. Output achieved in 1961-62 was 93.4 per cent, a modest improvement on 1960-61 when the corresponding figure was 91.4 per cent. Sir Biren Mookerjee, never known to mince his words, has flatly declared that "there can under existing conditions be no possibility of achieving the output envisaged at the time the expansion was planned" because of the serious deterioration in the quality of raw materials.

Deficiencies in Tata Steel Plant

While the difficulties stemming from the use of high-ash coal may explain the gap of less than 7 per cent at Burnpur, it is not unlikely that the persisting shortfall at Jamshedpur is as much due to poor raw materials as to basic deficiencies in the plant. J R D, aware of the rumblings on this account among shareholders, felt it necessary to explain why no "margin of capacity" (as he delicately put it) had been provided at Jamshedpur. His explanation was that such "spare" capacity would have cost quite a few crores of rupees beyond the already "formidable" amount required for bare essentials. Is it possible than even "essentials" were pruned and pared, under the advice of Kaiser Engineers, Tisco's consultants for the expansion, to fit into an arbitrary ceiling, which was in fact considerably exceeded in the end? It has been whispered that the advice of Tisco's own engineers was ignored, and an eighth furnace in the new steel smelting shop dispensed with, because Kaisers assured the management that this was not really necessary for the attainment of the two million ton target. Would it be too uncharitable to regard the very considerable capital expenditure now envisaged by Tisco for a tonnage oxygen plant, relining of open hearth furnaces with basic bricks and equipping them for oxygen injection as a salvage operation, rendered imperative by the deficiencies of the original expansion programme?

These questions need to be satisfactorily answered because the Tata Iron and Steel Co's shareholder (nearly 32,000 individuals hold Rs 1,000 or less) is unlikely to receive for a long time anything like Rs 10.50 per share that he used to get before the recent expansion. He has undoubtedly a right to know the facts: if miscalculations about capacity have been made, the error must be publicly acknowledged. The country's leading papers which never tire of subjecting public enterprises to the most searching scrutiny, might also take a closer look at what has been going on at Jamshedpur. It is not only the interest of the shareholders that is at stake but that of the country which has guaranteed the loans made to the company by the World Bank, apart from shouldering other burdens such as an interest free advance of Rs 10 crores from public funds.

Full Production Not Feasible

In these circumstances, full production as the basic assumption underlying the new price formula must be particularly disturbing to Tisco. As Shri Subramaniam pointedly remarked in his address to the Indian Merchants' Chamber in Bombay, the Government has no intention of "pampering" the producers or placing "premium on inefficiency". Whether Indian Iron will earn "huge profits" on the basis of the new price still remains to be seen, but there is no doubt that the emphasis on full utilisation of capacity places Tisco at a grave disadvantage. This seems to have been realised by stock market operators, because while Indian Iron shares have tended to recover after the initial slump with which the Exchanges reacted to the price announcement, Tisco quotations show no such corrective influence at work.

In fairness to the private sector steel plants, it must be acknowledged, however, that full production is not an immediate possibility. The poor quality of coal is a serious drag on production, and this is clearly a factor beyond the control of the steel producers. Sir Biren Mookerjee made the point in his speech to Indian Iron's last annual general meeting that a high ash content in coke means not only increased consumption of coke to attain the blast furnace operating temperature but also a reduction in iron production corresponding to the rise in the volume of slag. Limestone too has been causing difficulties because the better grades appear to be exhausted in the small area in Orissa from which four out of five steel plants draw their supplies. Shri J R D Tata endorsed these points in his own speech to the Tisco annual meeting, and went on to provide a statistical correlation between increase in ash and the loss of production and the simultaneous rise in the consumption of raw materials. Every one per cent increase in ash reduced the output of blast furnaces by five per cent and raised coke and limestone inputs by five per cent.

Tisco, however, is much better off in regard to the supply of washed coal than any of the other steel plants. According to the figures cited by Sir Biren Mookerjee, while washed coal formed 55 per cent of the total coal drawn by Tatas during 1961-62, the percentage of washed ranged between 34 to 37 for the public sector plants and it was as low as 10 in the case of Indian Iron and Steel. Anticipating the criticism that this comparison may give rise to, Tata directors, in their report for 1960-61, pointed out that the advantage of captive washeries was more than offset by the inferior high ash market coal allocated to

Jamshedpur with the result that the average ash content was if anything higher than ever before. But whatever may be the relative position of steel plants in regard to washed coal, given the present quality of coal, full production is not likely until the washeries being set up by Hindustan Steel are fully in operation. Of these, the one at Bhojudih earmarked to supply coal to Tisco has just been commissioned while Patherdih, which will meet Indian Iron's requirements, will not be ready until the third quarter of 1963.

Therefore, until Shri Subramaniam is able to establish the basis on which he expects full production from the steel plants, steel producers will have **prima facie**, good reason to dub his demand as unreasonable and unrealistic. This is indeed a crucial question, the answer to which will show whether the Government is justified in rejecting the Tariff Commission's very reasonable recommendation that working at 90 per cent of capacity should be taken as the norm.

No Justification Yet

An interesting point of principle arises here. The Tariff Commission generally assumed to be an expert, quasi-judicial body, must have examined this important question fully in all its technical aspects, a task in which it was assisted no doubt by expert advice from its own specialist staff and that of the Iron & Steel Controller. The Ministry chooses to differ, which it certainly has the right to do. If democratic forms are, however, to be preserved, it obviously needs to explain and justify its decision, which it has so far not attempted to do. Shri Subramaniam's strictures against the Commission on the day immediately following his Lok Sabha statement on steel prices, and his broad hint that some other machinery may have to be put in its place, has naturally given rise to the impression that the Minister's displeasure stems from its recommendations in this particular instance. This was unfortunate, and Shri Subramaniam would have done well to reserve his criticisms of the Commission's functioning for another occasion.

Another aspect of the new price policy deserves closer examination than is immediately possible. In the absence of the Tariff Commission's report, it is difficult to assess what provision the new price makes for the accumulation of internal resources needed to finance the capital projects both private producers have in hand to improve their technological equipment. Restraint on steel prices has in the past hindered the adoption of new technology because the resources to effect the change-over was lacking. In a controlled basic industry, the error of pitching prices so low that technological inefficiency is perpetuated needs to be avoided just as much as an over-generous deal which covers up poor performance. At the present time, a judgement on this issue has to remain suspended until the Tariff Commission report is available.

Finally, the Lok Sabha statement has given rise to some ambiguity about the applicability of the new prices beyond March 1962. The Minister said that the new price would provisionally apply from April onwards subject to adjustments on account of the increase in coal prices and railway freight, but that final prices would be decided after further consideration. If this implies yet another reference to the Tariff

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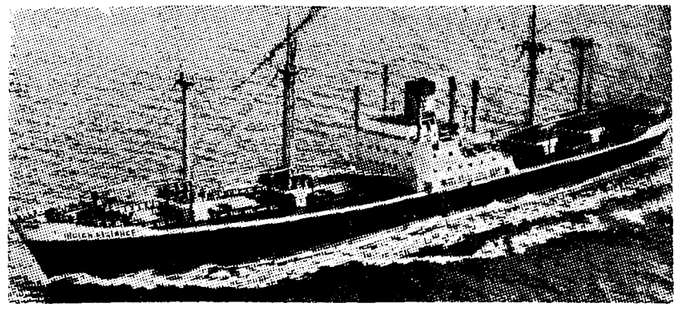

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Commission, it will be advisable to discuss in advance the principles which should govern price fixation since the Minister has already dubbed this body as completely out of date and out of tune with present requirements. In this connection, it may be noted that the agreement to maintain uniform prices at all plants lapsed in April and there is no bar now to two or more sets of prices to suit the circumstances of various producers.

Before this is decided, it will be useful to remember that the only rational principle of pricing in an industry such as steel is that of relating costs to a theoretical plant operating at a high level of output and efficiency, with depreciation allowed on the **assumed** cost of erecting a steel works at a greenfield site. This permits the depreciation provision to be kept sufficiently high to enable older units to keep in step with advancing technology. The British Iron and Steel Board has accepted this principle and others have to follow suit. As long as steel works are allowed to exist in the private sector, there should be no resistance even on ideological grounds to enabling them to modernise and expand. This is fully accepted in the Planning Commission's estimates which schedule Tata Steel to contribute 3 m tons and Indian Iron and Steel 2 m tons of production by 1970.

In and Around Lok Sabha

Patil Weathers the Storm

THE Minister for Food and Agriculture must have welcomed the parliamentary recess with a considerable sense of relief, having been subjected to a heavy barrage over the Land Acquisition Bill. Not only that — he found himself in a rapid cross fire over his Sugar Cane Control (Additional Powers) Bill. It was quite evident from the general trend of the debate that the parliamentarians were not prepared to trust him with powers which they feared would be used in favour of the sugar manufacturers, to the detriment of the sugar cane growers. Members from Bihar and U P, which account for 60 per cent of the sugar output, were the most vehement opponents of this Bill, and inspite of Shri Patil's attempt to move Congress Members by holding a party meeting before the Bill came before Parliament, he had to encounter bitter opposition in the House.

On the face of it, the Bill looked quite innocuous and uncomplicated. Clause 3A of the Sugar Cane Control Order (1955) made under Essential Commodities Act, provides that producers of sugar should pay to the sugar cane growers a price in addition to the "minimum price of sugar cane under that order". The idea was to link the price finally realised by millowners for sugar to the price they paid to the growers. Unfortunately, as Shri Patil described it "the formula is very complicated and gives Government power to declare, year after year, and from time to time, the relationship of the price of sugar cane to the final price of sugar after deducting costs".

The real storm was over what should be included in the "cost of sugar". The Tariff Commission recommended that the export loss as well as rehabilitation charges should be deducted before arriving at the final profit of the sugar producers. The House felt that sugar prices had been running very high, especially in 1953-54 and 1957-58. After 1958, the Government had introduced a scheme of incentives for factories to produce more sugar by giving them a rebate in excise duty on an average for the two previous years. In spite of this, Government was proposing to accept the Tariff Commission's recommendations with regard to export loss and rehabilitation. This would considerably reduce the surplus which was to be the basis of giving a bonus to the sugar cane growers. Most members expressed serious doubt whether the powers acquired by the Government would be used in the interest of the sugar cane growers, and many of them could not agree to linking the price of sugar cane to the final price of sugar. The Bill was considered to be not only anti-farmer but also anti-social. However, Shri Patil is far too shrewd a politician to suffer a defeat on such an issue. He finally managed to have the Bill passed with the normal Congress majority.

Failure of Briefing

The last week of the session in Parliament was not without excitement. The Indonesian Incident provided it in plenty. Shri Indrajit Gupta (Communist, West Bengal) moved a Calling Attention Motion about the attack on the Indian Embassy at Jakarta on September 3, 1962 by a crowd of 20,000 Indonesians, resulting in extensive damage to property. It is a pity that we should lose the goodwill of Indonesia at this juncture; although the cause of it, viz the exclusion of Israel and Formosa from the Asian Games, was of little importance, the incident had become an unpleasant political issue. The whole situation could have been avoided had Shri C D Sondhi been given some briefing on the Indonesian situation before he went to the Asian Games. One cannot help but feel that a little diplomacy could have very easily avoided a breach of friendly relations with this country.

The House was packed for the statement of Hafiz Mohammed Ibrahim, Minister for Power and Irrigation, on the flood situation. What was the Government doing to avoid floods? Everyone wanted to know but the answer was weak and ineffective.

M Ps not only find routine legislative procedure dull and uninteresting; they don't even attempt to hide it and often the House has only a scanty attendance. The Question Hour or the discussion on the Indonesian Incident, on the other hand, provoked a lot of comment and active participation from the Members. Legislators should learn to take their duties more seriously. Often they are concerned with the political side of parliamentary work and neglect the legislative side. What happens? Important legislation like the Reserve Bank (Amendment) Bill and the Banking Companies (Amendment) Bill are passed without much comment. One wonders whether social and political work is the right base for a seat in Parliament.

From the London End

Commonwealth *versus* Common Market

HOW does the Common Market issue stand on the eve of the largest and, perhaps, the most crucial Commonwealth Prime Ministers' Conference in history? Fifteen Prime Ministers from independent Commonwealth countries and advisers from colonial territories are meeting to discuss what effect British membership of the European Economic Community will have not only on the economy of individual Commonwealth countries but on the Commonwealth as a whole. The remarks of Pandit Nehru on his arrival in London are of particular significance. When asked whether the Commonwealth would still be a force for world peace if the U K joined the Common Market, he said: "It depends on how far the Common Market is a force for peace. If it is just an extension of the NATO alliance, it becomes a party to this world conflict". The Governments of both Australia and New Zealand have never hidden their concern that British membership of the Common Market might lead to a weakening of Commonwealth ties. Mr Diefenbaker has brought to the conference a scheme (details of which are still a closely-guarded secret) for an economic alternative to Britain joining the Common Market.

The pathetic inadequacy of the "package" agreement reached at Brussels in August is becoming increasingly obvious. It is no secret that not one of the Commonwealth Premiers is satisfied with the arrangements envisaged in the agreement. In the circumstances, it is increasingly being asked what purpose the present Commonwealth Conference can serve and whether it might not be necessary, (as suggested by the Canadian Prime Minister) to hold another Conference after the full implications of British membership are known. At present the deal between UK and the ECM is very much "a thing of shreds and patches", not adequate to cover the holes that have been made in Commonwealth relations by U K's offer to surrender Commonwealth Preferences by 1970 and apply the Community's Common External Tariff by stages, beginning immediately on entry, against vague promises of future international commodity agreements and trade agreements to be concluded by the E C M with Asian members in 1966. Commonwealth Prime Ministers are naturally perturbed and can hardly be expected to feel that their interests have been adequately safeguarded.

Opposition in Britain Grows

In the meantime, opposition within Britain is growing by leaps and bounds. A study of the Opinion Polls shows the following picture: In April 25 per cent of the people were against joining the Common Market; in May this figure rose to 30 per cent; in June the figure was 40 per cent and at the end of August it had risen to 52.2 per cent. At the recent Trade Union Congress the disquiet among the rank and file was evident and, although the pro-Common Market group is making much of the fact that the motion categorically opposing British entry was defeated, it is significant that the pro-Marketeers did not dare to put their policy to vote for fear of an overwhelming defeat.

The Labour Party has been sitting on the fence for long but it now appears possible that before very long they may come out on the anti-Common Market side. The resolution passed by the Conference of Commonwealth Labour Parties, called on the initiative of the British Labour Party, categorically states that the terms provisionally agreed to at Brussels are inadequate to safeguard Commonwealth interests. It insists that these must be converted into "more precise agreements". It demands that Commonwealth preferences should be fully retained until international commodity agreements are reached and trade agreements with India and Pakistan are signed and adequate safeguards are provided for New Zealand.

The Macmillan Government is in a minority of one among Commonwealth Governments. Quite a large section of the Conservative Party is against any move which undermines Commonwealth relations and the 'Six' themselves can hardly be said to be over-enthusiastic over Britain's entry — De Gaulle and Adenauer are going ahead with forging and strengthening the Paris-Bonn axis with a cynical disregard for Britain. De Gaulle's recent triumphal tour of Western Germany and his talk of "organic" co-operation between the two countries should give the Tory Government much food for thought.

Against this unpropitious background, Macmillan is determined to force Britain into the Common Market at any price — however humiliating — and his determination to do this was described by one of the Commonwealth delegates as "diamond hard". His immediate preoccupation will, therefore, be to see that the Commonwealth Prime Ministers, severally and jointly, do nothing to hamper Britain's progress into E C M. He hopes to succeed in this by adroit handling of the agenda and the arrangements of the Conference in such a manner as to keep the emotional tempo as low as possible and prevent any "ganging" up against Britain.

"Britain Has Done Her Best"

The positions of individual Commonwealth countries on the E C M issue can be summarised as follows: Australia and New Zealand maintain that until full details of the plan for temperate zone foodstuffs are made available, no judgment is possible. The details of the plan which are known are certainly not acceptable to them. Mr Diefenbaker will put forward his plan for an alternative to British entry. Strong and unequivocal statements of the Indian case have

kept the British public in no doubt that India is extremely dissatisfied with the terms offered to her. The Brussels agreement will harm Indian exports — particularly of manufactured goods, thereby adversely affecting the Third Five Year Plan. Pakistan has voiced her frank dissatisfaction with the treatment to be given to Asian cotton textile exports. How far will Britain go to meet these complaints? The forthright criticism by the Premier of Nigeria, an Associated State, came as something of a shock—so far only Ghana had attacked the neo-colonial implications of Associated Territory status. It is surely no accident that Mr Goka has been selected to represent Ghana. It will be remembered that he was one of the moving spirits behind the organisation of the African Common Market of the Casablanca group of countries — Algeria, Egypt, Ghana, Guinea and Mali.

The British Government appears to be adopting a 'take it or leave it' attitude in regard to the offer of Associated Territory status to the African Members of the Commonwealth. It believes that it has fulfilled its commitment to these countries by persuading the Six to accept them as Associated Territories. If the Commonwealth countries are not prepared to accept the offer, nothing can be done to help them.

In the same way, the Macmillan Government believes that as far as India is concerned the promise of a comprehensive trade agreement in 1966 is as far as the E C M can go. Indeed, at a recent luncheon in London organised by the Indian Journalists' Association, Mr Heath made it abundantly clear that in his opinion no further concessions could be obtained for India and that it would be a waste of time to go back and ask for more.

Capital View

The Isolationists

Romesh Thapar

FOR once, during the Prime Minister's absence in Europe, we have not been deluged with speculation as to who 'leads' the Government and who 'presides' over Cabinet meetings. Morarji Desai is absent, too — and the local press barons have lost interest in the succession business. Or, perhaps, these days we are so confused by the multitude of problems which surround us that we don't really know what issue to focus on.

Speculation has been intense about the repercussions of Britain joining the European Common Market. Those thinking of closer trading tie-ups within Asia and Africa have been sadly demoralised by the Indonesian Government's encouragement to anti-Indian demonstrations in Jakarta and the possible bearing these will have on the proposed second Bandung-type conference.

Meanwhile, the upset over the steel retention price has thrown stock market speculators (and these include a number of Government officials) into the dithers. It is not the Government rejection of the recommendation of the Tariff Commission, however, which caused the greater upset. What did was the story appearing in the leading national dailies, believed to have emanated from Government sources 'as usual', which the newspaper-readers believed, judging from past experience. Who could be interested in letting it out on Friday morning that the Government was going to raise the retention price by Rs 30, when on the same day, the Minister for Heavy Industry announced in the Lok Sabha an actual price rise of only Rs 10.50 nP? Speaking to the AIMO in Bombay, Shri Subramaniam made angry references to this 'press speculation' and asked for an enquiry into it. He is in the Government and not the AIMO. Will he ask the Government to investigate? Ask me another.

And to top it off, there is that other big question mark — the possible reshuffle which will take place in the Cabinet following the return of the Prime Minister from his foreign trip.

Keep Off the Newly-Freeds

Increasingly in the Capital these days one hears the kind of talk which heralds the elaboration of isolationist ideas on foreign policy. The theorising is extremely interesting and contains pointers about possible future developments. It is fashioned largely by a marked reluctance to get involved in the radicalism of the newly-freed nations of Asia and Africa, a radicalism which brings us into collision with western interests and endangers the foreign aid upon which the structure of our planning rests.

These inhibitions are powerfully strengthened by the fear prevailing in the ruling circles that any other form of planning will imply austerity measures of a type which are likely to destroy the mixed economy of India, the sensitive and profitable marriage between private and public sector enterprise. The fertile mind of official India believes that the crises engendered by this marriage can be resolved if we are able to ignore the pressures put on us by our so-called foreign friends who, it is argued, are only interested in using us for their own narrow ends.

In other words, we are asked to 'neutralise our neutrality', refuse our participation in Bandung-like Conferences, confine our attention to local problems and so prepare the way for easing the flow of economic aid from abroad. It is maintained that only when India is able to stand on her own feet should she think of taking up positions in international affairs, for then no pressures could be used to force us into embarrassing compromises. This 'philosophy' is not only confined to the Swatantra Party, which has already called for

a revision of our foreign policy, but is also becoming the basis of thinking in certain sections of the Congress Party which are reluctant to move further left to face the crises confronting us.

Reactions to Jakarta

Recent reports from abroad have made the isolationist critics of our foreign policy more vociferous. For example, while the daily newspapers were highlighting the unfriendly demonstrations against us in Indonesia and pretending that they were sparked by the utterances of G D Sondhi, serious political circles in the Capital convinced themselves that these incidents were rooted in the 'failures' of our foreign policy. True, nobody has bothered to survey these failures; but the debate is joined in private.

The Prime Minister's 'principled stand' on the proposed agenda of the controversial Belgrade Conference, when he refused to allow discussions to take place on what he considered a negative anti-colonial note, is recalled as marking the beginning of the rift with Indonesia and the countries which think like her. There has been further irritation over Indian reluctance to participate in the proposed Second Bandung Conference, and support extended to the proposal that the location be changed to Cairo.

The critics claim that an attempt is being made by China, Indonesia and Pakistan to isolate India at the projected conference, that highly volatile questions will be raised at the deliberations to make India look like the 'bad, big brother', that the present discord in the Arab world will weaken India's search for allies, that the attitudes of African States will also be ambivalent because of the ramifications of the European Common Market in these territories.

How Will 'Neutralisation' Help?

While there seems to be general acceptance of the fact that our foreign policy is in the doldrums, it is not clear how the 'neutralisation of our neutrality' helps to resolve these tangles. An isolationist India would encourage the aggressive elements in Pakistan and China and damage the 'protective' relations which we have with the USSR regarding our borders. Likewise, we would rupture the possibility of expanding trade within Asia, Arabia and Africa at a time when tariff barriers are sought to be erected against our exports. Then again, by isolationism we would weaken the pressures to force nuclear arms control and disarmament on the big powers, and jeopardise the policies which have the effect of preventing or retarding economic growth in the under-developed territories. And finally, what guarantee is there that an isolationist India will not be under greater pressure from the aid-giving countries to conform to their policies?

Despite these arguments, it is common knowledge that a concerted effort has been made within the Union Cabinet to persuade the Prime Minister to 'hold his hand' when facing controversial and explosive international issues. Indeed, on the eve of his departure for London, the rumour was strong that Krishna Menon would not lead the delegation to the United Nations, that Vijayalakshmi Pandit would take over. The rumour was strengthened by reliable reports about sharp differences between the Defence Minister and T T Krishnamachari who, apart from being an exponent of the theory that we should not involve ourselves unnecessarily in foreign squabbles, was instrumental in keeping Krishna Menon out of the four-man committee set up by the Prime Minister to formulate suggestions for the reorganisation of the Union Cabinet and Government. The composition of the UN delegation and the interventions of the Prime Minister at the London Conference have come as serious blows to the tactics of the isolationists. But the debate is only beginning. It will have many repercussions.

The MIG deal, which involves the purchase and manufacture of Soviet supersonic fighter-interceptors is again to be reviewed. Although the Prime Minister declared this matter to be top-secret before leaving for London, the usual 'leaks' have taken place. Apparently, the deal is through and our delegation has returned fully satisfied. But the Government of India is waiting for an opportune moment to announce the agreements. The Prime Minister's recent letter to President Kennedy, it is said, may have dealt with this matter and other related questions. However, as was to be expected, there has been some criticism about undertaking to manufacture expensive defence equipment when other industrial priorities are being neglected. It is unlikely that the Prime Minister will pay attention to this criticism in view of India's defence needs.

Our Ally : The Weather

The border situation, too, is worrying. The Chinese reaction to our proposals for talks has been unfriendly. They are obviously opposed to accepting any pre-conditions. And, in view of the present state of our foreign relations, they could renew their encircling tactics wherever our outposts have been established. The only favourable factor is the weather; winter will soon be closing in and any sustained operations will be impossible. However, there is nothing to prevent Peking from pressing on with its opportunist border negotiations with Pakistan. Meanwhile, amusing stories are circulating about those prominent MPs who are very critical of the Prime Minister's China policy but who managed to keep themselves out of the parliamentary delegation now visiting Ladakh!

However, despite the crises developing on all sides, Delhi is going to be a dull place until the Prime Minister returns from his foreign tour. By then, the four-man Cabinet Reorganisation Committee will have reported failure to agree. We will also have a more detailed idea of what is in store for us as a result of ECM developments. Indecision, which over the past few months has had the effect of paralysing governmental action, will have to be ended. In the process, the fate of the isolationists and those others who would have us move dynamically will be decided. And, what's more, the weather will be more bracing, more conducive to action.

Import-Export Stabilisation Fund

(Contributed)

A revolving fund to finance imports of raw materials and components for the export industries had been in the offing for a long time. It was suggested by Sir Donald MacDougall that an additional Rs 100 crores of such imports could raise exports by more than an equivalent amount, besides substantially raising production in the country. The Mudaliar Committee had recommended that a revolving fund of Rs 25 to 30 crores should be set up.

The Government has accepted this recommendation. It has been announced that an Import-Export Stabilisation Fund would be set up with a capital of Rs 10 crores.

But all the foreign aid for the Third Plan being either tied or already earmarked, finding the foreign exchange needed for the Fund poses a formidable problem.

It is suggested here that Indian insurance companies operating abroad and foreign exchange banks operating in this country may be tapped for a part of the foreign exchange needed for the Fund. The higher liquidity ratio now prescribed for banks provides an opportunity to bring in the foreign exchange banks.

VARIOUS factors contributed to the decline in the growth rate of industrial production from 12 per cent in 1959-60 to 5 per cent in 1960-61. Of these, the shortage of maintenance imports was one of the most important. From the evidence produced before it, the Mudaliar Committee was convinced that in many cases, the increase in unutilised industrial capacity, as reflected in the decline in industrial growth, was "a reflex of shortage of imported raw materials, components and replacements". Chairmen of a number of companies have also expressed grave anxiety about their future production programmes in view of possible cuts in their import allocations.

Shri J R D Tata, for instance, in his speech at the general meeting of Tata Engineering and Locomotive Co last month underscored the adverse impact of a cut in import of raw materials on the production of engineering industries.

Much emphasis is now placed on the export of manufactured goods to diversify our exports and to reduce the pressure on our foreign exchange resources. The slowing down of the industrial growth rate is, therefore, a matter for serious concern. Exports during the first seven months of this year amounted to Rs 371.05 crores, showing a rise of only Rs 2.12 crores over the corresponding period last year. At this rate it is doubtful whether exports will reach anywhere near the target of Rs 720 crores set for 1962-63.

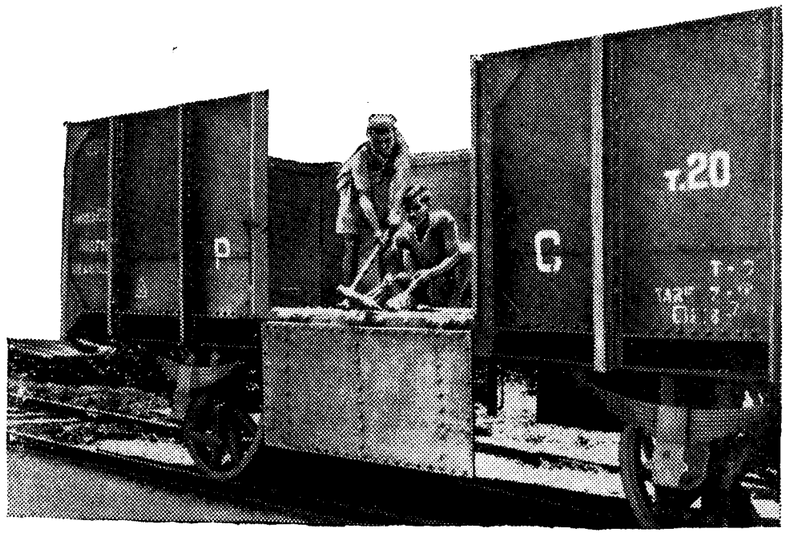
Maintenance Imports Under-Estimated

The importance of imported raw materials and components for expansion of exports is yet to be properly appreciated. Official estimates of foreign exchange requirements grossly under-estimate 'maintenance' imports required by the country's industrial complex. Saving foreign exchange by reducing such imports will cost the country dear in terms of lower exports. According to Sir Donald MacDougall, ("India's Balance of Payments", *The Economic Weekly*, April 22 and 29, 1961), "It seems likely that a further Rs 100 crores per annum could usefully be imported to meet industry's requirements, given the present level of demand for industrial goods, and that this might increase industrial production by perhaps 15-20 per cent or by several times the value of the increase in imports". The Mudaliar Committee agreed with this and recommended that Sir Donald MacDougall's suggestion "may well be proceeded upon as the first basis for a substantially new attempt to break the bottleneck of raw materials".

The Committee appreciated that the foreign exchange resources so far secured, and proposed to be secured, in the Third Plan, were already so stretched that any substantial readjustments among competing claims might not be possible. Since internal reallocation of foreign exchange did not allow for any significant increase in maintenance imports, the Committee recommended the establishment of a revolving Fund for financing import of additional raw materials and components for the export-oriented industries. Such an arrangement, according to the Committee, would "imply matching of additional 'import credits' with export performance so as to augment both sides of the equation and to improve India's balance of payments in the process". The Committee estimated that to increase exports by Rs 100 crores per annum, it might be necessary to set aside a sum of Rs 25 to Rs 30 crores as a revolving Fund. Initially, it suggested the establishment of a Fund of Rs 10 crores. Shri Manubhai Shah, Minister for International Trade, announced in Rajya Sabha last month that this recommendation of the Mudaliar Committee had been accepted. The Government, he said, proposed to set up an Import-Export Stabilisation Fund with Rs 10 crores.

But even this relatively small amount may not be easy to find. For, in spite of the sizeable commitments made by the members of the Aid-India Club, the foreign exchange position of the country remains critical. Most of the committed aid is 'tied' to projects. And it may not be possible for the Government to release the necessary foreign exchange for setting up the Fund out of the relatively small amount of 'untied' aid that is available for all of it is badly needed and has already been earmarked for balance of payment support. The foreign exchange needed for establishing the Fund has, therefore,

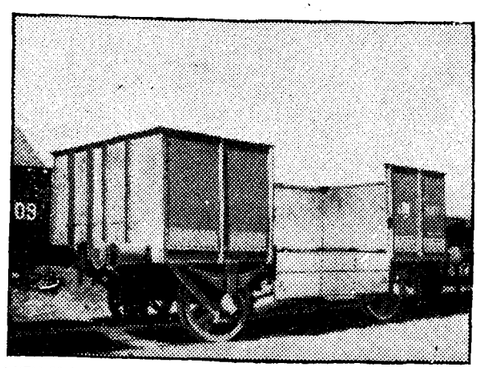
INDAL KNOW-HOW HELPS INDUSTRY



ALUMINIUM plated wagons for corrosive cargo

Some of the wagons made of steel which haul severely corrosive cargo—wet ash and cinders —for the Calcutta Port Commissioners normally need stripping and partial replacement of plates every three years, resulting in idle time in workshops and heavy maintenance costs. In an effort to solve the problem, an experiment was begun with the help of **INDAL** engineers.

ALUMINIUM WAS THE ANSWER Six wagons, floored and partially panelled with aluminium, were put into use in June 1953. ■ The results were amazing. Even after nine years, the aluminium panels were found practically unscathed. ■ Rust, on the other hand, had eaten into the steel framing sections necessitating replacement. ■ Experience has proven that aluminium plated wagons last for at least 15 years when carrying such cargo—four times as long as steel plated wagons. ■ Also, being substantially lighter they carry greater payload. ■ As a result, the Port Commissioners have had more wagons floored and partially panelled with aluminium.



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to be found outside the aid programme.

Foreign Exchange Banks : A Likely Source

To the extent that the foreign exchange required for the Fund will be of a short-term character, Indian insurance companies and banks which operate overseas as well as foreign exchange banks operating in India are possible sources of finance. Indian insurance companies, including the Life Insurance Corporation, have not, however, built up enough foreign exchange reserves to be able to place any substantial foreign exchange at the disposal of the Fund. This is true also of Indian banks operating abroad. Foreign exchange banks conducting business in this country are, however, likely to prove a more frutiful source. Here the recent amendment of the Banking Companies Act to raise the liquidity ratio required to be maintained by banks perhaps provides an opportunity to tap the resources of the foreign exchange banks to make foreign exchange available to the Fund. The higher liquidity ratio will necessarily entail a rearrangement of assets by the banks and this opportunity could be availed of to induce the foreign exchange banks to keep a part of their liquid assets in the form of foreign exchange deposits with the Reserve Bank. The foreign exchange banks should not find such an arrangement disagreeable if the Reserve Bank agreed to consider the foreign exchange reserves kept with it as part of the banks' liquid reserves in part fulfilment of the liquidity ratio and to pay interest on these reserves at the average rate of yield on Government securities.

It may be objected that such an arrangement would weaken the control of the Reserve Bank over the liquidity ratios of the foreign exchange banks, since a devaluation of the foreign currency concerned or a revaluation of the Indian rupee would reduce the value of these deposits and thereby lower the liquidity ratio of these banks. In such a case, the fall in the value of the foreign exchange deposits could be made good by requiring the banks to increase their holding of Government securities. Working out a flexible arrangement for readjustment of banks' holding of Government securities and their foreign exchange deposits with the Reserve Bank should not prove too formidable a task.

To make the proposition attractive to the foreign exchange banks, an added incentive may be offered to them. If the export and import trade financed from the Fund were to be restricted to banks contributing to the Fund for a period of, say, 10 years, these banks would not, surely, like to lose this business. Whether similar incentive could be given to insurance companies, both Indian and foreign, by restricting insurance business in respect of import and export trade financed from the Fund to those companies which contribute to the Fund can also be explored.

The resources of the Fund may be further augmented by opening lines of credit with credit institutions in countries from where the raw materials and components are to be imported. Most of these countries have export credit risk guarantee organisations and efforts may be made to obtain insurance cover for the short-term import credits secured by the Fund. This will make negotiation for opening up lines of credit easier.

Proper Selection of Industries

The success of the proposed Import-Export Stabilisation Fund will largely depend on proper selection of the industries to be assisted. This is as difficult a task as that of finding resources for the Fund. Industries with minimum import requirements and maximum export potential have to be chosen and arranged along a scale of preference. The "first come first served" method of industrial licensing has already thrown the Third Plan out of gear and this must be avoided from the very start in the case of the Fund. To qualify for assistance from the Fund, industries must have a ready export market and the export of the products must not require granting of credit to foreign buyers. Export of goods with a high import content will yield lower *net* exchange earnings than that of goods with a low import content. 'Maintenance' imports involve a continuous drain on the country's foreign exchange resources and so industries which are capable of progressively reducing their import requirements should be preferred for assistance from the Fund.

In the operations of the Fund, the role of merchant-exporters should be viewed more sympathetically than has been done hitherto for the grant of various incentives for exports. Many small manufacturers may not qualify for assistance from the Fund. The merchant-exporters can play an important role if they take under their cover such small manufacturers as conform to the Fund's scale of preference and act as their import-export agent. By bulk handling of exports and imports, merchant-exporters may bring about a sizeable economy in overseas trading expenses and also secure competitive prices for imports.

The fear has been expressed in some quarters that the opening of lines of credit for the Import-Export Stabilisation Fund with credit institutions in the Aid-India Consortium countries may involve the risk of these countries correspondingly reducing their Consortium aid Commitments to India. This is to ignore, however, that the opening of credit lines for the Import-Export Stabilisation Fund is basicallly different from the grant of aid. Aid is mostly long-term and tied to impor; of capital goods whereas the lines of credit negotiated by the Fund will be for short periods only, for the import of raw materials and components. Besides, compared to the aid that the Consortium countries have promised, the credit required for the Fund is almost negligible. The fear of a cut in foreign aid on account of loans given to the Fund is therefore, baseless.

Again, negotiation for lines of credit for the Fund need not be restricted to credit institutions in the Aid-India Consortium countries alone. Countries outside the Consortium may also be approached.

An attempt may now be made to briefly outline the *modus operandi* the Fund with the objective of matching import credits with export earnings. The Fund will recommend, according to the scale of preference laid down, the grant of

special licences for specified amounts for import of raw materials and components to manufacturers or merchant-exporters, after examining the import requirements, export performance and potential, financial standing, etc of these manufacturers or merchant-exporters. The licences will be special in the sense that they will not authorise any remittance against imports. It will be clearly understood that imports will be paid for out of exports of goods manufactured from the imported materials. The licence will be endorsed by the Fund giving particulars of the lines of credit established with foreign credit institutions and guarantee arrangements made with the export credit risk guarantee organisations. Banks in India authorised by the Fund to do such business will open letters of credit for imports against these licences. The beneficiaries of these letters of credit will obtain the required authorisation from the export credit risk guarantee organisations. The foreign credit institutions with whom the credit lines have been established will negotiate the export documents on the strength of such authorisations and forward the documents to the banks in India which have opened the letters of credit. On receipt of the documents, the banks will deliver them to the manufacturers or merchant-exporters against their signing Trust Receipt Bonds undertaking to effect the necessary exports within a specified period and depositing the rupee equivalent of the value of the documents. The importing manufacturers or merchant-exporters will obtain forward cover of the necessary foreign exchange for a period of, say, up to one year which the bankers will in most cases be readily able to arrange.

On export of goods manufactured from the imported materials, the manufacturers or merchant-exporters will negotiate the documents with their banks who will utilise the sum deposited with them earlier towards such negotiation and finance the balance out of their own resources. The export proceeds on receipt will be utilised to liquidate the bank's advances and repay the credits granted by the foreign credit institutions.

The *modus operandi* outlined above could be thrown out of gear by the failure of the manufacturers or merchant-exporters to honour their export commitments. Every effort must, therefore, be made to keep such risk to the minimum. A specific provision may be included in the contract between the Fund and the manufacturers or merchant-exporters giving the former summary powers to seize the goods of the latter and arrange for their export in case they fail to meet their export liabilities within the specified period. Further, the manufacturing licences of the erring manufacturing units or the export licences of the merchant-exporters could be made liable to cancellation. This will deter manufacturers or merchant-exporters from obtaining assistance from the Fund for making imports without having made firm sales abroad.

With efficient, imaginative and bold administration, the Import-Export Stabilisation Fund will be able, in course of time, to cover a wide range of 'maintenance' imports and advance the industrial development of the country while at the same time earning much-needed foreign exchange.

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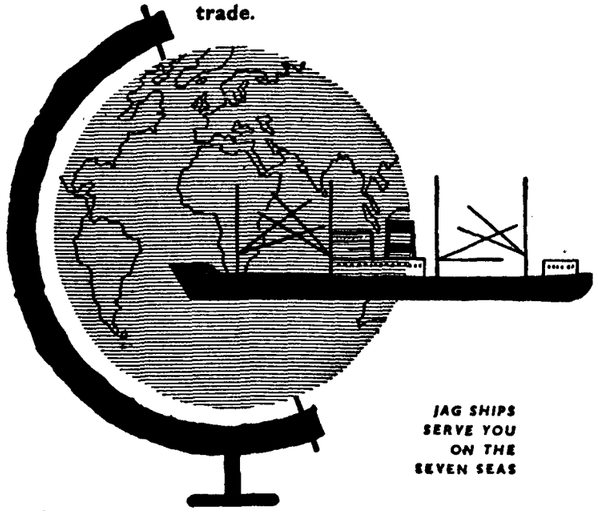

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Fourth Plan Steel Programme

Need for Advance Action

(From our Calcutta correspondent)

A MAJOR step has been taken to prepare the steel programme for the Fourth Plan. The Steering Group on the Iron and Steel Programme for the Fourth Plan has submitted its recommendations to the Government. The recommendations aim at self-sufficiency in iron and steel by the end of the Fourth Plan.

The Steering Group has estimated that the demand for rolled products by the end of the Fourth Plan will be of the order of 12.2 million tons. The breakdown of demand as estimated by the Group is as follows:

	('000 *Tons*)
Semis	2000
Railway materials	1245
Structurals	2000
Merchant Sections	2400
Flat products	4555
Total	12200

(The National Council of Applied Economic Research has estimated the demand for finished Steel by 1970 at 12.3 million tons and the Perspective Division of the Planning Commission at 13.1 million tons.)

As there would naturally be some time lag between commissioning of plants and achievement of full capacity production, the Steering Group assumes that production in 1970 would be only 85 per cent of capacity. The Group, therefore recommends the creation of capacity of the order of 14.35 million tons by the end of the Fourth Plan. In other words capacity is expected to grow at a rate of 15 per cent per annum during the Fourth Plan.

Capacity to be More Than Doubled

Rolled steel capacity is expected to be 6.73 million tons in 1965-66. Thus during the Fourth Plan an additional capacity of 7.62 million tons will have to be created to achieve self-sufficiency. This could be achieved, according to the Steering Group, first, by the expansion of existing works through (1) addition of new units; (ii) increase in the capacity of existing units through improvements in raw materials and operational practices; (iii) replacing obsolete existing units by modern units with greater capacity; and, second, by setting up two new steel works, one at Bokaro and the other—the fifth public sector steel plant — in the South.

The Steering Group has proposed that the capacity of the Durgapur Steel Works should be expanded from 1.24 million tons rolled steel, the Third Plan target, to 2.55 million tons during the Fourth Plan. This would entail among other things, the addition of two blast furnaces, three coke-oven batteries, a blooming mill, a heavy section mill and a wheel and axle plant. The capacity of the Rourkela Steel Works is proposed to be expanded from 1.24 million tons of rolled steel to 1.6 million tons. The scope for further expanding the Rourkela Works is limited because there is no room in the layout for putting up a second slabbing mill. Expansion by about 0.5 million tons is possible through more efficient operation of the slabbing mill and the Steering Group has assumed that this expansion in capacity would be achieved. This would entail the installation of another blast furnace and open hearth furnace. As for the Bhilai Steel Works, the Steering Group has suggested that capacity should be expanded from 1.95 to 2.3 million tons of rolled steel. The obstacle to further expansion of Bhilai is the blooming mill. Of course the Russians claim that blooming mills similar to the one in Bhilai are rolling up to 4 million tons in their country, but technical opinion in India is doubtful about expanding capacity beyond 2.5 million tons.

Steel Plant in South

The gap of 7.62 million tons of rolled steel will thus be reduced to 5.6 million tons with the expansion of the three public sector plants. Of the 5.6 million tons the Steering Group estimates, demand for flat products will be of the order of 2.36 million tons. This the Group thinks, could be taken care of by Bokaro, which is expected to begin production only in the Fourth Plan. The capacity assumed by the Group for the Bokaro Steel Works, it is pointed out, is the minimum economic capacity of a modern wide strip mill.

Bokaro would reduce the gap to 3.24 million tons. If the Industrial Policy Resolution is relaxed, the two private sector steel works — Tata Iron and Indian Iron — could be expanded to produce an additional 0.9 million tons of rolled products. Of this, Tata Iron's share would be 0.4 million tons and Indian Iron's 0.5 million tons.

This will reduce the gap to 2.3 million tons which would be covered by setting up a fifth public sector steel plant with a capacity of 3 million ingot tons. On **prima facie** evidence the Steering Group suggests that this plant should be based on the Sandur-Chitaldrug-Chikmagalur iron ore reserves in Mysore. These reserves, containing high grade iron ore, are sufficient to meet the requirements of a giant iron and steel works and yet leave a substantial surplus for export. Further, the country's largest limestone reserves in Cuddapah and Kurnool districts of Andhra are not far from the iron ore reserves. High-grade manganese ores are also located in the region which is also very rich in hydro-electric power potential. What is lacking completely however, is coking coal. But the problem is not insurmountable. It could be solved in two ways:

(1) By using a high percentage of scrap. From this point of view the Bellary-Hospet area would be most suitable for the location of the proposed works, for this area is in the heart of the South and is at the same time conveniently situated for drawing supplies of market scrap from both Bombay and Madras.

(2) By reducing the consumption of coke in every way possible.

The proposed 3-million-ton steel works would require 2.5 million tons of washed coking coal which could be supplied in two ways. Ships

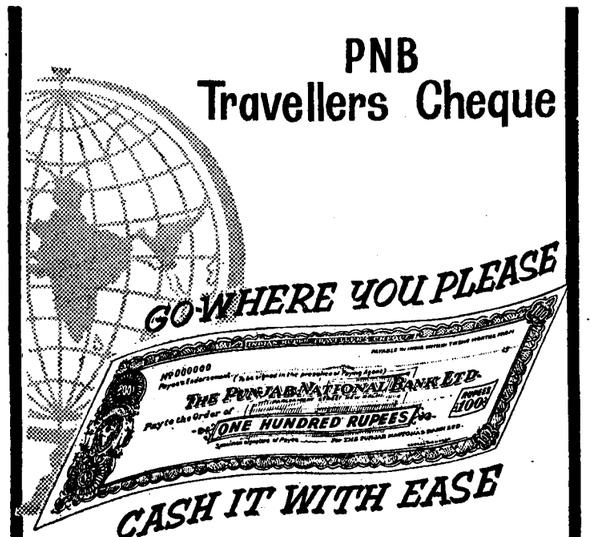
carrying iron ore from Goa for export could be used to import coking coal. Or, alternatively, coal could be moved by sea from the Bihar coal-fields. Even so, the Steering Group feels, it will not be economically unsound to put up a steel works in the South since instead of carrying rolled products for consumption in the South from up-country steel works washed coal would have to be moved from the North to the South.

The foreign exchange cost of the Third Plan Steel expansion programme is calculated at Rs 83 crores per million ingot tons of capacity. If the Fourth Plan steel expansion programme is also to be executed entirely with imported equipment and engineering services, the total foreign exchange cost of the programme will be of the order of Rs 750 crores. But since there is no prospect of the foreign exchange situation easing materially in the Fourth Plan, the Steering Group has emphasized the need to base the steel expansion programme largely on indigenous equipment and engineering. To make this possible the Group has recommended that top priority should be given to the completion of the Third Plan programme for heavy machinery complex at Ranchi and to doubling its capacity during the Fourth Plan.

Price of Shortfall in Steel Output

The draft programme suggested by the Steering Group needs careful techno-economic scrutiny. This has to be completed well in time to avoid a repetition of the Third Plan's mistakes. According to the latest estimates, as against the Third Plan target of 24.1 million tons of total output of finished steel during the Plan period actual production will be only about 21.9 million tons — 2.2 million tons short of target. For this shortfall in production the country is paying heavily in terms of scarce foreign exchange. In the first year of the Plan — by no means a comfortable one from the foreign exchange standpoint — imports of iron and steel cost the country Rs 100 crores. The Anjaria Committee had estimated imports of steel during 1961-62 at Rs 62 crores. Even the Plan estimate was only Rs 71 crores. If production continues to lag behind the target and if estimated requirements are to be met in full, total imports of iron and steel during the Third Plan will, it is estimated, be of the order of Rs 615 crores compared to the Anjaria Committee's estimate of Rs 110 crores and the Third Plan estimate of Rs 238 crores. Further, as against the Anjaria Committee's expectation of steel export of the value of Rs 90 crores in the Third Plan, actual exports, according to latest estimates, will fetch only Rs 15 crores.

The lesson to be learnt from the mistakes of the Third Plan is that pending detailed study and formulation of the entire Plan, work should begin on individual projects, particularly those with long gestation periods well before the Fourth Plan is launched. For instance, if the Fourth Plan steel programme is to be implemented successfully, experts believe that down-to-earth work — e g preparation of designs and project reports, selection of sites, etc — must begin within a year from now. The experience of Bokaro has also taught us that even before a formal decision is taken, likely aid-giving countries should be approached for assistance. The importance of taking early steps to procure foreign assistance during the Fourth Plan, will be appreciated when it is emphasised that about Rs 300 crores of foreign exchange will be needed to put through the Fourth Plan steel programme.



Studies in Voting Behaviour

VIII Extent and Limits of Community Voting: The Case of Baroda East

Rajni Kothari

Tarun Sheth

The election to the Gujarat Legislative Assembly from Baroda East provides an interesting case study of the relative strength of traditional group behaviour and modernist orientations in Indian politics.

More specifically, it can thrown light on the nature, extent and limits of community voting as an effective facor in electoral behaviour and the inroads made by other factors such as party organisation and loyalty, ideological appeal, interest orientations and monetary incentives.

The election in Baroda East is here studied from the standpoint of the interaction between political processes and prevailing social forms.

THE selection of the Congress candidate set the tone of the election in Baroda East to the Gujarat Legislative Assembly. The Congress had decided to sponsor a Muslim candidate in a constituency with five non-Muslim voters for every Muslim voter. The main opposition parties and the Congress planned their strategy with this central fact in mind.

The result of the election — a thumping majority for the Congress candidate — surprised everyone, not excluding the Congress. Even on the most optimistic calculations, the Congress candidate's lead over the others was unexpected. As for the main opposition candidates they were shocked by the manner in which their not altogether unrealistic calculations were upset by the outcome of the elections.

I
The Constituency

Baroda East is one of two legislative constituencies in the city of Baroda, the capital of a former princely state and now the headquarters of a district in Gujarat State. The city has a population of about 300,000 according to the Final Population Totals of the 1961 Census. As a large portion of the eastern constituency lies in the old city, built within the walls of the old fortress, the density of population is very high, there being only a few areas on the outskirts of the town with scattered population.

As with many Indian towns, by and large the settlement pattern of the population is along caste, religious and linguistic lines. There are, however, a number of mixed areas as well. In general, the areas into which the constituency could be divided would be areas inhabited by high-caste Hindus, Rajputs, artisan communities, low-caste Hindus, Harijans and Muslims. Among the Hindus, again, the Maharashtrians are found in clusters, often around the residence of an old noble or an important dignitary of the princely state. The sizeable Sindhi population of the city is concentrated in a colony originally set up as a refugee camp.

This settlement pattern is of great interest for the study of electoral behaviour. An analysis of booth-wise returns of the election compared with a population analysis of the constituency can show the extent to which the voting pattern conforms to the settlement pattern and the extent to which other factors have cut into communal voting. It is also necessary to supplement the statistical data by field investigations after the returns are available in order to take into account as many facts as possible and to establish reliable relationships in the voting pattern. This was done in the present inquiry.

II
Predictions Confounded

The manner in which various factors influence the outcome of an election is far more intricate than is usually imagined. This will become clear as we proceed. As a point of departure, it would be fruitful to examine some of the predictions regarding the result made before the election. The main theme was, of course, the choice of a Muslim as the Congress candidate. The assumptions on which predictions were based were as follows:

(1) The Sindhis were known to be anti-Muslim and would, therefore, vote against Congress.

(2) The Maharashtrians in the city were traditionally anti-Congress; although their allegiance to the Maharaja of Baroda who was contesting the Parliamentary seat on a Congress ticket was hundred per cent, they would vote against the Congress for the legislature. (Both the Sindhis and the Maharashtrians, together accounting for 14,000 votes, had more than one alternative open to them: there was a Jan Sangh candidate who had worked in these areas; there were also an independent Sindhi candidate and a Maharashtrian Socialist Party candidate).

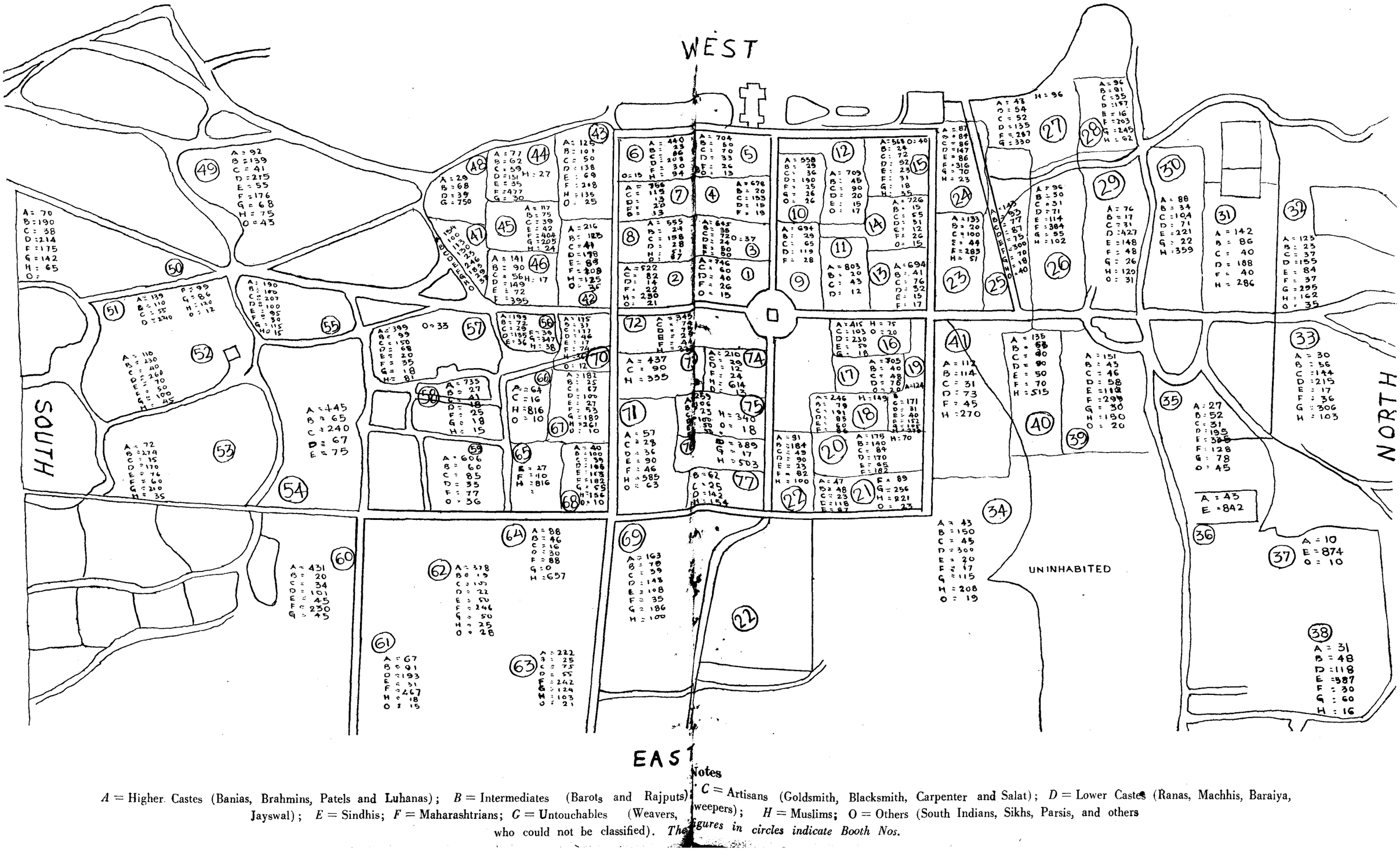
(3) The Harijan vote, numbering 5,000, though traditionally pro-Congress, would this time be split as a Harijan (Republican) was contesting the election.

(4) The Bania community, numbering 9,000, favoured the Swatantra candidate with which it had strong kinship and business relations.

Part of the material used in this article was collected in the course of a larger study on "Factions and Interest Groups in Politics" conducted under a research scheme financed by the M S University of Baroda. We wish to acknowledge our sincere thanks to Rusikesh Maru, Madhavi Desai and a number of other friends and students who helped our work with valuable field assistance.

THE ECONOMIC WEEKLY September 15, 1962

Social Composition of Baroda City - East Constituency



A = Higher Castes (Banias, Brahmins, Patels and Luhanas); *B* = Intermediates (Barots and Rajputs); *C* = Artisans (Goldsmith, Blacksmith, Carpenter and Salat); *D* = Lower Castes (Ranas, Machhis, Baraiya, Jayswal); *E* = Sindhis; *F* = Maharashtrians; *G* = Untouchables (Weavers, sweepers); *H* = Muslims; O = Others (South Indians, Sikhs, Parsis, and others who could not be classified). *The figures in circles indicate Booth Nos.*

Notes

(5) The Brahmins, numbering more than 6,000, were deeply religious and anti-Muslim and thus against Congress.

(6) The Patidars, nearly 4,000, would vote for the Congress which was largely Patidar-dominated.

(7) The vote of the 'backward' Hindu Castes, between 6 to 7 thousand, would be largely influenced by money and would be divided between the Congress and the Swatantra Party.

On the whole, thus, the odds seemed against the Congress Party. The latter, on the other hand, expected that the Hindu vote would be divided among the eight candidates, which would give its candidate a clear advantage since it had the Muslim and the Harijan votes in its pocket. It also hoped to capture a few thousand votes from the other communities. As usual, the Congress would take advantage of divided opposition, it was hoped.

Over-Simplified Theories

All these calculations were belied by the outcome of the elections. The results disproved over-simplified theories of the importance of casteism and communalism in politics. Neither the Sindhi nor the Maharashtrian nor the Harijan candidate secured even one half of one per cent of the votes cast. In fact, the five independent and minor party candidates put up such a poor show that the total of their votes fell far short of the number of invalid votes. The Jan Sangh candidate also lost his deposit. The actual contest was between the Congress and the Swatantra Party, the former securing almost double the votes of the latter; the two together polled more than 85 per cent of the total votes cast. The theory that Hindu votes would be "split" also did not hold as the Congress secured more votes than all the opposition candidates put together. "Casteism in politics" has sometimes been over-simplified as people voting for their caste-fellows. This pattern of voting did not hold in the present election as Sindhis showed their preference for a Congress Muslim and a Jan Sangh non-Sindhi Hindu to the Sindhi candidate and the Maharashtrians ignored the candidate of their own community. The same was the fate of the Harijan candidate. The Banias too did not unanimously support the Swatantra candidate who belonged to their caste.

There is no denying the importance of ethnic loyalties in electoral behaviour. In fact, they played a considerable part in Baroda East. The impact of this factor, however, is not reflected in simple correlations. The outcome of an election is usually the result of numerous factors. An attempt is made below to examine the more important factors affecting voters' preferences and to assess the relative importance of each as shown by the results of the election. Only then can we draw conclusions about the strength of community loyalties.

The observations made below on the extent to which various factors influenced the course of voting in Baroda East are based on four sources of information:

(a) population break-ups based partly on census data and largely on a detailed analysis of area-wise voting lists:

(b) booth-wise voting returns:

(c) field visits to interpret and check the statistical data; and

(d) investigations on the basis of a large and stratified sample into the behaviour of politically relevant groups and individuals.

III

Community Voting

Community voting was a factor of great importance in the present elections, although the precise forms it took differed considerably from popular notions. In a place where the ecological distribution of the population is, by and large, along caste or linguistic lines, a comparison of booth-wise voting returns with the settlement pattern indicates the extent to which the community was the basis of voting decisions (there is, of course, always the possibility of other factors reinforcing this one, as in the case of the Bania community voting for the Swatantra candidate because of a community of interests or out of ideological considerations). In the present constituency, a close correlation between the two is indicated by a marked consistency in polling found in proximate booths. There are clear-cut clusters of voting population representing homogeneous groups where the verdict was consistently in favour of one or the other candidate; whereas in booths with a mixed population the competition was keen. On the whole, the increase or decrease in the number of votes of a candidate is gradual as one moves along adjacent booths, largely owing to the pattern of settlement. Where the booth-wise returns show a sharp rise or fall in vote, thus making for a break in consistency in the poll pattern, it is quite often due to the system of numbering of booths; the shift in voting only reflects a shift in the social composition of numerically consecutive but spatially distant booths. The map showing the social composition of the constituency reveals the consistency much more clearly.

Thus for the first 15 booths, the Bania candidate of the Swatantra Party, except for a very slight reverse in No 11, leads. Then there is a gradual decline. Now it is the Congress which, again with a small lapse in No 24, shows a consistent lead from booths No 16 to 35. After a sharp decline in the next four booths (36 to 39) where the Jan Sangh registers a remarkably high poll, the Congress comes into its own again and maintains its supremacy up to booth No 57. For another five booths the Swatantra Party catches up and succeeds in getting a lead over Congress from 58 to 62. In booth 61 Jan Sangh steals a march over both. No 63 marks another turning point where the Congress secures as many votes as the other two parties combined. Then comes a sharp rise in the Congress vote, from 50 per cent of the total votes cast in No 63 to 80 per cent in No 64. This position is maintained by the Congress till No 77, the last booth in the constituency.

Influence of Communal Factor

Consider the position from the standpoint of population distribution. The population of the first 17 booths is overwhelmingly upper caste Hindu, most prominently the business community of Banias. Here the Swatantra candidate found his biggest support. The composition of the voters now changes, the majority of the population consisting of 'backward' communities, Harijans and the low-caste among Maharashtrians and Muslims. This mixed belt of low-placed communities comprises a large pro-Congress block in the constituency stretching from booth No 18 to 56, with the exception of four booths in the outlying area (Nos 35 to 38) where the Sindhi population is concentrated and where the Jan Sangh return is quite high. From 57 to 63 once again the upper caste Hindus, including Maharashtrians are the main inhabitants. This area is another strong zone for the Swatantra. In booth 61, however, the number of Maharashtrians shoots up, which accounts for the Jan Sangh's high vote in the otherwise Swatantra stronghold. The remaining 14 booths in the constituency are situated in the Muslim area of the city. The Congress poll is extraordinarily high here.

Thus, there is a remarkable correlation between the voting and settlement patterns in the constituency. This is further borne out by the fact that each party had its strong points in areas where a particular community predominated. Thus out of the 11 booths in which the Congress secured more than 80 per cent of the total votes cast, eight are situated in areas predominated by Muslims and the other three by backward and scheduled castes. The Swatantra Party got close to forty-two per cent of its total poll from the first 15 booths only, situated in predominantly upper-caste areas. Another ten per cent were polled in the five booths 58 to 62, in another upper caste area. Out of the total votes cast for the Jan Sangh, a third were polled in five contiguous booths (35-39) in the Sindhi colony. The main contest was, however, between the Congress and the Swatantra Party and on the whole it is true to say that whereas the latter drew its major support from upper caste Hindus, the former drew it from Muslims and low caste Hindus (including the Harijans).

Only a Partial Explanation

Such a reading of the election can, however, be very misleading for an understanding of electoral behaviour. It should be remembered that what is said above is based on the analysis of a single factor that influenced voting. A closer look at the election results will immediately reveal the partiality of such a presentation. Thus even in the upper caste localities (booths No 1-17, 57-63), the Congress polled no less than 6,200 votes, only 800 less than the 7,000 polled by the Swatantra Party in the same booths. In fact, in four of these upper-caste booths (16, 17, 57 and 63) the Congress votes exceeded those of the Swatantra Party by a margin of more than 600 votes. The fact is that the Congress net was cast very wide. Such broad-based support is, of course, not found in the case of the other parties but the fact that the Swatantra Party polled more than 5,000 votes or 44 per cent of its total poll from areas other than those dominated by upper caste Hindus is a warning against taking a simplified view of community voting. Other factors cut across ethnic loyalties and modify its effect.

Before considering these other factors, some observations regarding the relationship between social groups and political parties need to be made here. One concerns the nature of social cohesiveness as like the Muslims and the Harijans. The other concerns the nature of social divisions. A third is about leadership-factions in an otherwise homogeneous community.

In point of fact, in this election no community or faction voted **en bloc** for one party. The votes of every community were split, although this is more true of some communities than of others. Thus the Jan Sangh's expectation that the Sindhis and the Maharashtrians (comprising about 14,000 voters) would solidly support it proved wrong. The Swatantra Party candidate had likewise expected overwhelming support from the upper caste Hindus and, more especially, from the Bania community with which he had intimate kinship ties and business relations. In fact, as we have just seen, the upper caste vote was almost evenly divided between the Congress and the Swatantra Party. The Swatantra candidate expressed disappointment very clearly in a post-election interview when he said that even his Bania kin had not whole-heartedly supported him and that this was the main reason why he had lost. He was right. The impressive majority of the Congress was largely due to the fact that it made inroads into groups which were sympathetic to its opponents, while firmly retaining its hold on minority communities like the Muslims and the Harijans.

Split Voting

The extent to which votes were split varied from one community to another. The votes of the Sindhis, who are also a minority community in Baroda, were split between the Jan Sangh and the Congress with a few votes going to the Swatantra. The Muslims, on the other hand,

Table 1: Distribution of Voters According to Communities

Brahmins	6,675
Banias	8,966
Patels	3,670
Bhatias	862
Rajputs	4,521
Artisan castes	5,009
Backward castes	6,649
Harijans	5,037
Sindhis	5,518
Maharashtrians	7,900
Muslims	10,990
Others	1,131
Unidentified	1,571
Total	68,499

Table 2: Votes Polled by Different Candidates

Party	Votes Polled
Congress	24,965
Swatantra	12,480
Jan Sangh	4,417
Socialist Party	299
Ram Rajya Parishad	323
Republican	698
Independent (1)	312
(2)	299
Invalid votes	3,194
Total	37,082

Table 3: Votes Polled and Community of Candidates

Party	Votes Polled	Community of Candidate	Votes of the Community to which the Candidate belongs
Congress	24,965	Muslim	10,990
Swatantra	12,480	Baniya	8,966
Jansangh	4,417	Medium caste Hindu	9,530
Socialist Party	299	Maharashtrian	7,900
Ram Rajya Parishad	323	Brahmin	6,675
Republican	693	Harijan	5,037
Independent	312	Not known	—
Independent	299	Sindhi	5,518
Invalid votes	3,294		—
Total	47,082	—	—

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voted almost as a unit. The fact that the Congress candidate was a Muslim may have contributed to this. But there was more to it. The relationship between the Muslim community and the Congress Party in Baroda has generally been close. That the Congress candidate was also a Muslim ensured the community's solidarity in the elections. The Sindhis, on the other hand, were divided. The difference between the Muslims and the Sindhis in the impact of politics on communal solidarity is a reflection of differences in the social assimilation of the two communities. The sense of insecurity is much more among the Muslims than among the Sindhis who have adjusted themselves remarkably to other groups in the years since the Partition. This is even more true of the Maharashtrian community in Baroda.

Group cohesiveness in politics diminishes further when one approaches the intermediate and upper castes among the Hindus. Here voting took place more on individual and family preferences; even families were split, the women often going against their men-folk.

One can almost project a scale of community orientation in politics and place different communities (in a particular constituency) along the scale. Such a placing would, however, depend on a number of factors, one of which is the extent to which a particular group has been assimilated in the life-stream of society. Such assimilation of more and more groups constitutes the essence of political development. The divisive function of politics here takes the form of splitting of social groups.

Politics as a Unifying Force

What causes the splitting of social groups along political lines? One explanation is that secular factors such as ideology and organisation cut across and modify communal identities. But there are other explanations which arise from the very nature of social groups in Indian society. This was observed in the present election. Communities were found to be splintered into factions based on leadership, interests, status or genealogy. And political parties capitalised on these divisions. Thus the division between the Brahmins and the Marathas among the Maharashtrians as also between the upper and lower castes among the Gujaratis provided the framework in which political division operated and got reflected in voting. These are the traditional divisions reflected in politics. On the other hand, the traditional divisions among the Muslim community, between the Shiyas and the Sunnis and within each along various 'Jamat' organisations, the Sulemanis, the Alvis, the Tais and further the distinction of all these from such communities as Voras, Momans, Khojas and Shaikhs, found no reflection in voting. During the election, even the sharpest divisions got patched up and a sense of solidarity overlay the incipient factionalism of Muslim community living. Politics can be as much a uniting as a dividing force in society. All this casts doubt on the widely held view that politics is a mere reflection of the social structure.

Apart from these traditional divisions, there are also divisions stemming from differences within the local leadership. The most remarkable inroad made by the Congress into the Opposition vote was its success in securing a large slice of the Sindhi vote. This was all the more striking because the Congress candidate was a Muslim and the Jan Sangh was one of the parties contesting the election. This achievement, which surprised many Congressmen too, was largely a result of winning over strategic leaders in the community. Thus the long-standing contact between the Congress Party organisation and the President of the Sindhi Panchayat ensured that the latter was with the Congress. He saw to it that the Panchayat's sympathies for the Jan Sangh candidate did not result in a formal resolution in the latter's favour. It was decided that no directive should be issued to the Sindhi voters.

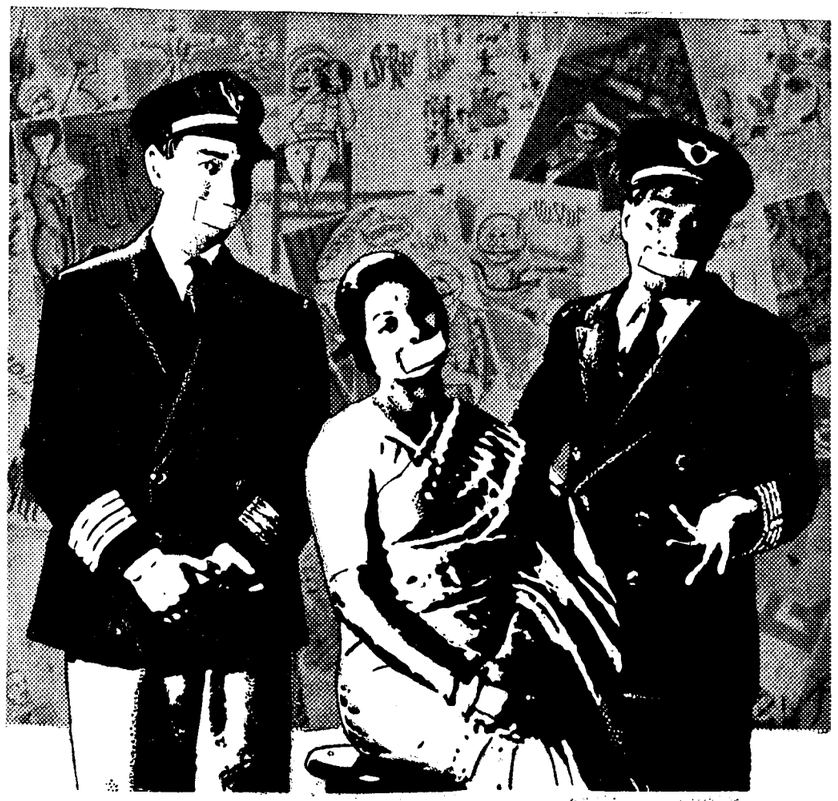
Even more influential than the Panchayat President was another Sindhi leader who was openly canvassing for the Jan Sangh. The Congress carefully studied the situation and found a way to coerce him into supporting the Congress candidate. He now started working for the Congress. A third leader was successfully weaned away from the Jan Sangh by the promise of a seat in the City Municipality and more funds for the Sindhi school, some help having been already given to the school in the past. Finally, a prominent religious leader of the Sindhis was won over, made to sit in the Congress tent on the polling day and use his influence, especially among the women who appeared to hold him in great respect. Thus influence, patronage and intimidation were all part of the Congress strategy to win the Sindhi votes away from the confident Jan Sangh candidate. It is a revealing case study on the ways in which a socially cohesive group splits up when drawn into the political process.

No Social Tension

On the other hand, visits to the colony before, during and after the election made it very clear that the

Table 4: Comparison of Party Position with Social Composition of Booths

	Booths No					
	1-15	16-34	35-39	40-57	58-62	63-77
Congress						
Votes polled	3720	6313	971	6230	1139	6706
Per cent of total votes cast	39.4	61.9	33.6	64.4	39.0	73.9
Maximum per cent in a booth	49.4	85.5	48.0	81.5	49.0	93.0
Swatantra						
Votes polled	4990	2376	450	2002	1262	1499
Per cent of total votes cast	52.8	22.3	15.5	20.7	43.3	16.0
Maximum per cent in a booth	65.5	44.6	31.0	35.0	55.0	34.5
Jan Sangh						
Votes polled	282	1031	1384	915	437	529
Per cent of total votes cast	3.0	10.1	47.9	9.5	14.6	5.8
Maximum per cent in a booth	5.6	13.8	68.0	25.5	43.2	18.0
Social Composition of Booths						
Upper castes	10223	2490	266	3158	2217	2264
Intermediate castes	333	1349	149	2065	217	485
Artisan castes	1236	1451	89	1218	327	698
Backward castes	636	2662	375	2224	286	1336
Harijans	63	1862	170	2313	121	443
Sindhi	172	1049	2750	821	145	481
Maharashtrians	329	2565	460	2634	1045	867
Muslims	468	2478	181	1623	69	6181



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political differences to which the election gave rise and of which all classes of inhabitants appeared to be conscious gave rise to hardly any social tensions or bitterness. This is further indication of the growing autonomy of politics in society's decision-making process. Similar cases were studied in other communities, especially the Bania and the artisan castes, but there is no space to go into them.

The influence of the ethnic factor on voting has been discussed at length because of the vital importance of understanding the actual scope of its operation, the precise forms it takes and the various limitations on its effectiveness in Indian politics. Four points emerge from this study. First, there is no evidence of a clear-cut identity among voters or between voters on the one hand and the candidate on the other along communal lines. The relation is far more complex and takes various forms. Second, there is no doubt, however, that castes and communities constitute effective bases for political organisation and mobilisation, the process being one of splitting or uniting social groups on political lines. Political divisions, it is found, cut across social cleavages. Further, at times they operate, independently of the latter. Speaking of "casteism in politics", it is the influence of politics on caste and not of caste on politics that is really at issue. Third, the influence of politics on caste varies from one community to another, depending, among other things, upon the assimilation of various sections of society into the political community. Fourth, the political process provides choices to individuals and groups thus contributing to the process of individuation going on in a developing social system. In this process, factors like leadership skill, political issues and organisation impinge upon the traditional social order. In what follows, we give a brief analysis of these factors.

IV

Ideology

No separate study was made of the influence of ideology. What is said here is based on general observation of the campaign aided by an opinion survey of group leaders. On the whole, it appears that the ideological factor did not play a major role. Its main impact was on individuals who did not follow group dictates and made their own choices, as, for instance, in the salaried and white-collar class among the Maharashtrian, Nagar and Bania communities. The political divisions that cut across group loyalties as discussed above sometimes took a clearly ideological form although more often the latter was mixed up with loyalty towards a political leader or party which was not necessarily an ideological loyalty. Sometimes ideological considerations may even reinforce group loyalties as in the case of Banias voting Swatantra.

The ideological factor operated in this constituency at two levels. There were, first, the conflicting stereotypes created or strengthened in the public mind by parties and their spokesmen through meetings, literature, etc. Thus the Congress was identified with such things as socialism and a fair deal for the under-privileged, high taxes and rising prices, 'permit-license raj' and corruption, etc, the Swatantra Party with greater freedom for businessmen, less planning and controls, the rule of big business and vested interests, etc, and the Jan Sangh with Hindu religion and the sacredness of the cow, the cause of the refugees and the under-privileged in Hindu society, revivalism and obscurantism, etc. Different aspects of these stereotypes appealed to different sections of the people in different degrees, although the overall appeal was marginal and took the form of channelising political divisions that were already caused by other factors. The channelising role, however, should not be underestimated. In a number of interviews it was found that frequent use was made of rationalising arguments for supporting particular positions in the election.

The ideological influence on voting exercised itself on another level which was more concrete. The movement for a separate linguistic state that had spread all over Gujarat in the recent past had left its memories as well as its organisation. The anti-Congress feeling generated during the movement became the basis of political attitudes which were in some cases further strengthened by fresh dissatisfactions and in others modified or reversed now that the Gujarat State had been established and the Congress organisation's hold re-established.

The Swatantra Party cashed in on the legacy of the Mahagujarat spirit. Out of the 16 booths in which even the Maharaja of Baroda had fared badly as a Congress candidate

Table 5 : Comparisons of 1957 and 1962 Elections in Mahagujarat Strongholds

Booth No	1957 Election		1962 Election	
	Congress	Maha Gujarat Parishad	Congress	Swatantra Party
1	242	528	202	340
2	232	556	278	327
3	374	377	155	302
7	350	393	304	324
8	268	495	224	331
12	292	419	197	364
13	244	493	171	387
14	227	609	223	358
15	290	422	269	290
16	365	382	277	194
18	365	382	341	172
46	393	420	276	138
59	345	429	312	315
60	293	456	171	258
64	342	405	528	94
69	285	379	333	99

Notes : 1 The booth numbers are according to the 1962 elections. The numbering was different in 1957.
2 The comparisons are not exact. There have been minor revisions in the delimitation of booth areas.
3 The 1957 figures are from booth-wise returns of the parliamentary seat; the returns of the assembly seat of 1957 could not be traced. The actual lead of the Parishad over the Congress in the assembly seat was bigger in that election. The 1962 figures are for the Assembly seat.

in 1957, 11 registered a verdict unfavourable to Congress in 1962 while in five booths the Congress recovered its position. It must, however, be added that most of these 11 booths are situated in upper caste localities where the Swatantra Party candidate had his other pulls; the results, therefore, should not be ascribed to ideological influences only. Ideological considerations reinforced rather than gave rise to political positions.

V

Personality and Influence

Although it does not appear so at first sight, the Swatantra Party's poll of 12,480 or close to 30 per cent of the total votes cast was a remarkable achievement. The party had almost no organisation in the constituency on the eve of the elections. There were no offices, no full-time workers and hardly any financial support from the party. By and large, it was the candidate's own achievement. He too had hardly any political record. Along with many other new-comers on the political scene in the flush of the movement launched by the Mahagujarat Janata Parishad, he had been elected to the City Municipality on a Parishad ticket against the Congress. This inspired confidence and his friends persuaded him to stand for the election. Once he agreed to stand, he took great pains. He built up an impressive organisation, opened six offices in the constituency, divided the area into four zones, had twenty full-time workers in each zone and mobilised for the election day two polling agents, two workers and two or three volunteers for each polling booth, a force of more than five hundred people, all from his own relations and contacts. The campaigning was done systematically, by house to house contacts, mass meetings to which outside political and religious leaders were called, and most of all by group contacts and "negotiations" with the "key men" of various areas and with caste, religious and youth associations.

He also had very wide contacts and influence. Coming from an old banking house of Baroda he had an extensive network of caste, kinship and business relations. His father was manager of a city textile mill for many years. One of his maternal uncles was owner of another, and both together had obliged a large number of people. His contacts with the industrialists of the city were intimate and he was able to procure finance, transport, and much other assistance from some of them — such as the assistance of their staff (who were granted leave on duty) including labour officers and other influential men. He mobilised all this support and influence very ably and succeeded in winning this huge vote without any party organisation whatsoever.

Personal influence played its part in the Congress too. There was available to the Congress the personal influence of the Maharaja of Baroda. He had almost charismatic appeal among some of the depressed classes, carried a great deal of weight with the Maharashtrian voters, especially those settled around the nobles and dignitaries of the old princely state, and was reported to have got important leaders of the Rajput community to actively work for the Congress. (Elsewhere in Gujarat this community had supported the Swatantra Party.) The image that the Congress candidate presented also had its effects. He was a Muslim but most of his political contacts were with the Hindus, and his mild manner helped him win much support. He left a large part of the initiative to the party organisation and various area leaders. Although it may not have been of decisive influence, the Congress candidate's personality helped to bring forth the best organisational effort of the party.

VI

Organisation

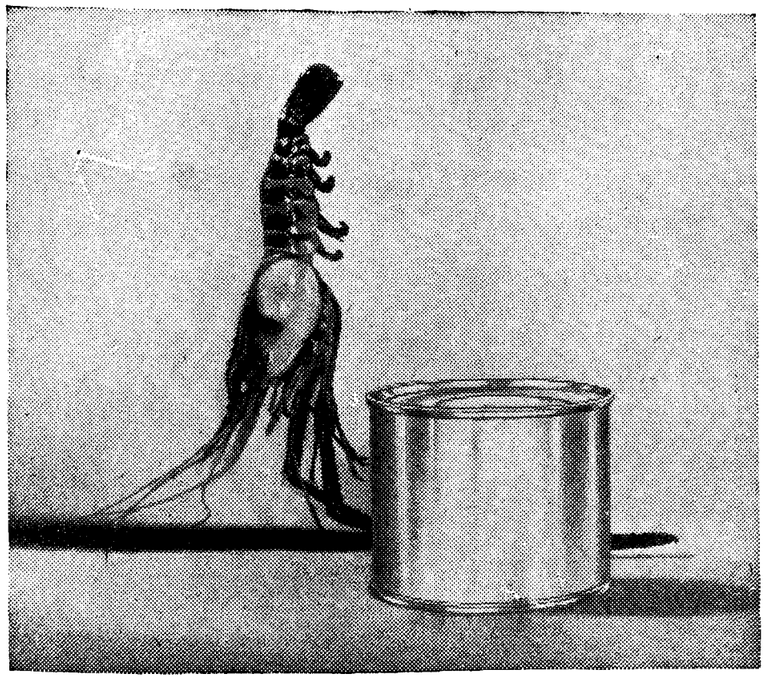
By far the most important single factor in the present election was the organisation of the Congress Party. Long experience, accumulated skill and the links established in the running of various organisations of the party and various governmental and semi-governmental institutions stood the party in good stead. There was no booth in which the Congress did not get a hundred votes. A hundred votes amount to more than ten per cent of the total voting strength of the booth and a little short of twenty per cent of the actual votes cast. Day to day contacts with important leaders and the subtle intermixture of politics with a variety of social functions ensured the party's organisational superiority.

Once again, it is important to understand the precise forms that the organisational effort took. We will not discuss the routine details of the campaign and office and field set-ups, etc. These were more or less on the lines followed everywhere. There were other and more interesting aspects. The patronage possibilities and the pressures brought on strategic persons have already been referred to in discussing the Sindhi vote. There were many more instances: offer of a Government pleadership to the brother of a prominent politician from an opposition party; promise of the Chairmanship of the School Board to an influential leader of an important locality; the reminder to an energetic worker of the Swatantra Party that he owed his job to the Congress boss which made him stop working and many such others, not to mention the routine advantages enjoyed by the ruling party. A sample study of the extent of influence wielded by Congress leaders showed that most government services and welfare and developmental benefits were procured by the citizen through the good offices of a Congress leader who also participated in an important capacity in the institutions set up under such schemes. These institutions provided important levers of electoral support and organisational strength for the party.

Links with Leaders of Society

This is one aspect of the organisational strength of the Congress. The other aspect is the links that exist between Congress leaders and important social leaders, people occupying vantage positions in various sections of society. These are the so-called "key men" in politics, caste leaders, officials, street "dadas", respected elders in localities, and so on. There are close links between these men and party leaders. The Congress boss in Baroda East, a sitting member of the State Legislature before the 1962 election and President of the Municipality, is a past master in taking advantage of such links. Moving with him in the days prior to the election provided an insight into the firm grip over men, flexibility in approach and the capacity to consolidate positions that a party strategist displays in his electioneering.

The party also persuaded various groups such as the Harijans, the Vagharis (a backward caste), the Women's Conference, professional organisations like the Association of Bio-Chemic Practitioners and various gymnasia and youth organisations to pass resolutions supporting Congress in the elections. The Congress also wielded great influence over specific segments of the population such as middle-class women through a cadre of women social workers or textile mill-hands through trade union workers and industrialists. The Congress also utilised its contacts with different group leaders to divide the opposition camp and divide its vote as described earlier. There were also



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instances of drawing away volunteers and contact men cultivated by the other parties. Regional leaders of various communities were brought from outside to exert influence. All this ensured the support of all sections of the population in addition to the definite Congress support from minority and backward communities.

Factions in Congress

Such a multi-pronged approach to election strategy reflected, of course, the competence that came from a mature organisation and a seasoned leadership. But there is quite another aspect of organisational vitality in the Congress which deserves attention. It is often pointed out that the Congress is a house divided against itself. There is much truth in this and evidence was not lacking during the Third General Elections in the country. But there is another angle to factionalism within the Congress. It consists in the twin processes of division and reconciliation, of disaffection followed by assimilation and integration. Where the two aspects go through fully,

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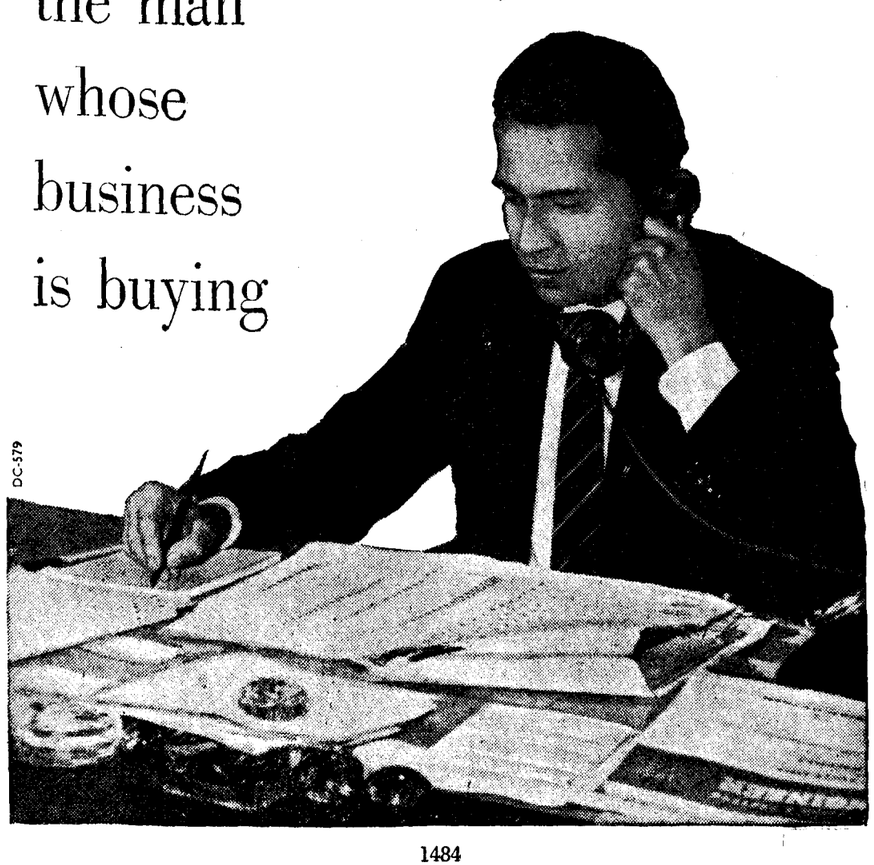

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we have a fascinating essay in political dynamics. The Baroda East study enables us to see this process.

The process started with the selection of candidate for the Congress ticket. Six persons had applied for the ticket in Baroda East, including the powerful sitting member from the constituency, three Muslims and two women. Three of the contestants, apart from the sitting MLA, were office bearers of the City Congress Committee, one its President and two its Secretaries. The real contest was between the President who was a Muslim, the Secretary who was also a Muslim, and the non-Muslim sitting member. The important point is that although the matter had been decided in favour of the City Congress President even before the Pradesh Observer came to study and report on the state of local feeling, the formalities were fully gone through. This allowed for a free competition for power and consolidation of positions within the party without affecting the outcome. We were given the opportunity to sit with the Observer when he interviewed the Mandal Committees. We found that these latter were sharply divided in their preferences. As the District boss was known to be in favour of choosing this constituency in the District for giving the ticket to a Muslim, the contest turned out to be one between the two Muslims. Evidently there had been much active canvassing especially in the Muslim areas and the divisions reflected the pulls and contacts of the two contestants. The selection of the City Congress President, when it was finally announced by the Pradesh Election Committee, left a deep sense of dissatisfaction, especially in the two women who had a record of long service to the Congress, the sitting member who was a powerful force in the constituency and President of the Municipality, and the very active Muslim Secretary of the City Congress. The sense of injustice was so deep in Congress circles that a number of workers announced their decision not to take any part in the election.

Dissidents Won Over

However, ultimately all of them, including the disappointed contestants for the ticket, worked actively for the Congress. The process of conciliation went through three stages. At first the young Muslim Secretary was won over, partly by the influence of community leaders, partly by the very ethos of working in the Congress Organisation in a formal capacity, but mainly by the incentive of a seat and position in the Municipality. The women too came back. There was no real alternative and it was impossible to remain aloof from the election. After all, their services would be rewarded some day and meanwhile they had to get grants and maintain their positions in the numerous welfare institutions controlled by them.

It was quite late in the campaign, in fact only a few days before the election day, that the powerful Congress boss of the local party — the sitting MLA — who had so far kept aloof, was also actively brought in. The candidate met with a motor car accident on the day the Prime Minister came to the city and he directly appealed to the sitting MLA to help win the election. The vigorous campaign of the Swatantra Party candidate and the fact that the Congress candidate was a Muslim had driven a sense of fear into Congressmen and it was clear that if the challenge was to be faced the party must close its ranks at least during the election. But for the active and vigorous cooperation of the local party boss, it would have been hard to say whether the Congress would have won the election. It was impossible for anyone else to do what he could. There was a very large shift in electoral support in the last days of the election and this was mainly his achievement. This has since been acknowledged by the successful candidate. The stature of the party boss, in turn, also improved considerably due to his timely support in the election.

The party boss had his own reasons for supporting the Congress candidate. Two important struggles for power within the party lay ahead. He was the leader of the Municipal Congress Party and President of the Municipality. Fresh elections to the Municipality were to be held soon after the General Elections. He wanted to have a full say in the nomination of Congress candidates in that election so that his group in the Municipal Party would get stronger. He also wanted to tighten his hold on various Municipal wards and plan his strategy; working in the General Elections provided a good opportunity for this. The second struggle was for the ultimate control of the City and the District Congress. He was already forging vital links with leaders in the rural areas of the District, the grip of the present District boss was gradually loosening, and with his base secure in Municipality and local institutions he could aspire for the coveted position.

This analysis of factionalism within the Congress shows how the process of division and conciliation, except in cases of gross indiscretion and misuse of authority, leads to integrated effort and a vitalised organisation. There is the discipline of the party and the mutuality that comes out of long association but there is also a continuous accommodation of diverse interests. More than anything, there are incentives to work for higher position and power. This aspect of organisation is at least as important as the usually noted institutional and structural strength of the party machine.

VII
Money

This is the most elusive factor in an election. It is clearly present. But perhaps more can be known about the forms that 'bribery' take than its exact quantum. An attempt was made to study this factor in the present constituency. There is no space to go into the details but three points may be briefly noted.

First, it was found that money had become an important part of the bargaining between certain sections of the electorate and the candidate or the party. In some quarters the expectation to receive payment for votes was considered part of the routine. It was a sort of business opportunity that had come and would soon go away. This was the voters' attitude in poor and 'backward' areas but it was also found in more prosperous localities. The vote, instead of being considered as a political right, was often considered as a 'deal', as a benefit

to be conferred on the recipient, although a mixture of the two attitudes was also found. (There is a third attitude to the vote where it is considered as a social obligation towards the candidate or his agent or some sympathiser.) There were also cases where money was taken from both parties, the vote being given not to the highest bidder but on the basis of other considerations.

Second, the most usual form of bribe was payment in cash or kind to institutions, such as caste 'mahajans' and associations, youth organisations, gymnasia and sports clubs, and welfare institutions. The Swatantra Party candidate was known to have approached almost every important local institution with a view to win support, in some cases by a "bargain" in which a payment was made. The Congress approach was less specific but "bargains" were struck by it too. Forms of payment in kind were sports equipment, utensils, books, etc. A more interesting payment in kind was liquor — which is prohibited in Gujarat — served to local leaders in depressed areas. It was known to work miracles with these leaders. The other form of bribery was payments made to selected group leaders, strong men of the locality and "dadas", in areas where the dictate of such men was known to be law. But quite often such payments led to further demands by rival leaders who, if not satisfied, would go to the other party. Cases of payments made to individual voters were sometimes rumoured but nowhere confirmed.

The third point about bribery is its relationship to the over-all strategy of a party or a candidate. This is most important from the point of view of assessing its significance for the outcome of the election. It was found that money by itself did not produce the desired results; it succeeded only when used as a timely instrument of election strategy. Once again, the Congress proved to be more than a match for the opposition.

Indiscreet Spending Does Not Pay

Money was spent in large amounts in this constituency. The Swatantra Party candidate used it as an important instrument of winning votes. A great deal of the "work" he claimed to have put in the "backward" areas was done through this instrument. But it was all done recklessly. In the first flush of enthusiasm to secure votes, money was lavishly given. The limit was soon reached and the enormity of the task realised. Fresh demands began to pile up as the story went around that here was a source from where money could be had for the asking. Demands then became difficult to meet and so henceforth only promises were made which would be fulfilled after the elections. This rebounded adversely and turned the vote-sellers hostile.

The Congress, on the other hand, knew the art of timing and placing such "rewards". The amount it spent was much less but its timing and selection were most calculated and effective. It waited for the opposition to get exasperated and for disillusioned groups to come to it, when they could be brought at the buyer's price. Also, it sabotaged the opposition's attempts at a number of points by cashing in on the dissatisfaction of factional rivals. But more important than these, was the general approach of the Congress. It brought other pressures and used other tactics of influencing voting side by side with the payment of money, so that its money was hardly ever wasted. It had long experience, knew people intimately and recognized the psychological moment when even a token gift, like a bottle of wine, would do the trick. Its aim was to win loyalties and consolidate positions; money was an occasional instrument, a necessary one, in that direction. It was part of the master plan.

VIII

Conclusion

A categorical statement on the most important factors influencing electoral behaviour cannot be made as they would differ from one constituency to another. In Baroda East, it seems clear that out of the five factors examined here the most important were the ethnic and the organisational factors. The actual impact of personality in this election, though considered as a separate factor, was really to shape the organisational effort that went into the election. Nonetheless it was important at least from the point of view of explaining the impressive performance of the Swatantra Party. Ideology played an important marginal role by providing competing stereotypes and reference symbols to the electorate, thus concretising loyalties and interests around well-articulated arguments over ideas and principles. Bribery attracted a lot of attention in the election and succeeded to some extent but was observed to be more effective only when used as an adjunct to other methods of influencing the vote. It is really only an aspect of organisation. Thus all the other factors helped in shaping or reinforcing the two major ones, community loyalties and political organisation.

On the relationship between the ethnic and the organisational factors, the important point is the inroads made by secular and political forces in the traditional structure of society. Political organisation and leadership constantly cut across existing loyalties and cleavages, assume an autonomy of their own and in turn create new loyalties and cleavages. The study provided innumerable instances of this. The view that politics is only a reflection of the prevailing structure of society, thus making it appear as a mere epiphenomenon, was positively repudiated in Baroda East. It is an important case study for comparing the competing approaches of the social anthropologist and the political scientist to the study of political institutions.

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Economies of Scale, Distribution of Industry and Programming

A Rejoinder

Arthagnani

Jagdish Bhagwati ("Economies of Scale, Distribution of Industry and Programming", The Economic Weekly, September 1, 1962) poses certain problems relating to the technical and the political processes of planning in India, which need deeper analysis than attempted by him.

Bhagwati's criticism is that licences for industries are given without taking note of various economies, like those of scale or of spacing, and the solution he presents is to work out national industrial targets into economic project reports according to which industrial plants would be set up.

There is an implied assumption in Jagdish Bhagwati's argument — that there is a technically fixed optimum location and scale for each industry (vide his examples of cars, refrigerators, paper and so on). In fact, there are two fallacies here.

Firstly, the manufacture of none of these products can be said to constitute a separate "industry".

Secondly, scale or location are not technically "fixed" — even over the myopic horizon over which alone planners do, or can be expected to, plan.

MANY of the products cited by Jagdish Bhagwati are not "products", but composites of products (or sub-products, if Bhagwati so likes). Cars and refrigerators are assemblies of products from different industrial groups (electrical and mechanical engineering and others); paper is made out of pulp. The relevant variable to consider, therefore, is not the final product (in which alone consumers and theoretical economists appear to be interested), but the economies of the sub-products which, even when they go into the same final product, would differ for each sub-product. In the case of the car, the tyres, the batteries and the electrical system are almost always separately organised as manufacturing organisms. In a refrigerator, the cabinet-making and compressor manufacture are industrially distinct activities. Pulp-manufacture need not always be deemed an essential constituent of a paper-maker's job.

There is, therefore, always a case for vertical or horizontal disintegration of industry in India, as at present constituted. If a re-thinking of policy is to be done, the lines of re-thinking would need to have a much wider horizon than those suggested by Jagdish Bhagwati — covering each industrial product and its impact on the industrial and organisational structure of industry in India.

Need for Conceptual Clarity

To be able to do this, it would also be necessary for planners and some economists to clarify notions on economies of scale, location, and so on. There is not, in real life technology, a single technically fixed scale of production, but, given the technique, a range of levels of output where average cost would be a minimum and about constant. It is only when a size change involves a technical break-through or, particularly in chemical plants, opportunities for recovering materials or use of bye-products, that one enters a horizon of a new cost level (again, with possibly constant costs over a range) and there is no reason why such changes should always involve an increase in scale.

This is the only reason why in the same industry or for the same product, there exist, and survive in a competing world, plants of varying sizes. In the case of cars, for example, the scales of operation on the European continent are much smaller than in the USA. So also in the case of refrigerators. And in pulp manufacture, it is not certain that costs vary significantly as between levels of production ranging from 30,000 tons a year to 100,000 tons.

Industrialists Want Small Plants

Jagdish Bagwati is worried about the issue of industrial licences involving small (uneconomic) plants as also the lack of competition in the economy. In fact, the Government have in many cases (for example, paper plants in the first two Plans) set down minimum sizes for plants allowed to be set up — a policy which, in the light of what is said earlier, is more appropriate than Jagdish Bhagwati's suggestion of Government selling pre-determined project reports to prospective industrialists. In many cases, it is the industrialist who does not want a large licence because he is new, or does not have large resources, or is not sure of the market. Unlike what Jagdish Bhagwati states, instances of the Government imposing a smaller capacity on an industrialist are rarer than those of industrialists asking for smaller capacity licences (and not because, as Jagdish Bhagwati states, they fear the Government will not grant them licences for a larger capacity).

The logic of small plants lies not in Government's desire to prevent monopoly as Jagdish Bhagwati argues as in an attempt to decentralise the industrial effort. This, of course, raises another dilemma: should a given target be distributed among a small number of large plants (as favoured by Jagdish Bhagwati) or among a large number of small plants? This is a problem of inter-temporal adjustment of plant size: whether the process

of development should be economic at every point of time or over a period. The problem in India is not only to manufacture a targetted output but also to manufacture entrepreneurs (to broaden the industrial base); hence the small licences. Economies of scale are obtained not in the immediate present but left to be obtained in the succeeding periods when total demand rises. (Incidentally, it is in this context that the recent restrictions on maintenance imports and increases in excise levies are to be regretted: they prevent many industries from reaching their optimum capacity.)

In this connection, Jagdish Bhagwati is obviously making a mistake in thinking that licensing has been restricted within the capacity targets (thus restricting competition). In fact, it has been pointed out ("The Evolution of Industrial Licensing Policy", **the Economic Times**, July 10, 1961), that industrial licensing has been more liberal. This has recently been confirmed by the Government in Ministers' replies to questions in the Parliament*. The point at issue here is not whether industrial licensing should be more or less liberal, but whether we should have planning or do without it.

This is basically a political problem. Jagdish Bhagwati would like planners to prepare project reports and sell them to prospective industrialists. This is a technocrat's concept of economic organisation. In fact, the variables to be considered in arriving at such a solution, as shown above, are more than those mentioned by Jagdish Bhagwati. Some of these are admirably stated by **The Economic Weekly** (September 1, 1962, p 1398) in the note on automobile policy. Planning is basically a political process, and horse-trading is as prevalent in politics as in business. It would be futile to seek human or social salvation in a technocrat's paradise.

* *Vide*, Shri Nityanand Kanungo's reply to Shri A B Vajpayee in the Rajya Sabha on September 5, 1962 (*The Times of India*, September 6, 1962).

Company Note

Jay Engineering's Exports Fall

JAY Engineering Works has been one of the pioneer exporters of durable consumer goods in this country. Within a relatively short period of time, it has built up a considerable foreign market for its electric fans and sewing machines in Asia, the Middle East and even in Europe. However, in 1961-62 the company's exports suffered a setback. The value of exports declined from Rs 113 lakhs in 1960-61 to Rs 91 lakhs. The Directors of the Company attribute this to import restrictions imposed in Ceylon, Burma, Yugoslavia and Egypt. Exports to these four countries had aggregated to Rs 52 lakhs in 1960-61 against only Rs 19 lakhs this year. Now, foreign exchange difficulties are not peculiar to India and it is too much to expect that other Governments will look kindly upon the continued import of consumer articles like fans and sewing machines. At the same time, however, these Governments would welcome assistance in setting up indigenous industries. Jay Engineering Works has risen to the occasion to meet the challenge of restrictions imposed on impors of its products. Thus it secured permission from the Government of Ceylon to set up a subsidiary company in Ceylon, "Usha Industries Ltd", in which it holds 51 per cent of the shares. Initially, the new company will assemble fans and sewing machines from parts sent from the parent company's factory at Calcutta. In course of time, it is presumed, the company would begin manufacture of fans and sewing machines in Ceylon. It is not known whether Jay Engineering Works has approached other Governments, which have restricted import of the company's products, with similar propositions for setting up local production with the company's collaboration.

The decline in exports is not reflected in Jay Engineering Works' overall working results. The Company's annual report for the year ended March 31, 1962 shows an increase in net profit from Rs 26.14 lakhs in 1960-61 to Rs 30.79 lakhs. Taken together with Rs 7,173 brought forward from last year, the total available for disposal is Rs 30.86 lakhs.

The Directors have proposed that Rs 3 lakhs be allocated to the General Reserve. The dividend liability — at 10 per cent on preference shares and 15 per cent on equity shares — accounts for Rs 27.77 lakhs, leaving Rs 9,036 to be carried forward to the next year. It will be noticed that in spite of the higher profit the Directors have recommended a reduction in the dividend on equity shares from 17.15 per cent in 1960-61 to 15 per cent, both taxable. This year, however, the distribution is on a larger capital as the company issued equity shares of the value of Rs 60.75 lakhs in 1960-61.

Production of sewing machines increased from 2,56,000 in 1960-61 to 2,73,000 but that of electric fans declined slightly from 5,14,000 to 5,13,000. Sales of both sewing machines and fans registered increases. Sales of fans amounted to Rs 552.25 lakhs (Rs 501.71 lakhs) and of sewing machines to Rs 386.38 lakhs (Rs 384.03 lakhs).

The company's expansion programme in India is making satisfactory progress. The construction of the new factory at Hyderabad was started during the year and installation of machinery and equipment is under way. Assembly of Zig-Zag Machines has been started and is gradually expanding. At present some parts are supplied by the Calcutta factory but it is expected that production will gradually increase during the current year.

Around Bombay Markets

Gloom Pervades Dalal Street

Thursday, Morning

DALAL STREET has been rudely shaken. Equities have suffered all-round heavy losses and last week's landslide in prices is due almost entirely to the debacle in Steel following the long-awaited announcement of retention prices, the increase of Rs. 10.50 a tonne being far short of the market's lowest expectations. Tata Steel which had eased from Rs 147.50 to Rs 145 on Thursday (6th September) were sold down to Rs 138 on Friday evening and still further to Rs 135 the next day. On 11th September, the quotation was marked down to Rs 133.50—a record low for many years. During the same period, Indian Iron dropped from Rs 26.80 to Rs 25.25. The break in Steel shares reflected market's utter disappointment with the increase in retention prices.

The Union Minister for Steel and Heavy Industry has expressed surprise over the feverish activity on the stock exchange following the official announcement on retention prices. Shri Subramaniam thinks that the market fluctuations were dictated by speculators and not by genuine investors and that it would be wrong to be guided by such fluctuations.

Need For Inquiry

It is perhaps true that the market might not have reacted to the official announcement the way it did if it had not taken Press reports suggesting a price increase of Rs 30 a tonne very seriously. But the language and the tone of the Press reports appearing on Friday morning reporting a price increase of that order gave the unmistakable impression in that the Press had been 'briefed' by some one in authority. This view is further strengthened by market reports of heavy influential selling in Steels *from New Delhi* on Thursday and Friday. A thorough inquiry into the heavy selling in Steels, especially Tata Steel, and also how the Press flashed the news about steel retention prices, the way it did might prove to be quite revealing. Much more is at stake than the fortunes of a few speculators.

It may not be necessary to take any serious notice of the fluctuations on the stock exchange but the market's reaction to steel retention prices can by no means be dismissed as impulsive. Nor can the steep fall in Steel shares be attributed to the doings of a few powerful speculators. The market has had enough time to assess the implications of the increase in retention prices. Judged by its behaviour in the days following the official announcement , the market does not think it necessary to revise its opinion. And not without reason.

Market Fears

The Tariff Commission had recommended an increase of Rs 38 per tonne, including a special element of Rs 8 for payment of interest on and repayment of special advances on the basis of 90 per cent utilisation of the full rated capacity and a working capital provision at six months' works cost equivalent. The last may be on the rather high side. But to fix prices on the basis of 100 per cent production performance also does not seem fair in the present circumstances because of the inadequate and poor supply of coal, the lack of facilities for washing coal, difficult limestone position and transport bottlenecks. The market rightly feels that the new retention price would not enable the steel producers to cover their costs. Not until the steel companies are able to attain their full rated capacity will they find it possible to earn the profit which is necessary to retire their loan obligations and reward the shareholders in a befitting manner in order to be able to raise fresh equity capital without adversely affecting the fortunes of the existing shareholders.

While there is scope for differences between the Government and an expert body like the Tariff Commission, and there have been such differences on many occasions, the Government's final decision in regard to the increase in steel retention prices has caused serious doubts about the official attitude towards industry's profit margins, especially of controlled industries which are now being reduced to the status of public utility concerns. It is this which has caused a feeling of uneasiness on the stock market. Sentiment has been further unsettled by the renewed reports about infiltration of the Chinese troops into Indian territory and by the Prime Minister Nehru's statement that Britain's entry into the European Economic Community would result in increased tensions between the East and the West and that it would upset India's third Plan. The stock market will not find it easy to shake off its present mood of despair and odds are that with occasional rallies, equity prices will continue to drift lower.

Cotton

Futures Drift Lower

COTTON futures had been moving up and down indecisively in a narrow range for the past few weeks. After making many unsuccessful attempts to improve upon its 8th August high of Rs 749.75 (per 3 quintals), the market appears to have changed its mind about the immediate outlook. The March contract was sold down to Rs 734.75 on 12th September — the lowest since 1st August — and Wednesday's closing of Rs 736 showed a net loss of Rs 9.25 over the week. But far more significant than the setback in prices was the turn in market sentiment. The change in market psychology is by no means due to growing official concern over the price situation. The cotton trade knows it all too well that the authorities simply cannot hold the price line when there is a serious imbalance between demand and supply.

Last week's setback in futures and the turn in trading sentiment were due mainly to timely rains in the producing areas. Weather conditions are said to be almost ideal everywhere. It is heartening to hear many market men say that if the weather continues to be really good in coming weeks, the cotton crop might well exceed 52 lakh

bales. It is to be hoped that these optimistic forcasts are based on a more thoughtful assessment of the weather reports and that they do not merely reflect the prevailing mood of the market. But that as it may, last week's behaviour of the futures market suggests that the market is now set for its seasonal decline. How far this decline might go, is difficult to say. For a good deal will depend on the unpredictable weather.

The fortunes of the cotton trade are closely linked with the overall supply position of cotton which depends both on the size of the new crop and the quantum of imports. Certainly the trade cannot hope to enjoy much freedom if the supply position is not comfortable enough to contain prices well within the ceilings. If current expectations in regard to the new crop are realised and the Government is able to arrange sizable imports, it is possible that prices might keep within the revised ceilings — Rs 35 per quintal higher than in the previous season. Of course unofficial premiums on most varieties of ready cotton were higher than the increase that has now been permitted in the ceiling prices.

Policy for 1962-63 Season

The cotton policy for the 1962-63 season which has now been announced makes no significant departure from the policy followed in the previous season. This is scarcely surprising because, with the supply position being what it is, nobody could have expected any relaxation of the control measures. The few changes that have been introduced with a view to streamlining the control measures will be greatly welcomed by the trade. Compulsory survey is to continue but it will not be necessary at the ginning or the pressing stages. Survey will be necessary only at the time of delivery to mills or other consumers. Besides, the survey work will now be undertaken by six zonal committees located at Ahmedabad, Akola, Ujjain, Bhatinda, Hubli and Tirpur — instead of the multiplicity of regional committees. Thus the trade will not be required to rush for survey of the cotton and it will be enabled to move the cotton freely inter se. Bengal Deshi cotton which is delivered only for purposes of export will be exempted from compulsory survey. Random requisitioning will be resorted to in case prices tend to pierce the ceiling. The clause relating to the purchase of 'kapas' (unginned cotton) by a manufacturer has been amended. The manufacturer will be allowed to purchase 'kapas' only to the extent of the capacity of the ginning factory. This is as it should be because mills are believed to have been circumventing the cotton price control order through excessive purchases of 'kapas'.

A study of the new price schedule shows that Khandesh Virnar 197/, Digvijay 'A' and 'B' and Surti have been awarded a price rise of more than Rs 35 per quintal while Buri American gets a rise of only Rs 27. The L147 cotton which had hitherto been grouped under Buri American has now been separated with its own price. The price of L147 is higher than that of Cambodia C. This should please the cotton cultivators of Berar who had been agitating for a proper status for L147 variety. The basic staple has been increased by 1/32" in respect of Vidarbha M.P. 197/3, Khandesh Virnar 197/3, Digvijay 'A', Surti, Karunganni, Buri American and Laxmi. The policy in regard to the quota system for Indian Cotton has still to be announced.

Nominee System

The Indian Cotton Mills' Federation is said to be in favour of evolving a nominee system of cotton distribution with a view to holding the price line. A two-man committee has been formed to discuss with the trade the feasibility of having a nominee system. The trade cannot be expected to welcome this scheme because this will undermine its very existence. Strict control over distribution is necessary when scarcity of supplies pushes prices beyond the statutory ceilings. But nominee system should be considered only as an emergency measure because it would not be wise to distrupt the normal trade channels if prices keep well within the ceilings. Hardly any fresh business is reported to have been put through in Bengal Deshi cotton. In view of the large size of the export quota and the long shipment period, neither the overseas buyers nor the exporters here are in haste to rush with business. Meanwhile, informed sources are inclined to take a somewhat optimistic view of the outlook for obtaining cotton from the U S under P L 480.

Oilseeds

Weather Turns Sentiment

TIMELY rains in Saurashtra, Gujarat and other producing areas have brought about a marked change in the trading sentiment in the oilseeds market. Hopes have revived that the new groundnut crop might again turn out to be as good as in the previous season. Prices have suffered an all-round decline and groundnut futures which had all along been displaying remarkable strength have declined more sharply due to heavy selling by both bulls and bears. Groundnut January contract which had touched a high of Rs 234 (per 250 kgs) on 4th September was sold down to Rs 222.75 on the 11th — the lowest rate since 26th July. The quotation rallied to Rs 226 the next day but the closing was lower around Rs 224. The spot market was also distinctly subdued despite fairly satisfactory off-take in groundnut by crushers and encouraging overseas advices in regard to groundnut extractions.

The sharp setback in groundnut futures had its effect on the general trading sentiment. Linseed March moved down from Rs 40.25 to Rs 39.19 (per 50 kgs) and the week-end closing rate was only a little better at Rs 39.44. Castor March were marked down from Rs 168.25 to Rs 162.75 (per 250 kgs) and Wednesday's closing of Rs 163.75 showed a net loss of Rs 3 over the week. Export business in castor oil continues to remain virtually at a standstill, with the U K quotations mentioned around £103 per ton for Commercial and £113 for B S S which are some £3 lower than the prevailing Indian quotations. Castor oil has a good export potential and it is really surprising that the Government should not be the least bothered about it, especially when it seems so very anxious to export groundnut oil even at a loss of £ 45/50 per ton. Modest business was reported to have been put through in linseed cake with the U K last week.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Sep 7	Aug 31	Aug 10	Sep 8, '61
1 Note circulation	2044.06	2011.38	2063.71	1898.86
2 Rupee coin	122.27	124.43	119.64	124.62
3 Deposits				
(a) Central Govt	114.74	94.12	58.23	63.50
(b) Other Govts	21.64	34.85	23.15	31.95
(c) Banks	89.97	81.13	91.48	75.85
(d) Others	162.25	164.19	204.64	159.28
4 Foreign securities	88.34	88.34	89.34	116.86
5 Balance abroad	5.44	5.75	5.16	18.73
6 Rupee securities	1727.99	1722.99	1756.99	1548.57
7 Investments	221.02	236.32	277.81	261.16
8 Loans and advances to Govts	27.12	26.27	30.02	48.11
9 Other loans and advances	184.24	146.07	131.33	134.75
Scheduled Banks	**Aug 31**	**Aug 24**	**Aug 3**	**Sep 1 '61**
1 Aggregate deposits (net)	2040.84	2054.15	2045.80	1809.68
Demand (net)	806.22	798.01	794.10	719.28
Time (net)	1234.62	1256.14	1251.69	1090.41
2 Cash in hand	48.57	52.21	48.45	45.10
3 Balance with Reserve Bank	77.06	98.78	92.96	92.44
4 (2) + (3) as % of (1)	6.16	7.35	6.91	7.60
5 Borrowings from Reserve Bank	15.77	0.73	2.41	1.55
(a) Against usance bills and/or promissory notes	8.46	—	0.17	0.36
(b) Others	7.31	0.73	2.24	1.19
6 Advances	1204.19	1195.10	1211.97	1067.05
(a) State Bank	260.78	253.35	261.60	223.68
(b) Others	943.41	941.75	950.37	843.37
7 Bills discounted				
(a) Inland	140.63	130.47	129.62	108.35
(b) Foreign	50.05	48.66	47.85	45.26
(c) Total	190.68	179.13	177.47	153.61
(i) State Bank	14.74	14.38	15.98	12.78
(ii) Others	175.94	164.75	161.49	140.83
8 (6) + (7c) as % of (1)	68.35	66.90	67.92	67.45
9 Investment in Govt Securities	699.35	680.84	672.12	608.75
10 (9) as % of (1)	34.27	33.14	32.85	33.64
Cheque clearance	**293.30**	**192.94**	**234.05**	**187.94**

Bombay Money Rates

(Per cent per annum)

Selected Scheduled Banks other than the State Bank	Aug 31	Aug 24	Aug 3	Sep 1 '61
Call money from Banks	3.50	1.66	0.54	2.00
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	3.50	—	3.50
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Sep 12	Sep 6	Aug 9	Sep 14 '61
Gold (per 10 grams)				
Spot	126.95	126.95	125.25	124.35
Forward	125.75	126.70	124.95	124.70
Silver (per kilogram)				
Spot	219.10	219.60	213.55	202.50
Forward	219.20	220.65	214.05	203.10

INDIA'S BALANCE OF PAYMENTS, 1961-62

(Rs crores)

CURRENT ACCOUNT

Item	Credits	Debits	Net
1 Merchandise (Exports f o b, Imports c i f)			
(i) Private	660.4	600.0	+ 60.4
(ii) Government	7.1	378.0	—370.9
2 Non-monetary gold movement	—	—	—
3 Travel	4.6	11.5	— 6.9
4 Transportation	47.4	26.6	+ 20.8
5 Insurance	7.4	5.5	+ 1.9
6 Investment Income	11.8	69.9	— 58.1
7 Government, not included elsewhere	30.8	24.2	+ 6.6
8 Miscellaneous	38.7	40.3	— 1.6
9 Donations			
(i) Official	44.4	—	+ 44.4
(ii) Private	41.4	16.2	+ 25.2
10 Total current Transactions	**894.0**	**1172.2**	**—278.2**
Errors and Omissions			+ 4.5

CAPITAL ACCOUNT

1 Private			
(i) Long-term	21.4	22.9	— 1.5
(ii) Short-term	4.2	7.9	— 3.7
2 Banking	28.3	41.6	— 13.3
3 Official			
(i) Loans	384.1	60.7	+323.4
(ii) Amortization	2.0	58.5	— 56.5
(iii) Miscellaneous	86.1	79.8	+ 6.3
4 Total Capital and Monetary Gold	**655.7**	**382.0**	**+273.7**

Source: "Report on Currency and Finance for the Year 1961-62," Reserve Bank of India.

INDEX NUMBER OF WHOLESALE PRICES

(Base: 1952-53 = 100)

	WEEK ENDED			
	18.8.62	11.8.62	21.7.62	19.8.61
Food Articles	**132.5**	**132.9**	**128.7**	**124.1**
Cereals	109.7	109.3	107.5	105.0
Pulses	112.9	114.0	104.6	90.0
Fruits and Vegetables	148.0	147.8	148.2	169.0
Milk & Ghee	129.0	134.5	127.7	114.5
Edible Oils	160.9	160.3	156.0	159.1
Fish, Eggs & Meat	148.0	146.8	145.0	141.8
Sugar & Gur	166.7	161.7	149.6	125.2
Others	170.8	172.4	172.0	182.4
Liquor & Tobacco	**99.6**	**99.2**	**97.9**	**99.4**
Tobacco	96.1	95.6	94.2	95.8
Fuel, Power, Light & Lubricants	**124.5**	**124.5**	**124.6**	**122.3**
Industrial Raw Materials	**139.9**	**139.5**	**139.3**	**142.8**
Fibres	128.2	128.9	130.8	132.4
Oilseeds	161.5	160.0	156.8	163.6
Minerals	93.4	93.4	93.4	94.8
Others	124.3	124.4	125.3	126.8
Manufactures	**128.9**	**129.1**	**129.0**	**125.7**
Intermediate Products	**143.0**	**143.4**	**142.5**	**140.3**
Finished Products	**126.5**	**126.8**	**126.8**	**123.3**
Textiles	125.1	125.5	125.7	123.8
Cotton	129.2	129.2	129.3	127.5
Jute	110.7	111.9	118.1	117.3
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	131.5	131.5	130.5	118.0
Metal Products	160.4	160.4	160.4	151.6
Chemicals	114.6	114.6	115.1	111.7
Oil Cakes	164.2	163.6	158.6	145.1
Machinery & Transport Equipment	117.9	117.9	117.9	112.8
Others	125.1	125.4	125.6	120.9
All Commodities	**131.7**	**131.9**	**129.7**	**126.9**

External Assistance : Authorised and Utilised

(Crores of Rupees)

	Aid authorised up to the end of First Plan 1	Aid utilised up to the end of First Plan 2	Aid un-disbursed as at the end of First Plan 3	Aid authorised during the Second Plan 4	Total available for utilisation after March 31, 1956 5	Estimated utilisation during the Second Plan 6	Aid un-disbursed as at the end of March 1961 7	Aid authorised during 1961-62 8	Total available for use in the Third Plan 9	Utilisation during 1961-62 10	Aid un-disbursed as at the end of March 1962 11
I LOANS											
Currencies											
A Repayable in Foreign Institutions											
1 From International											
i) I B R D Loans	57.3	33.8	23.5	262.7	286.2	222.8	63.4	69.5	132.9	35.9	97.0
ii) I D A Loans	—	—	—	—	—	—	—	51.0	51.0	1.2	49.8
2 From Foreign Countries											
i) **U S A**	**90.3**	**90.3**	—	**108.5**	**108.5**	**36.8**	**71.7**	**32.7**	**104.4**	**29.5**	**74.9**
a) Wheat loan of 1951	90.3	90.3	—	—	—	—	—	—	—	—	—
b) Eximbank loans for import of machinery [1]	—	—	—	102.6[2]	102.6	30.9	71.7	15.6	87.3	28.4	58.9
c) U S Banks' loan to Air India	—	—	—	5.9	5.9	5.9	—	1.1	1.1	1.1	—
d) A I D Loan	—	—	—	—	—	—	—	16.0	16.0	—	16.0
ii) **Canada**	—	—	—	**15.7**	**15.7**	**15.7**	—	**9.5**	**9.5**	—	**9.5**
a) Wheat Loans	—	—	—	15.7	15.7	15.7	—	—	—	—	—
b) Import of capital equipment	—	—	—	—	—	—	—	9.5	9.5	—	9.5
iii) **U K**	—	—	—	**122.6**	**122.6**	**121.8**	**0.8**	**60.0**	**60.8**	**23.0**	**37.8**
a) Lazard Brothers' Credit (Durgapur)	—	—	—	15.3	15.3	15.3	—	—	—	—	—
b) E C G D I (Durgapur)	—	—	—	20.0	20.0	20.0	—	—	—	—	—
c) E C G D II (Capital Goods)	—	—	—	38.0	38.0	38.0	—	—	—	—	—
d) E C G D III (Capital Goods)	—	—	—	25.3	25.3	25.3	—	—	—	—	—
e) U K — India Oil Pipe Line	—	—	—	4.0	4.0	3.2	0.8	—	0.8	0.8	—
f) ECGD IV (Capital Goods)	—	—	—	13.3	13.3	13.3	—	—	—	—	—
g) E C G D V (Capital Goods)	—	—	—	6.7	6.7	6.7	—	—	—	—	—
h) E C G D VI (Capital Goods)				—	—	—	—	13.3	13.3	13.3	—
i) E C G D VII (Capital Goods)	—	—	—	—	—	—	—	40.0	40.0	2.2	37.8
j) E C G D VIII (Capital Goods)	—	—	—	—	—	—	—	6.7	6.7	6.7	—
iv) **West Germany**	—	—	—	**133.9**	**133.9**	**119.7**	**14.2**	**59.5**	**73.7**	**66.0**	**7.7**
a) Credit for Rourkela Steel Plant	—	—	—	75.5[3]	75.5	61.3	14.2[3]	—	14.2	6.5	7.7
b) Credit for import of machinery etc	—	—	—	19.0	19.0	19.0	—	—	—	—	—
d) West German credit of May 1960	—	—	—	14.1	14.1	14.1	—	—	—	—	—
d) West German credit of November 1960	—	—	—	14.1	14.1	14.1	—	—	—	—	—
e) West German credit of January 1961 (Rourkela Prolongation)	—	—	—	11.2	11.2	11.2	—	—	—	—	—
f) West German credit of April 1961 (Rourkela Prolongation)	—	—	—	—	—	—	—	27.4	27.4	27.4	—
g) West German credit of April 1961 (D M 100 m)	—	—	—	—	—	—	—	11.9	11.9	11.9	—
h) West German credit of September 1961 (D M 170 m)	—	—	—	—	—	—	—	20.2	20.2	20.2	—

	1	2	3	4	5	6	7	8	9	10	11
v) **Japan**	—	—	—	**27.6**	**27.6**	**16.0**	**11.6**	**38.1**	**49.7**	**7.3**	**42.4**
a) 18 billion yen credit for import of capital goods	—	—	—	23.8	23.8	16.0	7.8	—	7.8	5.4	2.4
b) Loan for Orissa Iron Ore Project	—	—	—	3.8	3.8	—	3.8	—	3.8	1.9	1.9
c) Japanese credit for Third Plan	—	—	—	—	—	—	—	38.1	38.1	—	38.1
vi) **U S S R**	**64.7**	—	**64.7**	**319.0**	**383.7**	**74.7**	**309.0**	—	**309.0**	**24.7**	**284.3**
a) Credit for Bhilai Steel Plant	64.7	—	64.7	—	64.7	64.5	0.2	—	0.2	0.2	—
b) Credit for Industrial Enterprises	—	—	—	59.5	59.5	8.0	51.5	—	51.5	13.5	38.0
c) Credit for Manufacture of Drugs	—	—	—	9.5	9.5	—	9.5	—	9.5	0.4	9.1
d) Credit for Barauni Oil Refinery	—	—	—	11.9	11.9	0.4	11.5	—	11.5	0.5	11.0
e) Credit for Third Plan (I)[4]	—	—	—	178.6	178.6	1.8	176.8	—	176.8	10.1	166.7
f) Credit for Third Plan (II)[4]	—	—	—	59.5	59.5	—	59.5	—	59.5	—	59.5
vii) **Switzerland**	—	—	—	**10.9**	**10.9**	—	**10.9**	—	**10.9**	—	**10.9**
viii) **France**	—	—	—	—	—	—	—	**14.3**	**14.3**	—	**14.3**
ix) **Italy**	—	—	—	—	—	—	—	**21.4**	**21.4**	—	**21.4**
x) **Poland**	—	—	—	**14.3**	**14.3**	—	**14.3**	—	**14.3**	—	**14.3**
xi) **Yugoslavia**[4]	—	—	—	**19.0**	**19.0**	—	**19.0**	—	**19.0**	—	**19.0**
xii) **Czechoslavakia**[4]	—	—	—	**23.1**	**23.1**	—	**23.1**	—	**23.1**	—	**23.1**
Total A	**212.3**	**124.1**	**88.2**	**1057.3**	**1,145.5**	**607.5**	**538.0**	**356.0**	**894.0**	**187.6**	**706.4**
B Repayable in Rupees											
From the USA	—	—	—								
a) Loans from Development Loan Fund	—	—	—	196.9	196.9	76.9	120.0	47.6	167.6	37.1	130.5
b) Asian Economic Development Fund Loan for Orissa Iron Ore Project	—	—	—	9.5	9.5	—	9.5	—	9.5	2.3	7.2
c) Loans under T C A (Excluding P L 665)	27.0	2.3	24.7	15.2	39.9	39.9	—	—	—	—	—
Total B	**27.0**	**2.3**	**24.7**	**221.6**	**246.3**	**116.8**	**129.5**	**47.6**	**177.1**	**39.4**	**137.7**
Total (A + B)[5]	**239.3**	**126.4**	**112.9**	**1,278.9**	**1,391.8**	**724.3**	**667.5**	**403.6**	**1,071.1**	**227.0**	**844.7**
II Grants											
i) **From the USA**	**117.9**	**70.4**	**47.5**	**92.7**	**140.2**	**123.7**	**16.5**	**18.3**	**34.8**	**20.9**	**13.9**
a) T C A (Excluding P L 665)	86.2	42.0	44.2	44.1	88.3	76.2	12.1	6.8	18.9	8.6	10.3
b) Ford Foundation	5.6	2.3	3.3	10.5	13.8	9.4	4.4	0.6	5.0	1.4	3.6
c) P L 480 Titles II and III	26.1	26.1	—	38.1	38.1	38.1	—	10.9	10.9	10.9	—
ii) **Colombo Plan Countries**	**45.2**	**25.2**	**20.3**	**62.6**	**82.9**	**72.1**	**11.8**	**13.0**	**24.8**	**9.5**	**15.3**
a) Canada	32.3	19.7	12.6	58.3	70.9	60.3	10.6	11.9	22.5	8.6	13.9
b) Australia	11.1	5.2	5.9	2.2	8.1	7.4	0.7	1.0	1.7	0.7	1.0
c) New Zealand	1.7	0.3	1.4	1.7	3.1	2.9	0.2	—	0.2	0.2	—
d) U K	0.4	—	0.4	0.4	0.8	0.5	0.3	0.1	0.4	—	0.4
iii) West Germany	—	—	—	2.1	2.1	0.6	1.5	—	1.5	0.1	1.4
iv) Norway	0.7	0.7	—	1.9	1.9	1.9	—	0.7	0.7	0.3	0.4
Total II[5]	**164.1**	**96.3**	**67.8**	**159.3**	**227.1**	**197.3**	**29.8**	**32.0**	**61.8**	**30.8**	**31.0**
III Other Assistance											
i) P L 480 (Gross)[6]	—	—	—	1,113.0	1,113.0	515.5	597.5	—	597.5	86.3	511.2
ii) P L 665 (Gross)	16.9	5.1	11.8	15.0	26.8	26.8	—	—	—	—	—
iii) Third Country Currency Assistance from the U S A	—	—	—	2.8	2.8	2.5	0.3	—	0.3	0.3	—
Total III	**16.9**	**5.1**	**11.8**	**1,130.8**	**1,142.6**	**544.8**	**597.8**	**—**	**597.8**	**86.6**	**511.2**
Grand Total (I+II+III)	**420.3**	**227.8**	**192.5**	**2,569.0**	**2,761.5**	**1,466.4**	**1,295.1**	**435.6**	**1,730.7**	**344.4**	**1,386.3**

[1] Includes two loans to the Air India by Eximbank and the Boeing Co.
[2] Of this, Rs 23.8 crores is earmarked for use of the projects included in the Third Plan outlay.
[3] Undisbursed amount in the case of West German Rourkela Credit has been raised by 5% to take into account the revaluation of D M in March '61. To the same extent loan authorisation figure has also been raised.
[4] Earmarked for use of projects included in the Third Plan outlay.
[5] Excludes loans and grants received by Government of India out of the U S P L 480 (Title I) and P L 665 funds.
[6] Assistance under P L 480 and P L 665 are shown here on a gross basis representing the rupees deposited against the value of goods received from time to time.

Source : "Report on Currency and Finance for the year 1961-62", Reserve Bank of India.

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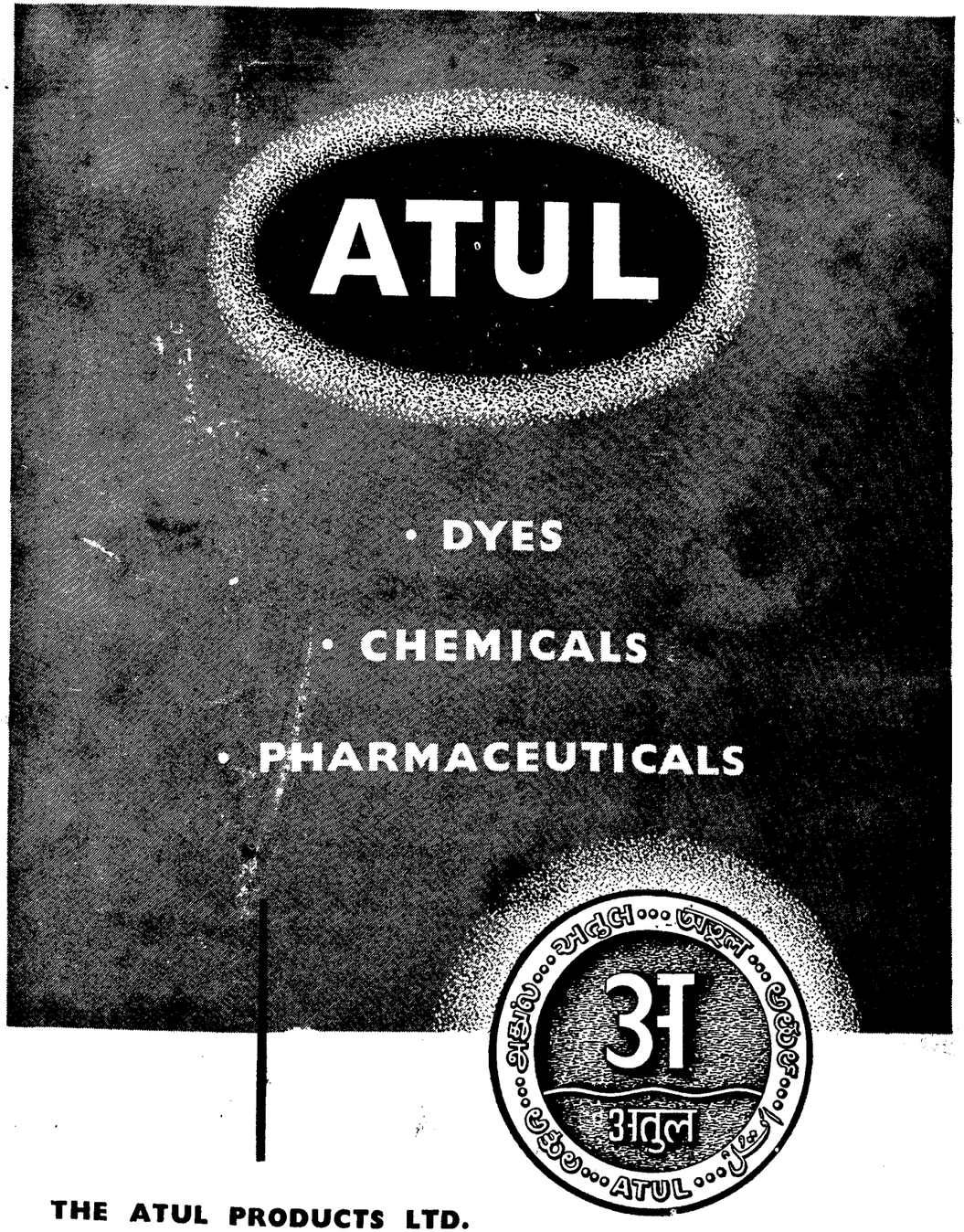

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Fund-Bank Meeting

INTERNATIONAL liquidity was no longer a problem, one would almost be persuaded, judging from the Annual Meeting of the International Monetary Fund in Washington last week. Bankers are not the most optimistic of people and yet it was Dr Per Jacobsson, the Fund's Managing Director, who set the tenor of the discussion at the meeting by his unequivocal expression of confidence that periods of severe monetary tension were a thing of the past. International monetary reserves, he said, were sufficient to sustain the normal increase in international trade and the fear of an impending "scramble for reserves" was "grossly exaggerated". This hopeful state of affairs was largely brought about, paradoxically enough, by the U S balance of payments deficits which had led to a desirable redistribution of international reserves. A contributing factor was the strengthening of the reserve positions of a number of industrial countries, mainly the European countries, which made it possible for them to shape their fiscal and credit policies without worrying about their reserve positions. The implication of Dr Jacobsson's appraisal of the general payments position was clear: there was no need for any major overhaul of the international monetary system. The need for drastic solutions, if it had ever existed, was past. All that was necessary now was refinement of the existing machinery, and that as we went along.

Dr Jacobsson was, of course, speaking of the future and, in view of his intimate knowledge of the international financial system, it would not be rash to hope that time will prove him right. Yet it is a fact that the balance of payments position in 1961 gave little evidence of any marked progress towards greater balance, even if one were to confine oneself to West Europe and North America alone. The weakness of the world's two reserve currencies, though less marked, still persisted. It was no chance coincidence, therefore, that the two new schemes for strengthening international liquidity before the Fund this year should be presented by the British Chancellor of the Exchequer and the Under-Secretary of the U S Treasury.

The quantum of international reserves is, however, only a very imperfect index of the state of international liquidity. The distribution of reserves is no less important. The deficits in the balance of payments of the U S and the U K have, no doubt, redistributed international reserves, but only in favour of the industrialised countries, mainly of West Europe. It has not touched the developing countries at all. Expansion of world trade in recent years has taken the form of increase in trade among the industrialised countries and between 1958 and 1961 trade among industrial countries increased by nearly 50 per cent while the imports of the industrialised countries from the primary producing countries increased by only 15 per cent. Price weakness of primary commodities and the progressively increasing import requirements of their development programmes have added to the balance of payments difficulties of the developing countries and the I M F has been called upon to provide these countries with the international reserves which persistent payments deficits have drained them of. Thus all the assistance

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rendered by the Fund in 1960 went to non-industrial countries and in 1961 the Fund's transactions with the non-industrial countries were larger than in any preceding year.

However, unless the quantum of the Fund's assistance and the terms on which it is extended are substantially modified, the postponement for a relatively short period, by means of credit, of the impact of balance of payments difficulties is not of much value to the developing countries. The under-developed countries represented at Washington clearly missed the opportunity to impress upon the meeting the important role the International Monetary Fund should play in their development process. A major share of the blame for this must attach to India which has not in the past hesitated to claim to speak for the developing countries. Shri Morarji Desai's speech at the meeting would have been more relevant, had it been delivered to a conference under the G A T T or to a meeting of the European Common Market countries. No doubt, it is of the utmost importance that the industrial countries should increase their imports from the developing countries but the Annual Meeting of the I M F was not the occasion to repeat these platitudes.

True, the I M F cannot be expected to provide the external capital requirements of the developing countries. However, these countries do continuously face temporary payments problems of a nature different from those of the developed countries. Such payments difficulties may arise from a variety of reasons like an unexpected shortfall in agricultural production, fluctuations in export earnings, or a sudden adverse turn in the terms of trade. Besides, there is chronic need for temporary accommodation for tiding over the procedural delays where long-term aid has been committed and also for imparting a little flexibility to the operation of tied aid which is otherwise rigid. It all boils down to providing international reserves which normally act as the cushion, but which the developing countries do not have and which they cannot possibly build up without slowing down or holding up their development which is under the best of conditions, not too fast. These needs are temporary but if they are not met adequately and in time, the development process gets slowed down. It is here that the Fund can play a vital role in relation to the emergent Japans.

The long-term balance of payments problems of the non-industrial countries, of course, lie outside the scope of the I M F. These problems can be solved only by increased access for the exports of these countries to the markets of the industrialised countries and the inflow of sufficient long-term capital on reasonable terms. The latter is the sphere of the World Bank and its associate, the International Development Association, which also held their Annual Meeting at the same time as the Fund in Washington.

World Bank assistance in 1961-62 was higher than in any earlier year. But, as Mr Eugene Black pointed out, many countries were finding their capacity to make effective use of aid growing faster than their capacity to service and repay the loans, and so it would be difficult for the Bank to maintain its operations at the level reached last year, let alone expand them further. If the momentum of development was to be sustained, a progressively increasing part of the assistance to developing countries would have to take the form of grants or loans for very long periods and at very low rates of interest — of the type extended by the I D A.

The I D A was set up in 1960 with resources of $ 757 million which were expected to be sufficient to sustain its operations for four years. However, up to the end of June 1962, in the 14 months since it made the first loan, the I D A had already committed $ 235 million and it is expected that it will require another $ 250 million by the end of the current financial year to meet its share of the commitments made by the international consortia to aid India and Pakistan. Requirements for operations in other countries are also increasing fast so that most or all of the I D A's initial resources would be committed by mid-1963. However, neither of the two methods adopted by the World Bank to replenish its resources — issue of bonds or sale of its loans — will be open to the I D A in view of the special terms on which its loans are made and so additional resources for the I D A will have to come from fresh contributions to its capital by the industrialised member-countries.

Mr Eugene Black's appeal for more *international* aid takes on a special significance in this context. Bilateral aid, Mr Black emphasised, being an instrument of foreign policy, was largely influenced, if not governed, by political considerations; not only that, it also distorted economic priorities. Besides, if Dr Per Jacobsson's prognosis of a lessening of payments imbalance among the industrial countries comes true, then the ground will be cut from under tied loans, a major reason why aiding countries prefer bilateral to international aid.

The need to augment the capital of the I D A presents an opportunity for the industrialised countries to take a concerted step towards internationalising development aid. Will the opportunity be seized? There were no clear-cut statements of intentions at Washington, not even from the U S or the U K which contributed the bulk of the I D A's resources in the first instance. It should sober expectations raised in the developing countries by Mr Black's appeal to recall that last year when Mr Black made a similar appeal for voluntary contributions to augment the I D A's resources, the sole response was from Sweden which increased its subscription by $ 5.8 million. That the response may not be exactly spontaneous this year either is foreshadowed by Dr Erhard's statement that "in view of the already very high *bilateral assistance* of the industrial countries the question of these countries' capacity to raise such funds must be given special attention when the question of the future level of additional subscriptions [to the I D A] will be considered".

To argue thus is, unfortunately, to miss the whole point of Mr Black's appeal for multilateral aid.

Reserve Bank's Monetary Policy

THE Reserve Bank's annual report to the Government for the year July 1961 — June 1962 is, as usual, a brief, compact and competent review of the economic situation during the year. Of course, it also spells out the rationale of the Reserve Bank's monetary policy.

Strictly speaking, no major change in the Bank's credit policy took place during the period of the report. The three-tier system of lending rates introduced in October, 1960 was continued throughout the year. However, early in July 1962 this was substituted by a four-tier system. The report notes this change. By modifying its three-tier system of slab rates, the Bank increased the cost of credit to the commercial banks by about ½ per cent or more. In line with this, the cost of Government borrowing was also raised by the same extent. A variety of reasons justifying this change in policy in the direction of dearer credit are given at different places of this brief report. Some of the reasons given are, however, inconsistent with the general analysis of the economic situation presented in the report. The report points out that not only was there no expansion of net bank credit to the private sector during the year but that bank credit actually declined by Rs 43 crores compared to an increase of Rs 125 crores in 1960-61. Further, the report also notes that there was relative stability in the economy and the imbalance between aggregate demand and supply was narrowed down during the year. Against this analysis of the economic situation the Bank's policy of dearer money appears to lack justification.

The report emphasises the need for a structure of interest rates reflecting the basic scarcity of savings as well as the need to economise scarce capital resources. In fact, however, it is difficult to establish any close relationship between scarcity of savings and the structure of interest rates — even conceptually. And, in any case, these reasons, if they are valid now, must have been equally valid earlier. Is it that the Reserve Bank has become aware of the relationship only now? If so, one would like to know the empirical basis for whatever relationship the Reserve Bank has discovered between savings and interest rates.

Similarly, about the decision to raise the liquidity ratios of the banks, (the Bill amending the Banking Companies Act to this effect was passed by Parliament after the report was prepared) the report states that this change became necessary as a result of the extended position of the banks. But the statistics of monetary and credit trends in the economy presented in the report do not substantiate this contention. The new liquidity requirements would mean that the public sector would be able to get larger credit from the banks at the expense of the private sector (as was pointed out earlier in these columns). At the same time, the cost of borrowing to the public sector also increased as a result of the dearer credit policy. These are the direct and obvious consequences of the Bank's policies. But whether the dearer credit policy would really make the interest rates reflect the scarcity of savings or induce the public and private sectors to economise on scarce capital resources remains to be seen.

The Reserve Bank concludes from its review of economic developments during the year that there was some lessening of the imbalance between aggregate demand and supply. The value of this conclusion is, however, clearly suspect when almost every day of the year one hears and reads of coal-power-transport bottlenecks and of growing imbalances in almost all the major sectors of the economy.

Weekly Notes

Control over Tarapur

WHAT Dr Homi J Bhabha, Chairman of the Atomic Energy Commission, announced at the specially summoned press conference on Monday was that, of the seven tenders received in response to the global enquiry issued for the design and construction of the atomic power station at Tarapur, the offer from International General Electric, U S A, had been found to be the most suitable by the Government. Acceptance of the tender and signing of agreement for the construction of the project must, however, await the conclusion of satisfactory arrangements with the United States regarding, as the communique issued by the Department of Atomic Energy cryptically put it, "financing, fuel supply, safeguards and allied matters". Since the Government attaches a high priority to the Tarapur project, if the project goes to a U S firm, there should be no difficulty about the U S financing its foreign exchange costs — about Rs 32 crores out of a total cost of Rs 48.5 crores — from its aid commitments for the Third Plan. As for fuel, Dr Bhabha stated at the press conference that the U S is likely to supply the Rs 2 crores worth of enriched uranium required annually for the plant.

At the press conference, Dr Bhabha confirmed what had been reported earlier, viz, that India would prefer U S supervision at Tarapur to supervision by the International Atomic Energy Agency. The reason, he said, was that India expected U S control to be less onerous than the I A E A's. Here two things need to be made clear. First, India is not obliged to accept the I A E A's supervision since she is not contemplating accepting any assistance for the project from the I A E A. Second, a bilateral control arrangement between the U S and India is perfectly possible. The U S has similar agreements with a number of other countries to whom she has extended assistance for nuclear development. The question therefore to be asked is: Will U S supervision be less onerous than the I A E A's?

What makes this a difficult question to answer is that it is the U S who was the chief sponsor of the

I A E A system of supervision which we regard as being obnoxious, too elaborate and cramping. Would it not compromise her position if in the case of Tarapur the U S accepted safeguards less complete than what she had herself proposed for the I A E A? Equally, the U S cannot ignore that as a major source of assistance in the nuclear field, if she extended assistance on terms substantially more generous than the Agency's, the latter's position will be seriously undermined.

So far, with a few exceptions, U S safeguard provisions under bilateral assistance agreements concluded by her have closely followed the safeguards prescribed by the I A E A. The only two bilateral agreements with individual countries under which the U S has relaxed its safeguard provisions are with Canada and the U K. With both these countries the U S had exceptionally close cooperation in the field of nuclear development right from the beginning, in the years of the Second War. The only other exception is the U S-Euratom Joint Programme Agreement. This is not an agreement with another country, but with an international agency. Here the relaxation of the safeguards was justified in view of the Euratom's own special regional control responsibilities and its supranational character. Besides, the Euratom did agree to develop a safeguards system on the basis of principles mutually agreed to between the Euratom and the U S and to permit the inspection of the operation of the system by U S technicians. The control provisions which were subsequently devised by the Euratom were directly after the pattern of the I A E A safeguards.

Now, India's position is not comparable with that of either the U K or Canada or the Euratom. What grounds are there then to expect lenient treatment in the matter of supervision over Tarapur, especially when it is remembered that the supervision to which we are prepared to submit is so prefunctory compared to that prescribed by the I A E A? We maintain, in the first place, that no condition regarding supervision should be attached to the supply of plant and equipment, including nuclear reactors and components. Second, we are not prepared to accept any supervision over unprocessed source materials such as uranium and thorium concentrates or ores. All that we are prepared to submit to supervision is the use of fissionable materials procured from a foreign country or the I A E A and that also only of quantities received in excess of a "reasonable level". Against this the safeguards prescribed in Article XII of the I A E A's Statute require: (i) examination of the design of all specialised equipment and facilities, including nuclear reactors, and their certification that they would not further any military purpose; (ii) maintenance and inspection of records to account for all source as well as fissionable materials used or produced by the plant, including fissionable materials recovered or produced as a by-product; and (iii) depositing with the I A E A of any excess of special materials produced or recovered over what is needed for peaceful use under I A E A safeguards to prevent stockpiling of these materials.

These safeguards were incorporated into the Statute of the I A E A at the instance of the U S and in the face of opposition from India and other countries, principally the Soviet Union. Apparently, the U S considered all of them as necessary to ensure that international nuclear assistance is not diverted from peaceful purposes. Will the U S herself now agree to whittle down the safeguard requirements in a bilateral agreement unless she has been convinced that the elaborate safeguards she had earlier thought should be exercised by the I A E A are in fact unnecessary?

Plan for Nuclear Power

THE Tarapur station will have a net capacity of 380,000 kW, based on two "boiling water type reactors". Though similar reactors are already in operation in the U S A, Germany, Italy and Japan, the Tarapur station will be the largest one of its type in the world. International General Electric has got experience of erecting some power stations of this type. The Third Plan had provided Rs 51 crores for a 300,000 kW power station, but the 380,000 kW station which is now proposed to be built will cost only Rs 48.5 crores. The cost of power from the station is expected to be 3½ nP per kW hr, which, according to the Atomic Energy Commission's estimates, will be competitive with conventional power in this part of the country.

As stated above, it is proposed to purchase Rs 2 crores worth of atomic fuel annually from the U S A for Tarapur. Has the cost of fuel been taken into account in the costing of power production at Tarapur? Secondly, is the United States willing to sell us the enriched fuel, distribution of which has been very restricted till now? Finally, will the foreign exchange expenditure on fuel for Tarapur be a recurring one, or shall we be able to prepare the fuel in our own country in the near future?

The fissionable materials (nuclear fuels) available are: (1) Uranium 235 — natural uranium contains 0.7 per cent of uranium 235, but facilities for purification of natural uranium exist today in only three or four countries. The rest of natural uranium consists of uranium 238, which is not a fissionable material. (2) Plutonium 239 — uranium 238, when placed in a reactor, is transformed into plutonium 239, which is a fissionable material and can be used as fuel under certain conditions. (3) Uranium 233 — thorium can be transformed in a special type of reactor into uranium 233, which is a fissionable material.

We have fairly good deposits of thorium and uranium. Our future plans of nuclear power production should, therefore, be based on the utilisation of raw materials available in our country. The selection of the reactor is also an important factor. For Tarapur we have selected the boiling water type of reactor, which is in use in the U S A, Germany and Italy. The selection of the reactor will mainly be determined by the fuel and moderator used in the process and the capital investment we are prepared for. Britain, whose atomic power production programme is quite advanced, uses gas-cooled graphite moderated reactors, which use natural thorium and uranium as fuel instead of enriched uranium. However, the initial cost of establishing such a power plant is very high.

The whole atomic power programme should be viewed as a long-term plan rather than on a short-term basis, because plutonium is a by-product from the reactors which can be used again in other reactors for production of more power.

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Fruitless Conference

THE conference on transport and power held under the auspices of the Federation of Indian Chambers of Commerce and Industry proved to be singularly fruitless in its deliberations, writes a participant in the conference. A large number of platitudes were voiced, and the conference rapidly became a forum for airing grievances of individual groups rather than for constructive discussion of the transport and power crisis.

The conference opened with the speech of the President of the Federation, Shri Shriyans Prasad Jain, who described the transport and power difficulties to which the Minister for Planning replied that it was true that there was shortage of transport and power, but the Government was doing its best, and had, in fact, done pretty well in the last 10 years. After this rather tepid exchange, the conference was divided into three sub-committees, one to deal with railways, and another to deal with roads, inland waterways and coastal shipping and the third to deal with power. On the third day, the three sub-committees made their recommendations which were uniform only in their vagueness. Railways were asked to take special steps to increase operational efficiency and to replace steam haulage by dieselisation wherever they could; it was also suggested that more of everything should be set up. Coal firing furnaces should be converted into oil burning furnaces, more washeries should be built, thermal power stations should be in colliery areas and more cargo should be carried by coastal shipping. Nothing new was suggested; nor was any attempt made to undertsand the problems that were facing the country. It was obvious from the general tone of the recommendations that, as far as the conference was concerned, it might as well not have discussed anything and yet come to the same conclusions. No one denies that there is insufficiency of transport; the problem is how to increase it with our *limited resources*. For example, from the way the sub-committee on railways argued, one would have thought that this was not an undeveloped country at all.

Light on Road Transport

OF the other two sub-committees, the sub-committee on roads was the most vociferous and, in some ways, the most specific in its recommendations: there were many road operators every one of whom held different views; and their recommendations, which numbered over 30, were not only detailed but also seemed to reflect genuine grievances. They divided their recommendations into two parts: first, the immediate plan in which they argued for the need for greater freedom and the removal of restrictions on road transport. Some sensible criticisms were also made like the one about the harrassment on account of octroi collection, invoice verification at sales-tax checkposts and weigh-bridges etc.

They also recommended the use of truck-trailers, organisation of trucks operators into viable units, consolidation of all taxes, and fixing of minimum uniform laden weight that should be permitted on all national highways. For the long-term, they made general recommendations like development of roads and widening of the national highways, etc. It was, in fact, the only sub-committee that worked like a seminar and came out with some worthwhile arguments. Coastal shipping and inland water transport formed the subject of a sub-committee within a sub-committee. Coastal shipowners pointed out that one of the reasons for the slow development in the last ten years is the inadequacy of cargoes on the coast. Coastal cargo had increased only by 2.3 per cent between 1951 and 1961. The main reason for this was that inspite of transport by coastal shipping being cheaper for commodities carried over long distances in bulk, the railways have carried more of these commodities because of the artificial freight structure that they have developed.

The power sub-committee finished its deliberations in half a day. It complained about import and export procedures and insufficient power for industries. The demand for a fairer return on capital for the electricity industry was repeated. The committee asked for an increase in the standard rate by at least one per cent so that the electricity supply industry could play a more positive role in the development of power.

The trouble with conferences of this kind is that they degenerate into a sort of tea party of diverse individuals and groups. Here only the private sector was represented. As the Conference was held in Delhi, it should have been surely possible to persuade a few Government officials to attend and take part in the deliberations of the sub-committees. Instead, a whole host of Secretaries accompanied their Ministers to the opening day, and then left the conference high and dry. The result was the half-baked and platitudinous recommendations, with the exception of those of the sub-committee on road transport. The sole official present was a Deputy Secretary in the Ministry for Transport who not only attended the sub-committee's meetings but also took a lively interest in the discussions. While he argued the Government's point of view he also tried to understand the private industrialists' complaints. The result was the worthwhile discussion at the meetings of the road transport sub-committee. For the rest, the recommendations were made only to be ignored.

Letters to the Editor

Penalties for Gold Hoarding

THE 'Irate Reader' (September 15) on Hoarded Gold has apparently let his wrath confound his reason. How does one impose penalty on somebody whose gold hoards Government has no way of knowing? And if a person does not sell his gold to Government at ruling market prices, will he come forward when the prices are lowered? The whole point is that any penalty we can think of now has to take some legal rather than 'market price' form. Whether Government should do so or not is a different matter. But there is no use kidding oneself that those who hold, or hoard, or smuggle gold can be smoked out of their nests by successive cuts in purchase prices offered by Government.

NON-ACTIONIST

New Delhi

September 22, 1962

Reply

TO have aroused Non-Actionist to the extent of making him write a letter to the Editor is an achievement I am truly proud of! His criticism of my reasoning has, however, confounded me much more than I would permit my wrath to do. The objections he raises are against my suggestion of imposing penalty on gold hoarders by rapidly reducing the price of gold that Government would pay over a period. He argues (a) that Government cannot impose penalty as it has no way of knowing who holds the gold; (b) that no one would sell his gold to Government at less than the ruling price when he has not sold it at the ruling price; (c) that the penalty has to have some legal form rather than the market-price form.

The imposition of penalty does not depend on knowing the culprit; of course, one always hopes to catch the culprit, but it cannot, therefore, be argued that one should not impose penalties because it is difficult to catch him. After all, Government does prescribe penalties on tax-evaders although they have no way of knowing which person has disclosed his income and which has not. No one has so far suggested that the Income-tax laws for penalising assessees with undisclosed incomes should be abandoned merely because it is extremely difficult, if not impossible, to catch people who have No. 2 accounts.

Secondly, to argue "if a person does not sell his gold to the Government at ruling market prices, will he come forward when the prices are lower?" is to miss the point of prescribing the penalties. One does not impose penalties to make people incur them; on the contrary, one hopes that the penalty will prevent people from committing that particular breach of law. The only intention behind lowering the price of gold after 2-3 weeks is to encourage people to hand in their gold earlier. If people fail to do so, that is just too bad; but, if there is a penalty and a bar against holding gold, there will be no open market for gold and there should be a tendency to hand it in as soon as possible and at least realise its market value.

Finally, I am not at all clear what the non-actionist means by "any penalty we can think of now has to take some legal rather than market-price form". I would have thought that the penalties I have suggested could very easily be put in legal form. If the non-actionist does not think so, all I can say is that there is something wrong with his legal advice.

It is not my intention to kid any one into believing that we can smoke out those who smuggle, hoard and hold gold by prescribing penalties; but, nor do I see any harm in making an effort to do so. Besides, I am not yet convinced, as the non-actionist seems to be, that no one would come forward and hand in their gold at the current market price which at the moment is, frankly, pretty good.

IRATE READER

Bombay

September 26, 1962

Pioneer in Prohibition — Salem

IN your otherwise excellent Weekly Note on the question of prohibition (September 22, 1962), you are guilty of one slip — a minor one perhaps but nevertheless one that is a little liable to bruise regional sentiments. You have said that Bombay has "the widest and longest experience" in that important nation-building activity of State Governments, prohibition. It is a little difficult, for me at least, to judge the 'width' of an experience, but may I point out that it is Madras and not Bombay that leads in regard to 'length' in this particular case. This, surely, was only a slip of memory on your part; for you must doubtless be aware of the boon gifted by Rajaji to his native district and State and indeed to the nation!

Prohibition came in India officially on 1st October 1937 when the Salem District of Madras State was declared dry by the Chief Minister, Shri C Rajagopalachari. Bombay, too, began with the industrial area of Ahmedabad but not until a whole year later, by which time Madras had as many as three dry districts. Incidentally, Rajaji had another "first" to his credit at this stage of his career. He introduced the General Sales Tax in Madras, as a measure to offset the loss in excise revenue resulting from prohibition. During the war years prohibition was scrapped but the British paid Rajaji the compliment of continuing the Sales Tax, much to the benefit of the Madras Exchequer. And other States were not slow in following suit.

When popular governments returned after the war, prohibition was resumed. And once again Madras was in the lead (though Rajaji was not). Madras began going dry in October 1946 and proceeded in three easy stages to total prohibition precisely two years later. Bombay, on the other hand, began the process in April 1947 and achieved total prohibition only in April 1950.

A SALEMITE

Bombay

September 27, 1962

Capital View

Time for Re-Thinking

Romesh Thapar

A NUMBER of policy makers in the Capital are wondering what persuaded the Prime Minister to launch his massive assault on ECM during the Commonwealth Conference in London. It had been generally assumed that India would adopt a 'soft' approach because of her somewhat ramified aid agreements with the leading members of ECM. The Prime Minister has not only attacked ECM as an extension of NATO cold-warring, but has also described its economic perspectives as neo-colonialist. His reasoning is remarkably similar to the theses prepared on the Common Market by the Institute of World Economy and International Relations, Academy of Sciences of the USSR, and released on the eve of the London Conference.

Several observers maintain that our future negotiations with the 'Aid India Club' have been put into jeopardy, and that no amount of explaining to General de Gaulle and Chancellor Adenauer will wash away the impression created that we are going to mobilise opinion in Asia and Africa against ECM. First reports suggest that Paris and Bonn are somewhat puzzled by the vehemence of the criticism, although few share General de Gaulle's hopes that it will have the effect of tilting the balance against Britain's entry into ECM.

The full impact of this orientation in Indian political and economic relations with the West will be ascertained early next year when the 'Aid India Club' is due to meet. Finance Minister Morarji Desai in Washington tried to clear the misunderstandings which have already arisen and which are likely to arise on the question of this aid. Washington, apparently, is of the opinion that not only should the quantum of aid be matched but also the terms under which it is offered. Leading members of the 'Aid India Club' do not agree, and their opposition is likely to increase as the ECM controversy develops sharp political facets. Crucial issues like rates of interest to be charged, the period of the aid, utilisation and repayment are being revived — and not a few believe that the objective is to 'discipline' India, to remind her gently who is master.

Chinese Infiltrate into NEFA

Nearer home, the Chinese have been likewise busy. Their infiltration into the NEFA area, south of the MacMahon Line, is designed in fact to give notice that the entire Himalayan border is negotiable. Until now, we believed that China had more or less accepted the validity of our frontier in the north-east. The earlier Chinese withdrawal from Longju confirmed this. Now, by a single move, this belief has been dissolved — although several experts consider that the tactic is adopted to strengthen Peking's bargaining position should discussions be restarted.

Militarily, the position in NEFA is almost as difficult as in Ladakh. The terrain is different, but the problem of supplying advanced positions remains. By the looks of it, the Chinese are fully informed about our movements. Special correspondents in the Capital continue to 'leak' information. Where they get it from is anybody's guess, but the Defence Ministry remains supremely indifferent to this grave matter. Quite clearly the 'leaks' are taking place at the highest levels.

There is little doubt among knowledgeable people that no effort will be spared to throw the Chinese out of this area. The Prime Minister cannot permit a Ladakh-like infiltration into the NEFA area. And his increasing confidence in the capacity of the armed forces effectively to deal with this new provocation can be seen from the fact that even during absence he permitted the Defence Minister to leave the country to attend the UN General Assembly. Lal Bahadur Shastri, too, has gone on tour.

The despair generally expressed about Chinese strength on the border is the result of a failure to recognise that with every year that passes India's position to supply and maintain her forward posts improves. Within a couple of years we will have a communication system somewhat comparable to the one which the Chinese have got. Then, it will not be possible to infiltrate any more. True, the Chinese have a vast numerical superiority, but numbers only become important if there is a sustained war on the border. This seems most unlikely — and even pugnacious Peking will be nervous of getting committed in this fashion. For this reason, many a student of Chinese affairs is hopeful that as the months pass, Peking will see reason and agree to a negotiated settlement. But the time has certainly come to cry 'halt' to infiltration.

P M Will Face New Crises

The Prime Minister, on his return from Europe and Africa, will have to face several new crises. The battle over steel retention price continues. The stock-markets seem to have gone on a US-style strike, and there has been an extraordinary slump in share values. Industries Minister Subramaniam is determined to surmount the pressures. Even the argument that the Tariff Commission has been 'tarnished' has little impact on official circles. In fact, a new committee of economists headed by Professor K N Raj and constituted to investigate the marketing of steel, may well produce some startling revelations about prevalent shortages, trading practices and wastage. The concept of the State taking over the marketing of steel is now firmly on the agenda. Increasingly, pressure groups in the Capital are beginning to realise that the best way to get round the publicity loving, pugnacious Subramaniam is to give him a long rope. However, a frontal attack would be unwise so long as he enjoys the full support of the Prime Minister.

T T Krishnamachari's public lecture on the subject of food prices and controls, and S K Patil's criticism of such 'demoralising' talk, have started fresh speculation

about the role of the Economic Coordinator. First, K D Malaviya clashed with T T K, refused to be daunted and is preparing to launch his coal barges down the Ganga. Then V K Krishna Menon fell out with the man whom he had brought into the Cabinet. After jousting with the 'leftists', T T K is moving against the 'rightists'. By the looks of it, he wants to build a public image for himself of a genuine, rational independent devoted to the Prime Minister. But within the Government of India, he is becoming less and less effective. To the extent that he fails to persuade and yet persists, he runs the risk of being dubbed as an irresponsible meddler in other people's affairs.

What the Prime Minister will have to say about these goings-on no one knows for certain. The four-man committee appointed to suggest a possible reorganisation of the Cabinet and the Government has not been meeting. Many crucial policy matters relating to our foreign exchange troubles are pending as senior bureaucrats are reluctant to take decisions which may be negatived by a political re-shuffle at the top. This near paralysis of the administration demands urgent treatment. Even the cautious and conservative are talking of the need for a 'shake-up'.

Perhaps some such minor shake-up has already started in the External Affairs Ministry headed by the Prime Minister. True, at the moment only the external publicity establishment is under close scrutiny, but the recent happenings in Indonesia and the further deterioration in our relations with Nepal compel a wider and more thorough-going review of personnel and policy. Although, as a leading power in Asia we have to prepare ourselves to put up with broken embassy windows, we must also develop independent political and economic attitudes in a world which is undergoing rapid and extraordinary transformation. This is not as easy as it sounds, for the opinion-forming sections of our elite have too long been the intellectual children of Moscow, Washington or London. To tackle personnel or policy singly will yield no tangible result. Both need overhauling because one influences the other.

But does the Prime Minister have the energy now to dislodge the strongly-entrenched elements in and reshape the bureaucracy which has never taken the trouble to understand the implications of his political and economic ideas? Are there men within the senior cadre who could be used to push out those who are not abreast of our changing times? Is it possible to speed the promotion of younger and more able cadres without creating disruption within the administrative ranks? Should specialised sections be developed to promote the ever expanding activity of Government and can these in part comprise temporary recruits whose experience makes them ideal for short-term and specific assignments at home or abroad? These are only some of the obvious questions which recur when the state of our administration is discussed. And nobody really has an answer.

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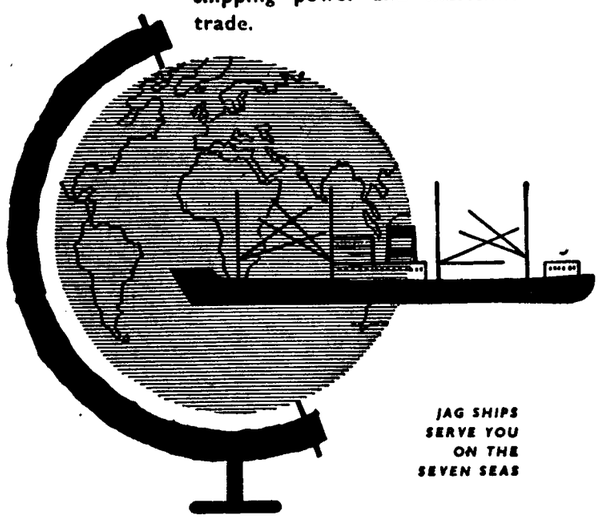

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Our Calcutta Letter

Fertiliser Plant: Designed in India

HINDUSTAN Steel's fertiliser plant at Rourkela is now nearly ready. Two out of the four streams will shortly be commissioned, the other two streams are also nearly complete, and are expected to be ready before the first two attain full production.

The Rourkela unit is not just another fertiliser plant — its erection constitutes a landmark because it is the first heavy chemical plant to have been designed by Indian engineers and built under their supervision. Five years ago when plans were being drawn up for this plant, a group of engineers from Sindri came forward to constitute a project team and prevailed upon their Board to enter a bid for the HSL contract. There were many doubters, not only at the HSL end but also at Sindri. After endless debate, the matter went up to Shri Morarji Desai for a final decision, the issue being whether HSL should take a chance by entrusting this Rs 8 crore project to a group which had no previous experience of constructing a complete unit or play safe and hand over the job to foreign consultants. The Finance Minister decided that the risk was worth taking, considering that a beginning must some time be made if the country is not to be indefinitely dependent upon foreign engineering for the growing heavy chemicals industry.

The project, like many others, has suffered from delays because foreign exchange for equipment was initially difficult to find. Once these handicaps were overcome, progress has been impressively rapid. The Sindri project group has looked upon this assignment as a test, and responded to the challenge with a quality of team work rarely seen in public sector enterprises. Now that its task is nearly accomplished, the group faces the prospect of disbandment because no other assignment for it is in view.

Since the project group was constituted, Sindri has become a part of the giant Fertiliser Corporation of India which is charged with responsibility for all public fertiliser plants. The Corporation can, if it so wishes, keep the project group together to work on future fertiliser plants, but it is apparently unconvinced of the need for Indian engineering. The familiar argument runs that foreign credits for plant and equipment, on which we are totally dependent, may not become available if responsibility for design and engineering are retained within the country. In this view, complete package contracts neatly tied by credit arrangements offer the only solution at the present time.

There is, no doubt, some substance in this argument because suppliers are likely to be more accommodating if the final choice of equipment rested with them, and did not need to be justified to independent Indian engineers who might conceivably take a view different from theirs. But to give in to the suppliers is the line of least resistance, and it certainly does not further the country's long-term interests.

Freedom in Choice of Equipment

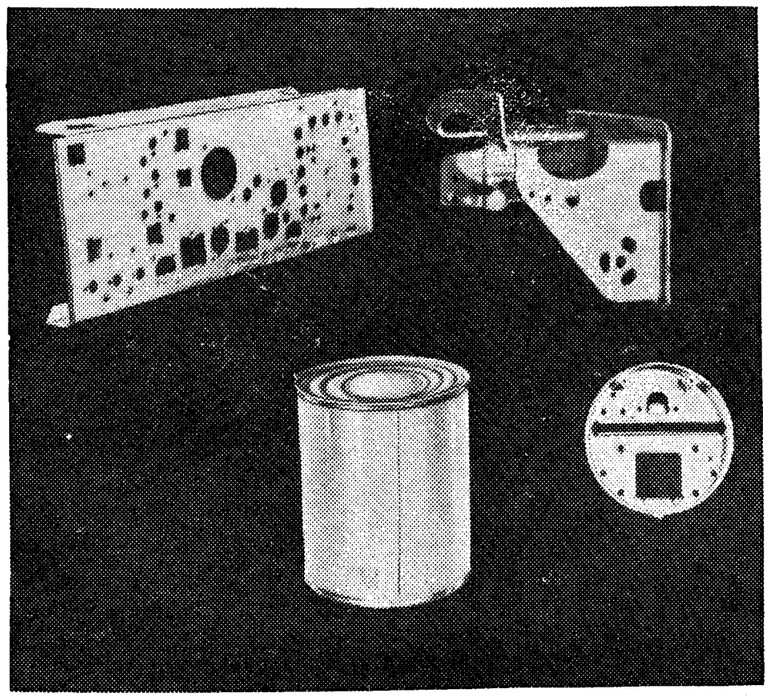
It is possible, of course, to argue that India's choice of equipment is in any case, not free because of tied aid, and the exercise of discretion, therefore, not really possible. This overlooks the fact that within the same country there may be alternative sources of supply, one of which may be better suited to Indian needs and conditions than another. In any case, the design features of a plant need not be determined for us by someone else because we have now a sufficiently experienced and competent chemical engineering nucleus within the country to take informed decisions best suited to Indian operating conditions. Indian decision-making will mean the maximum possible reliance upon indigenous capacity for manufacturing equipment to reduce the foreign exchange burden — a very important consideration for us but unlikely to be given weightage if the job is handed over to a foreign consulting group associated, more often than not, with the equipment suppliers. It is pointed out that the investment requirement per ton of nitrogen works out to about Rs 2500 of which the foreign exchange component in package deals has been as high as Rs 1500. Even at the present stage, the latter figure can be reduced to Rs 1000, and, after five years, to something like Rs 600-700 per ton, provided determined efforts are made to encourage the necessary manufacturing capacity to come up within the country.

The pace of development needed in fertilisers makes the effort worthwhile. In 1962, production of fertilisers is likely to be about 150,000 tons of nitrogen or 15 times the 1950 figure of 10,000 tons. The Third Plan has a target of 1.34 m tons of nitrogen, and advance planning is now needed to move towards a goal of at least 3 m tons by 1980. Unless fertiliser is made available to agriculture on something like this scale, it will be impossible to increase food production fast enough to keep pace with the present rate of population growth.

It is in this perspective that one should view the need for maximising the Indian share in both the engineering and construction of fertiliser plants. Dr S K Mukerjee, head of the Sindri project group (from whose recent talk to the Lions Club of Rourkela some of the above figures are taken) estimates that savings of Rs 10 crores in foreign exchange should be possible each year if projects were handled within India to the fullest extent possible. In the case of Rourkela, the Indian team undertook the engineering of only one half of the plant while the other half was entrusted to a West German supplier whose patented process offered attractive economies. In future, the entire job could be done within India if there were not such appalling lack of confidence amongst administrators and policy-makers in Indian engineering talent.

Three years ago, the Estimates Committee of the Lok Sabha had urged the Government (in the context of the steel plants) to "take steps right from now" to utilise Indian consultancy services so that the country could in time become inde-

pendent of foreign engineering. As industrial growth gathers momentum, the cost of design and engineering services keeps steadily mounting. Several agencies, including the Ministry of Scientific Research, have from time to time acknowledged the need to develop such services in India. The idea of inviting well known foreign firms to start associate companies in India has also been considered. But when it comes to taking the decisions to encourage Indian engineering, someone or the other has cold feet or vested interests get in the way. How else is one to explain the imminent disbandment of the fertiliser project group which has gained such valuable experience at Rourkela? That this group is a part of the public sector, and that even the charge that the Government was supporting a private firm, levelled in another similar case, does not apply here, makes the decision to disband the group even more difficult to understand.



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Official Paper

Progress of the Co-operative Movement

R Ramaswami

Review of the Co-operative Movement in India, 1958-60, Reserve Bank of India 1962. Pp 143, Price Rs 2.50.

AT a time when much stress is being laid by the Government on strengthening the co-operative movement in all sectors of the economy and making it a powerful economic force in the country, the Report of the Reserve Bank of India on the progress of the co-operative movement in 1958-60 should evoke widespread interest.

The facts and figures contained in the Report are somewhat stale since they relate to the years 1958-60. Now that a separate Ministry is in charge of Community Development, Panchayati Raj and Co-operation, there is no reason why an annual report on the progress of the co-operative movement should not be published.

Agricultural credit societies constitute by far the largest segment of the co-operative movement. The number of agricultural credit societies at the end of 1959-60 was 213,000 (against 176,000 at the end of 1957-58) representing 68.1 per cent of all co-operatives in the country. Agricultural credit societies served some 3.84 lakh villages, out of a total of 5.68 lakh villages in the country. The number of members of these societies increased from 102 lakhs in 1957-58 to 144 lakhs in 1959-60, the average membership per society rising from 61 to 71. The rapid progress of agricultural credit societies is proof that they fulfil in the rural areas a need which cannot be adequately met by other credit institutions. However, much ground remains yet to be covered in many States, particularly Uttar Pradesh, Madhya Pradesh, Assam, Bihar, Orissa and Rajasthan where the coverage is less than in other States.

The Table below highlights some of the salient features of agricultural credit societies as at June 30, 1960. The Table clearly shows that progress has been uneven in the different States. It also becomes apparent that both in regard to capital and deposits, the progress of the credit societies has not been in keeping with the increase in their advances. State Governments' contribution to the capital of agricultural credit societies varied from about 7½ per cent to 25 per cent. Although deposits increased from Rs 8.96 crores in 1957-58 to Rs 12.30 crores in 1959-60, they represented only about 5.3 per cent of the total working capital. The major part of the working capital consists of borrowings, the ultimate financing agencies being the Reserve Bank of India and the Government. If these societies could attract more deposits and raise their capital, they would have to rely less on the apex financing institutions.

Need to Link Credit to Production

The growing volume of overdues is another sign of weakness of the credit societies. Overdues stood at Rs 37.70 crores on June 30, 1960 (as against Rs 22.79 crores on June 30, 1958). Overdues as per cent of outstandings varied from 25 to 55 in the different States with the exception of Andhra Pradesh, Madras and Uttar Pradesh. The accumulation of overdues indicates the likelihood of funds being used for non-agricultural and non-productive purposes. The Report attributes the increase in overdues to laxity in supervision at the society level, inadequacy of audit staff, and incomplete audit. Persons who are entrusted with the audit work have also other duties to perform, with the result that much of the work had fallen in arrears. Several societies had not been audited at all. The number of societies not audited was 13,199 in Uttar Pradesh; 1,939 in Bihar; 1,673 in Orissa; and 1,246 in Mysore. The Report emphasises the need to strengthen the audit staff and to entrust the audit work to the Registrar. Besides, it is suggested, a separate machinery of inspection should be set up. Finally, the machinery of inspection and audit should be uni-

Agricultural Credit Co-operatives—Some Salient Features

As at June 30, 1960

(*Amount in lakhs of rupees*)

State	No of Societies ('000)	No of Villages Covered ('000)	Share Capital Inclusive of State Govt Conribution and Reserves	Deposits	Other Borrowings	Total Working Capital	Loans Outstanding	Overdue	Percentage of Overdues to Loans Outstanding
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	12.5	19.6	523.7	81.4	1,720.1	2,325.1	1,911.0	275.7	14
Bihar	16.2	35.4	103.3	8.0	189.2	300.5	193.6	106.5	55
Gujarat	7.1	17.9	816.0	151.3	1,722.8	2,690.2	2,076.7	509.8	25
Madhya Pradesh	20.6	45.8	393.0	55.9	1,306.5	1,755.4	1,472.3	313.4	21
Madras	9.6	17.7	506.4	91.9	1,601.4	2,199.7	1,826.0	200.0	11
Maharashtra	17.8	32.7	1,189.0	90.1	2,828.1	4,107.3	3,385.1	907.2	27
Mysore	8.0	21.1	530.9	102.0	1,117.8	1,750.7	1,366.3	446.7	33
Punjab	17.1	18.3	522.4	351.7	822.9	1,697.0	1,428.4	373.2	26
Uttar Pradesh	57.1	86.2	925.3	92.4	1,846.6	2,864.4	2,184.9	128.2	6
West Bengal	13.1	21.5	131.8	19.9	287.2	438.9	317.5	137.8	43

form in all the States. These are suggestions which the Government cannot ignore, since the societies are managed by individuals whose knowledge and experience may not in all cases be sufficient to ensure the efficient running of societies.

The increase in loan operations was not, however, a feature only of agricultural credit societies. The advances of the land mortgage banks also increased substantially. The Third Plan target of advances by the land mortgage banks was actually exceeded one year before the end of the Plan period. In view of the sharp increase in the number of borrowers and the amount of borrowings in the agricultural sector, it is more important than ever to devise measures to link the loans with production in order to ensure that they are properly utilised for the purposes for which they are intended and not diverted to other uses.

Marketing and processing co-operatives made fair progress during 1958-60. The number of 'mandi' centres increased from 1,899 to 2,576. The turnover was Rs 27.91 crores in 1959-60 or about double that two years ago. A necessary improvement suggested by the Report is to link credit with marketability, on which much emphasis was laid in the Second Plan. The recovery of credits through marketing societies has, however, been a slow and painful process throughout, the amount recovered being hardly Rs 7.42 crores against Rs 178 crores outstanding.

Consumers' co-operatives which are being talked of as possible instruments for holding the price line showed only modest progress. The number of primary stores increased from 6,275 in 1957-58 to 7,168 in 1959-60 and their sales from Rs 23 crores to Rs 39 crores. One would have liked to have more information about these co-operatives. At the moment, it is clear that the number of consumers' societies is far from adequate to make any impact on prices.

The Report is not reticent about the financial and organisational weaknesses of the co-operative movement, particularly in some of the States. The chief improvements suggested are more effective supervision, audit and management.

Why This Pessimism about Tea Exports?

(From Our Calcutta Correspondent)

THE tea industry appears to suffer from a curious ambivalence in its attitude to prices. On the one hand, it keeps pleading for fiscal concessions and other reliefs so that it can compete with lower cost producers on world markets. On the other hand, every time prices at auctions tend to weaken, a long and agonised wail goes up.

This ambivalence is also reflected in the attitude the industry takes to any measures designed to keep domestic consumption in check so that surpluses are available for export. More important, an easing of domestic demand would help to keep prices of plain teas at reasonable levels at which larger export sales could be made.

Production Target Too Low

This point was well brought out in the speech of Shri A S Bam, Chairman of the Tea Board, to the Bharatiya Cha Parishad earlier this month in Calcutta. Domestic consumption in 1961-62 was estimated at 300 m lbs and, if not restricted, might go up to 380 m lbs by the end of the Third Plan. This assumes an increase of 20 m lbs in domestic consumption every year, which is born out by the experience of recent years. The export target agreed to by the industry is 610 m lbs to be attained by 1965 against the actual of 452.5 m lbs exported in 1961. If the export target is to be realised and at the same time domestic demand is to be met in full, a total output of 990 m lbs would be required — 90 m lbs more than the Third Plan target for tea (which some sections of the industry never tire of describing as unrealistically high). Pointing this out, Shri Bam said that this lent weight to the view that the target of production was inadequate and needed upward revision.

On the authority of a FAO forecast showing that production may exceed demand by something like 100 m lbs by 1965, the Cassandras of the tea industry have been urging that the world tea agreement must be immediately revived to prevent this dire outcome. Government, while not averse to international commodity agreements, is reluctant to take the initiative because the high costs of Indian tea industry puts us in a weak bargaining position.

However, if the experience of 1961 is any guide, there is no reason for gloom. Last year, world production increased by only 7 per cent while consumption went up by 8 per cent. Shri Bam reiterated the Board's "firm belief" that total world production in 1965 would not exceed consumption by "any substantial margin". He pleaded with the pessimists not to unnerve the sober section of the industry — as near a public rebuke as one can get in the highly polite interchanges which take place at Trade Association meetings.

Shri Bam's optimism about future trends is reinforced by the encouraging export record during the first seven months of 1962. More tea was lifted by USSR, Egypt, Iraq, Afghanistan, Sudan, USA, Canada and the Netherlands. At this rate, Shri Bam hoped, this year's total exports may rise to 500 m lbs which would mean an increase of almost 50 m lbs over last year.

Optimistic Outlook for Crop

In part, this depends upon the trend of prices. Up to June 1962, this year's crop was 2.8 m lbs ahead of last year — 3.1 m lbs up in South India but 0.3 m lbs down in the North. During July, production in North East India was affected by unfavourable climatic conditions in Assam and North Bengal, as a result of which the crop fell short by 10 m lbs as compared with the figure for this time last year. Production in South India shows a further rise over 1961, the July end figure being 4.5 m lbs higher.

Despite these setbacks, the outlook for the crop is fairly optimistic. If weather conditions do not create further difficulties, there are hopes of a crop higher than the all-time record of 1961. It is perhaps a fall in the Calcutta arrivals of tea because of the temporary shortfall in the crop, coupled with an increase in overseas enquiries, that have tended to firm up prices. The "Calcutta Tea Market Report" records the average realisation for leaf grades of all districts at Rs 5.84 compared with Rs 5.66 a year ago. It is true however that teas from districts other than Assam and Darjeeling show a substantial decline in price from 1961 levels. This fall in plain teas is more than offset by the firmness of Assam and Darjeeling leaf, accounting for the higher all-District average.

Dust grades are, both district-wise and in the overall average, selling below last year's level, presumably because UAR, a principal buyer, has lifted only 1.65 m lbs this year in July and August, the first two months of the current season, against 3.55 m lbs in the corresponding period last year. A fall in price is only to be expected because the benefit of lower export duties tends to be split between the buyer and the seller.

Full Government Support

Despite occasional grumbles, it is now acknowledged in all responsible quarters that the industry's export effort is receiving the fullest possible support from the Government. In two successive budgets, the export duty has been reduced, the present effective level, allowing for excise drawback, is 10 nP per kg against 44 nP per kg before April, and 57 nP per kg until two years ago. Sir Richard Duckworth, Chairman of the Indian Tea Association, recently acknowledged that the Government had given "ample evidence" of its intention to assist the industry.

This is not all. Since 1960, the Tea Board has been operating a machinery hire purchase scheme at an estimated cost of Rs 2 crores. Under this scheme, commitments for the supply of machinery worth Rs 1.52 crores have already been entered into by the Board. A new scheme has just been brought into operation under which an additional sum of Rs 2 crores has been placed at the Board's disposal to enable estates to buy a wider variety of equipment, including those needed for irrigation. Since March 1962, the Board is assisting in replanting by providing finance from a loan of Rs 5 crores granted to it by the Government. Since the age of North Indian bushes has been a matter of concern from the point of view of the future of the industry, this scheme should help in ensuring that the trend of increasing yields is maintained, and a steady growth of output guaranteed.

The price of fertilisers and the quantity allocated to plantations had been the subject of frequent complaints in the past. Now, however, the Government has fully met the industry's wishes on both scores. The entire requirement of the industry for the current year has been made available in the form of sulphate of ammonia, the fertiliser plantations prefer. The price too has been reduced by Rs 16.70 per tonne.

Finally, even the obligation to provide housing to plantation labour is being "re-examined" by a working group of the industrial committee on plantations. There can be no doubt, therefore, that the tea industry's export efforts have the Government's maximum support.

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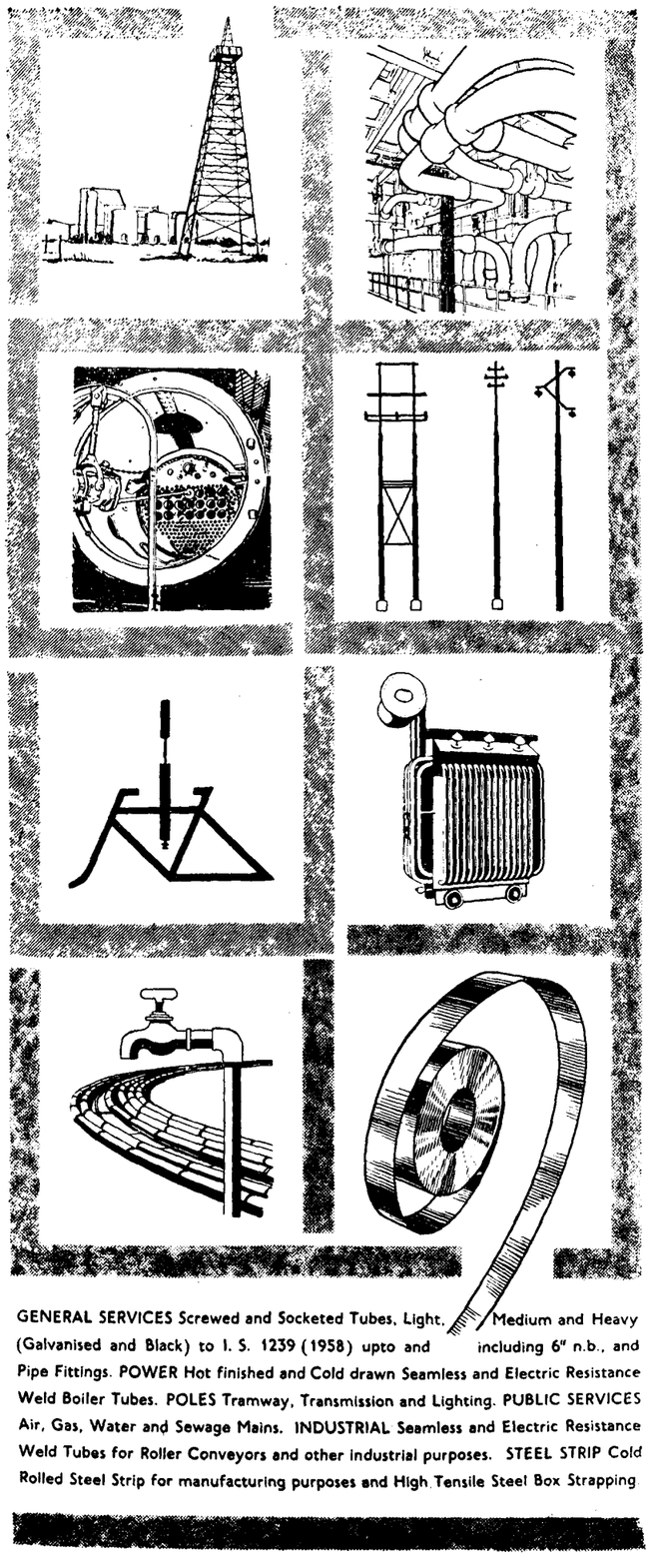

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The Commonwealth Case

(From Our London Correspondent)

NOW that the dust raised by the Commonwealth Prime Ministers' frank and outspoken criticism of the terms on which Macmillan proposes to lead Britain into the Common Market is beginning to settle, it is worthwhile to enquire what are the most significant conclusions that have emerged from this historic Commonwealth Conference. *

Before the Conference, the British Government, through its day to day contact with Commonwealth Governments, was well aware of the inadequacy of the Brussels package deal; it had, therefore, expected a certain amount of criticism and bargaining which, it was hoped, with the aid of Macmillan's charm and Heath's persuasiveness, could be disposed of in a discreetly worded Press communique at the end of the Conference. What took the British Government completely by surprise was the forthright condemnation of the Brussels agreement by one Commonwealth country after another. Visibly shaken, Whitehall tried, unsuccessfully, to make it look as if most of the statements at the Conference had been made with an eye to the public in the respective countries.

Dissatisfaction with Brussels Agreement

Macmillan and his Government must indeed be regretting now that they had earlier held out unqualified assurances (primarily to placate the pro-Commonwealth elements in Britain) that Britain would not enter the Common Market if adequate safeguards were not provided for the Commonwealth! The British public has now been made aware in no uncertain terms that with one or two very minor exceptions (like Rhodesia) no Commonwealth country is satisfied with the present arrangements. It came out unmistakably during the Commonwealth Conference that the British Government had been too ready to surrender Commonwealth interests for the sake of reaching speedy agreement with the Six.

Naturally, the views of Commonwealth leaders have given a fillip to the anti-Common Market forces in Britain. Even Mr Hugh Gaitskell was at last persuaded to climb down from the fence and state categorically that the terms so far negotiated for Britain joining the Common Market did not fulfil the Government's pledge to safeguard Commonwealth interests. Granting that there was a political case for Britain going into the Common Market to use her influence to prevent the wrong sort of development in Europe, Mr Gaitskell argued, "this would be impossible if in going in we broke our links with the Commonwealth. I am not saying that we should stay out, but I repeat what the Commonwealth Labour leaders said: 'the present terms, in our opinion, are not fully satisfactory.'"

In his opening speech Macmillan once again reiterated his determination that Britain must enter the Common Market. Heath made it even clearer that the British Government's mind was already made up and that very little change could be expected in the terms already agreed upon in Brussels. This proved to be a blunder since it made the other Prime Ministers feel that the British decision to go into Europe had already been taken and that they, therefore, had nothing to lose by plain speaking.

Wider Implications

The debate was lifted above the level of concern for individual economic interests by the speeches of Canada's Diefenbaker and India's Nehru. Both expressed fears about the wider implications of the European Community and the consequences of Britain joining it for Britain, for the Commonwealth and for the world.

Mr Diefenbaker's opening speech made a very deep impression on the Commonwealth leaders. (One of the delegates from Ghana is reported to have said that he was "so moved that I thought I was going to cry"). The dialectical skill with which Mr Diefenbaker refuted Mr Macmillan's arguments, quoting the British Government's own promises to the Commonwealth, effectively showed up Britain's **volte face** on the question of safeguards for the Commonwealth. The Canadian Prime Minister spoke not only of the damage to Commonwealth relations, but also of the wider political and military implications of the Common Market. While refusing to disclose his alternative to Britain's entry into E C M, which had received a certain amount of publicity, he suggested a world-wide trade conference of non-Communist countries to discuss the issues raised. Canada, he said, would be delighted to host such a conference. This suggestion was made when it became obvious that a second Commonwealth Prime Ministers' conference to examine the final Brussels agreement might not be possible.

Aggravates East-West Tension

Pandit Nehru made a statesmanlike plea that the whole question of British association with the Common Market should be examined in the light of its impact on East-West tensions and on peace and disarmament. The questions to be asked were : "Does it reduce tensions between East and West ?" "Does it decrease the threat of war ?" The reference was clearly to Mr Macmillan's claim that British association with the Common Market would further world peace. Pandit Nehru, however, feared that "the effect of the present proposals and the United Kingdom's entry into the European Community might be the reverse and add to the tension between East and West". East European countries had alleged that the Common Market was nothing but an extension of the NATO alliance. "That may not be wholly correct, but it may well result in the increase of tension between East and West ....the chances of disarmament would grow less", the Indian Prime Minister said.

Pandit Nehru pointed out that the present tariff system of the Six seemed to suggest that they wished to keep the developing countries as pro-

* This was written before the joint communique issued at the conclusion of the Commonwealth Prime Ministers' Conference was available.

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ducers of primary products only. Thus raw materials required by Western industry were admitted duty-free into the Community while high tariffs were imposed on manufactured goods. Jute imports were a case in point. Raw jute entered into the E C M duty-free, but jute manufactures faced a high tariff. "It is the old concept, the colonial concept, or something like that which seems to form the basis of the present proposals, not wholly, but to a large extent", the Indian Prime Minister emphasised. He also pointed to the growing gap between the rich and poor countries, and to the need for the developing countries to find outlets in the West for their manufactured goods. The developing countries must be helped, he said, not so much by aid as by the expansion of trade. The difficulties that Asian countries were likely to face, if the present proposals were accepted by Britain, had been made very clear in the group discussions, he said. "We are at a turning point in history and we hope it will be used, not to perpetuate, but to lessen the gap between the richer and poorer nations", the Indian Prime Minister concluded.

Hard Words from Ayub

The British Government received an even greater shock in President Ayub Khan's entirely unexpected attack against the protectionism of the E C M. If the developing countries were forced to remain primary producers to feed the Western factories, the Pakistan President said, "it would amount to re-establishing imperialism of the worst kind, the consequences of which would be nothing short of disastrous". The Western world, he added, must decide whether it was going to assist the developing countries, or whether it intended to turn itself into "a powerful international cartel denying access to our manufactures to their markets and forcing us to remain primary producers to feed their factories, dictating terms of trade, and compelling us to pay several times more for their finished goods".

If the British Government had any doubts left about the extreme dissatisfaction of the Asian members of the Commonwealth over the Brussels package deal, the representative of Ceylon effectively dispelled them. He said that although at present Ceylon did not produce manufactured goods, she was hoping shortly to industrialise and export such products, and, therefore, she also shared the apprehensions of India and Pakistan.

"White" Commonwealth's Opposition

The criticism of Diefenbaker had made clear the opposition of the "white" Commonwealth to the Brussels agreement. This was confirmed by Mr Menzies, the Australian Prime Minister. Mr Menzies was resigned to Britain's apparent decision that that the economic losses would be outweighed by the economic gains if she entered the Community. He hoped that Britain's judgment would prove to be correct. But to him it seemed as though part of the final price, and perhaps the final price, was to be paid by the Commonwealth. What was Australia being asked to do — sign a blank cheque? No Government could do that and survive. In his final summing up speech on Monday, the 17th, Mr Menzies re-emphasised that Australia's misgivings and apprehensions about British entry into the Common Market, on the present terms, had not been in any way reduced by the British Government's pronouncements at the Conference. Australia could, therefore, give no benediction to U K's entry on the present terms.

Even New Zealand, the most amenable of the old dominions, was forced to admit that the general terms so far negotiated could not possibly meet the country's needs. The Conference paper on temperate agricultural products was too general to provide adequate safeguards. If Britain entered the Community on the present terms, this would mean economic disaster for New Zealand.

Another shock was in store for the British Government — the outright rejection by the African countries of associated status. The British Government had thought that its responsibility to the African Commonwealth had been met by the provision in the Brussels agreement that these countries could seek Associated Overseas Territory status. In this it certainly under-estimated African suspicion of the political implications of such a move. Despite all British pressure, and the 'threat' that if the African countries did not accept this nothing further could be done to protect their exports to Europe, most of the African countries flatly turned down any suggestion of joining as Associated Territories. The British had all along expected that Ghana would take this line, but with Nigeria and Tanganyika rejecting association, it was plain that Britain did not have the support of the African countries either.

The leader of Ghana's delegation made it clear that Ghana had no intention of seeking association with the Common Market on any terms whatsoever. Ghana, he said, strongly opposed any arrangements which used the unification of Western Europe as a cloak for the perpetuation of colonial privileges in Africa. "Africa is not an extension of Europe.... those African States which have accepted associate membership of the European Economic Community may reap certain immediate benefits. There is no doubt, however, that in the long run they will pay a heavy price for their decision".

Association, No Panacea

It was a bitter disappointment for the British that the Nigerians decided to stand firmly by their rejection of associate status. The Prime Minister of Nigeria pointed out that the problems confronting developing countries were so far-reaching that the issue of association or non-association with the E E C was relatively insignificant. He noted that association had not solved the major problems of the associate countries and argued that it was likely, if anything, to make them more economically dependent.

The Prime Minister of Tanganyika, speaking not only for his own country, but for Kenya and Uganda, declared that the three East African countries categorically rejected association. He pointed out that the independence, stability and prosperity of Africa could be fully realised only within the context of African unity. He believed that East Africa's association with the E E C would mean its alignment with the Western bloc which would be incompatible with the development of the East African Common Market. Despite pressure at the group discussions,

the British were unable to budge the African delegates, and in the final session on the Common Market, the Prime Minister of Tanganyika re-emphasised the determination of East African countries to reject associate status and suggested that Britain should try and negotiate agreements similar to those concluded by France with Morocco. This left the British with only Sir Roy Welensky in favour of association!

Another Conference Ruled Out

And so the debate on the Common Market ended with the gap between the British Government and the Commonwealth leaders as wide as ever. In the group discussions, the Asian countries pressed, among other things, for a speedy conclusion of the trade agreements well before 1966 and in the meantime asked for the continuance of the **status quo** with regard to preferential entry into the U K.

There is now no further talk of a second Commonwealth Prime Ministers' Conference, and Ayub Khan's proposal for a summit meeting between the Six and the Commonwealth has been politely but firmly turned down by General de Gaulle. There is some talk of a world-wide conference on trade problems, though.

As for the area of agreement between the Commonwealth countries and Britain, Mr Macmillan, in his very conciliatory speech that winded up the debate, mentioned four points on which there appeared to be a measure of agreement. These related to the need to

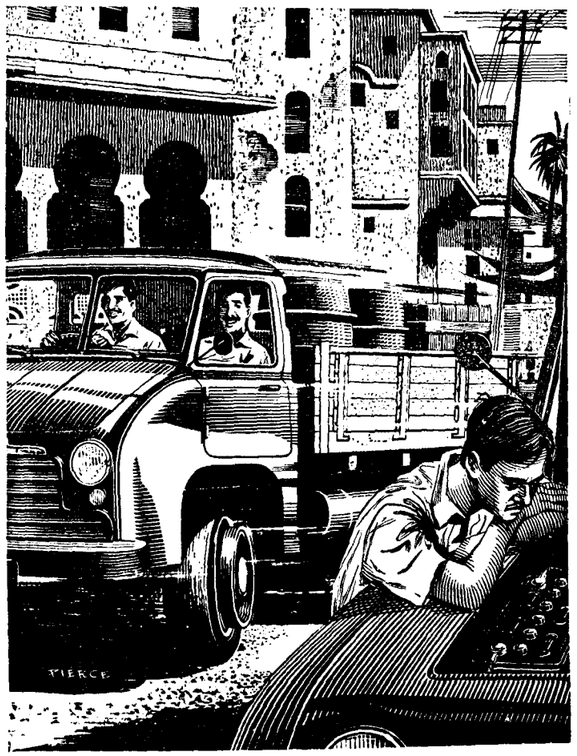
(i) work for the expansion of world trade;

(ii) improve the organisation of world markets in foodstuffs through negotiation of international commodity agreements;

(iii) recognise that increased opportunities for trade were no less important to the developing nations than financial assistance; and

(iv) regulate the disposal of any agricultural surpluses in such a manner as to meet the needs of those people who were short of food.

(*Delayed in Post*)



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Economic Change and 'Rationality' in a Fringe Village

M S A Rao

With the execution of development programmes village communities are being exposed to new economic influences and opportunities. Many of them have responded favourably to these opportunities and many economic changes have occurred as a result. It is often argued that the economic changes thus initiated will lead to a process of self-sustained growth.

But the mere fact that economic changes have occurred will not guarantee such a process. It is essential to examine the nature of the economic changes in order to find out whether they are leading to a self-perpetuating process of development. This article is one such attempt in a particular situation.

It shows how facile can be the generalisation that when once the initial traditional resistance is overcome by economic innovations the process of economic development is assured.

It also shows how complacent is the attitude of the target-conscious officials who assume that the initial acceptance of programmes of community development will result in a self-sustained process of growth.

[The author is grateful to Professor M N Srinivas for his comments and criticisms.]

I

WHAT is the yard-stick by which we assess the nature and direction of economic change? The concept of 'Rationality' as developed by Max Weber seems to me a useful tool in this context, although modifications are called for especially in the light of the Japanese case of economic development. Max Weber constructed a typology of 'Rational' and 'Traditional' and indicated that the extent and direction of rationality may be measured positively by the degree to which ideas gain in systematic coherence and consistency and efficiency; and negatively in terms of the degree to which magical elements of thought and action and traditional forms of behaviour are replaced. He illustrated how capitalism in the West was the result of growth of rationality in general and economic rationality in particular. How far economic development is concomitant with rationality in the other spheres of social structure especially impersonalization is, however, debatable. We shall not go into these details here. But in the context of a developing economy such as ours the concept of 'Rationality' provides a useful measure, as I have outlined below, to understand the nature and direction of economic change. Of course, no society is completely rational. The typology of rationality has only a heuristic value.

In examining the nature of economic change on the basis of rationality, four broad related questions appear to be relevant :

First, to what extent are the different aspects of economic activity undergoing a process of systematization i e, gaining a fair degree of coherence and consistency? And what are the 'blind spots' where activity is characterized by force of habit and tradition, needing innovation?

Second, to what extent are the means employed efficient and expedient for maximization of profit?

Third, to what extent is economic activity characterized by impersonality?

Fourth, to what extent are the different aspects of economic activity organized in a manner that economic change becomes a self-perpetuating process of development?

I shall discuss in this paper the nature of a particular, but significant, economic change that has occurred in a village near Delhi with respect to these broad questions.

II

The Village

Lamepur (fictitious name)* is a multi-caste fringe village seven miles from Delhi railway station towards the north-west. The Ahirs, who are one of the cultivating castes of Hariyana, are the locally dominant caste. They are the largest caste forming 44.9 per cent of the total number of households (207) in the village while Chamars and Bhangis together constitute 26.5 per cent.

The traditional economy of Lamepur was one of subsistence. Ahirs grew wheat, maize, **bajra** and Bengal gram as food crops, **jowar** and **gawar** as fodder crops, and sugarcane, mustard and vegetables for domestic consumption. Big cultivators who had a surplus of wheat or other grain sold it to the local Baniya or to the agents of Delhi grain dealers who visited villages during harvest. Villagers did not themselves go to Delhi to sell grain or other commodities.

A major change in the economy of the village was the introduction of market crops. The growing of vegetables for the urban market is an important innovation the history of which is still fresh in the minds of the Ahir cultivators. About 33 years ago they came to adopt the growing of vegetables from a Kahar (water-carrier). Traditionally Ahirs tended to look down upon growing vegetables for sale. That occupation was associated with the castes of Mali or Kahars and Zheemers who practised it along with their traditional occupations of water-carrying, basket-making and growing **singhada** (water chestnuts) in tanks and ponds. Lamepur Ahirs were attracted by the money to be made from vegetable gardening. Gradually the stigma attached to vegetable-growing and sale vanished, and now Ahirs are quite proud of their skill in market gardening. This innovation has now spread to Jat cultivators round about Delhi. When Ahirs took to market-gardening the Jats insulted them by calling them Malis and Kahars. To-day, however, Jats in many villages grow vegetables. Ahirs taunt the Jats about their former attitude.

* The field-work in this village was done during the year 1957-58 and continued contact with it has been maintained since then.

III

The Traditional Economy

Ahirs own most of the land in Lamepur. Apart from Ahirs, other castes who own land are Khatis (carpenters), Brahmins and Vairagis as can be seen from Table 1. All the four Brahmin households possessing land do not cultivate the land themselves. They neither have the agricultural implements nor draught cattle. They are all commuters. Hence they lease out land to trustworthy Ahirs who give them a share. The land owned by the single Vairagi household is negligible. The two Khati households who own land also cultivate. We may here ignore the Vairagis and Khatis, and only consider the Ahirs for a detailed study of activities connected with vegetable-growing.

The conditions for cultivation are favourable in Lamepur. Firstly, the fields of the village lie in the irrigated area of the Western Jumna Canal. Secondly, the water table is very high, water being available at a depth of only a few feet. This is an advantage for well-irrigation. But it is sometimes a disadvantage because rain water is not easily absorbed by the soil. The fields become water-logged owing to lack of drainage. Thirdly, the Badli dump where the garbage and refuse of Delhi are dumped is close by. This is a source of manure to the farmers which is available to them free of cost. They are only required to carry it to their fields. Fourthly, the programme of consolidation of holdings initiated by the Government was completed in 1954. This has made the holdings more economical. Fifthly, Lamepur has been under a community development block receiving the scheduled benefits under their programmes.

Lamepur is also favourably located with respect to transport facilities and marketing. It is forked by two all-weather roads. It is only about five miles from Subji-mandi, the vegetable wholesale market in Delhi. It is also near a railway station.

Diversified Cropping Pattern

The cropping pattern of Ahirs is diversified. Normally a cultivator attempts to strike a balance between food, fodder and commercial crops. Vegetables, sugarcane and maize are the three principal commercial crops. But the cultivators also sell surplus fodder and grain. Many Ahirs sell milk to the agents who collect the milk from individual households twice a day. Of all the saleable commodities Ahirs give the first place to vegetable-gardening. The principal vegetables they grow are tomato, brinjal, peas, radish and cucumber. The area under cultivation of maize and sugarcane together is always less than the area under vegetables. I shall concentrate on vegetable-gardening as it forms a very important aspect of the commercial activity of the Ahirs of Lamepur.

Table 2 gives the distribution of Ahir households according to the proportion of the area under vegetables to the total land owned, and annual income from the sale of vegetables, by size of land-holding. It can be seen that only nine out of 83 land-owners do not grow vegetables. Fifty per cent of the vegetable-growers have less than 25 per cent of their land under vegetables. Only a few have more than 75 per cent of their land under vegetables.

Table 1 : Distribution of Households by Size of Land-Holding and Caste

	Total	Caste			
		Ahir	Khati	Brahmin	Vairagi
Number of Households	103	93	2	5	3
Number of Households Owning Land		83	2	4	1
Size of Land-Holding (*in bigas*)					
0–5	3	1	—	1	1
5–10	16	14	—	2	—
10–15	8	5	2	1	—
15–20	8	8	—	—	—
20–25	3	3	—	—	—
25–50	18	18	—	—	—
50–75	13	13	—	—	—
75–100	9	9	—	—	—
100 and above	12	12	—	—	—

Note : About 5 bigas = 1 acre.

Table 2 : Distribution of Ahir Households according to the Proportion of Area Under Vegetables and Annual Income from the Sales of Vegetables by Size of Land-Holdings

Size of Land-Holding (*in bigas*)		Percentage of Area Under Vegetables to Total Land Owned					Total	Annual Income from the Sale of Vegetables				Total
		0	Less than 25%	Between 25-50%	Between 50-75%	Between 75-100%		Between Rs 500	Between Rs 500-1000	Between Rs 1000-2000	Rs 2000-7000	
1		2	3	4	5	6	7	8	9	10	11	12
Small	0–5		1				1	1				1
	5–10	5		4	4	1	14	6	2	1		9
	10–15			2	2	1	5	3	1	1		5
	15–20	1		4	3		8		4	2	1	7
	20–25			3			3	3		1		4
Medium	25–20		12	3	2	1	18	3	11	2	2	18
	50–75	1	9	3			13	4	2	6		12
Big	75–100	1	4	3	1	—	9		1	6	1	8
	Above 100	1	11				12		4	2	5	11
Total		9	37	22	12	3	83	19	25	21	9	74

Fifty nine per cent of the vegetable-growers have an annual income of less than Rs 1,000 from the sale of vegetables. The upper limit of annual income is Rs 7,000, only two households having an annual income in the range of Rs 5,000-7,000. It should be noted that the income from the sale of vegetables is not only dependent on the area under them, but also on the period over which vegetables are grown in a year. The duration varies from 3 to 9 months.

IV

Adjustments within Traditional Framework

Is there any relationship between the size of the holding and the area under vegetables ? In terms of the actual number of **bighas** under vegetables, the big and medium land-holders have more land than the small land-holders. The upper limit of the area under vegetables is 40 **bighas**. But in terms of the proportion of the area under vegetables to the total land owned there is no positive relation. It is not that the larger the area owned, proportionately larger the area used for vegetable-growing. Many big farmers grow vegetables only on less than 25 per cent of their total land. On the contrary, quite a few small farmers allot more than 50 per cent of their total land to vegetable-growing.

What prevents the big cultivators from taking to extensive and intensive vegetable-gardening ? They have the land, irrigation and marketing facilities and capital to some extent. Labour is not scarce although it may be dear. Let us examine the organization of work processes involved in vegetable-growing, and the factors influencing the decision of farmers about the area alloted to vegetable-growing.

Limits on Vegetable-Cultivation

Vegetable-growing can be the full-time activity of a farmer's family throughout the year. But the maximum period over which even the most ambitious farmers grow vegetables is only nine months. This is only done by a few, the bulk of them raising vegetables for three to six months. The length of the period during which a farmer cultivates vegetables and the size of land he brings under it depend upon the amount of labour which he can command from his family, as vegetable-growing is labour-intensive. Let me give a few examples.

The only male person in a family which owns 70 **bighas** is a thirteen-year-old boy. His mother secured the services of her son-in-law to look after the land. His time is fully occupied in raising food and fodder crops. Hence this family could not raise vegetables at all. Clearly this is an extreme instance. Three families each of which owns more than 100 **bighas,** are all small with only a single adult male in each. They are able to bring a small piece of land under vegetables by engaging agricultural labourers. This possibility of employing labourers usually for a period of a year during which time they are tied to the land-owner, is helpful in coping with the manifold tasks of cultivation. But it has not encouraged the farmers to bring more land under vegetables. Farmers find it difficult to employ more labourers for many reasons. Firstly, close personal supervision is necessary to get work done through the labourers. Secondly, the wages paid to them is prohibitive compared to the returns, under the present level of organization. A tied-labourer is paid thirty rupees per month in addition to one meal a day and tobacco.

Attraction of Urban Employment

Another significant factor limiting the area under vegetables is urban employment. None of the five families owning 5-10 **bighas** of land grows vegetables because the only adult male in each family commutes daily to Delhi. Commuters find little time to grow vegetables. One of the big cultivating families is also unable to grow vegetables because both the adult males in it are commuters. This family has an agricultural labourer, but his time is fully taken up with raising food crops. When, however, a family has a few adult men one of whom is a commuter, then the latter can help in transporting and marketing vegetables. But commuters cannot always be depended upon. They cannot afford to wait till the broker has auctioned their loads of vegetables. The broker pays only after he has sold the vegetables and deducted his commission.

It is seen that the many problems faced by the Ahirs in vegetable-gardening are not insurmountable. In fact, many farmers have alternate choices and solutions to overcome these difficulties. If a family has labour and not enough land it can take land on lease provided it has a reputation for being honest, i e, it will not try to take advantage of tenancy reform Acts to acquire the land for itself. If the family labour is not enough, labourers can be hired on an annual tenure or on a daily basis. The family can also depend upon the commuters to some extent.

All these adjustments, however, take place within the 'traditional' framework. They solve the problems faced by the Ahirs in vegetable-gardening to some extent but are incapable of answering the needs of extensive vegetable-gardening, which calls for a different level of organization of resources altogether. In the present level of organization it is seen that there is no specialization in the process of raising vegetables for the urban market. The Ahirs of Lamepur not only do all the agricultural tasks in raising different crops including vegetables, but also carry basket-loads of harvested vegetables in horse-drawn carts to Subji-mandi, sell their vegetables through a broker and return home after collecting cash. Lack of division of labour and specialization is characteristic of traditional agriculture. A single individual performs several economic roles.

V

Level of Technology

A consideration of the level of technology in growing vegetables is of importance in understanding the Ahirs' level of economic organization. They have a set cycle of seasonal vegetables. They grow brinjal and sponge gourd in June and July; radish and turnip in August and September; peas in September, October and November; tomato in December, January and February; and cucumber and squash melon in February and March. This cycle of vegetables has no doubt a relationship with the seasons and the demands of the urban market. But big farmers are aware of the fact that if they grow, for instance, tomato in June-July it will fetch them

a higher price. About 30 years back they used to grow tomato during this period. A few farmers tried to raise tomato in this period but were unsuccessful because the crop usually got infested with disease. Even after sprinkling 'white powder', the only remedy they knew, they could not save the crop. Hence they gave up. Their knowledge of plant diseases and fungicides and insecticides is poor, and there is no effort on their part to acquire this knowledge. This is a blind spot where innovation is needed. Their knowledge of vegetable technology is confined to the hereditary skill of the family.

Though many of the rich farmers know that cold storage facilities exist in Delhi, they do not make use of them. But if they did, they could earn higher profits.

VI
Impact of Development Programmes

Ahir cultivators have exploited the opportunities for agricultural development provided by the community development programme and other Government agencies. Many have built wells for irrigation, installed Persian wheels to lift water, improved their land and got better seeds and fertilizers. They use relatively little of chemical fertilizers and more of manure from the Badli dump. Many farmers have also brought better draught and milch cattle. One of the big farmers purchased a tractor and installed a tube-well after the introduction of electricity to Lamepur. It can be seen that he is trying to organize his cultivation on a higher level of technology, a step in the direction of 'rationality'.

Another occasion on which the Ahirs made an attempt towards adopting an efficient level of organization was the establishment of a vegetable growers' Co-operative society in 1948. A few big Ahirs of this and a neighbouring village started a cooperative society to get seeds, fertilizers, financial assistance and also facilities for transporting and marketing vegetables. The society worked for two years and gradually it became ineffective as there was serious competition among the members to seek control and leadership of the society for personal gain. The society became virtually defunct in 1953. The farmers are aware of the benefits which cooperative organization can confer on them, but their personal and factional interests are too deeprooted for them to adopt more efficient means of organization.

So far I have concentrated on the first two questions of efficiency of the level of organization of different economic activities of Ahirs with respect to vegetable gardening. Let me now turn my attention to the question : To what extent is economic activity characterized by impersonality ? I confine myself, here, to only one aspect of their behaviour, namely, choice of broker in Subjimandi, where there is reason to expect a fair degree of impersonality.

VII
Element of Impersonality

The Ahirs of Lamepur go to five different brokers (**adti**) in Subjimandi through whom they sell their vegetables. One of them is from the village who is patronized by a few cultivators. The cultivators also patronize other brokers. Hence it appears at first sight that the choice of the village broker is impersonal. If one asks the vegetable-grower the criterion of choosing a broker the common answer is 'who ever gives me more profit'.

But on a deeper analysis, the choice of a broker does not seem to be so rational and impersonal as it appears to be. There are two factions (A and B) in the village. The village broker was a member of A. A few Ahir vegetable-growers who were also members of A patronized him. But a few others of A were also going to other brokers. Those who did so were the marginal members of the faction A. Thus the vegetable-growers who formed the hard core of the faction necessarily patronized the broker from their own faction. It was an expression of factional loyalty. Factional loyalty also demanded the cultivators of faction B not to choose the broker who belonged to faction A. Recently there has been a shift in faction membership. The village broker has now a serious rift with the dominant members of A. He has now the support of Ahirs belonging to faction B. This has resulted in a change of the Ahir factional groups patronizing the village broker. The dominant members of faction A are leaving him and those of faction B are patronizing him. Thus the choice of the village broker is caught up in the mesh of factional loyalties reducing the element of impersonality to insignificance.

VIII
Prospects of Self-Sustained Growth

Let me now consider the last question : To what extent are the different aspects of economic activities organized in a manner that economic change becomes a self-perpetuating process of development? The relevant areas of economic behaviour in this context are the consumption pattern, attitude towards savings and ploughing back of surplus in productive investment to generate more profit, and the entrepreneurial spirit. I shall content myself by making a few observations on their consumption behaviour without going into details.

The Ahirs of Lamepur say that there has been, in recent years, a considerable improvement in their level of living with better quality of food, clothing and shelter. Since the end of World War II there has been a rapid growth of building-construction activity. The first preference of a cultivator is to build a brick (**pakka**) house when he accumulates enough money. Usually well-to-do cultivators will have two houses — one for his women folk and another a men's house-cum-cattle-shed (**baithak**). They start building a **pakka baithak** first. A **pakka** house will cost from 15 to 30 thousand rupees. This is the most tangible and preferred form of investment. After electrification, some commuters have built houses apparently giving up their earlier idea of staying in Delhi. There is competition to build more and more urban-looking houses. Considerable prestige is attached to the possession of 'modern' houses.

Apart from investment on a house, buying gold is another form of investment. Traditionally it was a custom of Ahir women to wear silver ornaments. Now they wear gold ornaments. The expenditure on marriage and funerals has increased as it is associated with economic and social status. There is an elaborate system of gift exchange within the kin-group. Gift obligations increase as the economic status of a cultivator rises. All these changes in the consumption pattern reduce the chances of productive investment. This is specially so because normally the Ahirs give a low priority to productive investment unless it is very pressing.

Emphasis on Education

A significant trend in this context, however, is an increasing awareness of the need for education of children. This stands in contrast with the failure to appreciate sanitary and medical facilities. The increasing investment in education is no doubt productive in the long run. But educated Ahirs seek jobs in Delhi to become clerks (**babus**) and are reluctant to get back to agriculture. The presence of commuters among small cultivators with elementary families minimizes the chances of vegetable-growing.

The foregoing cursory examination of the consumption behaviour of Ahir vegetable-growers reveals that there is little chance of saving, accumulation of capital for productive reinvestment. Their attitudes to saving and reinvestment are not markedly favourable to assure a self-perpetuating process of development, with a more 'rational' organization of different areas of related economic activities.

IX
Initial Changes Become 'Routinised'

The Ahirs of Lamepur took to the new economic activity of vegetable-gardening after some initial resistance. They became sensitive to many economic benefits open to them including agricultural development programmes under the Community Development and other State schemes. They exhibit a fair degree of 'rationality' in their favourable responses to these benefits and also in the realization of the economic advantages of vegetable gardening. But the means they adopt is inefficient for a more fruitful exploitation of the opportunity. Even the big farmers who have resources of land and capital do not organize the different aspects of economic activities on a 'rational' footing. There is no specialization of different tasks in the process of growing vegetables. Their level of vegetable technology is poor. They do not keep any accounts. Thre is little of productive re-investment of savings. Impersonality does not, to a great extent, characterize their economic behaviour.

Certain innovations have no doubt changed the traditional subsistence economy. But the nature of these economic changes has been such that it does not guarantee a self-sustaining process of economic development. The economic benefits which follow from these changes are being pressed to enhance the traditional aspects of the social structure. They do not release further new economic forces congenial for economic growth. Thus the first series of economic changes tend to become routinized at the 'traditional' level. The momentum gained by these economic changes is unable to cross certain barriers imposed by the traditional social structure and value-system. Unless these areas are tackled in order to evolve a 'rational ethic', the notion of a self-sustained process of economic development will remain an utopia.

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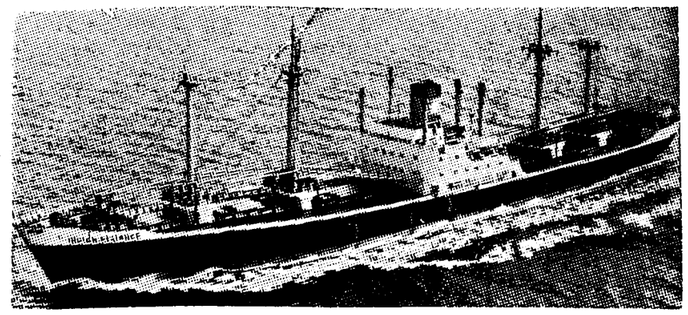

INDIA STEAMSHIP CO., LTD.

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21, OLD COURT HOUSE STREET, CALCUTTA-1

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SECRETARIAT OCT 1962 PUBLIC DEPARTMENT

From the Chair

India Steamship Co Ltd

Speech of the Chairman, Sir A Ramaswami Mudaliar

THE following is the Speech delivered by Sir A Ramaswami Mudaliar, K C S I, D C L (Oxon), at the Annual General Meeting of the Shareholders of India Steamship Company Ltd, held at Calcutta on September 25, 1962:

Gentlemen,

The Audited Accounts and Directors' Report for the period ending March 1962 have been in your possession for some time and, with your permission, I shall take them as read.

I have to refer to the great loss that the Company sustained in the demise of my esteemed friend and colleague, Sir Bijoy Prosad Singh Roy. The place that he had in the public life of India and of Bengal in particular can hardly be filled and your Company has lost a most valued and devoted champion of Indian shipping. May I request you to pass a resolution conveying the deep sense of sorrow of the shareholders of the Company at this great loss and offering our condolences to the members of the bereaved family.

The Directors' Report shows that the freight earned during the year was Rs 8,97,26,920 as against Rs 8,63,00,835 in the previous year. The total number of Liner voyages during the year was however 54 as compared with 49 voyages in 1961 and the number of ports called at was 947 as against 942 in the previous year. In spite of the larger earnings of freight, it is regretted that the year has ended in a loss. It was hoped that when the pooling system was introduced, the Company would show much better results. Though the loss is somewhat less than in the previous year, various factors have combined to make the position less satisfactory than was expected. The number of freight tons carried during the year was 9,56,332 as compared with 8,80,070 in the previous year.

The earnings reflect two factors. The first is the low rate of freight which continued for goods carried from east to west throughout the year and for goods from west to east during most of the year. The second factor was that the volume of high freighted cargo had fallen to some extent and the vessels had to carry low-frieghted cargo like oil cakes, ore and fertilisers which swelled the volume of freight tons carried without substantial benefit to the Companies concerned. The increase in items of expenditure are due to incremental increases of salary, revision of scales in some cases, and repair and maintenance charges. The insurance charge has also gone up on account of the unfortunate loss sustained by the Company last year of the Indian Navigator. The depreciation charges have also gone up as the latest steamer, Indian Trust, was throughout the year in service and the full depreciation amount had to be provided for. The picture is admittedly a gloomy one but I venture to express the belief that it is not unrelieved gloom, as there are factors which have recently come into existence which redeems the situation to some extent. These factors will be referred to at the end of my speech.

The financial results of the working of your Company are not satisfactory, though perhaps slightly less unsatisfactory than those of the previous year. The fact that almost all the shipping companies, both Indian and foreign, have shown either losses or considerably less profit than in the previous year may be noted but does not afford any consolation to your Company. This is particularly so in regard to companies whose fleets are mainly engaged in the India|U K|Continent trade.

In my last year's Report to you, I referred to the fact that the freight rates have not been revised since 1957. During part of the financial year under review, the freight rates eastward remained the same and were increased only from 1st October 1961, the consequence being that the result of such increase is recorded only in the voyages of three months of the year. The freight westwards remains the same virtually as in 1957.

The costs have, however, been increasing, a state of affairs which cannot long be maintained. The difficulties and delays at ports, the strikes —official and unofficial—in no case justified, have all aggravated to bring about a serious financial situation for all companies. The drafts in the river Hooghly during the year under review have caused a great deal of anxiety to shipping companies. There are only a few days in the month when a ship can carry a load of more than 5,000 tons either to the port or down the river.

In this state of affairs, the increased rate of dock levies seem to be thoroughly unjustified, particularly when they are meant for providing special amenities to the dock labour staff. In February of this year, the levy amounted to 90% over the normal rate and from 1st April, it is 100%. These matters require careful reconsideration. The remedy lies in either providing for adequate freight rates or for decreasing the costs. It may be stated that more efficient management may also reduce the financial gulf between receipts and expenditure. But the outcry against what has been termed rationalisation of sailings by shipping companies and the demands of shippers of small quantities of freight from almost every port in the country which was hardly ever served by an ocean-going vessel a few years back poses a problem which is not easily soluble, consistent with the principles of efficient management. I place these facts before you and the public not with a view to minimising any shortfall on the part of the management of this or any other company, but to present the picture clearly and unambiguously both to the authorities and the public.

Indian Lines Share

Last year, I referred to the pooling arrangement that was arrived at which gave some sort of security to the share of the trade to the Indian flag, and I based my optimistic hope of better results in freight earnings on the fact that undue and unfair competition will be less and perhaps completely eliminated. I must candidly state that the results of the short period prove that some of the most serious abuses have been eliminated in the particular sector that I have referred to. The result would have been far better if the quantity of freight moving, particularly high value freight, had not fallen during the year.

I also referred to the fact that the Western Shipping Corporation, a public sector company, has been admitted as member of the Conference with the agreement and approval of the two Indian Lines on the India|U K| Continent route. I emphasized then that this would be the beginning of a harmonious working of the two sectors and that there would be a growing appreciation of the difficulties of shipping in all quarters. A further step has been taken in this direction and negotiations have been carried on by all the three shipping lines, the India Steamship Company, the Scindia Steam Navigation Company and the Shipping Corporation of India, with the United Kingdom Lines, with a view to increasing the pool percentage allotment to the Indian Lines as a whole and with a view also eventually to bring about an absolute parity in the India/U K trade between the Indian Lines and the British Lines. I hope that the negotiations, which have come to an advanced stage, will shortly result in definite agreements and that all chances of rivalry, as between the Indian Lines and the British Lines, will cease and that this will be fortified by an agreement among the Indian Lines themselves, allotting certain percentages to each of the three companies concerned. These matters have occupied a great deal of the attention and time of your Directors who were resolved to seek a lasting solution for the problems, international and internal, in regard to shipping.

Freight Increases

I must emphasize that the future of shipping depends largely on a far-sighted policy that the shipping companies and the shippers of any importance take in regard to the freight rates of commodities. Whether it is a general increase demanded by the rising costs of shipping companies or an increase in the freight rates of individual commodities, there has recently been a tendency on the part of Governments not merely in India, to limit the freedom that once existed of shipping companies to increase such rates after full discussion at Conference meetings. It cannot be denied that the earning of foreign exchange has become a very serious preoccupation of most Governments, particularly Governments of developing countries. It is also a matter of serious concern for those countries which depend on invisible earnings from shipping for securing a balance of payments position for their countries. Export promotion is an acute problem for many Governments and the Government of India is no exception to it. It is making every effort to increase its exports, to diversify the destinations of such exports, to find new markets and to give incentives or rather to remove disincentives which stand in the way of exports by reasonably efficient units of production in the country. It is a well-known fact that the first obstacle to exports which a shipper feels he has to encounter is the rate of freight he has to pay for movement of his goods by road, rail or sea. If only what he produces can, by a miracle, be transported to its ultimate destination without any charge, some at least of the shippers will be most happy. But this is obviously impossible. And if shipping services have to be maintained for the transport of goods, they have also to work certainly without loss and indeed with a little profit. The shipping companies cannot on the one hand afford to fix such rates as will preclude the transport of goods which is their only function, or on the other, carry freight at uneconomic rates. It is therefore necessary to set up agencies which will really find whether the shipper can afford the freight charged or not and whether in fact the export of goods has been prevented or their quantity unduly diminished by freight rates. The profit which the shipper is making has also therefore to be very carefully considered by the Government and by the shipping companies before any conclusion can be drawn as to the unreasonableness of a freight rate. It is my hope that these essential economic factors affecting all interests concerned will be given due consideration and freight policies evolved as a result of these considerations.

I shall not refer to the port delays that have occurred from time to time and I do not wish to refer to the strike in the Calcutta port which over a period of time seriously affected shipping companies. Nor do I wish to comment on the present rate of development rebate which requires that 75 per cent of the allowances has to be provided from the profits before any dividend can be declared. The National Shipping Board, which is the body responsible for advising the Government in matters of policy, has recently reiterated its recommendation that the development rebate may be spread over a period of years—five or six—a reasonable proposal in my opinion, and I hope the Government will give further consideration to it and give effect to the proposal.

Apart from expansion of shipping, replacement of old shipping has to be undertaken seriously. New ships have to be built in our shipyards and in foreign yards where necessary, and the development rebate requirements are proving a serious handicap according to the Shipping Board itself.

There is another matter on which the National Shipping Board has made its recommendations. Recently, the Government have been pleased to order that the instalments on loan received from the Government may be repaid over a longer period than was fixed for loans taken between 1953 and 1960. The National Shipping Board has suggested that the same principle may be applied, that is, payment over a longer period for those instalments on the previous loans which have yet to be paid by shipping companies. I hope that in fairness to the older applicants, this principle may be accepted.

There has recently been a change in the Cabinet Minister in charge of Transport. Shri Jagjivan Ram has replaced Dr. P. Subbarayan as Minister of Transport and Shri Raj Bahadur continues to be the Minister of Shipping. Both of them are enthusiastic and eager for the promotion of Indian shipping and have helped with support and ad-

vice all reasonable demands of shipping. I only hope that their voice will prevail and their recommendations accepted in the ultimate decisions that may be arrived at by the Cabinet of the Union Government. The Secretary to the Ministry of Transport, the Director-General of Shipping, who has since been promoted as an Additional Secretary, the deputy and assistants of the Director-General of Shipping, have all shown a real interest in helping Indian shipping and we have been greatly profited by their advice and assistance. It is not a formal record of thanks that I wish to place before you.

Tribute

It would have been noted that the freight earnings of the year are the largest on record, though for reasons already stated the net results are not what we may expect from such earnings. The gross freight earning is an indication of the zealous and devoted services of all your staff, both afloat and ashore. I am personally aware of the exceedingly arduous duties that fell upon them both in consequence of the first year of the working of the pool and as a result of falling freights and low freight rates, and I should like to express the appreciation of the Board for their services. I should also like to convey the thanks of the Company to the Shippers, who have extended their continued and firm support to us, and to the brokers and forwarding agents who have shown confidence in us and in the quality of our shipping services.

Since the above paragraphs were written, I would like to refer to some redeeming factors of recent date which would go to relieve the situation in the current year. The coastal freight has, after prolonged investigation and thorough study, been increased by 15 per cent for general cargo and about 10 per cent for coal carryings. This will benefit all Companies including yours which do some amount of coastal trade. A second factor, which has been publicised widely, is the fact that the three Indian Companies have come to an agreement with the British Companies to raise with immediate effect, from September 1st, the pool quota from 30.5 per cent to 39 per cent and to increase that precentage every year by an escalation of 1 per cent. Though the bulk of the advantage of increased percentage would go to the Shipping Corporation of India, the other two Indian Lines engaged in this trade, your Company and the Scindia Steam Navigation Company, will have a fair advantage in freight earnings.

The last and most important factor which enables me to feel optimistic, is the agreement that has been come to between the three Indian Lines engaged in the India/U.K./Continent trade both ways, the Shipping Corporation, the Scindia Steam Navigation Company and your Company. The agreement provides on a pooled basis equal carriage of freight and equal earnings for the three Lines in the Indo-Polish trade, the Indo-German trade, the Indo-Soviet and Indo-Rumanian trade in the Black Sea, and in the trade to the Egyptian and Levantine ports, and Indo-Adriatic trade. This agreement has great possibilities, both because of the friendly and co-operative atmosphere it has created and of the fact that there is no rivalry and no clash of interests between the three Companies.

I have tried to be severely practical in my estimate of the position but I would like to state that the Government of India must realise that Indian Shipping Companies play an important part in foreign exchange earnings and they should have — as I have reason to believe they have — an interest in promoting Indian Shipping and enabling them to earn reasonable profits on their ventures. It has to be emphasized that as against the small voice of Indian Shipping Companies, the loud and uncontrolled, menacing voice of shippers of small exports sometimes prevails. I hope that shareholders of shipping companies will join with the managements to impress on the Government and the public the need for fair-play as between Indian Shipping Companies and Indian exporters and importers.

Around Bombay Markets

Dalal Street Hits New Low

Thursday, Morning

THE worst is not perhaps over yet because the bear is still the king. Heavy bear pressure and a considerable amount of distress selling caused a further break in equity prices which brought Dalal Street last week quite close to its previous year's bottom. On 25th September, Vyapar's equity share index for Bombay touched a low of 129.52 which takes it within a striking distance of the 1961 low of 127.19 recorded in January. The fall is not confined to the speculative counters. Cash scrips (non-cleared securities) have not fared any better. And the new issue market has perhaps been the hardest hit; it has not merely lost all its shine but it now wears a gloomy look. Associated Bearings (popularly known as SKF) now virtually goes abegging at a premium of Rs 45; not long ago, it enjoyed a premium of Rs 150. The premium on S L M-Maneklal has come down from Rs 160 to Rs 60, on Arlabs from Rs 180 to Rs 45, on Kirloskar Cummins from Rs 140 to Rs 42, on National Organic from Rs 180 to Rs 85 and on Sandwik Asia from Rs 120 to Rs 60. There are quite a few issues which once enjoyed a good premium but are now available at a discount.

While the recent marked deterioration in the trading sentiment on the stock market is due largely to the disquieting situation across the vast northern borders, the basic outlook for equities has been undergoing a gradual change because of the transport and power difficulties and raw material shortages, particularly of imported materials. Idle capacity is undermining industry's profitability. Repeated pronouncements of official determination to hold the price line through appro-

priate measures — the latest decision on steel retention prices is considered ominous — have shaken market's confidence in the outlook for corporate earnings. Not all these developments are really new but they are now receiving a more serious attention because of the marked change in the mood of the market. While it will take a long time to repair investors' morale, technical consideration can easily produce a sizable rally at any time because the recent decline has been much too steep. The decision by the stock exchange authorities asking the members to submit daily lists of all the purchases as well as sales in the 13 popular speculative counters has imparted a measure of steadiness. The move is apparently intended to keep a close watch on speculative activity.

Oilseeds

Hints For Export Policy

TRADING in oilseeds last week was quite a dull affair and the week might have been altogether uneventful but for the substantial purchases in groundnut extractions by Poland and Czechoslovakia. Apart from groundnut extraction, export business put through during the week comprised a few hundred tons of linseed cake and cottonseed cake and castor oil. If the export performance was not sufficiently large to make its influence felt on the market, there was also little in the weather news to excite the market. Oilseeds futures fluctuated both ways in a relatively narrow range and showed only small net changes over the week. The general tone was subdued because of the satisfactory weather reports. Only bulls will feel uneasy because of the good weather because it imparts an easier tendency to the market. But even under ideal weather conditions oilseeds production is not likely to reach anywhere near the targets set for the Plan, which implies a continuing pressure on prices because domestic consumption continues to increase.

The supply of edible oils is not adequate to satisfy internal requirements at reasonable prices. India has no exportable surplus but this is not to suggest that edible oils cannot be counted upon to make any useful contribution to foreign exchange earnings. In its present difficult foreign exchange position, the country cannot wait for the emergence of exportable surpluses. But in evolving a sound export policy for vegetable oils, the authorities entrusted with the task of export promotion should give top priority to the export of castor oil to be followed by linseed oil and other less essential edible oils.

The temptation to sell groundnut oil because of its easy availability should be avoided. The export of groundnut oil involves a loss of £ 40 to £ 50 per ton and the price it fetches in overseas market is much lower than that of castor oil and linseed oil. Internally, groundnut oil is far costlier than linseed oil and castor oil. It should be easily possible to achieve better results by concentrating efforts on exporting castor oil and linseed oil instead of groundnut oil which has the added disadvantage of producing adverse repercussion on the general price structure of oilseeds. Informed observers take the view that there is considerable scope for increasing the production and export of castor oil through planned effort. The existing price relationship between groundnut and castor, however, is hardly conducive to the increased production of castorseed.

About Castor Oil

To come back to the up and down movements in prices during the week, new crop contracts were generally subdued under the influence of encouraging weather news. Groundnut January made a new low of Rs 219.75 (per 250 kgs) on 22nd September. Later it recovered to Rs 224 on short covering and some replacement buying induced mainly by technical considerations but it drifted lower again at the week-end and was quoted around Rs 221 in kerb dealings on Wednesday. The September contract moved between Rs 249 and Rs 246.50 without much business. After fluctuating rather erratically between Rs 165.50 and Rs 163.75 most of the time, castor March declined to Rs 161.50 at the week-end. Castor futures weakened despite reports of considerable firmness in Brazilian castor oil. But if Brazilian prices continue to hold firm, it should help revive overseas demand for Indian castor oil. The prices quoted by the U S buyers for Indian castor oil are stated to be only about ½ cent per lb below the Indian parity. It would be unfortunate if export business were not to materialise because of this small disparity when groundnut oil is being sold at a loss of £ 50 per ton. Certainly we have not sold out all the castor oil we have. Linseed futures were dull with the March contract fluctuating irregularly between Rs 39.69 and Rs 39.19 per 50 kgs. Cottonseed January hovered around Rs 102.50 per 250 kgs.

Cotton

Futures React

COTTON futures continue to fluctuate with the weather which, however, is not the least surprising because the crop is entirely at the mercy of the unpredictable weather. The March contract which had shot up from Rs 734.75 (per 3 quintals) on 12th September to Rs 752.75 — record high for the season — on the 19th was down again to Rs 737.50 on the 26th. Considering the previous week's sudden spurt, technical considerations alone could have produced a good setback but the turn in the trading sentiment was in no small measure due to marked improvement in the weather

Recent Price Movements in Important Shares

	May 1962 Highs	July 1962 Lows	Subsequent Highs	Recent Lows
Tata Steel	153.25	144.50	150.50	133.00
Indian Iron	26.65	25.25	27.35	24.92
Century	682.00	592.00	644.50	596.00
Kohinoor	315.00	292.50	325.50	293.00
Standard	1,054.00	826.00	930.00	790.00
Svadeshi	294.50	263.00	269.50	251.50
A C C	164.50	152.25	164.00	155.00
Telco	382.50	313.00	338.50	288.00
Voltas	309.00	262.25	277.00	247.00
Hind Motors	20.88	18.28	20.56	17.88
Bombay Burmah	708.00	632.00	675.00	622.00
National Rayon	584.00	486.00	521.50	464.50
Tata Chemicals	18.00	14.64	16.16	14.04
WIMCO	314.00	264.00	287.00	264.50

in nearly all the important cotton producing areas except the Punjab, Berar, Khandesh and Akola reported excellent weather and reports from Gujarat indicated the possibility of a bumper crop. Cotton crop in the Punjab has been damaged but the damage might not prove to be very serious provided the weather conditions remain favourable from now onwards. While it is still premature to say what the new cotton crop would be like, the first crop estimate by the well-known firm of Volkart (Bombay) Private Ltd, places the 1962-63 crop at no more than 49 lakh bales, hardly two lakh bales more than in the previous season.

And if the crop turns out to be around 49 lakh bales, the trade and industry are, no doubt, in for another difficult season. The supply position could become quite critical if the Government is unable to arrange for large imports. It is not for nothing that the textile industry is trying hard to negotiate with the trade an arrangement whereby it can secure its supplies of cotton within the ceiling prices which have been raised by Rs 35 a quintal for the 1962-63 season. Perhaps the industry might not have bothered much about cotton prices if the Government were not very serious about keeping cloth prices under check. Unconfirmed reports indicate that the industry might be asked to effect a cut of 10 to 15 per cent in the cloth prices.

No Settlement Yet

Prolonged discussions between the industry and the trade in order to work out a scheme which would ensure marketing of the new crop within the statutory ceiling prices have not borne any fruit. It is quite natural for the trade to resent any restrictions on its freedom of activity but that can hardly be helped if prices tend to keep above the ceiling rates. Some kind of machinery will have to be evolved which will check buying and selling above the ceiling rates.

The Indian Cotton Mills' Federation is said to have suggested the appointment of supervisors who will look into the samples of cotton taken out on behalf of the mills and have these samples sealed before submitting them to the sworn surveyors of the East India Cotton Association for survey. This seems to be a fairly satisfactory arrangement because a strict check on samples will discourage the trade from indulging in all sorts of malpractices and the trade will also not be tempted to buy 'kapas' at prices which will make it impossible to sell ginned cotton at above the ceiling rates. The trade and the industry must co-operate in order to make price control a success. It is also the duty of the Textile Commissioner to enforce strict discipline among the mills and cotton traders. Anybody who is found guilty of violating the price control order must be dealt with severely. There is no sense in having price control if it cannot be enforced.

The July figures of cotton consumption by mills are 4.06 lakh bales of Indian cotton and 0.66 lakh bales of foreign cotton. While the figure for Indian cotton is the highest for the 11 months of the 1961-62 season, the figure for foreign cotton is the lowest. The July figures raise the totals for the 11 months to 42.94 lakh bales of Indian and 9.07 lakh bales of foreign cotton. The corresponding figures for the previous season were 38.52 lakh bales and 10.38 lakh bales. Stocks with mills at the end of July consisted of 12.67 lakh bales of Indian cotton and 2.20 lakh bales of foreign cotton, the corresponding figures at the end of July 1961 being 14.89 lakh bales and 3.79 lakh bales. With overseas buyers continuing to keep off the Indian market on expectations of a good Deshi crop, no important export business has been reported in Bengal Deshi since the release of the new export quota.

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Company Notes

Aluminium Industries

THE decline in the production of bare conductor from 66,300 kilometers to 62,000 kilometers has not affected the results of the Aluminium Industries, Kundara, for the year ended March 31, 1962. On the contrary, there has been a substantial improvement in sales from Rs 4.36 crores to a record of Rs 6.17 crores, thanks to the brisk demand for aluminium conductors and accessories. In fact, the performance of the company would have been still better but for the restricted supply of aluminium metal which did not permit the full utilisation of the company's rod-rolling capacity. The production of covered aluminium conductor touched a peak of 9.86 million core meters, against 9 million core meters in the previous year. Aluminium rod and accessories also reached higher levels of production. The highlight of the year's working was the commissioning of the high-tensile galvanised steel wire plant at Kundara.

The sharp rise in sales is reflected in an improvement in the gross profit from Rs 48.64 lakhs to Rs 57.11 lakhs. The net profit has also gone up from Rs 18.29 lakhs to Rs 23.17 lakhs, after providing larger sums for depreciation and taxation. The provision for depreciation has been raised from Rs 10.98 lakhs to Rs 12.96 lakhs and that for taxation from Rs 16.41 lakhs to Rs 18.20 lakhs. The managing agency commission takes up Rs 2.78 lakhs against Rs 2.96 lakhs. The allocation of Rs 4.91 lakhs to the development rebate reserve has not affected the distribution of 18 per cent on the increased capital of rupees one crore, as the profit available for distribution fully covers the dividend. The company has availed in full the benefit of development rebate mainly on the steel wire plant and machinery and on some other miscellaneous equipment commissioned during the year.

The company's expansion programme is going ahead. In spite of the difficulties in getting timely and adequate supplies of raw materials, the high-tensile galvanised steel wire plant was brought into regular operation in November 1961 and the full benefit of the working of this plant will be reflected in the current year's results. Orders for machinery for the covered conductor plant at Hyderabad and for the expansion of the covered conductor manufacturing facilities at Kundara have been placed. The company having received licences for the import of machinery for the manufacture of a special type of low voltage, solid aluminium underground cable at Kundara, the work on this project has commenced and the directors expect to bring this new plant into production towards the end of 1963.

Mysore Paper Mills

THE slight set-back in the gross profit of Mysore Paper Mills from Rs 22.01 lakhs to Rs 20.04 lakhs for the year ended March 31, 1962 follows a decline in turnover from Rs 123.22 lakhs to Rs 119.30 lakhs due to the manufacture of larger proportion of lower-priced papers. Higher-priced papers could not be manufactured in adequate quantities on account of inadequate supply of imported wood pulp. This has not, however, affected the distribution to the shareholders, which is being maintained at 15 per cent, subject to tax, on a higher capital as raised by the four-for-one rights issue. The additional capital issued is only partly paid up and is entitled to the dividend for the proportionate period.

The depreciation on fixed assets has been more or less maintained at Rs 6.68 lakhs (Rs 6.69 lakhs), while the provision for tax liability is lower at Rs 6 lakhs, against Rs 6.50 lakhs. The net profit has declined from Rs 7.80 lakhs to Rs 6.86 lakhs but it provides sufficient cover to the proposed dividend which requires Rs 5.46 lakhs. The allocation to the development rebate reserve has been reduced from Rs 1.70 lakhs to Rs 50,200, to the dividend equalisation reserve from Rs 2.50 lakhs to Rs 87,500, and to the gratuity reserve from Rs 55,000 to Rs 50,000.

The company has launched an ambitious development plan to step up production to 18,000 tons. To finance the project, the company issued fresh capital during the year to the tune of Rs 1 crore at a premium of 20 per cent, on which Rs 30 lakhs (including a premium of 5 lakhs) have been paid up. In addition, it has concluded negotiations for loans to the extent of Rs 2 crores, made up of Rs 70 lakhs from Commonwealth Development Finance Co, London, an equivalent amount from the I C I C I and Rs 60 lakhs from I F C I. The loans from C D F and I C I C I will be in foreign currency and are secured by 7¾ per cent debenture stocks, redeemable during 1970-76 and 1965-71, respectively. The I F C I loan is secured by 7 per cent debenture stocks, 1965-79. Of the C D F loan, Rs 56 lakhs have been drawn up to the end of March 1962 and, out of the I C I C I loan, Rs 19.34 lakhs. The outstanding loan from the State Bank of Mysore of Rs 13.06 lakhs has been repaid. Advances paid to suppliers of machinery aggregate Rs 51.28 lakhs.

Ashoka Cement

ASHOKA Cement's production of cement in the year ended March 31, 1962 showed a fall from the high levels reached in 1960-61. Production which was 1.76 lakh tonnes in 1960-61 declined to 1.38 lakh tonnes. One of the reasons for the lower production, according to the Directors of the company, was

the vagaries of power supply from the D V C. Power supply from the D V C was interrupted frequently during the year due to tripping of their equipment. The other factor which was responsible for the lower output was the interruption of production for about a month for the installation of the electrostatic precipitator. Installation of the precipitator involving a capital expenditure of nearly Rs 18 lakhs, was completed in November 1961. Its operation has eliminated the dust problem.

The lower production during the year is reflected in lower sales and profit. Sales of the company amountd to Rs 161.80 lakhs in 1961-62 compared with Rs 200.02 lakhs in 1960-61. The fall in net profit was less marked, from Rs 7.70 lakhs in 1960-61 to Rs 7.61 lakhs. After deducting Debenture Trust Deed registration expenses of Rs 10,417, making allocations to the Development Rebate Reserves (Rs 1.52 lakhs) and the Rehabilitation, Development, Research, etc reserves (Rs 1.12 lakhs) and taking into account a sum of Rs 21,768 brought forward from the last year, a total of Rs 4.35 lakhs is available for distribution. The Driectors have recommended dividend at 7 per cent (taxable) or 70 nP per equity share. This would absorb Rs 4.20 lakhs and the balance of Rs 14,996 is proposed to be carried forward.

The fixation of cement prices by the Government following the recommendations of the Tariff Commission, was unsatisfactory for the company. The costs of production of the company have gone up since the price was fixed in November. As permitted by the Government, the company has applied for an increase in price to cover the increase in costs. The Government's decision in the matter is not yet known.

Company Meeting

Machinery Manufacturers Corporation Limited

Speech of the Chairman, Shri K C Mahindra

THE following is the speech delivered by Shri K. C. Mahindra, at the Sixteenth Annual General Meeting of the Machinery Manufacturers Corporation Limited, held in Bombay on September 26, 1962:

In welcoming you to this Annual General Meeting of Machinery Manufacturers Corporation Ltd., I desire to express my personal satisfaction that I have been able to be present on this occasion. This Company was inaugurated 15 years ago —years of long await when the patience of most of the shareholders must have been exhausted, even as the resources of the Management were strained to the utmost. These have been long and difficult years, and if your Company has now emerged into a relatively stable and progressive manufacturing unit, it has been due as much to your faith in our judgement as to the hard work and toil which everyone connected with the Company has put into this venture.

I should also like to avail of this opportunity to recollect the distinguished auspices under which we started — the strong umbrella of encouragement and faith which certain friends of mine, eminent in their own sphere, showed in this pioneering endeavour. Amongst them I recall the names of Sir Purshotamdas Thakurdas, our first Chairman, Sir Homi Mehta, whose name is familiar to everyone in Bombay, and Mr N R Sarkar, who later became Finance Minister in the Government of West Bengal. These friends no longer with us, contributed considerably to the sustenance of faith in this industry and they have left vital links of hope in the person of Mr Mathuradas M Parekh, Mr Jal M Mehta and Mr D N Bhattacherjii, who are now members of your Board. I should also like to mention Sir Sobha Singh who is happily still with us and continues to give valuable guidance to the Board.

Financial Position and Prospects

You gentlemen have shown great patience and even consented to the dilution of your Equity in times of distress, in order that the Company may get another chance to start on a clean slate. I am sure you will agree with me that the opportunity so provided to the Management has been properly and judiciously availed of, and today both the financial position and future prospects appear to be good.

The Directors' Report presented to you with the Accounts of the Company for the year ended 31st of March 1962 has briefly told you the story of the year of operation and I trust that the financial results as shown meet with your commendation. Our Order Book remains full; production and despatches continue at the same level as in the latter half of 1961-62; considerable renovation has been done in improving the products and the productivity of the Works. It will not be out of place to mention that your plant, originally designed for a rated capacity of 50 Carding Engines per month, is now producing on the average 85 units every month, regularly. You will appreciate this factor when I add that the plant and equipment of the Factory is now over 10 years old and requires considerable rehabilitation and replacement. We are engaged in an exhaustive technical study for this purpose. At the same time, keeping in view the cyclical nature of the industry, we are maintaining the pressure for diversification. The Speed Frame of our own design which should have been ready by now is still in the prototype stage,

for the simple reason that equipment and tooling required for the purpose have not yet been procured, and this because the relative import licences have not been forthcoming. A quota of such licences have recently been received for import from East European countries, and we hope to be able to overcome difficulties through substitution of whatever machinery can be had on the tap, and although even then there will be some further delays we hope to push ahead and add this extra production line in the Factory before our next Annual Meeting. Likewise, detailed work on the engineering of the Turret Lathe has been completed, and we are awaiting import licences for one or two specialised machine tools which are necessary for the job.

The main diversification which has been taken in hand is the contract work for castings and machining for Diesel Engines produced by the Indian National Diesel Engine Co Ltd, which Company is an associate of the Managing Agents. Batch line production of Diesels is not working satisfactorily yet for lack of a few machine tools needed for the purpose. Here too we are hoping to be able to surmount the obstacles before we meet again next year.

Priority for Diversification

It is my conviction that your Company should continue to accord priority to this issue of diversification. It will not only be a healthy expansion, but would serve as a cushion to the fluctuations which have characterised the Indian textile industry, particularly in respect of its demand for machinery either for replacement or for expansion purposes. It is also the Company's experience that over the years Government has not been able to formulate a consistent policy for the development of the textile machinery industry in the country — possibly policy is influenced by the vagaries of the industry itself, or what is more likely, confusion is created purposely on this issue by the proponents of the consumer trade. We have accordingly witnessed considerable vacillation in the operation of controls which govern the machinery industry. The swings in respect of import policy have almost been as violent as the fortunes of the textile industry itself. Take, for instance, the recent drive for enlarging our Export Trade. The enthusiasm and the aggression of the new Ministry of International Trade must be welcomed, but it is questionable whether the prescriptions framed for securing these laudable objectives are of the correct dosage, or composed of proper ingredients. Exports of cloth have been on the decline. New mills of as small a spindlage as 12,000 spindles are being encouraged to be set up, with the proviso that their production must be exclusively reserved for export purposes, although it is not stated how and at what price and where these goods will be sent. In order that such mills start operations as expeditiously as possible, Government announced couple of months ago that licences for the import of Carding Engines and Ring Frames will be granted to actual users in consultation with the Textile Commissioner. Similar liberalisation of import licences in 1957 set back the machinery industry very considerably and now five years later when this industry has not only established itself on a sound and firm basis, but proven itself in the matter of quality of its products, Government has thought fit to encourage import of the two articles which are now being regularly produced in the country and are accepted as equal in performance to that of any imported product. I should add that your Company made a special representation to the Textile Commissioner, in this respect, and we have been informed that it is not the Government's intention to grant licences ad hoc to all the users, but only where the so-called export mills have to be set up on a pattern which alone will increase the export potentials of the Textile business. Then again, with due respect, one may join issue with the Ministry of International Trade when it is asserted that textiles have been earning a substantial export surplus. Perhaps the study made by the Reserve Bank of India on the Balance of Payments implications of industrial production respecting the textile industry, which appeared in the Reserve Bank Bulletin for March 1962, has not received the proper attention of the authorities. This study has come to the conclusion that over the five years 1956 to 1960 the total foreign exchange earnings from exports of cotton piece goods, yarn, hosiery and waste cotton, aggregated Rs 339.6 crores, and that the foreign exchange outlays on the industry amounted to, over the same period, Rs 429.2 crores, that is, in other words, a deficit in the balance of payment position of Rs 89.6 crores. Granted, that this includes an outlay of Rs 240.4 crores on raw cotton, but India has not become self sufficient in the matter of raw cotton. It is also to be added that the foreign exchange outlay on textile machinery during the five years amounted to Rs 83.6 crores. In this respect it has been the endeavour of the manufacturers of Textile Machinery to reduce this import burden as speedily as possible, and I should have thought that Government will not hastily enact a regulation or introduce a change in import policy which will impede the realisation of the object that the country should become independent of imports in respect of textile machinery in as short a time as possible.

Position of Leadership

To our shareholders a matter of immediate concern is the continuation of the satisfactory role which your Company has played in building up a new industry. In spite of past setbacks, through unwitting frequent changes in policies, I maintain that we have now established a position of leadership in this industry — manufacturing a capital product with indigenous content of 98 per cent in value — import being limited to special steels, aluminium alloys and ball bearings, not presently manufactured in this country. Despite the difficulties facing us, in respect of supply of indigenous raw materials like pig iron and coke particularly from the point of view of quality, an essential for the manufacture of precision capital goods, we are hopeful that the Company will continue to show promising results which will be found satisfactory by the shareholders.

I should like to conclude by placing on record on your behalf, if you will permit me, the thanks of the Management and of the Directors for the ungrudging work and loyalty of your staff throughout the year.

Note: This does not purport to be a report of the proceedings of the Annual General Meeting.

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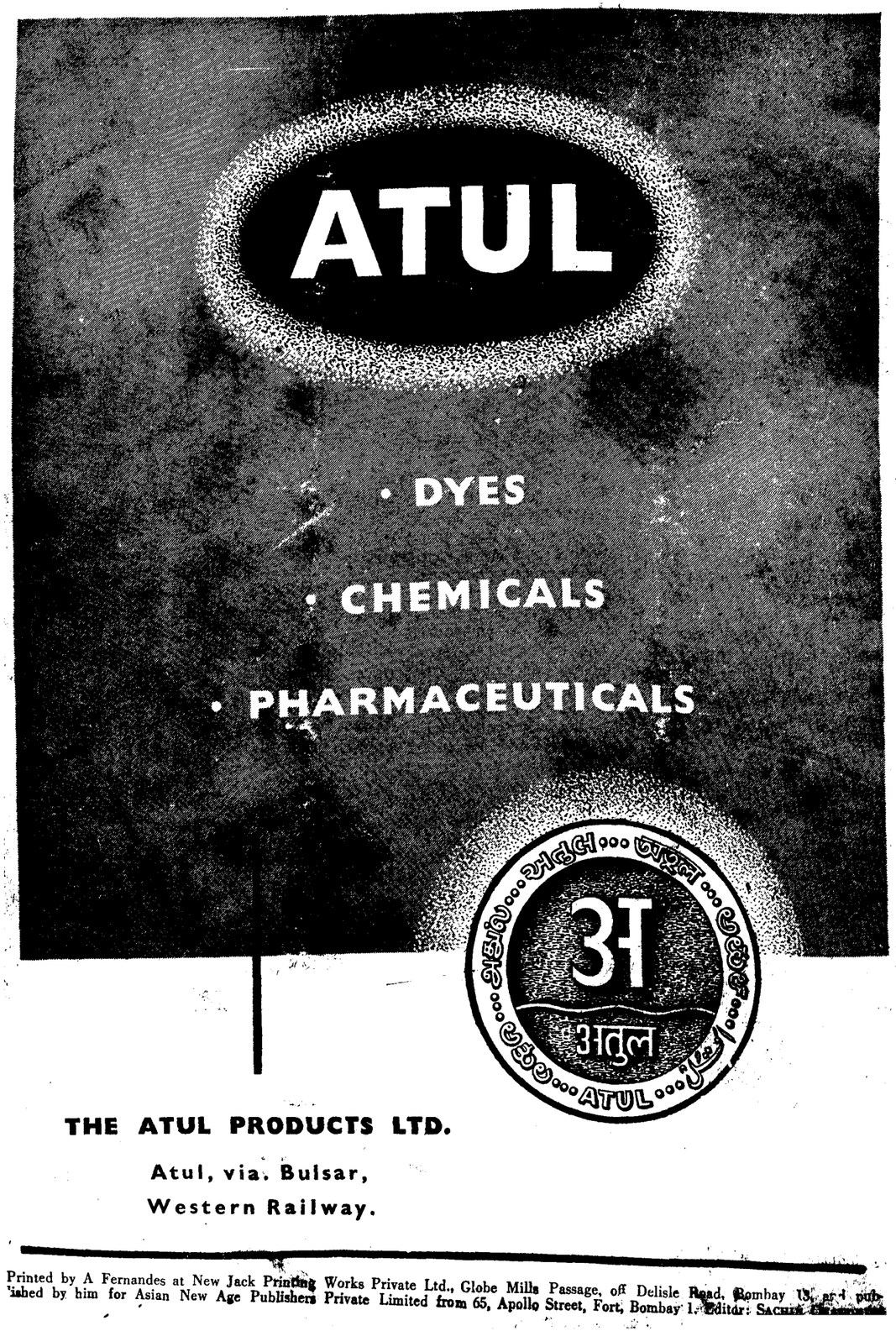

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The Bank and the People

IN so many respects the Reserve Bank imitates the Federal Reserve Board so blatantly that one would hardly suspect that it still derives its major inspiration from the Bank of England. Despite its various publications, the Reserve Bank does not believe in cultivating any sort of public relations. The Governors of the Reserve Bank may not have emulated the legendary Montagu Norman in shunning publicity — witness their expansive post-prandial and other orations — but when it comes to letting people know what they should know and thus eliminating wastage of time, avoiding unnecessary fraying of nerves and misdirection of effort both on the part of the public and its own staff, the Reserve Bank is tight-lipped. This is, of course, in regard to comparatively minor matters, e g, rules and regulations relating to foreign travel or foreign studies or terms and conditions on which collaboration agreements are permitted or even the procedure relating to remittance by Indian nationals or residents abroad. In matters of high policy, the Reserve Bank or the Finance Ministry — one never knows for certain which — secrets are leaked out to select parties. It is, as usual, only the trained seal which catches the fish, and when the Reserve Bank makes or suggests changes of policy regarding the liquidity ratio, or wants to amend the Banking Act and so on, the news leaks out weeks and months before any formal announcement is made to the press or the public. But that is a different matter. Here the subject under discussion is public relations of ordinary or garden variety.

Members of the public have not yet been told clearly what are the travel regulations, in which cases 'P' form is issued, and for what sort of studies the Reserve Bank still allots foreign exchange. It is surprising, therefore, to find that in violation of its fixed principles in such matters and breaking all precedents, the Reserve Bank has actually brought out a neat little folder *Remittances to India from Indians Resident Abroad*, which gives a summary outline of the relevant exchange control regulations and income tax provisions. The folder is intended for 'a general understanding' of these matters and is no substitute for the Foreign Exchange Regulation Act and Notifications issued under this Act or any of the other Acts that may be in force. Though this folder has been published — according to what is printed at the end of it — by the Director of International Finance, Economic Department, Reserve Bank of India, it has not been issued to the Press, not even the Financial Press and not being a priced publication, it is not ordinarily available to the public either. May be the Reserve Bank believes in its own method of communication and since it intends to reach, in this particular case, Indians resident abroad, one does not know if copies have been broadcast to them or relayed through authorised foreign exchange dealers.

No such brochure or guide, however, has been brought out to help 'a general understanding' of the travel regulations and regulations in regard to foreign studies for Indian students. If one has been brought out, it has been kept carefully secret — not even a single printed copy has leaked out to the public. One would have thought that it is sheer cussedness which makes the Reserve Bank behave like this, trying to

follow the tradition at second-hand of what it believes to be the practice in the Bank of England. There is, however, much more to it. Not that the Reserve Bank gloats over other people's discomfiture or enjoys keeping the public guessing and does not mind the long queue of anxious parents who want to know the prospects of getting their children educated abroad or of intending visitors to foreign countries. As is to be expected, it rationalises: *These Indian People* .... they cannot be trusted. Once travel regulations are made known or the rules regarding foreign studies are published, people will think up ways and means of getting round the rules and thus it will be impossible to enforce the regulations at all. On this logic, perhaps the Reserve Bank will some day suggest that the Penal Code or the Income Tax Act should also be withheld from the public and knowledge about them be restricted strictly to the judges or the Income Tax Officers concerned because if the public came to know the rules, they might try legal evasion or to take undue advantage of them!

This puts altogether a new complexion on the Reserve Bank's persistent and determined refusal to establish any kind of public relations. Is it not high time for the Bank to see sense and try to remove unnecessary vexation to the public and cut down at the same time avoidable extra work for its own staff by letting the people know and bringing out small brochures setting out clearly for 'general understanding' what are the rules in regard to foreign travel and foreign studies, for example, even if regulations regarding foreign collaboration are considered too technical and too specialised to be of little interest to the general public ?

Exploring the Indian Ocean

WHAT has drawn attention to the International Indian Ocean Expedition in this country is the inauguration of the first scientific cruise of the I N S **Kistna** as part of the Indian programme of the Expedition. The idea of the 25-nation International Expedition was conceived in 1958 by the Unesco and the Special Committee on Oceanographic Research of the International Council of Scientific Unions. Ships from the U S, U S S R and France had completed a number of exploratory expeditions to the Indian Ocean even by the end of 1960. A Soviet ship **Vityaz** carried out two scientific expeditions during 1959-61. In studying the relief of the ocean floor, Soviet scientists discovered several hitherto unknown submarine ranges and mountains. Explorations showed that rock of volcanic origin occupied a large part of the bed of the ocean. In the southern part of the ocean, Soviet geologists detected massive accumulations of iron and manganese ores containing up to 0.5 per cent of nickel, cobalt and other rare materials.

International co-operation in oceanographic research was stimulated under the impetus of the International Geophysical Year (1957-58). U S, British and Norwegian ships worked jointly in the northwestern Atlantic ocean while a number of nations joined together to carry out a Polar survey. At a conference convened at the initiative of the Unesco in the Hague in July 1960 scientists and Government representatives from 34 countries agreed to place the whole subject of oceanography on an international footing. It was recommended that the Unesco set up a permanent inter-Governmental Oceanographic Commission.

The Indian Ocean Expedition is the largest and most comprehensive oceanographic exploration ever undertaken. The Indian ocean was chosen for the joint effort both because so little is known about it and because it is a natural model of a complete ocean system extending from polar to tropical waters. The Indian ocean — some 28 million square miles, equal to a little less than one-third of the world's total sea area — offers two unique features of special interest to oceanographers. First, there is a predictable 180-degree reversal of winds twice a year. Second, it is the only major ocean which is open only at one end; the land mass of Asia encloses it on the north. At this end it is fed by the great rivers of the Middle-East flowing into the Arabian Sea and the rivers of India, Pakistan and Burma which flow into the upper part of the Bay of Bengal.

The purpose of the Expedition is to conduct basic research in physical and chemical oceanography, meteorology, marine biology, geophysics and submarine geology. One of the things the Expedition hopes to find out is whether there is any equatorial counter-current in the Indian ocean similar to that found deep in the Atlantic and Pacific oceans. Besides advancing the frontiers of basic knowledge, the expedition expects to yield "unusual benefits to the heavily populated protein-deficient nations on the ocean's perimeter" through its study of marine biology.

Expedition ships have been working in the Indian ocean since 1958, but the major part of the Expedition's programme will be executed in 1963 and 1964. Ships and scientists participating in the Expedition will devote at least half of their time to the "basic programme" drawn up by the Special Committee on Oceanographic Research of the International Council of Scientific Unions and the rest to independent investigations. Information gathered by any ship in its work on the "basic programme" will be transmitted to all other participants.

Will India come to know something of her marine resources from her participation in the Indian Ocean Expedition? The question is much more than of academic interest for several reasons. India, with a coastline of 3,500 miles has the poorest record of marine fishing with the result that the country very largely foregoes a rich source of protein food which it can ill afford in view of its general food deficiency. Moreover, if marine resources could be adequately tapped, it could bring in sizeable foreign exchange earnings to make good, if not to make a net substantial addition to its dwindling agricultural exports.

What arouses expectations in this regard is the composition of the fleet which India has contributed — an Indian Navy frigate, **Kistna** which has been equipped with a

variety of oceanographic equipments for this purpose, and three other vessels, small ones, which are for research in marine biology alone, primarily exploration of fishery resources. One of these small vessels is the **Varuna**, gifted by the Norwegian Foundation for Operation in the Kerala coast and attached to the Central Marine Fisheries Department. Though small, it is an excellently equipped research vessel and is ideally suited for fishery work. The other two, though not so well equipped, are also fit for similar work, the **Bangada and the Conch**, the latter from the Marine Biology Department of the Travancore University. Since the ships and scientists participating in the expedition are expected to devote only half their time to the basic programme and are presumably free to devote the rest of their time to independent investigation, could not the services of the Indian participants be utilised for a proper survey of the fishing resources of the Indian ocean and of the Indian coastal seas ? That it could be so utilised, however, does not appear to be a feasible proposition judging from the very strenuous programme that the participants have to carry out and the exhaustive nature of the survey. But better knowledge gained of the Indian ocean will probably make the task of a more specialised and limited survey later on somewhat easier. At least that is the hope. Anyway, the present expedition can be no substitute for a proper survey of our marine fishery resources which is now long overdue. It will have to be undertaken quite independently of this expedition.

Weekly Notes

Paradip as a Major Port

TO visualise an all-weather port at Paradip requires the imagination of Bijou Patnaik, the Chief Minister of Orissa. Paradip achieved the status of a minor port only as recently as in 1958, and today it is nothing more than a roadstead port with ships anchoring approximately 4 to 5 miles from the coast. The only traffic from Paradip is the export of about 40,000 tons of iron ore from the Tomka mines which have an output of over 350,000 tons, the bulk of which is exported through Calcutta due to lack of transport facilities at and to Paradip. The site at which the new port is to be built is today only a point on the beach surrounded by thick jungle with no mode of communication with the interior except by boats down the Mahanadi river. Last year, only three ships called at Paradip as it was closed for half the season. Ore can be moved through Paradip only in fair weather. Fresh water or stores are not available at the port and even labour has to be 'imported'.

The idea of constructing a proper, all-weather port out of this anchorage has had a long and chequered history. Ever since 1951, when a French team first recommended that the estuary of the Mahanadi would be the best site in Orissa for a port, there have been sporadic investigations to determine the site and size of the port. Finally, the British firm of Randall Palmer and Tritton were asked to carry out a final survey and draw up a design for the port. The choosing of a suitable site is vital as, in common with other beaches on the east coast, this area is beset with the problem of littoral sand drifts from the south. If a wrong point is chosen, the entire mouth of the port could shoal up in no time which would make maintenance expensive, if not impossible.

As for the design of the port, there were two alternatives: to build a coastal harbour of the Madras-type, or to build an inland port of the type in Vizagapatnam. The latter, which has been chosen, is technically very much superior, but it is also very much more expensive. It is reported that Rs 35 crores have been earmarked for Paradip. The Board of Trade has, however, estimated the cost at a minimum of Rs 55 crores rising ultimately to Rs 85 crores out of which Rs 19 crores will be in foreign exchange. Actually, even these figures are probably gross underestimates, for the task is not simply one of building a port and a complementary transport system, but of building a whole township to support the activities of a port at a site where at the moment the population consists mainly of Mahanadi crocodiles.

However, apparently neither the magnitude of the investment nor the formidable technical problems will deter the Chief Minister of Orissa from forcing his scheme through. The plan of building a port between Vizag and Calcutta is basically sound. Orissa has some of the largest deposits of iron ore, and it is a considerable handicap to the country's export effort that there is no port in the area. Exports have to move through Calcutta or Vizagapatnam both of which are about 450 miles away from the mines. The proposed site for Paradip is, however, only 200 miles away. In a highly competitive international market like iron ore, extra cost of transportation can be a major handicap and, therefore, a port nearer the mines will be very welcome. Besides, the advantages of an all-weather port need not be limited only to export of ore. Other commodities could start moving once the port is set up.

The Paradip project is being taken into hand in the teeth of much opposition from certain Ministries in the Centre. The Railway Ministry, for instance, had for a long time opposed the scheme and had, in fact, made it absolutely clear that they were not prepared to lay any track to Paradip in the Third Plan. The Orissa Chief Minister's reply was that he would build roads to move the ore. But a port cannot function without the support of the Railways, especially if the principal commodity to be transported is iron ore which moves cheapest in bulk, by rail. It is, therefore, most important that the development of Paradip should be matched by concurrent development of mines and railways.

A Little Bigger Rock

THE Mississippi incident has many facets. It could equally well be considered a mile-stone in American history, a case in constitutional law, a study in social psychology, a lesson in executive action, a matter of political ideology — or merely an intensely dramatic human interest story. Actually, it is the drama in the situation that has tended to enlarge its significance for the progress of desegregation in the U S Deep South. True, James Meredith, Negro, has been enrolled at the all-white University of Mississippi and the defiance of the State to Federal authority has been countered. And, undeniably, in Mississippi, the Southern State with the lowest incomes and the highest proportion of Negro population, the colour bar is at its strongest. Nonetheless, the admission of a single Negro student into the State University does not mean that the battle against segregation has been won but only that it has, in a sense, just begun.

For, surely, defeat will not be accepted by Governor Barnett and the white citizens of the State; and they are certain to resort to other forms of defence and retaliation. What happned in the parallel case in Little Rock, Arkansas, five years ago is quite pertinent here. After Federal troops had accomplished the admission of nine Negro children into the Central High School, the School Board tried unsuccessfully to gain further time for implementing desegregation. There was a referendum in the city which showed, not unexpectedly, that the voters were unwilling to accept integration in schools. And then since the Court order applied only to publicly-financed schools, all public schools in Little Rock were closed and attempts were made to convert them into privately-supported schools for whites only. This was not easy; and though the schools were finally reopened, ostensibly for both races, Negro enrolment did not seem to increase substantially. Exclusively Negro schools still continue.

Thus, while granting desegregation in principle, it would still be entirely possible to keep the admission of Negroes into educational institutions at a minimum. Already, another Negro's application to Mississippi University has been turned down, for technical reasons. And there is also the consideration of human endurance. Meredith, a mature man and a war veteran, may perhaps be able to withstand the harrowing strain of study in an atmosphere of hate. He has apparently acted out of a sense of mission rather than a desire for personal advancement. In fact, he is reported to have said that his application for admission was made "more for America than for himself". But the mental stamina that this sort of action requires cannot normally be expected of youth.

The implication of all this is obvious. The battle against race hatred has to be fought in the minds of men and this is another job in which "all the king's horses and all the king's men" would be wholly ineffective. Court decrees and Federal troops can no more end segregation in the U S than the Indian Constitution can banish untouchability. Yet, the compulsion of moral action is strong especially in evangelical democracies. Prejudice — racial, religious or communal — and consequential discrimination are common to

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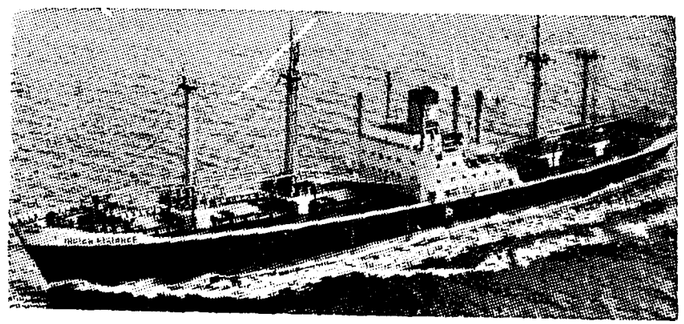

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all ages and all societies. Even in the U S, Negroes are not the only group subject to prejudice and education is not the only field for its expression. Nor can it be said that there is no racial prejudice north of the Mason-Dixon line. Yet, the developments at Little Rock, Arkansas, and at Oxford, Mississippi, hit the headline the world over. This is as much the outcome of the attitude of the American Government as anything else. No other major power is so self-conscious about the requirements of leadership and of the need to mend the aberrations from democratic life.

There is a sense, however, in which segregation is a local problem of the deep South and the fight against it whether in Arkansas or Mississippi or Alabama is being fought and fought continuously and much more effectively by King Luther and his growing band of followers, both Negro and white, who have been working with Gandhian techniques. Federal Marshals appear once in a while for stray skirmishes — the freedom marchers march on and they have yet a long way to go.

In its immediate effect, at least, the Mississippi incident is more than anything else a personal victory for President Kennedy who was criticised in some quarters for soft pedalling the segregation issue during his election campaign. There are still some who would ascribe his victory mainly to the choice of the Vice-Presidential candidate, a Southern Democrat, acceptable to the Southern whites. In a more extended sense, it is also a victory for American democracy. That it was General Castro of Cuba, who was the first to congratulate the American President is not entirely without significance.

Income Tax in Russia

HOW heavy is the incidence of income taxation on the Soviet citizen? The official answer would depend on whether the Government had just announced a reduction or an increase in the tax. When the Soviet Government announced in 1960 that the income tax was to be abolished by stages, the Soviet Union was pictured as a tax-free heaven by 1965. And now, when the phased abolition of the income tax has been "temporarily suspended", the Soviet Government has not been caught on the wrong foot. Far from it; it has promptly pointed out that this was not a big setback after all since in any case the income tax has never been an important tax in the Soviet Union, accounting for only a little over 7 per cent of the Government's total revenue!

This is no doubt true. More than 90 per cent of budgetary revenue comes from the turnover tax and the profits of State and co-operative enterprises. This, in fact, explains why the Government could think of abolishing the income tax; it also explains why the suspension of the abolition could be postponed so long. According to the scheme announced in 1960, each year the income tax on one income bracket was to be abolished, beginning with the lowest bracket, and the tax payable by the next higher bracket was to be reduced by 40 per cent. During the year beginning October 1, 1962 it was to have been the turn of those with a monthly income of 61 to 70 roubles to have their tax abolished and of those earning between 71 and 80 roubles to have theirs cut by 40 per cent.

Since the announcement of the abolition of income tax in the autumn of 1960, there followed the publication of Prime Minister Khrushchev's 20-year programme of economic development aiming at a six-fold increase in national income by 1980 over 1959 and calling for large-scale investment in industry and agriculture. Even more important, when the Soviet budget for 1962 was presented in December last year, it showed a sharp rise in military expenditure. In the 1961 budget military expenditure had been estimated at 9,300 million roubles; for 1962 it was put at 13,400 million roubles, or an increase of 44 per cent. This was in keeping with the Soviet Government's decision, following the worsening of the Berlin situation, to suspend the demobilisation plan announced in early 1960 under which the strength of Soviet armed forces was to have been reduced from 3.6 million to 2.4 million.

The income tax may not be very important to the Soviet Government as a source of revenue but that in spite of this, it has become necessary to suspend its abolition, at the cost of much adverse publicity abroad and, may be, some criticism in the country, shows how much the fulfilment of Khrushchev's plans for building up communism depend on his success in ensuring an enduring *modus vivendi* with the countries ideologically opposed to communism.

Travails of Machinery Manufacturers

THE dispute between domestic producer of any product and the established importer or actual user of that product on the adequacy of supply is perpetual. Naturally, those who go into production dislike that any further imports be allowed. That spoils the market for them. On the other hand, the established importers, also for very understandable reasons, question the adequacy of supply and the quality of the products indigenously produced. Now about quantitative disputes, one may form some idea and take the current market price as some sort of guide of whether the supplies are adequate or not. But when the question of quality comes, it is difficult for outsiders to judge.

And when the product is a complex piece of machinery used in a well-established industry, one has necessarily to go by the opinions of experts but whoever the experts, their findings may be disputed. Even the Indian Standards Institution does not always command undisputed and unchallenged authority in such matters, which is a pity. What complicates the situation further is that judgments about quality are not free from a certain element of bias. Those habituated to using a certain type or brand of machinery would not trust another, and when the users of machinery are in a strategic position, as they are likely to be when they are exporters or potential exporters, it is difficult for the import authorities to keep to the strait and narrow path.

The account which Shri K C Mahindra gives of the many vicissitudes of the Machinery Manufacturers Corporation would, therefore, command attention and receive sympathetic hearing. For years the Corporation has taken infinite pains and devoted utmost care to develop and perfect carding-engines and ring-frames. It is difficult to believe that even such a competent and conscientious manufacturer would fall a victim to vagaries of import

licensing. Yet, the company suffered more than once from the lack of consistency in import policy with regard to textile machinery manufactured by it. The liberalisation of import licensing in 1957, Shri Mahindra told the Shareholders, had "set back the machinery industry very considerably and now five years later when this industry has not only established itself on a sound and firm basis, but proved itself in the matter of quality of its products, Government has thought fit to encourage import of the two articles which are now being regularly produced in the country and are accepted as equal in performance to that of any imported product".

The Machinery Manufacturers Corporation is also facing difficulties in its efforts to diversify production because of delays in the receipt of import licences for specific equipment which has to be imported. The economics of machinery manufacture, particularly in an under-developed country, calls for diversification of production to ensure a wide spread for the heavy overhead costs. Unless such diversification is actively assisted, the industry may not be able to establish itself on a sound basis. Shri Mahindra points out that diversification would not be a healthy way of expanding the firm but would serve as a cushion to the fluctuations which have characterised the Indian textile industry, particularly in respect of its demand for machinery either for replacement or for expansion. It is significant to note that diversification is being attempted partly by the development of new machines of the Corporation's own design. Independent designing of machinery in this country should be actviely encouraged and it is certainly unfortunate that the Corporation should have been hampered in its effort by the lack of import licences for specialised equipment and tools. It is time the Government recognised the wider implications of trying to develop a machinery manufacturing industry within the country.

S P Jain on Cement

WHAT does a target mean as applied to an industry in the private sector? It is no more than a guess-estimate of the level of production expected to be reached in an industry at the end of a time period, assuming that certain conditions are satisfied. Among the conditions are, principally, the expected price of the product, which primarily influences the motivation of the producers and the physical conditions of supply of the many factors of production in the particular industry. The progress in cement fell so far short of the target in the Second Plan period that the target itself had to be lowered. For the Third Plan, the target of capacity for the cement industry has been fixed fairly high at 15 million tons and, judging from the rising demand for cement, even this target may have to be raised.

Speaking at the Annual General Meeting of Jaipur Udyog Ltd. the largest cement unit in the country with a daily rated clinker capacity of 2,490 tonnes, Shri S P Jain made the point that the price fixed for cement is so inadequate that it will not be possible for the industry to realise even the present target, let alone improve upon it. The lack of development in the last four years, Shri Jain attributed primarily to the price fixed in 1958. But surely the price could not have been the only factor. The slowing down of the demand for cement resulting from the shortage of steel and the consequent slackening of building activity in the country must have also played a very prominent part. It is the resulting unfavourable change in price and profit expectation rather than the particular price fixed which caused expansion to slacken.

Shri Jain was even more critical of the latest price fixation in October 1961 for which the Government did not accept the Tariff Commission's recommendation for a reasonable developmental price to the industry. The Government's assurance at the time that adjustments in prices would be made whenever called for by variations consequent on Government action, including escalation for fuel and power, has not been implemented, although costs have gone up on account of rise in the price of coal, railway freight, etc. Shri Jain has not, however, lost hope that Government would take action soon.

The company's plant at Sawai Madhopur has one unusual feature. Unlike most other cement plants, it depends on the railways for carrying limestone from its quarries which are some 24 miles away. Most plants are situated in closer proximity to their quarries and they also have their own transportation system instead of depending on railways. When the company is able to have its own transportation which it has planned, the chapter of slower and irregular supply of materials from the quarries will close. But without an improvement of railway transportation, its other problem of quick despatch of the cement produced will continue. Efforts to move cement by road have been made but the cost of road transport makes it an uneconomical proposition. Supply of coal, as in most other industries, is another handicap and although there has been some improvement in supply, the quality of coal has gone down which means in effect, a reduction in the capacity of the boilers. The delay in getting adequate power from Chambal Project which had been assured, is another handicap.

The company is trying to improve its efficiency and to achieve economy in production by mechanisation of its quarries, but its application for import licence for the essential machinery needed for the purpose has not yet been sanctioned by the Government. Shri S P Jain makes the point, which sounds valid enough, that although the foreign exchange cost in the case of his company is less per unit of cement produced than that for expansion of existing plants or setting up of new plants and that it would also help reduce costs, the company has not received the priority it deserves in the matter of foreign exchange allocation.

Obituary

Paramasiva Subbaroyan

C V H

DR Subbaroyan was already a notable figure in Madras politics by the early '20s. He was Chief Minister of the State during 1926-30 under the Montagu-Chelmsford reforms, which the Congress had boycotted. This did not prevent Dr Subbaroyan's continued close association with the Congress and, eventually, his return to the Cabinet when the Congress formed the ministry under the Government of India Act of 1935 led by Shri C Rajagopalachari. This was as much due to his politics being nationalistic beyond question as to his close friendship with Gandhiji and Pandit Nehru. When the Rajaji ministry resigned along with Congress ministries in other States in 1939, Dr Subbaroyan was out of active politics. He remained out until the dawn of Independence.

In 1947 Dr Subbaroyan was appointed Law and Home Minister in Madras in the Cabinet of Ramaswami Reddiar with whom he had one of the very few open breaches of his political life, and resigned when the Police portfolio was taken away from his charge. This was the beginning of his break with Madras State politics. His next assignment was as India's Ambassador to Indonesia. After Indonesia, Dr Subbaroyan was elected to the Rajya Sabha (1954-57) and in the 1957 General Elections to the Lok Sabha, His membership of the Official Language Committee appointed by the Government of India yielded the valuable Minute of Dissent in which he expressed the firm view that caution was essential in the introduction of Hindi as the official language and in the displacement of English. Appointed Minister of Transport and Communications at the Centre in 1959, he held charge of that portfolio until 1962. In the last General Election he was once again elected to the Lok Sabha but immediately afterwards was appointed Governor of Maharashtra. With his long experience of public life and with his constitutional bent of mind and liberal temperament, Dr Subbaroyan's was a fine choice.

Born in affluence in a zamindar family of Salem district, Dr Subbaroyan's liberalism in politics as well as in social matters was in marked contrast to the communalism and narrow regional loyalties which had dominated, as they dominate now, almost every sphere of life in South India. In the 1920's this took the shape of an extreme anti-Brahmin movement led by the Justice Party just as today it appears in a combined anti-Brahmin, anti-North and anti-Hindi movement. Dr Subbaroyan's liberalism was reinforced by his wife, Radhabai, who came from a caste different from his own and who acquired a place of her own in public life.

Judged by any standards, Dr Subbaroyan was a successful practitioner of the art of politics as Morley had defined it. Even more important, he achieved this success without getting entangled in the meshes of caste and communalism. He could be a loyal partyman with conviction without being a fanatical partisan. If he succeeded in winning the confidence of the British as also the Congress leadership, it was a tribute to his transparent honesty of purpose.

Dr Subbaroyan's services to the country during the pre-Independence days were rendered in ways other than going to jail. (He *did* go to jail too and so did not lack the badge which Congress still regards as the essential proof of patriotism). His contribution was as much to the social as to the political content of the Congress programme. He was the President of the Tamil Nad Harijan Sevak Sangh and of the Tamil Nad branch of the All India Spinners' Association for a number of years. Though himself a zamindar, he voluntarily and enthusiastically supported the land reform movement, of which the first step was the abolition of the zamindari. Of his egalitarian impulses and of his endorsement of the Congress objective of a socialistic pattern of society, there was never any doubt.

Letter to Editor

More Irrelevance on Spurious Drugs

AFTER reading your powerful editorial 'Affront to the Constitution' (September 22, 1962), one had thought that our Hon'ble Ministers and leaders would come to their senses and at least for the time being, abstain from making irresponsible statements, which not only did considerable harm to the cause that they championed but also made themselves ridiculous before the eyes of the intelligent public.

The Hon'ble Union Health Minister has come out with another ridiculous statement while addressing the meeting of the Central Advisory Council of Industries on September 29, at Delhi. At this meeting, according to press reports, she threatened that unless and until the problem of spurious drug manufacture was solved soon, she would recommend nationalisation of the drug industry! One wonders against whom was this threat directed, against the genuine manufacturer who is struggling to establish his products in a competitive market by producing standard preparations under strict control, or against the Drug Control Administration, due to whose laxity or inadequacy, spurious drugs are thriving?

If eradicating the spurious drugs from the market is the basic problem, how is it going to help if the industry is nationalised? The drug-faker will be happily copying the labels as he is doing today. The printing of the currency notes was nationalised long ago, but counterfeit currency notes still get into circulation sometimes. To check the printing of counterfeit notes, would the authorities propose nationalisation of the printing trade?

Another instance of an irresponsible statement, picked up at random, is a statement of the ex-President of the Congress and the present Chief Minister of Andhra Pradesh, Shri Sanjiva Reddi. In a speech he created a public scare by saying that nearly half the drugs being marketed now were substandard or spurious (*The Statesman*, August 21, 1962). This is a very serious allegation to make. One would like to know what is the basis of Shri Sanjiva Reddi's statement and if there is none, shouldn't a public apology be demanded from the Chief Minister of Andhra Pradesh? Needless to say, irresponsible statements like this by authorities are very harmful to the trade and have a most demoralising effect on the public.

It is no use beating about the bush and sidetracking the main issue. There are spurious drugs in the market — of that there is no doubt — and it is not difficult to trace the source of such drugs with proper vigilance. We have a legislation to prevent this and punish the culprits. We have personnel to enforce the law in different States of the country. It is time now for the authorities to take proper action and not merely indulge in loose talk so that in future the public does not suffer from this malpractice.

DR A GUPTA
M Sc (Tech.), Ph D, F R I C.
Cipla Laboratories Ltd,
Bombay.
October 4.

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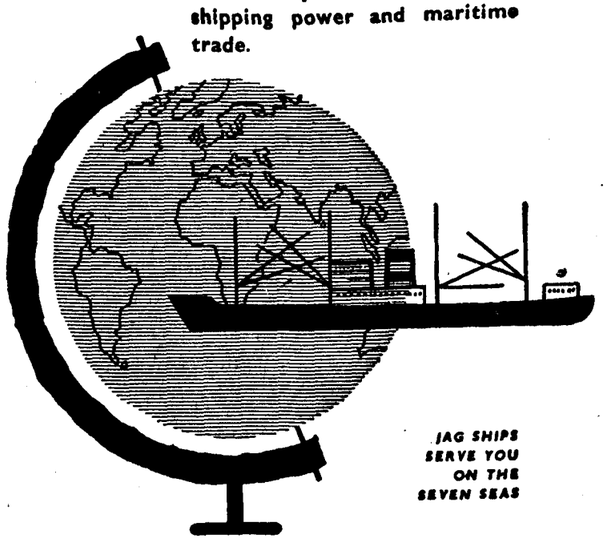

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Capital View

'Handling' the Chinese

Romesh Thapar

OVER the past week, we have again been reminded that decisive decision-making is not a prerogative which the Prime Minister has grabbed for himself. This heavy responsibility is repeatedly thrust upon him by weak, over-cautious colleagues whether in the field of foreign affairs, economic policy or defence matters. He is the only person who can think things out afresh, understand the many facets to a situation, and act. This was brought home sharply during the course of a military reorganisation on the NEFA front where the Chinese have been attempting to do a Ladakh on us.

I am referring specifically to the creation of a new army corps under the Eastern Army Command to defend the central and eastern sectors of the Sino-Indian border — a decision which underlines our determination to defend the MacMahon Line. The new army corps will take over from the old, somewhat extended, corps, which will now confine itself to the defence of the borders of Tripura, Assam and West Bengal with East Pakistan. This much belated administrative reorganisation may well be followed by similar moves on the Ladakh, Kashmir and Punjab frontier with China and Pakistan. And, perhaps, the wisdom of entrusting road-building operations in the Himalayas to another specialised army corps will also be seen in the near future.

Command Change Leakage

However, the reorganisation in NEFA was vitiated by a deliberate 'leak' in the Defence Ministry which sought to make out that a special 'task force' had been designed to deal with the Chinese infiltrators. Nothing could be more ludicrous than this attempt to give an aggressive, pugnacious garb to a necessary and understandable reorganisation. But even more serious and provocative was the implied insinuation that the commander of the new corps, Lt General B M Kaul, had been summoned to 'save' the situation, that he would have direct access to Prime Minister Nehru, Defence Minister Krishna Menon and the Army Chief, General P N Thapar, over the head of the Eastern Army Commander, Lt General L P Sen. This organised mischief was soon nipped in the bud by an official contradiction, but the overall effect of this 'headline-mania' must be thoroughly demoralising for the defence forces. And this is not the first instance of its kind.

Earlier, our 'forward policy' in Ladakh — ordered by the Prime Minister — was revealed prematurely and described as some kind of 'Napoleonic Strategy'. Then again, the exact strength of the reinforcements being rushed to NEFA was published. Those who recall the publicity hunting which accompanied the Goa mobilisation are wondering whether the Government of India intends to conduct military affairs like an AICC session. The attempt on the part of politicians and professional soldiers to play to the gallery needs to be severely dealt with, for the lives of many are threatened by this dangerous game.

Why No Enquiry?

Unless the Government of India stirs itself to investigate the 'leaks' and to plug them, the situation will so deteriorate that the army authorities may find support for the demand that they be given the powers to take summary action. This would be most unfortunate as such action would infringe the sovereignty of the civil power. It is idle to dismiss such an eventuality. A study of the experience of Burma and Indonesia should prove instructive. If the Government of India is reluctant to move in the matter, then Parliament must force the issue when it reconvenes.

Against this background, a number of commentators in the Capital are busy speculating on how far the Government of India will go in its drive to push the Chinese out of NEFA. It has been suggested that the initial Chinese push took us unawares and dilly-dallying in Delhi permitted them to dig in. This interpretation of the events which led to the clashes in NEFA is surprisingly naive. Forgotten is the fact that an enemy move in one sector has to be viewed against the total picture of the situation both in NEFA and Ladakh. Forgotten, too, is the earlier assurance of the Prime Minister that any move to encircle our outposts or to occupy more territory would be resisted. Quite clearly, we are now in no mood to countenance Chinese penetrations and we will use the strength we have to bring the infiltrators to a halt. But it does not naturally follow that we will indulge in foolhardy adventures to satisfy the political appetite of the cold war warriors in our midst.

Resist and Talk Simultaneously

Informed opinion continues to believe that the increased activity on the border is intended by the Chinese to bring matters to a head for the 'talks' and 'negotiations' which are planned. It is maintained that the position adopted by us in connection with the 'talks' does not demoralise our soldiers or blunt our preparations to defend ourselves. We must, in other words, be ready both to resist the Chinese and at the same time to 'talk' or 'negotiate' with them. Any departure from this line of reasoning, it is argued, would be tantamount to surrendering the future to the cold war warriors.

As anyone can see, the next few months will call for much maturity in the handling of the border problems both at the political and military levels. This maturity is now beginning to be exercised. However, there is not the same confidence about the handling of the publicity of our case against the Chinese. Too many people in too many countries are confused by the issues involved, and are apt to be misled because we are either shy about presenting our case or tend to diffuse the facts in a flood of emotion about Chinese duplicity and the occupation of our soil. Obviously, we have to grow-up and tackle these problems more persuasively and with greater confidence.

The Middle Sector

Another disturbing factor in the Himalayan border situation is the way in which Indo-Nepal tension is hotted up the moment the Sino-Indian border shows signs of renewed activity. Kathmandu's opportunism could infect Sikkim and Bhutan. Indeed, those concerned with Ladakh and NEFA are keeping a wary eye on the 'middle sector' too. The Chinese 'assurance' to Nepal to come to her aid in the event of aggression is a direct incitement to the anti-India faction which rules the Palace and believes that King Mahendra is a pliable instrument for the fulfilment of its ambitions. Similar factions could take shape in Sikkim and Bhutan to press their claims as part of the general debate on the Himalayan border. And we are doing little to prepare ourselves for such a development.

In this connection there have been a number of loud whispers about the smuggling of gold and arms to these areas, although some are more concerned about linking this activity to the Naga troubles which fortunately look as if they are about to be resolved. In other words, Delhi is in a suspicious, unsettled state of mind.

Cabinet Reshuffle

By the time these lines appear in print, the Prime Minister will be visiting Ceylon. The Finance Minister will also have returned with a clearer idea of aid prospects. Then, the decks will be cleared for the impending changes in the Cabinet. These are being discounted now, but it is not quite clear how the Government of India intends to function effectively without the overdue reshuffle. Time is short. It must take place before Parliament meets for its winter session next month, or else there will be too many distinguished visitors, tough problems and sudden alarums to leave any time for politicking.

Yes, the weather is delightful now. The hotels are getting booked up for the winter months. Seminars and conferences are being scheduled. Soon, the 'season' will be on us. Here's hoping that the **ashtagraha** is also lifting its depressing influence !

Calcutta Letter

Communists and Raw Jute

FROM two different quarters this week, voices have been raised against the floor price of Rs 30 per md Assam bottoms basis, for raw jute agreed between the Ministry of International Trade and IJMA for the current season. The Communist Party is demanding an upward revision of the price and has launched a campaign in the districts through the Kisan Sabhas. News reports in the party organ, *Swadhinata*, claim that meetings held to agitate against the present floor prices have attracted large audiences including traders operating in primary markets.

The claim may well be true. Shri P D Khaitan, Secretary Bihar Jute Growers Association, has recently issued a statement urging an upward revision of the floor price to Rs 35. He entered a special plea on behalf of Bihar's junglee jute which, he claimed, was selling in the Calcutta market at Rs 21 although the cost of production was Rs 22.50 per md. He regretted that the State Trading Corporation had not moved into purchase although four months had passed since Government authorised it to do so.

West Bengal Congress, conscious of the support it derives from rural areas, cannot presumably remain indifferent to this Communist-led movement since jute is the West Bengal cultivators' most important cash crop. It should surprise no one, therefore, if the demand for higher prices were echoed by Congress committees in the districts and by back benchers in the State Vidhan Sabha.

Jute and Paddy Prices

The demand is indirectly reinforced by the high price of rice now obtaining in the State, which must inevitably cause disaffection among the great majority of peasants who need to supplement by market purchases what little of their own paddy crop they can keep for themselves. West Bengal Government has always been specially sensitive to popular feeling in villages, and the present agitation may well prompt it, therefore, to intercede with the Ministry of International Trade on behalf of the growers.

In support of a higher price, it is claimed that the cost of production in West Bengal is now around Rs 30 per md. The share cropping cultivator cannot, in this view, get a fair return unless the minimum price is fixed at Rs 45 per md, Rs 15 higher than the present floor of Rs 30. It is contended that the mills cannot get imported jute at a price lower than Rs 45 per md delivered in Calcutta, and there is, therefore, no reason why they should be unwilling to pay a similar price to the Indian grower. (This argument appears to be factually incorrect at the current level of Pakistani and Thai prices. In fact, it is the the prospect of lower landed cost of Pakistani jute that explains the mill industry's agitation for limited imports). Secondly, it is argued that if mills were able to make profits of Rs 6 crores during 1960-61 when they paid up to Rs. 70 per md for raw jute, there is no reason why they cannot pay Rs 45 during this season of booming demand. It is also pointed out that 1960-61 witnessed a sharp rise in export earnings to Rs 146 crores. "In no other year since the Korean war have earnings been ever so high", *Swadhinata* points out. The only reason why mills refuse to entertain the proposal for a fair price is that if they pay more for raw jute, their "excessive" profits will suffer some reduction.

Nationalisation of the Industry

The agitation, however, is not confined to raw jute prices alone. Their past history makes jute mills very vulnerable, and they continue, despite large scale transfers to Indian interests, to be symbolic of colonial exploitation in the popular mind. If the Indian Jute Mills Association is described as the successor to the East India Company (as was done by a Communist M P while speaking at Nadia recently),

it may not be factually correct but the sentiment underlying the charge finds acceptanse in many quarters. Hence, the Communist Party's demand for the nationalisation of the jute industry evokes a wider response than New Delhi may think. The manipulations of the Calcutta *futka* market have such notoriety that the alternative of nationalising the export trade in jute goods, as a minimum programme for immediate action, cannot be lightly dismissed. The fact that excessive speculation in jute goods hurts long-term export prospects is conceded by Government, and even by IJMA. The latter advances the argument that forward trading on the East India Jute and Hessian Exchange enables the mills to take a long view of demand, and maintain production more uniformly throughout the year than would otherwise be possible.

The Shrivastava Committee, appointed by the Ministry of Commerce and Industry, to assess the long-term prospects of the jute industry, is understood to have covered the impact of these speculative operations in its enquiry. Its report is, at present, being finalised in New Delhi, and it is not perhaps far-fetched to connect with it the gingering up of the agitation over jute prices. Since raw jute constitutes 60 per cent of production costs, the Mills naturally attach great importance to the maintenance of what they regard as economic price levels. Memoranda submitted to the committee, particularly the one presented by IJMA, have dealt at great length with what should be the fair price.

What the Grower Gets

At any level of price pevailing in Calcutta, what the cultivator actually gets is an altogether different mater. Intermediaries are numerous in both the raw jute and the jute goods trades. The elimination, or at least the reduction of intermediaries, would seem to be essential if the benefits of a fair price are to percolate to the grower, and savings in production costs are to reach the ultimate buyer. Shri Shriman Narayan, member of the Planning Commission in charge of agriculture, recently called for a vigorous growth of marketing cooperatives to tackle this problem in the primary markets. He talked about the State Trading Corporation taking over at that point and making the final sale to mills. In principle, the suggestion is unexceptionable if the aim is to safeguard the growers' interests but before it can be implemented on any significant scale, wholesale reforms in the economic structure of jute growing and baling will be necessary. Cultivators, except for a small percentage of rich peasants, finance their growing operations by credits advanced by the traders and wholesalers. Organising alternative sources of credit is an enormous task but until this is done, the hold of the intermediaries cannot be broken. There is also the equally difficult problem of creating adequate baling and storage facilities which are now controlled, almost wholly, by the trade.

In these circumstances, State trading in raw jute is unlikely to be a practical proposition in the short run. The Communist Party, whatever it may say for public consumption, is not unaware of these practical difficulties and its agitation for State trading (echoing, as may be noted, the sentiments of Shri Shriman Narayan) is perhaps intended to serve as a warning to intermediaries. The agitation should make it easier to stop the illegal exactions now current which allow the *mahajan* to obtain 14½ per cent of the jute offered for sale without payment under the sanction of customary but illegal deductions. In fact, it would not be a bad thing at all if the State Trading Corporation and the Agricultural Cooperative Marketing Federation did make a start in some limited areas — the demonstration itself should be quite rewarding.

Bargaining Counter

While the Communist Party has pitched its demand high, it is quite likely that the figure of Rs 45 per maund is only bargaining counter. There are well, recognised parities on the basis of which one can work out the price of finished goods for any given level of fibre prices. IJMA claims that the differential between the price of 100 yards of hessian 40" 10 oz and a maund of raw jute should be Rs 20, but official estimates regard Rs 13 to 15 as a fair margin.

IJMA has also warned that the price level for finished goods should correspond to Rs 45 for 40" 10 oz hessian, as anything higher will drive overseas customers to substitutes. It thus seems to argue (it has not said so explicitly) that the minimum for raw jute should be Rs 25 per maund!

Gunny traders are not at all convinced that Rs 45 for 40" 10 oz hessian is the price the industry should aim at. The price today is around Rs. 50-52 at which, as traders point out, there is a fair level of demand. One might note here that well-informed, independent sources endorse the IJMA view without necessarily accepting the inferences which the Association seeks to draw. Even if one accepts the current price level of about Rs 51 (October 6 — high Rs 52.16; low Rs 51.46) as the basis for fixing this season's jute price, it will work out to no more than Rs 38-36 allowing for the lower differential of Rs 13-15 as officially calculated. Rs 45 per maund of jute is, therefore, quite out of the question.

Subsidy for Jute Goods

The Communist Party is also not unaware of the threat of Pakistani competition, reinforced by her export bonus scheme. Raw jute in Pakistan ranges between Rs 20 and Rs 24 per maund, or Rs 6 to 10 more than the Indian floor price for corresponding grades. This undoubtedly gives Pakistan a strong competitive advantage, of around Rs 280 per ton, enabling her to oust India from the world's sacking markets at will. The only feasible solution, the mill industry argues, is a subsidy on sacking exports since a price level in India comparable to that of Pakistan will lead to large-scale switch to paddy growing, bringing on the crisis of shortage which cost the country so dearly in 1959-60 and 1960-61. The Communists, it seems, are not averse to this solution. To quote from a recent article in *Swadhinata* :

> "It may be recalled in this connection that the Union Government had to pay out from its funds a subsidy of Rs 5.5 crores to sugar mill owners to make possible exports worth Rs 11.6 crores during 1961. The same principle should be applied to jute to assist, if necessary, in matching international competition. The jute cultivator should be encouraged to grow jute even if this requires a subsidy."

From the London End

Labour Party Conference

THE outstanding event last week — apart from the rail strike — was the Labour Party Conference. There is no doubt at all that Labour has emerged from this conference with a new and more inspiring image of unity and a positive policy. There is a general feeling of optimism in the labour ranks, and the party machine is being geared to meet the challenge of the next General Election. Mr Gaitskell has emerged as the undoubted leader of the Party, with a much larger following staunchly behind him.

That notwithstanding, apart from the debate on the Common Market — discussed later in this article — much of the rest of the proceedings was dull and uneventful. Mr Richard Crossman, for instance, talked at length about paying supplementary allowances to old age pensioners and widows without their having to be subjected to the means test. The Labour Party also went on record with its views on a national incomes policy. This subject was introduced by Mr. James Callaghan, MP, the Parliamentary Party's "shadow chancellor". (Incidentally, at the voting at Brighton, he was voted off the National Executive Committee and in his place the "reluctant peer" Lord Stansgate was elected). Mr Callaghan put forward a four-year plan of economic expansion — without socialism. A Labour Government, he said, would not nationalize more industries than it had announced in its general election programme. Public ownership "was a very sensitive issue". In dealing with the Executive's "incomes policy" he admitted that this meant "wage restraint". Labour would conduct a gigantic campaign to persuade the nation that wages should be related to productivity — the way to keep prices stable. The campaign would be supported by measures to ensure that rents, dividends, capital gains and gifts were also restrained. "Not one of us can dodge the need for an incomes policy". Mr Callaghan's speech is being interpreted by Union leaders as the Labour Party's response to Mr George Woodcock's important address at last month's Trades Union Congress. Other matters such as the control of drugs and improvements in the National Health Services also came before the Conference.

Brussels Agreement Rejected

Perhaps the most significant result of the Brighton Conference was the stand taken by the Executive on the question of the Common Market. Labour seems, at last, to have come off the fence. Mr Gaitskell had hitherto not committed himself on one side or the other though he was, until quite recently, believed to be on the pro-Market side. In his categorical statement after the Commonwealth Labour Parties meeting in London, Mr Gaitskell pointed out quite clearly that the terms of the provisional Brussels agreement were quite unacceptable. These views were reiterated by Mr Gaitskell in his television appearance.

The final statement on Labour's policy regarding the Common Market — an inspired document of some 5,000 words — skilfully drafted to win the largest measure of support from all elements in the Labour Party, was passed with an enormous majority at Brighton. Although the statement is couched in very careful terms, and does not commit the Labour Party to outright rejection of the Common Market, there is no doubt at all that the general trend of the statement is in that direction. It is agreed that the present terms are quite unsatisfactory as they do not provide adequate safeguards for the Commonwealth, for EFTA countries or for British agriculture.

In his powerful speech lasting eighty minutes, Mr Gaitskell was at the top of his form. He expressed clearly his contempt for the way in which the public debate had been conducted, castigating the desire of "top people" to arrogate to themselves the right to judge this issue instead of educating the public in its pros and cons. He explained why he regarded the economic terms, for or against entry, as equally balanced. He believed that as far as the Common Market was concerned, the political factors were more important. A political federation of European countries would mean "the end of Britain as an independent nation state". This might be a good thing or a bad thing, but it was certainly a fundamental issue, for it would mean the end of a thousand years of history — "it needs a little care and attention". It would also mean the the end of the Commonwealth.

Anti-Market Feeling Strong

The thundrous applause that Gaitskell received —indeed it was a real ovation — showed how strongly feeling in the Labour Party (except for a small minority) is against entry on the present terms. The strength of the feeling was also evident when Mr Harold Wilson announced from the chair that the Transport and General Workers Union had decided to pay for the printing of one million copies of Mr Gaitskell's speech for free distribution. Mr. Gaitskell's stand has naturally enthused the anti-Common Market wing of the Labour Party, while causing a great deal of dismay in the ranks of the pro-Marketeers led by such men as Roy Jenkins.

The Common Market motion at the Labour Party Conference can be regarded also as a victory for the Left wing forces in the Labour Party. Another victory for the Left was the refusal of the Conference to agree to the proposal that members of the Party who associated with certain specified organisations should automatically be disqualified from membership. It will be recalled that this issue was brought up by the case of Bertrand Russell, whom the Labour Party were unable to expel, despite his support of the Moscow Peace Conference. The present rules of the Party only permit expulsion of members of the prescribed organisations, but not of those who merely associate with them. An attempt was made to change the rules this year so as to make even association sufficient cause for expulsion.

Since, as has been publicly stated by Mr Heath himself, that there is very little likelihood of any major changes in the Brussels agreement and it seems unlikely, therefore, that the final terms will provide adequate safeguards, the Labour Party must oppose Britain's entry into the ECM. The 64 dollar question, however, is whether minor modifications and slightly more favourable terms on matters still pending — for example, details of compensation for temperate food producing countries and details and date of the comprehensive trade agreement to be concluded with the Asian members of the Commonwealth — will be enough to persuade the Labour Party to change its mind and accept that these new terms provide adequate safeguards and therefore, clear the way for Britain's entry into the Common Market. The Americans have now administered a further push in the direction of getting Britain into the Common Market. The Kennedy administration has issued a statement saying that it expects Britain to become a member of the Common Market, and that the whole nuclear strategy of NATO depends upon this. The US is inclined to agree with the view propounded by France, that nuclear weapons should now be given to the NATO forces. This, however, cannot be done without British membership. The statement goes on to add that the British nuclear strike force and weapons are already hopelessly out of date. Is this American move a way of trying to convince the French that in order to get the nuclear weapons they require, they must be a little bit more conciliatory to the British and find some face-saving solutions which will permit the British to join the Common Market, and claim, at the same time, that they have safeguarded the interests they felt it was their duty to protect?

The Brighton Conference was concerned with putting the Labour Party across as the responsible alternative Government, with sufficient argument to substantiate the picture of vitality and a robust clash of ideas. The theme for the Conference was set by Mr Harold Wilson. In his opening address, he emphasised the challenge and opportunity of the next election, and the reaction of the Conference to this certainly enhance Labour's chances.

A letter from Punjab

Exit Tara Singh

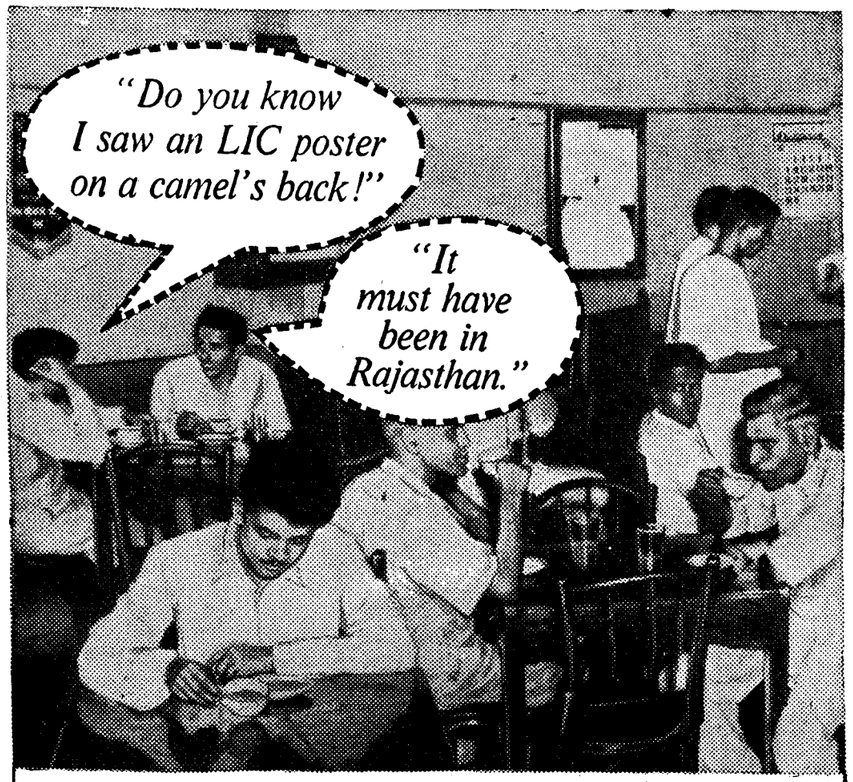
THE spectacular and unexpected victory of the Sant group in the SGPC elections on October 2 was a palace revolution. The Akalis have no longer any positive programme to offer to the Sikh masses. The Punjabi Suba demand, whatever its intrinsic merits, is now a hollow slogan. Even a casual observer of the Punjab scene will not fail to notice the widespread apathy of the Sikhs in particular, and of the Punjabis in general, to the issue. But in one sense at least it is still alive. No Akali leader, whatever his status among the Akalis, dare, as yet, openly oppose the 'demand'. In substance, however, questions like whether the Hindus should be associated with the agitation for the Suba as the Sant wants, or whether the Sikhs should 'go it alone', as the Master insists, are purely academic ones.

But the control of the Rs 60 lakh annual budget of the SGPC is not an academic question, and the rival factions in the Dal may be expected to be in dead earnest over this not inconsiderable sum. Struggles for power within the Dal may, therefore, be expected to recur, whoever the *dramatis personae*. The absence of a leader like Tara Singh who he'd unquestioned sway for so long will only mean that the 'battles' in future will be far more frequent. Being devoid of any genuine political content Sikh politics is more than ever before likely to revolve round the lucrative control of the SGPC. A revision of the Sikh Gurdwaras Act with a view to enforcing stricter control over the management of the ever-growing revenues of the shrines seems necessary. Otherwise the possible eclipse of the Akalis as a force in Punjab politics will only be followed by the growth of numerous factions with rapidly shifting loyalties and eyes at nothing but the SGPC funds.

Tara Singh's Tactics

Coming back to the Sant's triumph, it establishes the 'legality' of his group as against Tara Singh's. The Sant was astute enough not to *formally* launch a rival Dal. He maintained that it was the Master who was a dissident and who had formed a rival organisation. However, soon after his defeat, Master Tara Singh is reported to have said, "The Panth is always most active in its hour of defeat. It will now show its vigour again". Tara Singh does not take it to be a personal defeat at all; instead the entire Panth has been routed. The insistence that he and the Panth are one and that his opponents are aliens and intruders has been his typical attitude for so long that he now seems to be genuinely convinced of it. He has suffered defeats in the past. But the latest one is different from those of the past in a vital sense: in the past his popularity among the Sikh masses was never really in doubt, but now he stands discredited and disowned. In the past he could hope to overcome his temporary reverses at the top through his hold over the base. But his latest reverse is the culmination of the growing dissatisfaction among the Sikh masses with his policies.

One can, therefore, safely rule out any enthusiastic response to his "Panth in Danger" cry. The disintegration of the Akalis may take some time, but it seems inevitable. The exit of Master Tara Singh marks the beginning of a new phase in Punjab politics. Whether Fateh Singh will be able to keep his promise of striving for communal amity or not will depend on his ability to keep his more militant followers in check (a difficult task) and the response he gets from non-Akalis, both Sikh and Hindu.



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MEXICO :

The Janus Faces of 20th Century Bourgeois Revolution

A G Frank

"50 Years of Revolution — Political, Economic and Social" is the title of Mexico's serious three volume study of her 20th century experience. At the cost of a million lives, Mexico began her revolutionary break with her 19th century legacy of feudalism and imperialism in 1910. Many of the political, economic and social fruits of the Mexican revolution were slow in ripening and are being reaped only today and in the future.

From the U S point of view, Mexico set the worst kind of example for the first half of its 20th century revolution. Accordingly, first the U S interfered economically and diplomatically, then she sent troops to capture Vera Cruz, and even in 1937 the U S still labelled the Mexican government "bolshevik".

At the same time, Latin America, herself still beset by the alliance between feudalism and imperialism, came to view the Mexican revolution as her guiding star and shining example.

Yet today the U S is full of praise for Mexico's example of "economic progress with political stability"; and President Kennedy, indeed, is asking the Mexican government to become the pilot country in the Alliance for Progress. Latin America, in the meantime, has turned her eyes toward Cuba and asks if the example of Mexico's 50-year revolution is one to follow after all.

Let us, therefore, turn to the lessons that Mexico's experience bodes for Latin America and the world.

As we examine Mexico's domestic experience, it will be well to place it occasionally into the context of the flow of history outside her borders. We may do so from the perspective of Latin American style feualism, the ancien regime of Mexico and today's reality still for many of her neighbours. Thus we may estimate where Mexico would still be today without her revolution, how far she has come, and what lies before the peoples of Central America and the Andean countries should they follow Mexico's path. This is the perspective of European style bourgeois capitalism. Transplanted to Indian and Mestizo Mexico, it has taken root at best on top of rather than within the large body of peasant society. Only in Uruguay and Costa Rica, where European settlers found few or no indigenous Indians to exploit as elsewhere in Spanish America, and to a lesser extent in Argentina and Cuba, where the indigenous population was soon decimated, has anything resembling European middle and working class society appeared — peopled almost entirely by Europeans themselves. This consideration can afford perspective, not only to Mexico's history as a whole, but also on the differing experiences of her densely populated Centre and South and her relatively sparsely populated North. There is also the perspective of socialism because it points a way for the 20th century revolutions still to come and because it contrasts to Mexico the experience of Russia in the past and Cuba at present. Finally, there is the perspective offered by American imperialism, call it what you will, Big Stick, Good Neighbour Policy, or Alliance for Progress (an alliance, to use Arevalo's words, between a shark and twenty sardines); for it is a fact regardless of name and is inexorably interwined in all of the above.

The Mexican Revolution resulted in a tremendous release of popular energy which, after the fighting ended, went into the construction of a new society. The destruction of feudalism radically changed the social relations of man to man. The peasant's accession to human dignity, when compared with the conditions of servitude which still persist in Guatemala (it exists today more or less as it did in the time of the Conquest, suggests K S Karol of the Paris Express) and Peru, is perhaps the Revolution's most important accomplishment. That same energy was also released through improved health (the mortality rate has fallen by 2/3 since 1910) and transformed into large increases of work, education (illiteracy rate reduced by 1/2) and skills, which in turn, particularly since 1940, have been transformed into that production of goods and increase of purchasing power to buy them which spell Mexico's remarkable economic growth. Only the structure of a post-or non-feudal society permits and produces such land reform (millions of small landholdings created), road (seven-fold increase since 1940 so that now nearly half of all goods travel by truck and almost all passengers by bus), irrigation (an eleven-fold increase since 1940 so that a third of all crop-land is now irrigated) urbanisation (to nearly 50 per cent), industrialisation (3.6-fold increase in 1940-59), agricultural output (3.4-fold increase in 1940-59), and more. Gross national product tripled between 1940 and 1959; and, despite one of the worlds highest rates of population growth, GNP per capita doubled from 150 to 300 dollars a year. According to Rostow, Mexico has passed the threshold into self-sustained economic growth. Indeed, the annual rates of growth during the post-war years of both industrial and agricultural output rank Mexico among the first half-dozen countries in the world and far ahead of other countries in Latin America. (Sources: Lewis 299, 311, 317; Yates 62; Urquidi 99-103).

Revolution's Other Face

And yet Mexico's revolution has had another face as well. Her crude death rate of 12.5 remains higher than that of Bolivia and Peru; her infant mortality rate of 81 in a 1,000 is higher than that of Argentina. Her 2,200 people per doctor is more than in Chile and

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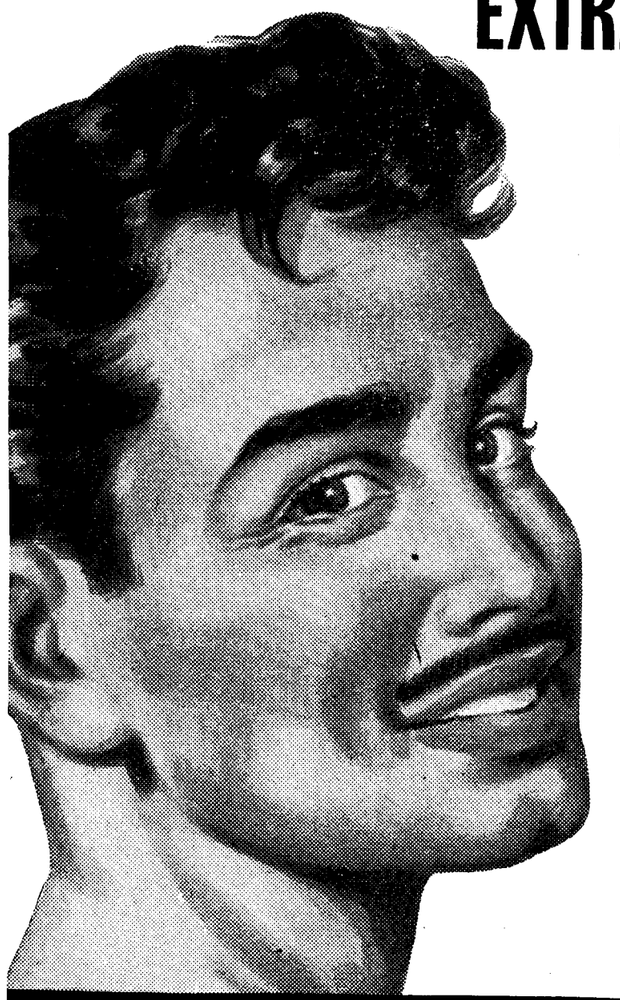

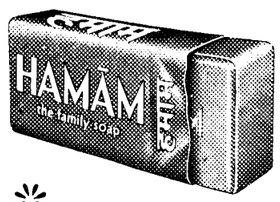

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over double that of Argentina. The 43 per cent illiteracy that remained in 1950 hardly compares with the 19 per cent in Chile and 13 per cent in Argentina. The ratio of working population engaged in manufacturing remains 12 per cent; and Mexico's per capita income of still less than 300 dollars ranks her behind Chile, Argentina, Uruguay, and Cuba, to say nothing of oil-rich Venezuela. After the large-scale redistribution of lands, over a million heads of rural families remained without land of their own, and with population growth the number may have risen to nearer 2 million (out of a total of may be 4 million) since then. The average Mexican diet has a caloric deficit of -24.4 according to the FAO; and the 3 million indigenous Indians out of today's population of 30 million remain economically as badly or may be worse off as the poorest of their forefathers at the time before the Conquest, four-and-one-half centuries ago. However large the social change, the economic benefits of the Mexican Revolution have not reached, or have been withheld from, large parts of the population; about 50 per cent of the population receives today only 15 per cent of the national income; and it has been estimated (although also challenged) that only 1 per cent of the population disposes of 66 per cent of the money income; and the inequality of income distribution is increasing, not decreasing. (Source: Casanova 8, Urquidi 102, and personal communications).

The wealth and elegance of downtown Mexico City dazzles the visitor, and the heavy industry of Monterey impresses as another Pittsburgh; but equally do the miles of Mexico City's slums — many still without running water — depress, as does the poverty of rural Tlaxcala and Chiapas dumbfound. The question inevitably advances itself, have Mexico's 50 years of revolution really been a success — or have they been a failure? Compared to the experience of her neighbours, especially in Central America, Andean South America, and the Caribbean, Mexico's 20th century has appeared as an obvious success, the more so as these countries are only in the present decade getting ready to break the bonds that shackle them. But has the Mexican Revolution also been a failure they shall seek to avoid? Economic progress in Western Europe has been greater and its benefits more widely distributed within the society. Some of the countries, small and by nature ill-endowed ones among them, have eliminated poverty entirely. True, Western Europe has in general devoted longer to the task than has Mexico so far, but on the Continent not much longer — and the recent adverse change in Mexico's distribution of income raises serious doubts about her prospects of following Europe in the foreseeable future.

But the comparison with socialism springs to mind as well. The Soviet Union, with its revolution coming after that of Mexico, has broken all previous records by its rate of economic growth, the more so if we allow for the 10-year period of World War II and reconstruction. It may be stretching comparisons too far to apply Russia's industrial experience to Mexico. But the USSR also began with illiteracy at a rate of 90 per cent which was greater even than that of Mexico's 80 per cent. In the meantime, the USSR eliminated illiteracy and went on to challenge and in many ways surpass the United States in higher and technical education — and providing the same also to her indigenous and non-Russian-speaking peasant and nomadic peoples. And despite all her agricultural difficulties, the USSR displays a similar record in the fields of nutrition, health and medicine. More recently, China's rate of industrial growth during the past decade has been 2 times that achieved during the USSR's peak decade, and her agricultural output growth rate in the 1950's has been higher than that of Mexico nonetheless. And now Cuba has eliminated her 30 per cent illiteracy in a single year and nearly doubled her school enrolment in only 2 years of her revolution. These comparisons are no less inevitable.

Behind the two Janus faces of the Mexican Revolution, there is a single head, a single, and by now intricately balanced and developing, mechanism. To learn Mexico's lesson for Latin America and the world, we must try to fathom the development, current operation, and future prospects of Mexico's revolutionary mechanism. The history of Mexico's 50-year revolution seems to fall conveniently into the following periods: the 4 centuries from the Conquest until 1910; the nearly 15 years of violent revolution, counter-revolution, and reconstruction, symbolised by Madero, Huerta, and Carranza; the 15 years of reform, carried through by Presidents Calles and Cardenas; the 15 years after 1940 of the beginning of industrialisation and the growth of bourgeois power, symbolised by President Aleman; and the current consolidation of the 'Mexican System' under bourgeois leadership and the presidency of Lopez Mateos.

At the time of Conquest, the Spaniards found 150 years of Aztec empire in Central Mexico, surviving Maya culture in the South and Yucatan, and scattered semi-nomadic tribal Indians in the North, including today's South-Eastern United States. The populous Centre was soon colonised by Spaniards, the existing social system largely destroyed, the Indians' labour and land exploited, and their population reduced by half. The more arid and unpopulated and tribal North, on the other hand, was settled only gradually and sparsely, as the extension of livestock ranching and mining in that area required. This difference between the North and the populated Centre and South, as will emerge later, still directly determines Mexico's social and economic experience in the last 20 years of our time.

In 1810 under the leadership of the priest Hidalgo, Mexico's peasants rebelled. Unmatched by peasant activity elsewhere in Spanish America, where peasants remained at best passive and often in support of the Spanish Crown, and unsupported by the Latin American-born Creole Spaniards, the rebellion came to nothing. Not until the landowning and particularly commercial Creoles took up the fight themselves did independence come to Mexico and the other Spanish colonies in America. Again, in the 1850's, now under the leadership of the Indian Benito Juarez, did Mexicans attempt reform in their feudal structure. But after the French intervention and with the 30-year reign of Porfirio Diaz, peonage returned in full

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force and concentration of land-ownership became worse than ever. At the same time, foreign capital, increasingly American, entered the country on most favoured terms until it reached over 400 million dollars, concentrated in land, mines and the transportation and "public service" system required to ship their produce abroad. In the meantime also, Mexican political power and organisation had become increasingly centralised, if only to counterbalance the power of the 'colossus of the North'. But, alas, not centralised enough, for Mexico lost Texas through secession and the remaining half of her territory through conquest anyway. Thus, if prior popular pressure and revolutionary experience has any bearing on the future, it was no accident that Mexico made a revolution while her neighbours continued in feudal slumber for another half-century.

Revolution: Product of Bourgeoisie — Peasants Alliance

The Mexican Revolution was the product of alliance between the bourgeoisie represented by Madero, and the peasants led by Emiliano Zapata and Pancho Villa. They faced a common enemy, the feudal order and its supporting pillars of Church, Army and foreign capital. But their goals inevitably differed, freedom from domestic and foreign bonds and loosening of the economic structure for the bourgeoisie, and land for the peasants. Although Zapata continued to press the interests of the peasants until his death, the real leadership of the Revolution was never out of the hands of the bourgeoisie, except insofar at it was challenged by Huerta reaction and American intervention. And so, while the 1917 Constitution was drawn up on the European model, a bourgeois government emerged to dominate the largely peasant society under Carranza and Alvaro Obregon. Even today, only 23 per cent of the population voted in the last election. The elimination of feudal social relations was, of course, in the interest of the emerging bourgeoisie as well as of the peasants. Education became secularised, Church and State more widely separated. But handing over the reins only so recently acquired by the bourgeoisie of economic power and leadership to the peasants, that was another matter. Accession to power by the peasantry was never really in the cards.

None of the early Presidents were radicals in any sense of the word, nor could they probably have been and retained their positions. During the administration of President Calles in 1924-1928 began the programme of public works, and to a lesser extent irrigation, on the foundation of which much of Mexico's subsequent economic development rests. Then too were written the laws, pursuant to Article 27 of the Constitution, which were to guide the land reform until the 1940's. That article provided for expropriation of private lands in the public interest and for distribution of that land to neighbouring "villages, ranches and communities" whose supply of land is insufficient for their needs, "always respecting small property". Two important legal interpretations of that provision stand out: lands to be distributed to particular communities were to be taken from private properties exceeding certain sizes within a 7 kilometre radius of these communities, and that proportion of private land was to be expropriated as corresponded to the increment in the land's value due to any irrigation and other improvements that may be undertaken by the State, thus preventing large landholders from becoming the beneficiaries of investments incurred at public expense.

Land Redistribution and the Ejidos

Abroad, the Cardenas administration from 1934 to 1940 may be best known for its expropriation — labelled "bolshevik" in the United States although the American properties were indemnified — of Mexico's privately-owned petroleum, a step which was also provided for by the same Article 27 of the Constitution of 1917. But still more important domestically, the administration of President Cardenas expropriated and redistributed more land than all other administrations, before and since, put together. Pursuant to the Constitution, and the laws of the Calles administration, these lands were taken from territories surrounding particular villages and were ceded to them commonly as **ejidos**, to be worked in some cases collectively and in most cases individually. An Ejido Bank was established to provide the new owners with agricultural credit. Irrigation and other capital investment in agriculture was not, however, expanded at the same time. In fact, in retrospect, it is clear that, although he undoubtedly had his heart in the right place, Cardenas, as head of a bourgeois government, did not provide Mexican peasant agriculture with nearly enough resources to get it over the hump into self-sustained development.

From a careful study of the Bajio region of Central Mexico a decade after Cardenas, the following findings, which are not unrepresentative for Mexico as a whole, emerge about the relative resource endowments of **ejido** and still small private agriculture. (I shall turn to the discussion of large-scale agriculture when I come to the post-war period). Relative to private farmers, **ejidatarios** have less land (3.8 as against 16.5 hectares) per man; more 3rd quality and less 1st quality land; less education (about 1|10 of their school-age children in primary school as against ½ for the private farmers); more reliance on family and female labour; female labour employed relatively more in cultivation and less in administration; less reliance on outside and on permanently hired labour; more unemployment; less investment in irrigation (private farmers have 35 per cent more irrigated surface and use 65 per cent more water); less capital (40 per cent of the amount that private owners have, although there are 3 times as many **ejidatarios**); more dependence on outside credit and capital supplies and yet almost exclusive dependence on public credit while private farmers have access to a much larger supply of private credit; labour market access only to each other and not to agricultural labour needs of the private owners who hire their supplemental labour from among **landless** labourers. (Castillo, passim).

With such handicaps, it is perhaps no wonder that many **ejidatarios** have been unable to provide themselves with a better and decent living. Indeed, in several respects the situation is still worse than that described, and it appears that the political and economic structure that emerged from the revolution was not really designed to, and does

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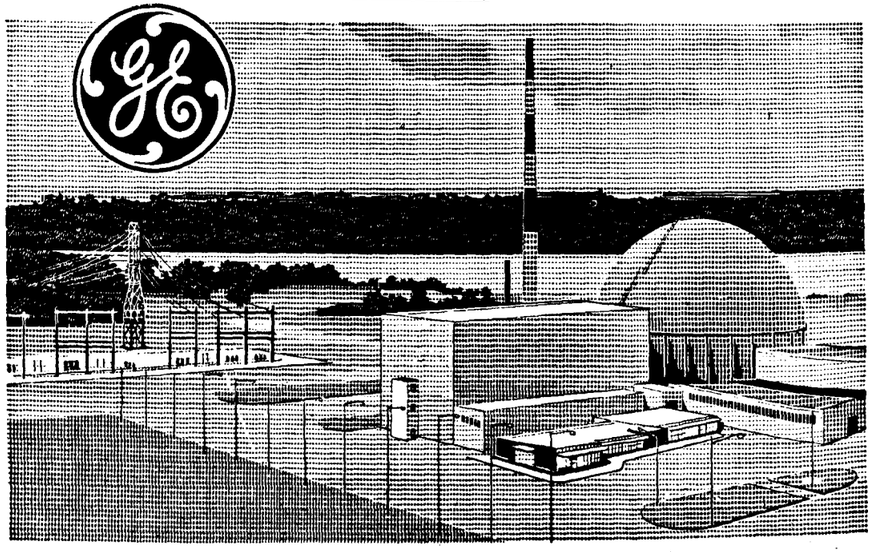

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not, permit the large mass of peasants to share in the economic fruits of the Revolution. We should remember that a million, now approaching two million, rural family heads remain entirely landless. Public agricultural credit accounts for no more than a third of all agricultural credit, and about half of that is supplied not by the **Ejido** Bank but by the Agricultural Bank which lends to large private landholders. Lewis (p 318-9) quoted the research director of the Ejido Bank: "We lend to about one-third of all **ejidatarios**, those that have the richest and best lands. We prefer risks that have fertile soil and preferably irrigation. We do not have enough money for loans to subsistence farmers most of whom have the poorest lands". But private credit reaches the **ejidatario** still less; and much of it, like the 2.5 billion pesos annually lent to cotton growers by the American concern Anderson and Clayton (compared to the 1.5 billion pesos lent by the Ejido Bank to all ejidatarios combined), is earmarked for special purposes. For lack of working capital, many **ejidatarios** have found it necessary to lease their newly-won land to private holders in command of capital and then turn around and work for these literally "capitalists" as hired labourers on their own land. Other **ejidatarios** and landless peasants, as is well known, find it necessary each year to migrate to the United States by the hundreds of thousands to work as occasional agricultural labourers there; or they emigrate to the growing city slums in search of work although "life is better in the villages".

Development with Regional Imbalance

How then, we may well ask, has Mexico been able to show the increases of agricultural and industrial output that were cited previously, if it now appears that the economic condition of the bulk of her population has scarcely improved? After the expiration of Cardenas' term in the Presidency, and particularly with the accession to the presidency by Miguel Aleman between 1946 and 1952, the bulk of investment went into the North and the Federal District. As we have already noted, the seven Northern States have traditionally had less of the total population, less population density, and a lower percentage of the labour force engaged in agriculture than the heart of Mexico. While per capita investment remained well less than 1,000 pesos for the period 1946 to 1955 in the 10 least favoured States, it rose to well above 5,000 in the 7 Northern States and the Federal District. The difference in funds devoted to irrigation between the North and the rest of the country became even more striking with 60 per cent of all irrigation investment between 1947 and 1958 going to the three States Baja California del Norte, Sonora, and Tamaulipas alone (Yates 71). As a result, much of the increase in Mexico's sown area was concentrated in the relatively less populated North as well. The same area also absorbed the bulk of the increase of agricultural credit and of virtually all mechanised farm equipment (an increase in the number of tractors from 4,620 in 1940 to 55,000 in 1955 — Lewis 318) that was not devoted to the production of sugar, another non-subsistence crop, in the South. Not one tractor was used on any of the million small holdings in 1950 (Lewis 318). Not surprisingly, agricultural output rose in the North to State averages of 12,000, 20,000 and even 34,000 pesos per agricultural worker in 1960, while it remained at between 2,000 and 3,000 pesos in the older States (12.5 pesos to the U S dollar).

This growth in agricultural output, however, was concentrated in industrial crops, principally cotton, whose production between 1939 and 1954 rose 309 per cent, while that of food crops rose only 113 per cent (Lewis 314). Moreover, the bulk, in turn, of these crops, cotton, vegetables, sugar (Centre and Yucatan), coffee (Chiapas), and livestock, were destined for export to the North American market. The earnings from these agricultural exports were used variously: some were ploughed back into the same export agriculture; some were invested in industry; some were consumed (we will turn later to the resulting distribution of income); and some, unfortunately, for Mexico as for other primary goods exporters, were left in the importing country because of the decline, particularly after the Korean War, of primary goods prices especially relative to those of industrial goods.

Control of U S Private Capital

The exigencies of World War II had given impetus to domestic expansion of industry in Mexico as elsewhere in the under-developed world. Further industrialisation was promoted by Aleman and since then. That investment in industry and commerce has also been guided into the same 8 favoured States, with particular concentrations, of course, in the Federal District and Nuevo Leon, the sites of Mexico City and Monterey. The older, more populated States were left largely unaffected and far behind. A significant portion of the investment funds, and particularly of the necessary foreign exchange, undoubtedly was contributed by the earnings from agricultural exports as well as from the rapid increase of tourism in Mexico and migrant **bracero** labour to the United States. But simultaneously direct investment which had fallen to the depression and post-petroleum nationalisation low of 267 million dollars in 1939 began again a rapid increase until it surpassed the $ 1 billion mark, or about 1/10th of outstanding U S investment in Latin America (Lewis 304).

This American investment has displayed a relative shift away from social overhead capital and into manufacturing and trade so that in 1953, out of the 31 companies with a gross annual income exceeding 100 million pesos, 19 were U S-owned or controlled, 5 were in the hands of the Mexican government, and only 7 were private domestic firms (Lewis 305). Moreover, since the ownership certificates of Mexican enterprises are bearer and not name bonds and shares, and since after issuance these certificates typically tend to gravitate into the hands where capital is already concentrated, it is not always easy to determine where ownership, and particularly control lies. Thus, today U S control of Mexican industry may well exceed 25 per cent. Thus it is no wonder to hear the Mexican Chamber of Manufacturing Industries say that "The economic power of these large foreign enterprises constitutes a serious threat to the integrity of the nation and to the liberty of the

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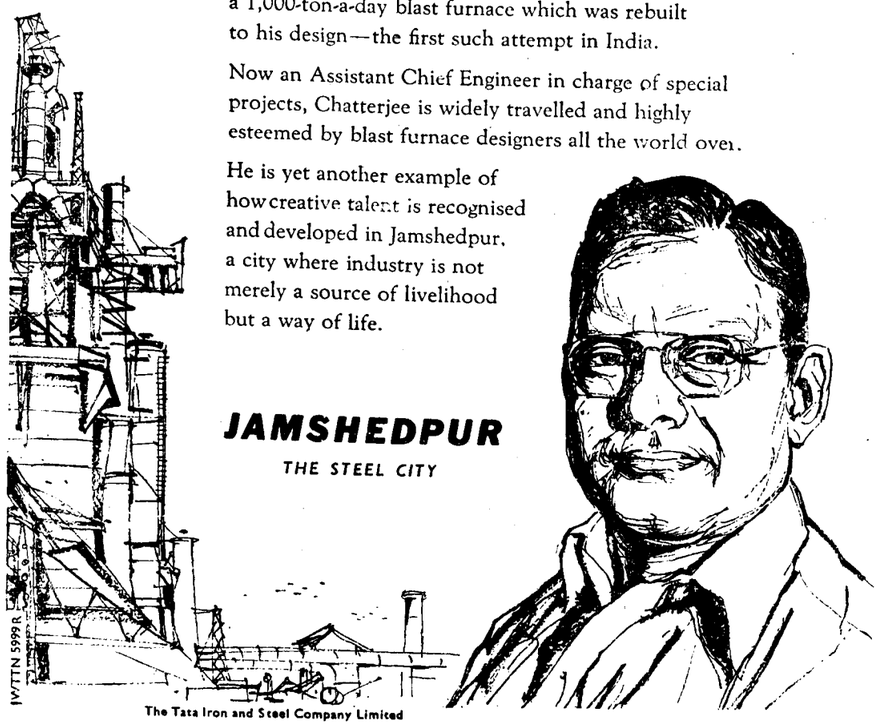
Over the years, Chatterjee has worked his way up in the Engineering Department, and blast furnaces have been his enduring interest. He has helped to rebuild the blast furnaces in the Jamshedpur Works, including a 1,000-ton-a-day blast furnace which was rebuilt to his design—the first such attempt in India.

Now an Assistant Chief Engineer in charge of special projects, Chatterjee is widely travelled and highly esteemed by blast furnace designers all the world over.

He is yet another example of how creative talent is recognised and developed in Jamshedpur, a city where industry is not merely a source of livelihood but a way of life.



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country to plan its own economic development" (Cited in Lewis 306-7). For in Mexican agriculture as well, American capital plays a significant role. Although Americans no longer own large tracts of land, as they still do in Central America, the American cotton monopoly, Anderson and Clayton, as we already noted distributes about 200 million dollars of credit for the production of cotton from sowing to shipping. Therewith it effectively determines the buyer and the price for the cotton and prevents Mexico from disposing of a large part of its cotton crop where and when she wishes. And worse, as we shall see below, this arrangement contributes to the maintenance of monoculture and a plantation-hired labour economy in large parts of the North. The alliance between American and Mexican capital and Mexico's dependence on the American market permits the U S to exert quite a conservative political and economic force in Mexico. With good reason, "Mexicans are beginning to wonder whether they are returning to the days of Porfirio Diaz . . . " (Cited in Lewis 307).

Organisation of Political and Economic Power

The gross relative effects of events since the War on the Mexican South and North have already emerged from the foregoing discussion. They are perhaps summarised by the indices of social welfare in columns 13-16 of the table. But to expose more of the detail of the emerging allocation of resources and distribution of income which remains hidden, it will be necessary to inquire into the organisation of political and economic power and how it developed since the days of Cardenas. When Aleman launched his campaign of large-scale irrigation and industrialisation, he also introduced some legal changes. Recall the two provisions of Article 27 of the Constitution that were already cited in connection with the administrations of Presidents Calles and Cardenas. These provisions, referring to the distribution of land to ejidos contiguous to the communities that are to receive them and expropriating only with due respect to small property, were under the guidance of Aleman to receive a significance quite contrary to what they had before and quite other, one might suspect, than had been the intention of the framers of the Constitution.

With respect to the first provision, once Northern lands were opened to cultivation through irrigation which for already discussed agronomic and historical reasons, were not in the vicinity of already existing communal centres of population, this provision came to be interpreted as excluding or at least not requiring their distribution as ejidal lands! At the same time, the constitutional provision for due regard to "small property" now came, under a Law of Inaffectability, to be interpreted as excluding 100 hectares of irrigated, 150 hectares of ordinary, and more of grazing land from expropriation by the State. Accordingly, existing private owners of large tracts of relatively worthless land in the North, on learning of prospective State irrigation projects in their areas, rushed to "sell" their holdings in plots of the minimum inaffectable acreage to all available members of their family.

The result was two-fold; not only did they retain effective control of much of their land but they also reaped the benefit of the always large and often astronomical increase in value of their land due to the State-financed irrigation. Thus, they rendered inoperative the letter and intent of the earlier Calles law which meant to channel the benefits of publicly-financed irrigation to the public at large; for under the Aleman law their lands had become inalienable! The legal assessments to the private owners to syphon off the increase in land values were and are more often than not essentially disregarded. As an example, the son of a revolutionary general and President, himself now Governor of a Northern State, is reputed to own 3,000 hectares of irrigated land in 3 estates. In this manner, according to the 1950 Census, while ejidal holdings increased 21 per cent, and small private holdings increased 20 per cent, larger private land holdings rose by 48 per cent and the share of land holdings larger than 5 hectares in the total of all crop land rose from 39 per cent to 43 per cent (cited in Lewis, 315-6). The real amount of land which is effectively in large holdings is, however, undoubtedly larger and unknown because the census classification cannot adequately distinguish between actually and fictitiously separate land holdings. The matter appears to be further complicated by the holdings of livestock grazing lands, and it is placed entirely beyond inspection if we refer to values, and their spectacular increase, of land rather than to mere acreage.

Growth of Capitalist Agriculture

The foregoing events of the post-war years have had their inevitable effect on the socio-political and economic structure of the society and on the lives of the people within it. They have meant the growth of a neo-latifundia agriculture, no longer organised under the feudal hacienda system which uses serfs to produce for home consumption but organised instead as latter-day plantations, run as capitalist enterprises by city-dwelling owners, hiring agricultural wage labourers, and producing non-subsistence and often single crops for export. The Northern States have become magnets of in-migration of ejidal or landless peasants who leave their villages in the Centre and South of Mexico. This migration contributes somewhat to redressing the balance of income distribution, for the agricultural workers of the North are economically somewhat better off than their ejido and landless brothers in the South. An index of social welfare in terms of regions will probably considerably overstate the Northern advantage if it is read not as a regional but a personal difference between the farmer North and South, for it is likely to be heavily weighted also by the income differential between bourgeoisie and peasant. Although the percentage growth rate of per capita GNP in constant 1950 pesos was over twice as high in the 10 poorest States between 1940 and 1960, the absolute difference between the rich and the poor States nonetheless increased by half. The reason, of course, is that more than doubling from a low 618 to 1,430 pesos in the poor States while the rich ones rise from a much higher base of 5,170 to 7,950 pesos, leave the poor ones 6,500 pesos behind in 1960, although they were only 4, 552 pesos behind in 1940. But even the absolute and relative regional gain

of the poor States should not mislead us into reading it as the same gain for poor people, for the regional figures contain an unknown mixture of rich people in poor regions and poor people in rich regions as well.

The new private landowners, large and small, and some of the old ones as well are or are becoming bourgeois in every sense of the word. Even the smaller landowners among them, if they have any capital, have a position and income which affords them a middle class style of life, and often urban life at that. Their agricultural business often affords them a handsome income, which they dispose of sometimes by real investment in Mexico, sometimes by investment abroad, sometimes by constructing and speculating in urban real estate, or by luxury imports, and not necessarily in the best interests of the Mexican economy. And they have power, economic and political. They and their industrial, commercial and sometimes professional brethren essentially own and run the State. Beginning particularly during the administration of Aleman, they have, as we have seen, in part been able to use that State to pull themselves up by their boot-straps. But it has not, so far, been to their interest to pull the peasantry up behind them. Is it any wonder that, according to Mrs Navarrete's recent study, the share of the total national income going to the richest 20 per cent of families rose from 59.8 per cent in 1950 to 61.4 per cent in 1957, while that of the poorest 50 per cent dropped from 18.1 per cent to 15.6 per cent? (cited in Urquidi 103).

Will the "Mexican System" Work?

It remains to ask how the "Mexican System" works today in the administration of President Lopez Mateos and what are its prospects for the future. Mexico is a social and economic pyramid, with a political pyramid within. At the bottom are the indigenous Indians, remaining where they always were. In the next layer are the landless rural people and the unemployed or only occasionally employed urban ones. The latter, particularly are a veritable **lumpenproletariat**, dispossessed by the rural and unabsorbed by the urban economy, living on the margin of society, isolated and alienated from it, from each other, and often from themselves. Next come the **ejidatarios** and such private small holders as are poor enough to work their land by themselves. Although economically more secure, they stand socially sometimes even below the marginal urban people, may be because the chances for social mobility are greater for the latter. Above them are the workers in the narrower sense of the word, particularly the unionised ones, who in Mexico as in many parts of Latin America, Asia and Africa today comprise a sort of "aristocracy of the proletariat". The next layer may be termed the middle class or petit bourgeoisie. It comprises a large variety of economic walks of life — small landowner, professional, merchant, clergy, government and white collar worker, small politician — but it affords considerable lateral mobility within it, from one occupation to another or often among several simultaneously. Their badge in Mexico is dark glasses as it is a briefcase in Eastern Europe, however dark it may be outside or however few papers there may be to carry. And that badge is a counterweight to the sometimes higher income of the workers below them.

The bourgeois upper class, the principal manipulators and beneficiaries of the system, includes the large landholders, the effective directors of the financial, commercial, industrial, professional, governmental and military apparatus,, and by **noblesse oblige** some intellectuals. The viable economic base of the more aristocratic upper class was destroyed by the revolution. But many of its members and their wealth survived. Their money was invested in finance, commerce, industry, and later again agriculture; and the ex-aristocrats became the nucleus of the new bourgeoisie. Their ranks were soon supplemented by their erstwhile enemies, the individual beneficiaries of the same revolution, many politicians and generals among them. As their economic position became consolidated, so did their political power — exercised through the PRI, the all-powerful Institutional Revolutionary Party through which they have managed Mexico's political, and thereby indirecly economic, life for the past generation. It is the PRI which allocates the presidency and other principal political offices (to its faithful), and not the electoral mechanism; and management and control of the PRI, in turn, by no means extends down to the bottom of the social and economic pyramid.

Not a Static Pyramid

But Mexico's pyramid is not static; it is not a caste system as that of Peru substantially remains; there is mobility. There are economic, political and social paths which afford opportunities, or may be better chances, for higher rank to those who play according to the rules of the game. There is the migration from Centre and South to the North, involving as it does not only geographical movement but also economic improvement, coupled with some severance of once communal ties and participation in a looser society. There is the very substantial rural-urban migration, especially to Mexico City which grew from 1.4 million and 7 per cent of the population in 1940 to over 4 million and 13 per cent of the population today (Lewis 288). Of course, such migration offers no guarantee of social or economic success, but it increases the statistical chances for the migrant. There is movement into a white or off-white collar job and various kinds of speculation among the loose ends of a growing economy. And, of course, there is education and "suitable" marriage for those who can manage it. These two are perhaps the most important vehicles for the social and economic migrant himself, and virtually guarantee mobility to his children.

Social mobility, however, is individual by individual. Individuals, some of them, are permitted, indeed encouraged, to "better themselves", but within the system and according to its rules. In fact, the "System" and the Party coopt people into themselves to obviate that they rock the boot. Most symbolic, perhaps, of this process is the recent invitation by President Lopez Mateos to the seven living ex-Presidents, and their acceptance, to join his administration in semi-official, semi-honorary positions, a step that was taken to help stabilise the political situation in Mexico "after Cuba". In more pedestrian ways, labour leaders, then popularly called "charros", are co-opted into the business system and rewarded to keep unions from rocking the best. Even young Marxists come to attain positions of responsibility in later years and turn to defend the system. Indeed, the Mexican Communist party is sometimes called Mexico's leading school for conservatives. Most important, the social structure and its mythology have given the lower middle class, and even some people in their lower class, the feeling that it is possible to rise up, partly in and partly with, the system.

While mobility individual by individual is permitted, mobility by a group is not. If group pressure begins to build up anywhere in the political and economic system, the first step as suggested above, is to co-opt or recruit away the leadership. Additionally, small concessions may be used to abate the pressure and take the wind out of the movement's sails. Thus, for instance, the price of corn (maize) and movies (!) is subsidised in the City of Mexico, some will say to help the poor and others to ward off popular unrest. Similarly, after substantial popular pressure had built up, President Lopez Mateos recently created some livestock ejidos in the North; however, he has yet to grant a single-acre of irrigated land to an ijido. If these measures are not successful, the government finally resorts to repression. Strikes, particularly the one with political overtones, such as those of the most militant among unions, the railroad workers' three years ago, and the teachers' last year, have been severely dealt with. Particularly since the increase of liveliness in political life and the full scale introduction of the cold war after the Cuban revolution, left wing labour leaders and others have increasingly found themselves sitting in jail. To prove that no one, no matter what his status, is immune to that fate, Mexico's most famous living painter, the 65 year old internationally known David Alfaro Siqueiros and his 73 year old friend, the noted journalist Filomento Mata, are in jail on 8 (!) sentences for allegedly having caused the teachers union, of which they are not even members, to strike — on charges of threatening "social dissolution". Right wing influence, even by the Church whose wings had been clipped 100 and again 50 years ago, has been growing and consolidating itself instead. The system, thus offers glory to some individuals in the mass, ample rewards for relinquishing militant mass leadership, some piecemeal economic — but no political — concessions, where necessary, and occasional repression if all else fails. Significantly, Mexico devotes 8 per cent of her national budget to the Army, compared to Columbia's 30 per cent or Haiti's 45 per cent, and only relatively middle class Costa Rica spends less. But all else usually works well enough, excepting only that the system withholds real participation and benefits from the bulk of its people.

Road Before the Mexican Left

What are the prospects for the future? Industrialisation, rapid as it has been, education, capitalisation of agriculture, public works, and other "modernisation" measures have not so far been sufficient really to absorb the population increase, never mind greatly to raise the economic level of the peasant base. Moreover, the present government has reduced Aleman's annual 3 billion irrigation expenditures by nearly half; and the spectacular 8-10 per cent of GNP increase of the mid 1950's has steadily declined to an alarming 0 per cent last year (Personal Communication and **Time**, p 15).

With the existing structure of economic organisation and bourgeois political and economic power, and the relative increase of private over public investment in recent years, there is enough reason to doubt that the Mexican economy will soon afford the bulk of its people a significantly better standard of economic and cultural life. It certainly does not promise the economic and cultural advances shown in this century, and particularly since the War by the socialist countries. Yet, as we have seen, the System does lumber along, as that of Guatemala, Peru, yes of Venezuela and Colombia to say nothing of several other Latin American countries, no longer does. And it makes adjustments here and there. As the economy proceeds by cooptation, so does the political system and its political party all the more so. Nothing seems to be possible working from outside P R I, and everything that is possible can be attained only by joining and working through P R I. The office of the President is all powerful no matter who fills it. It is more than a literary or journalistic quirk that Mexicans have transformed the names of their presidents into nouns and adjectives for use in referring to their administrations, nay epochs. And an ex-president counts for no more than anyone else without political access to the current incumbent in the Presidency. Thus, although Cardenas, apparently spurred on by the Cuban revolution, recently emerged from 20 years of political retirement to join younger men in founding the MLN (National Liberation Movement) which is designed to mobilise and unify Mexico's political left, he nevertheless accepted the invitation to ex-presidents to join the Lopez Mateos administration along with his more conservative colleagues.

It is no wonder the left is disunited, nay fractionated; and the birth of the MLN maybe more a sign of the need for unity on the left than of its achievement. At the same time, the current wave of governmental repression against the left need not show a permanent move to the right. As Latin America as a whole moves further to the left in the coming years, the pressure on Mexico may become so great that the Mexican left will again have its day (helped along by U S repressive acts designed to prevent it) — but working within and through the P R I. Pablo Gonzales Casanova, Dean of the always left wing school of political and social sciences at the National University and prominent member of the MLN suggests : "We think that General Lazaro Cardenas has indicated the right road : Support the institution and organise the people". (Casanova, 28).

It is easy to concur with this judgment. But organize the people for what ? Only to wrest the control of their destinies away from the bourgeois and P R I. While the Mexican people 'organize', other Latin Americans will inevitably make revolutions far more radical than that of Mexico. As the Cuban one has already, these revolutions abroad will just as inevitably sharpen the antagonisms between the left and right in Mexico itself. Any

short run moderate gains the Mexican left can achieve within the present system by riding on the wave of social revolution among her neighbours can only postpone the day when the Mexican left must radically break the power of the bourgeoisie and begin itself to direct Mexican destiny.

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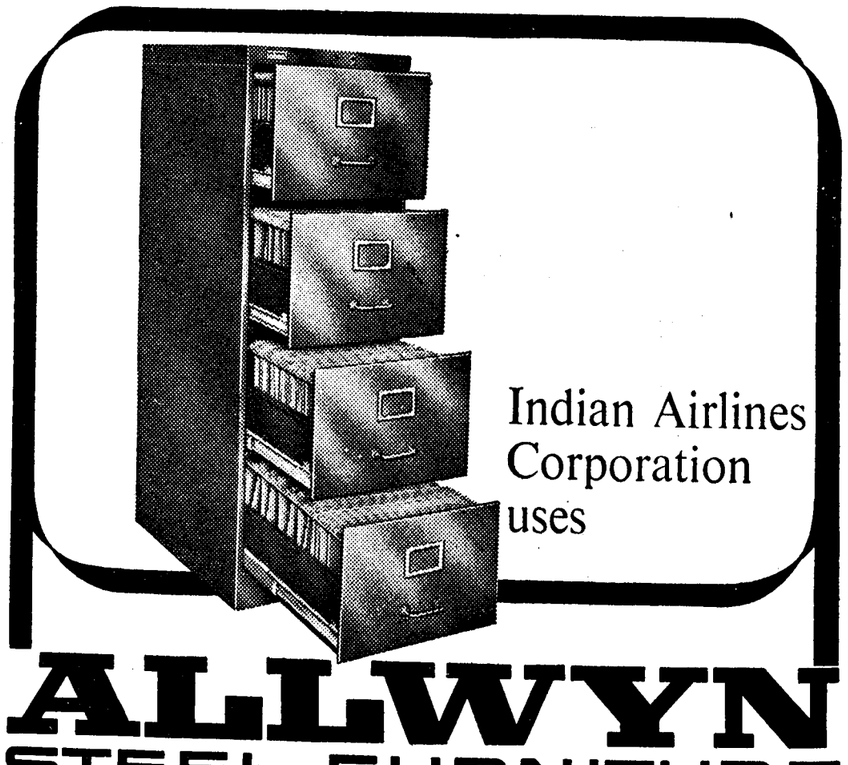

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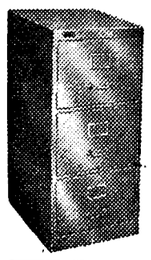

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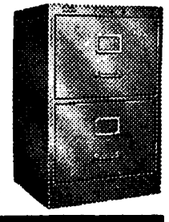

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The Optimum Firm and the Optimum Farm—II

Some Illustrations from Available Data

Raj Krishna

Even with the available data we can see that the optimal size for firms and farms ranges according to different criteria, can sometimes be the same but may often be very different.

We shall use Dr M M Mehta's data about some 'large' industries, Shri P N Dhar's data about some small industries and the Farm Management data aboutagriculture for one district (Ahmednagar) of Bombay. (We are compelled by the nature of the data to continue to measure size in conventional units.)

The following discussion is meant only to illustrate *the diversity of optima and not to come to any definite conclusions valid for policy. For the latter we must await more detailed studies.*

DR Mehta measured size in terms of installed capacity and studied the size distributions of mills in 7 major industries over a long period. Table 1 shows the modal size ranges in some of these industries at the beginning and the end of the period and the size ranges in which the greatest positive increase in capacity came about during the period. Table 2 shows the size classes in which the average rate of return to shareholders' equity was maximum, and Table 3 shows the size classes in which the total average cost was minimum. The figures show: (1) In each of the seven industries the modal size increased. (2) In the case of coal, paper, cement and iron and steel industries the largest observed size class was also the maximum-dividend size class. In the case of cotton, jute and sugar industries, the maximum-dividend size class was smaller, but only one class smaller, than the maximum observed class. (3) In every one of the seven industries the largest observed size range was the least-cost range. In every industry average cost steadily declined from the smallest to the largest size class. Thus, so far as these industries are concerned the 'survival and growth' test, the 'dividend' test and the 'cost' test are all found to favour the largest observed sizes[2].

[1] Dhar and Lydall, *op cit*, pp 30-31

[2] The fact that in the case of 3 industries the dividend size curve turns down on the right side of the scale may be due as much to the reserve policies of these industries as to the diseconomies of scale as such. The fact that the modal size range remains smaller than the least-cost range may reflect the effect of capital rationing.

[3] *Op cit.*

Small-scale Units

P. N Dhar's study of small-scale industries in Delhi[3] contains very detailed and carefully collected data about costs by size groups which can be used to compare the efficiency of different size groups according to different criteria. Table 4 shows the least total average cost (or maximum profit) size classes in each of the 13 Delhi industries, the maximum labour productivity (net value added per worker) size classes and the maximum capital productivity (net value added per unit of capital employed according to definition (b) viz working capital plus fixed capital at replacement cost) size classes in each of the 13 Delhi industries surveyed by Dhar. Size class A consists of establishments employing 2 to 9

Table 1: Modal Size Ranges in Some Major Industries

Industry	Size Unit	Modal Size Range Period 1	Modal Size Range Period 2	Size Range With the Maximum Positive Increase in Capacity	Highest Size Range
		1905	1951		
Cotton Spinning, Bombay	Spindles installed (000)	25-30	45-50	60-70	Above 100
Ahmedabad	ditto	10-15	20-25	20-25	Above 100
Cotton Weaving, Bombay	Looms installed (00)	7- 8	10-11	8- 9	Above 20
Ahmedabad	ditto	3 -4	4- 5	4- 5	Above 16
		1921	1951		
Jute, Bengal	ditto	3- 4	8- 9	8- 9	Above 20
		1934	1948		
Sugar	Crushing capacity (00 tons)	4- 5	7- 8	7- 8	Above 20
		1921	1941		
Coal	(000 tons)	0- 5	0- 5	Above 200	Above 200

Source: M M Mehta, op cit.

Table 2: Size Classes with the Maximum Average Rate of Return on Shareholders' Equity in Some Large Industries

Industry	Period	Size class with Maximum Return	Average rate of Return of this Class	Range of rate of Return in the Industry
Cotton	1938-47	90-120.000 Spindles Installed	26.0	7.7-26.0
Jute	1938-47	15-20.00 Looms Installed	22.3	4.6-22.3
Sugar	1938-47	15-20.00 Tons of Cane Crushing Capacity	12.0	1.5-12.0
Coal	1938-47	500,000 Tons and Above of Output	19.4	2.2-19.4
Paper	1938-47	15.000 Tons of Capacity and Above	29.75	4.6-29.8
Cement	1938-47	10.00.000 Tons of Capacity	6.2	3.7- 6.2
Iron and Steel	1938-47	850.000 Tons of Steel and 1250,000 Tons of Pig Iron	30.10	6.40-30.10

Source: M M Mehta, op cit.

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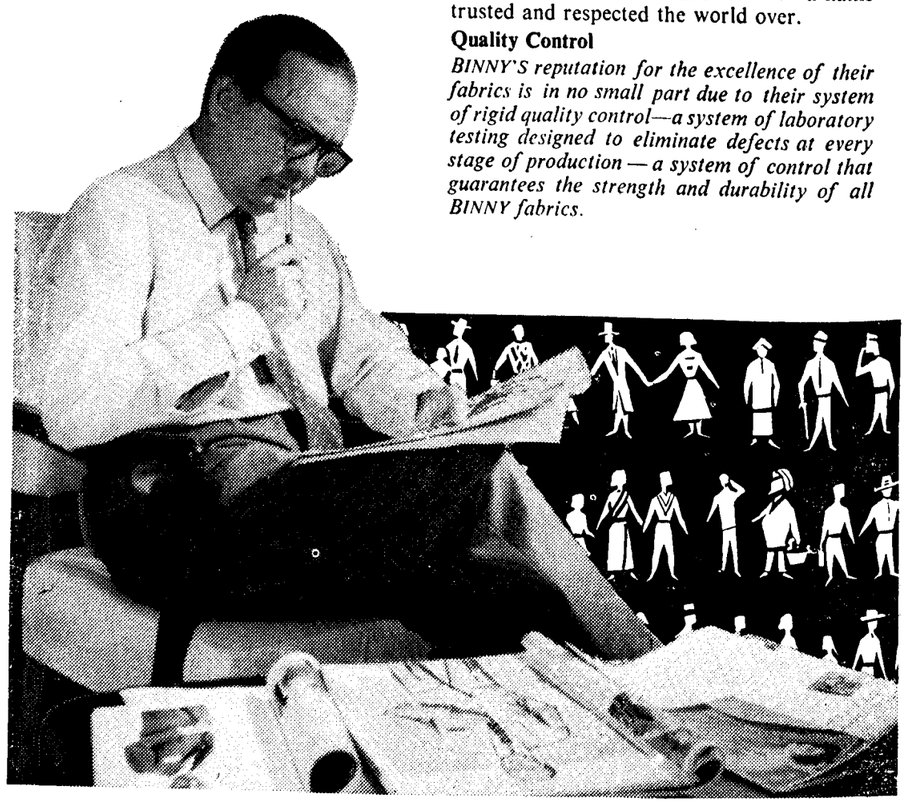

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workers without using power, class B of those employing 2 to 9 workers with power, class C of those employing 10 to 19 workers without using power and class D employing 10 to 19 workers using power.

It turns out that in the case of 6 of the 13 industries, the three tests favour the same size class. In the case of 10 out of the 13 industries the labour cost test supports the same size class as the total cost test. In the other 3 industries (flour mills, general engineering and electroplating) the labour test favours a higher size class than the total cost test: the smaller units are more labour-expensive but more efficient on the whole. In 8 of the 13 industries the capital cost test favours the same class as the total cost test. In one (general-engineering) it favours a higher class: the smaller units are capital-expensive but their labour-cheapness more than makes up for capital expensiveness. In 4 cases the capital cost test favours smaller units than the total cost test: the smaller units are capital-cheap but less efficient on the whole. If we compare the results of the labour cost test and the capital cost test, we find that they agree in 7 cases, but in the other 6 the capital cost test consistently favours smaller units than the labour test: the smaller units *are* capital-cheap.

In short, if we used the labour test only we would be favouring the "right" (the least total average cost) size class in most cases but a larger than the "right" range in some cases; and if we used the capital test only, we would be recommending the "right" range in most cases, but a smaller than the "right" range in many cases. The results of the different tests can often be dissimilar.[1]

Table 4: Optimal Size Classes According to Different Tests In 13 Small-Scale Delhi Industries

Industry	Total Cost Test	Labour Cost Test	Capital Cost Test
Flour Mills	B	D	B
Printing Presses	B	B	A
Trunks	A	A	A
Leather Footwear	C	C	A
Light Engineering	B	B	B
Electrical Goods	C	C	C
General Engineering	B	C	C
Hoisery	D	D	A
Soap	A	A	A
Foundries	D	D	A
Oil Mills	B	B	B
Drugs	A	A	A
Electroplating	B	D	B

Source: P N Dhar, op cit.

Agriculture

The bulk of the published Farm Management data does not permit much retabulation for purposes. But the Bombay report for 1955-56 gives in an appendix some data about 80 individual holdings which are amenable to analysis. The size distributions of these holdings by acre class and output class are shown in Figure 3. (See *The Economic Weekly*, October 6, 1962, p 1578). The holdings which turn out to be the best and the worst according to three alternative criteria are shown in Table 5.

Table 5 shows that a 16-acre holding yields the maximum output per acre but its average cost A is nearly 5 times the minimum, and its average cost C is about twice the minimum of the sample. The holding with the least average cost A yields only 6 per cent of the maximum output per acre. And the holding with the least average cost C — a 1-acre holding — yields about a third of the maximum yield per acre and has twice the minimum average cost A. The

[1] These results are subject to the qualification that the size classification is based on two criteria: employment and the use of power.

Table 3: Size Groups With the Lowest Total Average Cost

1	Cotton	Above 60,000 Spindles
2	Jute	Above 1,000 Looms
3	Sugar	Above 2,000 Tons of Crushing Capacity
4	Paper	Above 10,000 Tons
5	Cement	Above 1,000,000 Tons
6	Iron and Steel	1.00 mn Tons of Pig Iron and 850,000 Tons of Steel
7	Coal	Above 200,000 Tons of Coal

1	Total cost steadily falls with size from 101.3% to 85% of value of goods sold
2	Ibid from 98.5 to 92.2%
3	Ibid from 94.2 to 89.0%
4	Ibid from 99.0 to 84.4%
5	Ibid from 95.0 to 77.6%
6	Ibid from 99.3 to 92.8%
7	Ibid from 93.3 to 88.2%

Source: M M Mehta, op cit.

Table 5: Most Efficient and Least Efficient Farms in Ahmednagar According to Different Norms

Criterion	Holding No	Output per acre (Rs)	Acreage	Ouput Rs	Ouput/Input A*	Ouput/Input C
Maximum output per acre	47	698.96	15.67	10,953	1.11	1.07
Minimum output per acre	51	0.74	13.45	10	0.16	0.10
Maximum output per unit of input A*	56	41.07	13.32	547	5.37	1.63
Minimum output per unit of input A	8	21.05	2.85	60	0.32	0.13
Maximum output per unit of input C*	30	225.64	0.78	175	2.23	1.93
Minimum output per unit of input C	8	21.05	2.85	60	0.32	0.13

* In the Farm Management Studies, Cost A includes the expenditure actually incurred by the farmers and excludes rent paid or imputed, interest on fixed capital and compensation for family labour. Cost A_2 also includes rent paid but not the imputed rent for owned land. Cost B includes, in addition, the imputed rent of owned land and interest on fixed capital other than land. Cost C includes the imputed cost of family labour as well. ("Studies in the Economics of Farm Management, Bombay, 1954-55," pp 64-65).

asymmetry of the results of different tests is, again, evident.

The defect of measuring (and fixing) farm sizes in acres also becomes strikingly obvious. Holdings of 13-16 acres can yield between themselves both the maximum (697) and the minimum (0.74) output per acre; holdings of 1 to 3 acres can yield both the minimum and the maximum output per unit of input C. The elasticity of substitution between land and other inputs in agriculture should indeed be high.

If we apply the principle that the criterion of optimality is least average cost and not the maximum output per unit of any single input, the land yield criterion has to be rejected.[5]. But what total average cost is to be minimised — cost A or cost C, cost A_2 or cost B ? It seems to me that there are strong theoretical and, in our situation, practical reasons for minimising cost A so far as the family farming[6] sector is concerned.

Asymmetry Most Marked

If we regard owned land and family labour as fixed factors — fixed not in the textbook sense that a fixed cost has to be incurred on their use irrespective of output so that the average fixed cost function declines with output and, when added to the average variable cost function, gives us the familiar U-shaped total average cost function — but in the sense that their quantity is fixed, they are not easily transferable to other uses and their transfer earnings are anybody's guess, then any combination of variable inputs (and output-mix) which minimises the cost of these "paid-for" inputs per rupee of output will maximise the income magnitude which the farmer himself should be trying to maximise, the income to family-owned land and labour resources 'untransferably' committed to farming. This is the average variable cost that cost A approximates. It is not only the cost which the farmer actually incurs and may be regarded as minimising. It is the cost whose minimisation involves the optimisation of the product-mix, and of the use of hired labour, bullock labour, seeds, manures, implements and irrigation water. It is the cost which, unlike cost C, does not show up a majority of Indian farms to be economically bankrupt. But it is also the cost whose labour cost component would rise with a rise in the proportion of hired labour to the total labour input even though farms on which this ratio is higher might have a higher labour productivity. Variation in this component of cost as between farms would not, for this reason, reflect merely the differences in the efficiency of labour but also the ratio of hired labour to the total labour input. This should make us very cautious about inter-farm comparisons of cost A. But it would still be a good optimality rule, better than any other now available in our situation, that cost A be minimised. For where this cost is minimised, either, *ceteris paribus*, relatively little hired labour is being used or/and the hired labour that is used, is used most economically.

For the Ahmednagar district of Bombay our exercise would indicate that in 1955-56 farms with 10-15 acres and an aggregate output level of less than Rs 750 could *ceteris paribus* minimise the 'relevant' average cost. It is interesting to note that these were also the modal size classes both according to acreage and total output.

In the case of farms where a part of the operated area is leased in, it is the A_2 cost variant which we should seek to minimise, for, again, the farmer himself should be considered as maximising the revenue to family land and labour net of the rent actually paid.

(The preceding discussion implies, incidentally, that farms with no land leased in and farms with some or all land leased in should be separately sampled in farm management studies.)

Costs B and C, it would then seem, are not very relevant criteria so far as family farms are concerned.

In the case of commercial farms, however, where the entrepreneurs (often registered, along with their absentee family members, as a jointing farming society!) operate mainly with hired labour it is meaningful to compute and try to minimise cost C. There is some evidence that in some regions of the country the commercial farming sector is growing. This sector should be the subject of separate farm management studies.

Stratification of Farms Necessary

In the light of the foregoing discussion it is clear that comparisons of yield per acre or even of costs C and A on farms of different sizes (size being measured in acres) without some stratification of farms into tenant and owner farms and family and commercial farms, can tell us very little about their relative efficiency. For their costs, even according to consistent definitions, are not comparable because of the varying proportions between hired and owned and purchased inputs. The optimality criteria relevant to institutionally different groups have to be different.

If the 'true' social prices of land and labour could be determined, we could compare the total average cost on all farms using these prices. The use of different criteria for different sets of farms is necessary simply because we do *not* know the true input prices. We are forced to assume, as in the case of cost A, that the true social price of family land and family labour is zero and hope that this may not be a bad assumption in the case of family farms. In the case of commercial farms, on the other hand, we assume implicitly that the market rent of land and the market wage of labour are true social prices, and therefore use cost C as an efficiency norm. These are as good approximations to relevant costs as we can have with our present knowledge.

But, strictly speaking, the true prices of land and labour can neither be zero nor equal to the market prices. They cannot be zero at least in the sense that their slopes in the empirical production functions are not zero. And they cannot be equal to market prices wherever market imperfections are substantial. It is likely that they lie between zero and the market prices. It should be one of the main objectives of agricultural economics research in the near future to arrive at reasonably good estimates of the shadow prices of land and labour in Indian agriculture in different regions. An obvious way to do this is to estimate production functions and derive the values of the marginal product of land and labour. Thus from *input quantities* actually used and *product prices* — determined in markets which are likely to be much less imperfect than factor markets — *input prices* can be computed. When we have enough of these shadow prices we can use them, with due care, for total average cost comparisons between all farms. Meanwhile we should continue to use the available approximations relevant to different classes of farms.

The limitations of the data used and the inferences drawn in this section should be remembered. Apart from the fact that we have been comparing averages for many farms grouped in a few size classes, size being measured in capacity, acres or employment, the data relates to a single point of time and selected units in selected regions (except in the case of large industries). The differences between the averages of size classes might be due as well to differences of technique and other factors or of accounting and reporting practices as to scale as such. But our purpose has been merely to illustrate the possible asymmetry of the optima located by different optimality criteria: to show that units more efficient in the use of any single input may not be more efficient on the whole.

It is an interesting finding that the asymmetry of the optima indicated by different criteria is the least in the case of organised large-scale industries, more in the case of 'small' industries and the most in the case of agriculture. The asymmetry, in other words, is directly related to the possibilities of substitution between inputs, and the degree of imperfection of the factor markets facing different groups of industries. Size policies, we also note, are applied more to sectors — small industry and agriculture — where the asymmetry is relatively high, and hence the likelihood of errors correspondingly greater.

Summary

The preceding discussion may be summarised in the following propositions :

(1) In the discussions of 'small industry' and 'economic holdings', etc what we are really after is a relationship between the size of the firm and efficiency.

(2) Instead of measuring size only in terms of the land input or the labour input only, we should measure it in terms of the value added as well as each of the inputs.

(3) Instead of measuring efficiency in terms of the land-output ratio or the labour-output or the capital-output ratio alone we should measure it in terms of the total average cost of output, as well as the average cost of each major input.

(4) When we do measure costs, we should look for the cost curve rather than a cost point — the average of the average costs of firms of different sizes.

(5) We should look for multiple optima and not a unique optimum.

(6) We should have systematic statistical cost studies (with alternative definitions of cost) as well as studies of the changes in the firm size distributions of industries over time.

(7) We should recognise the size ranges which remain or emerge as modal or sub-modal ranges in the survival studies as optimal and sub-optimal ranges, instead of fattening non-modal ranges by policy.

(8) The available data shows that in the case of the some organised industries the largest observed sizes are least-cost sizes. In the case of some small industries the least cost test favours the same or smaller size units than the labour productivity test and the same or higher size units than the capital productivity test. In the case of agriculture (in Ahmednagar) the modal farm size class contains the least cost farms. There is a strong case for minimum cost A being the efficiency creterion for the family farming sector. Comparative studies of optimal size classes indicated by alternative criteria are badly needed for each industry and each agricultural region for the results of different criteria are sometimes asymmetric. The asymmetry and hence the possible error of policy based on current criteria are likely to be the least in the case of large industry, more in the case of small industry and most in the case of agriculture due to the divergent elasticities of substitution and degrees of market imperfection in these sectors.

(9) While we are in a state of ignorance about the relationships between firm size and total average cost, it may be inefficient to enforce a size policy on the basis of present procedures for measuring size and efficiency. Until we know better it may be the least harmful policy from the point of view of productive efficiency to let the supplies of all the inputs which the state influences to flow to all actual and potential firms without discrimination, unless such discrimination is justified on strong equity grounds.

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[5] The conclusions circulating in the literature for or against 'small' and 'large' farms based on the yield criterion (including some that I have helped circulate in my earlier published articles) must, on this view, be held to be unsatisfactory.

[6] By 'family farms' we merely mean farms on which family labour forms a maior part of the total labour input. On 'commercial farms' it forms a minor part.

From the Chair

The Aluminium Industries Limited

Speech of the Chairman, Sri S Narayanaswamy

THE following is the Speech delivered by Sri S Narayanaswamy, Chairman, at the 16th Annual General Meeting of The Aluminium Industries Ltd held at the Registered Office, Kundara, on September 27, 1962:

The year 1961-'62 has, in several ways, been a memorable year in Alind's history. It has been a year of record turnover, our sales having reached a peak of Rs. 6.17 crores in money value, our production being 62,000 kilometers in bare conductors and 9.86 million core yards of covered conductors. It is perhaps inevitable that such a turnover should produce profits of the order of Rs 23.16 lakhs enabling the Company, despite higher tax commitments to distribute without much effort, the now familiar 18 per cent dividend on its paid-up capital of Rs. 1 crore, after making appropriate provisions. You will have observed that despite a quantum of development rebate, of which the company was able to avail on its high-tensile steelwire plant, tax provisions have had to be of the order of Rs 18.20 lakhs. The total tax the company will be paying on its own behalf and on behalf of shareholders by deduction from dividend packets, will be of the order of Rs 23.60 lakhs, which gives you some idea of the suction effect of direct Central taxation on the profits of the Company — distributed and undistributed.

Tax Impact

It is interesting to observe that over a three-year period, changes in the pattern of corporate taxation have been such as to add considerably to the burdens of industry. Companies which made reasonable profits exercised prudence in distribution of dividends and ploughed back chunks of residual profits for development in the past, felt that in so fashioning the disposition of their finances, they were achieving a golden mean between distribution on the one hand and the build-up of enhanced earning capacity on the other. I am happy to say that this later feature has been as welcome to shareholders as the dividend packet itself.

With the stepping up of the Company Tax to 50 per cent and the reduction in development rebate allowance to 20 per cent, the residual profit available for ploughing back has shrunk to levels that are bound to cause concern to all those interested in expansion of industry. The element of internal capital formation involved in ploughed-back profits enabled companies in the past to restrict their additional share issues to a minimum, and apart from this, provided a cushion against the inflationary impact of high-priced plant and machinery involved in latter-day expansion. The increased corporate levy has the effect of dislocating all medium or long-term managerial programmes of investing retained profits, apart from imposing on the corporate sector as a whole, stresses and strains that will lead to both curtailment of inventories and creation of liquidity problems, compelling the corporate sector to lean more heavily on the banking system — at a time when the banking system itself is not particularly equipped to take on such additional burdens. All told, the pattern of corporate taxation today is not such as to provide incentives for companies taking on the added responsibilities and burdens of expansion. Curiously, the Third-Plan contemplated enhanced installed capacity and diversification of activity by existing industrial units.

Excise Duty

The Finance Act of 1962 has imposed an Excise duty of 5 per cent on finished conductors. As I observed on a previous occasion, the customer pattern in bare conductors being what it is — comprising in the main, Electricity Boards, Project Bodies and State Governments, such Excise duty will only swell projects' bill of costs. All new taxes are meant to augment Plan resources. In this instance, the duty will augment Plan expenditure. In other words, such imposts have financially only a cancelling-out effect, with Excise collection costs thrown in as an addition to the Civil Administration budget.

Power Tariff

Some time ago, we made representations to the Orissa Government that the rates of power supply to our Hirakud Unit rendered the operations of our Rod Mill uneconomic. We were hoping for some relief in power rates, but far from affording such relief, the Orissa Government have imposed a 15 per cent duty on electric power consumed and this is bound to add to our rod production costs at Hirakud. Your Directors feel that in the circumstances expansion of our activities at Hirakud would be far from purposeful.

Aluminium Metal

I now come to the more crucial problem of raw material. Allocation of raw material to the Company during the current year has been far from satisfactory. In a cycle of stepped-up demand for conductors, any shortfall in aluminium metal supplies, would result in curtailed production of conductors, with which to transmit electricity from hydel or thermal centres of generation in this country of distances — and thus have farreaching consequences on the pace of electrification. Meagre and perfunctory allocation of aluminium metal, at a time when copper conductor producers have been asked to accept reduced supplies of copper and switch over to aluminium conductor production, is likely to have an unwholesome effect on the morale of the cable industry in India. Until such time as indigenous sources of aluminium supply are able to ensure a free and adequate flow of metal to the cable industry, it would be advisable for Central Government to programme for adequate imports and prompt allocations of such imports to the Conductor industry, in order that the latter may be freed from hesitancies in booking orders. Uncertain deliveries of metal will inhibit production programmes.

Expansion Schemes

As you are aware, the company has a programme of expanding its Covered Conductor capacity at Kundara and to establish a Covered Conductor unit at Hyderabad. The

Company will be trebling its current Covered Conductor capacity before the end of the financial year. Alind Covered Conductors have proved their worth in consuming markets and our increased capacity will help us to meet the increased consumer demand. In respect of the underground cable manufacturing programme known as the "Solidal" project, we have now obtained clearances from Central Government for importing the necessary equipment. We expect to establish the "Solidal" unit before the end of 1963.

Rod Rolling

Alind has had the privilege of establishing the first Properzi rod-rolling mill in India and of following it up by a modern Properzi unit in Hirakud. The Company has now full command of the technique of rolling rods by the Properzi process, which is now established as the most economic method of producing rod for conductor manufacture. The Company has applied for a licence to enhance rod-rolling capacity from 250 to 600 tons per month. With the step-up of primary metal production within the country, it appears essential that the country should be concurrently equipped to manufacture rod out of ingots, by the economic Properzi process and free the country from dependence on external sources for rod supplies. It is our hope that the small quantum of foreign exchange involved in our programme to augment rod rolling capacity will be weighed by Government against the vastly larger foreign exchange saved by non-import of rod—which is what will be secured by an increase in our rolling capacity. It is hoped that Government will afford us facilities to import the necessary Properzi rod mill unit and ensure larger production of rod by the cheapest and most efficient process.

Steel Plant

The performance of our high-tensile steelwire plant commissioned in November 1961 has been fully up to expectations, though we have been battling against inadequate availability of zinc at economic prices. The Japanese technicians who helped us with the erection and smooth commissioning of the plant left Kundara a few weeks ago after satisfying themselves about the efficient operation of the unit.

Switch-over from Copper

Consequent on slender indigenous supply of copper and our limited foreign exchange resources, Government have decided on asking copper-using cable manufacturers to switch over to aluminium. In view of the large and well-spread bauxite resources of India and the licensing of several primary metal producing units, the production of aluminium is bound to be stepped up substantially in the next three to five years, making available to the conductor industry its full requirements of raw material. There is little doubt that this phased programme of displacing copper by aluminium cables will be implemented satisfactorily.

Cable Study Team

Having regard to the spectacular strides taken by the cable industry in India and the increasing importance of maintaining the highest standards of production in the industry, it was very appropriate that the National Productivity Council should have sponsored a tour of USA and Japan by a Team of Indian Experts, who will visit cable factories in these countries that have made so notable an advance in cable-making techniques on the basis of research carried out over the years. I am happy to say that the National Productivity Council Study Team has paid Aluminium Industries the compliment of appointing the Company's General Manager, Sri V G G Nayar, its accredited leader. This, I believe, implies a recognition of the significant role Alind plays in the cable economy of India.

Export

I should not omit to refer to Alind's part in helping export promotion. A few export orders for bare and covered conductors and accessories were received from South East Asian Countries and are in the process of being executed, the first bare conductor reel to be exported having been kindly released by the Kerala Chief Minister earlier this year. I am glad to say these exports are not uneconomic nor are they subsidised, while margins of profit are no doubt modest.

Capital Issue

The Company has received Government sanction for a further issue of capital—namely, 3,50,000 shares at a premium of Rs 3.50 per share. This issue when made will bring our paidup capital to Rs 1.35 crores, while adding Rs 12.25 lakhs to our Share Premium Reserve. Such an issue will relieve the company of pressure on ways-and-means, caused by continuous plough-back of funds into expansions — a process which will become more and more difficult under the new tax dispensation. The company expects to make the capital issue early in 1963, when our expansion projects will get under way.

That about sums up our doing during the years and our plans for the future which I hope will be implemented with the same smoothness and promptitude as our earlier projects. Notwithstanding difficulties I have catalogued already, there is reason to look forward with confidence to a period of augmented and gainful activity for Alind.

N.B.—This does not purport to be a record of the proceedings of the Annual General Meeting.

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Chairman

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S T Sadasivan
General Manager

Around Bombay Markets

Dalal Street Is Still Unsteady

Thursday, Morning

THE uncertainty about TISCO's dividend is over, and happily too. For the dividend has not only been maintained at Rs 7.25 a share, net, the bonus element of 45 nP a share has been merged with the dividend which suggests that the shareholders can now look forward to a minimum of Rs 7.25 a share next year as well. Those who had been predicting a cut in the dividend because of the disappointing increase in steel retention prices are now revising their ideas about the basic outlook for Tata Steel shares. Tata Steel which had been hammered down to Rs 129 on 26th September — record low for many years — were up again to Rs 141.50 on 5th October and they are still fairly steady around Rs 137 despite the pronounced weakness in the rest of the market. The performance might have been still better if tired bulls had not chosen to lighten their rather unwieldy positions.

While TISCO's dividend has checked the rot in Steel shares which followed the announcement of a disappointing increase in retention prices, the general market sentiment continues to remain unsettled. Confidence in higher levels is completely lacking and bears continue to dominate the scene. Vyapar's equity share index which had reluctantly moved up from 129.04 on 26th September to 133.97 by the 5th October was down again at 129.49 on the 9th. Scarcity of offerings and modest short covering helped the index to rally to 131.42 the next day but the closing was lower at 130.70, showing a net loss of 1.15 over the week.

Corporate News Disappoints

Except for Nepal's unfriendly remarks about India, there was little in the political news to disturb the market. The situation across the northern borders, which has made the stock market tremble at times, has been quiet for some days. But the corporate news that poured in last week was far from encouraging. Tata Chemicals, for instance, has maintained the dividend at 6.5 per cent but its profit is sharply down from Rs 34 lakhs to Rs 16.94 lakhs. Bombay Burmah, too, has not done so well as in the preceding year with its gross profit declining from Rs 1.48 crores to Rs 1.34 crores. The disappointing results of Rohtas Industries have forced the management to cut the dividend. And New Central Jute which paid 15 per cent less tax, in 1960-61 has skipped the dividend. Instances can be multiplied. Little wonder therefore that bears continue to command the market. Bears have not been slow to exploit the news that Bombay's 60-odd textile mills will have to pay Rs 10.75 crores as bonus to the workers for three years, 1959 to 1961. Though this amount is in excess of the industry's offer of Rs 7.5 crores, the industry, it appears, had been fully prepared to pay the amount that has now been agreed upon. Not only that, most mills are said to have already made provisions for bonus in one form or another in the annual accounts for the stipulated period. The general view is that industrial peace has been secured without having had to pay very dearly for it.

Notwithstanding the huge decline in equity prices from the May high levels, there is no knowing yet that the downward movement has spent all its force. The bear is still the king, and having done very well in the past few months he can afford to take risks. But the duration and the amplitude of the recent decline hold out the prospect of an early technical recovery. The market is now very close to its 196[illegible] low.

Cotton

Controversy over Marketing

COTTON continue to make news mainly because of the fierce controversy over the marketing policy for the new crop. Despite protracted negotiations, the trade and industry have been unable to evolve a mutually agreed scheme which, while ensuring the industry regular supplies of raw cotton within the ceiling prices, would not seriously restrict the freedom of the trade. The Textile Commissioner is now reported to have informed the Cotton Advisory Board meeting on 10th October that he would go ahead with his own scheme — in reality, it incorporates almost all the points suggested by the Indian Cotton Mills' Federation — of cotton distribution to mills through the appointment of supervisors. While mills will be allowed to make their purchases of Indian cotton in the usual manner — through normal trade channels, no delivery of cotton can be made to mills unless the price and the quality are approved by the supervisors who will be appointed by the Textile Commissioner on the recommendation of a joint committee of the Indian Cotton Mills' Federation and the East India Cotton Association.

Indian cotton quotas will be given to mills on the basis of their consumption of Indian and foreign 'B' cotton in 1960-61 season and the quotas will be released in suitable percentages from time to time so as to reduce the pressure on available supplies. There will be a general limit on physical stocks held by mills, averaging three months' consumption during 1961-62; the limit may be extended up to four months' consumption in the case of deserving up-country mills. Mills will be permitted to make direct payment to the sellers of cotton to the extent of 92-½ per cent. The balance will have to be collected by the sellers through the supervisors who will satisfy themselves whether a lot has been correctly sampled, certified and is in accordance with the mills' quota.

Only very deserving mills will be allowed to have ginning of 'kapas' done in their own factories or in the factories taken on lease. In such cases, where permission is given, it is necessary that samples are drawn by the supervisors before the full bales of loose cotton leave the ginning factories for consumption by mills. The supervisors will check whether the price paid by the mill for 'kapas' corresponds to the price fixed for the cotton on the samples submitted to the zonal committee or to Ad Hoc committee as the case may be. If the price paid by the mill for 'kapas' turns out to be higher than the price warranted by the Textile Commissioner's maximum price for lint, the cotton is liable to be requisitioned.

Comfortable Supply

The trade is strongly opposed to the scheme of cotton distribution through the supervisors and the representative from Vidarbha, Khandesh, Marathwada, Madhya Pradesh and Gujarat who are now in Bombay to attend the cotton conference to be held on 12th October have threatened with the closure of markets in their respective centres if the scheme is put through. The trade feels that the scheme could be easily postponed until about the middle of November in view of the favourable crop reports and encouraging prospects of imports.

If current market expectations of a crop of 52/53 lakh bales — there are not a few who place the crop around 55 lakh bales — are realised, cotton prices are likely to keep within the revised ceiling prices which will obviate the need for enforcing the proposed scheme for the marketing of cotton. It is surprising that the Cotton Advisory Board should have taken the import figure for the current season only at 5.75 lakh bales. For import quotas for 2.30 lakh bales have already been released and the U S Government is known to have intimated New Delhi about its willingness to supply 6 lakh bales under P L 480. Besides, arrangements are also made for importing about 2 lakh bales under barters. In assessing the supply position account should also be taken of the arrivals against the previous season's quotas which will be around 2.50 lakh bales. Can it be that the Government spokesmen have deliberately avoided giving all the information in respect of import arrangements in order to strengthen the plea for the new marketing policy? No less amazing is the industry's insistence in regard to the immediate full payment for the cotton purchased by mills. Why should the Federation deprive the mills the facility of buying on credit which they have been enjoying all along? Downright full payment is bound to cause considerable avoidable financial hardship to most mills.

Marketwise, there is not much to report. Futures moved irregularly in a narrow range and closed almost unchanged over the week. After touching a low of Rs 727.50 on 4th October, the March contract recovered to Rs 734.25 on the 9th but drifted lower again to Rs 728 the next day. Wednesday's closing of Rs 729.50 showed a net loss of a rupee over the week. The generally subdued tone reflects market's expectations of a good crop and encouraging import prospects. Sentiment was also affected by unencouraging reports from the cotton piecegoods market. Off-take of cloth has not improved with the approach of the festive season. Activity in the spot cotton market continues to be resricted due to lack of quotas with mills. Overseas interest in Bengal Deshi remains poor.

Oilseeds

Spurt in Groundnut

OILSEEDS futures last week staged an all-round handsome recovery under the groundnut which simply soared. The January contract in groundnut which had been sold down to Rs 218.25 (per 250 kgs) in kerb on 4th October was bid up as high as Rs 228.25 in kerb on 10th October. With the contract rising by more than the weekly permissible range of Rs 5.05, official dealings came to an automatic end on 9th October when the contract touched Rs 225.87. During the same period, castor March recovered from Rs 161.50 to Rs 164.75 and linseed March rose from Rs 39.06 to Rs 40 (per 50 kgs). Very little activity was reported in cottonseed futures which hovered around Rs 101.50 (per 250 kgs).

There was nothing in the week's news to cause a sudden spurt in groundnut futures. The rise was brought about mainly by strong bull manipulation. A few prominent operators are known to be carrying a huge 'long' interest in groundnut. Last week they were successful in frightening bears into covering their 'short' positions by talking about crop damage in Saurashtra due to the prolonged dry spell. While early showers would be welcome, few informed observers give any credence to rumours of damage to the groundnut crop in Saurashtra. Though the weather has not been ideal in all the producing areas, the general view is that the new groundnut crop will be of about the same size as in the previous season.

Scare Unwarranted

While the scare about the damage to the groundnut crop in Saurashtra due to the continued dry spell seems unwarranted, it is difficult to say how the market should behave if the crop turns out to be a normal one. What market men mean by a normal crop is what is expected under generally satisfactory weather conditions; it has nothing to do with the target set under the Plan. Production continues to lag behind the Plan target. But nobody really expects the target to be achieved.

If production does not show any noticeable improvement, it would be quite logical to expect groundnut prices to display a firmer tendency than in the previous season because of steady increase in internal consumption, Government's oil export policy and the encouraging export outlook for groundnut extractions. Groundnut prices are unlikely to fall to around the previous season's lows. This is not to suggest that the new season's low has already been recorded, though it might have been. Quite a good deal will depend on the government's attitude towards the export of groundnut oil. While the market seems to be in a mood to push its way up, bulls will find it difficult to rig up prices in the near-distant future in view of the fairly satisfactory carryover and the flow of new crop arrivals after some time. Of course speculators can play havoc with markets at times.

Groundnut extractions continue to hold distinctly firm because of the persistently encouraging overseas demand. Export houses reported further substantial business last week. Poland was mentioned as an important buyer. The U K also took large quantities and paid good prices, about 10 to 15 shillings per ton higher than in the preceding week. The latest quotations were reported around £ 36-10 for October shipment, £ 36-5 for November, £ 35-10 for December and £ 34-5 for January-March shipment. Apart from groundnut extractions, export business put through last week comprised a few hundred tons of linseed cake sold at around £ 36-15 per ton and some stray deals in castor oil. If castor futures improved last week from Rs 161.50 to Rs 164.75 it was mainly because of the marked strength in groundnut.

Company Notes

Modi Mills

THE performance of Modi Spinning and Weaving Mills during the year ended April 30, 1962 in the face of a decline in sales from Rs 647.12 lakhs to Rs 642.92 lakhs should be considered satisfactory. The gross profit is a shade higher at Rs 71.88 lakhs, compared with Rs 71.44 lakhs earned in the previous year, thus giving a higher profit margin of 11.2 per cent against 11 per cent. Managing agents' commission is lower at Rs 3.73 lakhs against Rs 3.80 lakhs, as also the provision for taxation at Rs 17 lakhs, against Rs 18 lakhs. Depreciation provision has been increased from Rs 24.73 lakhs to Rs 26.30 lakhs. The net profit at Rs 24.85 lakhs is, therefore, more or less maintained at the previous year's level of Rs 24.88 lakhs. The distribution to the shareholders has been cut from 17 per cent to 16 per cent, absorbing Rs 18.45 lakhs, against Rs 19.61 lakhs, but the allocation to the reserves has been slightly raised from Rs 5.15 lakhs to Rs 6.58 lakhs (including the provision for bad and doubtful debts).

Renewal and replacement of machinery is continuing and this is reflected in the further addition of Rs 35.56 lakhs to plant, machinery and buildings during the year under review, on top of Rs 20.64 lakhs added in the previous year. The company has placed orders for some more machinery and has set up an up-to-date air-conditioned knitting factory to manufacture high-class knitted fabrics. A saw-ginning plant is being set up at Abohar (Punjab) for producing long staple cotton and a cotton seed delinting plant for producing second-cut linters required for the manufacture of acetate yarn. The plant and machinery for this factory have already been imported and the factory is expected to go into production in the coming season. The company is also putting up a distillery plant at Yamunanagar (Punjab) to tap the entire production of molasses in the State of Punjab, which will produce the basic raw materials required for the manufacture of acetate yarn. The plant is expected to commence production in next summer.

The company proposes to set up a new textile mill consisting of 25,000 spindles and 500 automatic looms. An industrial licence has been obtained to install 18,800 spindles and the company hopes to get the licence for the balance of 6,200 spindles and the 500 automatic looms. Construction work has already commenced. The scheme will be financed partly from the internal resources and partly from a loan from the Industrial Finance Corporation. The directors are hopeful that the mill will go into production by January 1964.

Khatau Makanji

THERE has been a welcome improvement in the working of the Khatau Makanji Spg and Wvg Co, during the year ended June 30, 1962. The gross profit has shot up from Rs 49.01 lakhs to Rs 74.02 lakhs, following a rise in sales from Rs 5.24 crores to Rs 5.83 crores. Nevertheless, the directors have not restored even partially the cut made last year in the dividend from 32 per cent to 16 per cent. They have maintained it at the last year's level, but have thought fit to strengthen the reserves by adding as much as Rs 14 lakhs, after providing Rs 5.63 lakhs (Rs 3.20 lakhs last year) for managing agency commission, Rs 17.40 lakhs (Rs 16.78 lakhs) for depreciation, Rs 23.50 lakhs (Rs 13 lakhs) for taxation, and Rs 3 lakhs (Rs 4.30 lakhs) for development rebate reserve.

The company obtained a licence to install 5,400 additional spindles for the purpose of balancing. These spindles have started working since the close of the year under review. The installation of the additional spindles will not, however, improve the working results of the company during the current year, as the general outlook for the textile industry during the current year is somewhat bleak. As the directors point out, the ex-mill selling prices of yarn of counts above 40s have been fixed from August 1, 1962. The scarcity of foreign exchange and the additional restrictions on imports of colours and chemicals are likely to result in higher prices and affect the cost of processing. The increase in the premium on imports of foreign cottons by one-third with effect from December 1961 has resulted in a substantial increase in cost of Egyptian and Sudanese cottons which are being used by the Khatau Mills. The Indian Cotton Mills' Federation has evolved a scheme of compulsory export to the extent of 12½ per cent of the value of production of each individual unit. As the Khatau Mill has a specialised line of manufacture, it has to face difficulties in foreign markets in exporting its products. It has, however, decided to put in maximum efforts to promote exports to avoid the penalty payable in the event of the company being unable to fulfil its export target.

The company proposes to expand its activities and the present mill premises are not adequate to meet the present and future needs of the company's expansion and development programmes. The company, therefore, proposes to acquire additional lands from the Pearl Thread Mills and others at a price which, in the opinion of the directors, is considered reasonable and favourable.

Rohtas Industries

THE cut in the dividend on the ordinary shares of Rohtas Industries for the year ended March 31, 1962 from 10 per cent to 8 per cent follows a sizeable setback in results for the year. There has been an all round decline in production, particularly of paper and boards and cement, which is reflected in the fall in sales from Rs 16.24 crores to Rs 15.88 crores. Consequently, the gross profit has come down from Rs 121.33 lakhs to 104.59 lakhs. The provision for depreciation is slightly higher at Rs 59.84 lakhs, compared with Rs 58.32 lakhs provided last year. No provision for income-tax has been made in view of relief under Sections 84 and 101 of the Income-Tax Act 1961 and refunds expected in appeals before the Tribunal for the assessment years 1949-50 to 1953-54.

The balance of profit available is supplemented by a sum of Rs 74.53 lakhs, after the assessment provision in respect of the previous years had been written back, the corresponding sum transferred last year being 2.99 lakhs. The allocation to the development rebate reserve has been reduced from Rs 5.05 lakhs to Rs 3.20 lakhs. The preference dividend will absorb Rs 6.72 lakhs and the ordinary dividend Rs 40 lakhs, leaving a surplus of Rs 5.08 lakhs to be carried forward against Rs 5.96 lakhs brought in. Since a portion of the company's profit will be exempt from tax, shareholders will not be liable to pay the income-tax and super-tax on the dividend to the extent of such exempted profit determined by the Income-Tax authorities.

Barring asbestos cement and caustic soda, production in all other sections fell due to persistent difficulties in respect of transport of coal, raw materials and finished products. The impact, according to the directors, was felt more seriously in respect of movement of bamboo and despatches of paper, boards and cement. The setback in production was accompanied by a further rise in costs due to higher prices of raw materials, additional railway freight, excise duties, etc without a corresponding increase in the prices of finished products. The capacity of the company's paper mill could not be fully utilised for want of pulp. The pulp mill had to be slowed down due to inadequate supply of bamboo. As regards cement, the fixation of cement price with effect from November 1, 1961 instead of July 1, 1961 as recommended by the Tariff Commission is said to have resulted in the loss of about Rs 11 lakhs to the company. The non-availability of cane on account of weather conditions and the restriction on production were responsible for the lower output of sugar.

The directors, however, take a more hopeful view of the current year as the benefit of the increase in cement price will be available for a full year. The production of paper and boards is also expected to be higher. The company has received some licences for the import of wood-pulp during the current year and have been assured of leases of bamboo areas for additional supply by the Bihar Government. Steps have also been taken to improve the working of the pulp mill so as to obtain a larger percentage of bleached pulp. The company has applied for licence to import equipments for expansion of its pulp and paper mills by 36,000 tons.

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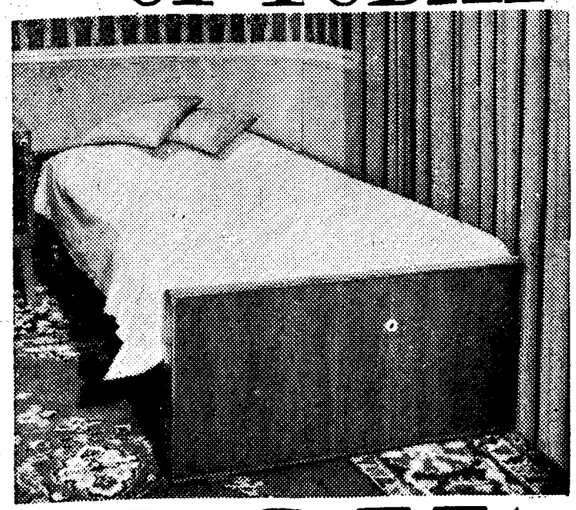

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Production of Petroleum and Petroleum Products

(MONTHLY AVERAGE OR CALENDAR MONTHS)

Metric Tons

		Crude Petroleum	Light Distillates	Kerosenes	Diesels	Lubricants	Bitumens	Heavy Ends	Other Products	Total of Petroleum Products
1962 :	May	37,623	106,619	92,503	146,786	1,798	31,466	150,809	8,761	538,742
	Apr	36,494	84,249	82,512	132,604	886	33,179	136,763	9,039	479,232
	Mar	42,139	84,034	93,490	144,210	2,307	30,352	119,930	9,602	484,525
	Feb	37,763	77,666	79,769	122,142	1,908	32,664	149,581	7,747	471,477
	Jan	34,757	93,528	84,350	129,973	2,460	37,032	146,015	7,851	501,209
1961 :	Dec	39,894	83,672	81,903	140,158	2,411	39,400	120,919	7,949	476,412
	Nov	38,216	77,720	83,921	133,088	2,623	25,497	128,773	8,258	460,480
	Oct	38,568	94,253	92,263	146,573	1,500	38,453	162,935	7,227	543,204
	Sep	34,371	92,822	86,800	126,652	2,457	34,202	152,260	5,396	500,589
	Aug	32,315	96,692	82,697	157,975	2,412	37,037	144,033	4,913	525,759
	Jul	40,036	100,160	95,857	156,188	2,425	36,517	166,298	5,123	562,568
	Jun	38,620	97,223	89,192	159,839	2,095	41,911	160,869	5,095	556,224
	May	39,360	102,360	93,267	148,722	2,100	44,070	174,368	5,823	570,710
	Apr	29,949	83,779	94,024	141,196	1,312	28,816	177,119	4,400	530,646
1962		37,755	89,339	86,525	135,143	1,872	32,939	14,620	8,600	495,037
1961		36,844	89,066	84,783	139,050	2,107	36,530	150,940	5,895	508,370
1960		37,445	87,260	77,605	133,300	1,799	33,135	141,066	5,468	479,813
1959		36,768	79,248	61,330	118,264	1,794	24,201	140,218	4,303	429,358
1958		35,477	82,215	53,598	99,319	1,524	18,882	137,421	4,741	397,699
1957		35,731	86,788	51,480	77,220	1,439	14,733	133,272	5,757	370,689
1956		32,006	80,353	45,468	59,270	1,439	13,716	118,031	5,927	324,204
1955		27,941	66,467	37,424	49,363	1,355	7,112	83,994	5,266	251,980
1951		22,014	4,234	4,318	3,641	1,947	339	1,439	4,826	20,744

Source : Ministry of Mines and Fuel, Government of India.

Small Savings

(Rs Lakhs)

	'62 May		'62 April		'62 Jan		'61 May		1961 Total		1960 Total	
	R	O	R	O	R	O	R	O	R	O	R	O
Total Small Savings	—	—	27,29	849,25	27,71	821,58	26,19	773,46	342,30	850,12	329,98	770,80
National Savings Certificates												
5 years	—	—	—	82	—	91	—	1,16	—	3,86	—	1,24
7 years	—	—	—	1,85	—	1,97	—	2,34	—	1,89	—	2,46
12 years	—	—	—	64,48	—	68,37	—	78,90	—	65,75	—	81,50
National Plan Savings Certificates (12 years)	—	—	5,32	352,17	7,11	335,50	5,33	294,43	79,70	348,57	82,53	287,30
National Plan Certificates (10 years)	—	—	—	16,78	—	17,45	—	18,09	—	17,31	—	18,36
Annuity Certificates (15 years)	5	3,69	5	3,66	4	3,58	3	3,42	49	3,63	69	3,38
Cumulative Time Deposit												
5 years	—	—	20	4,41	23	3,47	16	1,99	2,33	3,95	1,20	1,70
10 years	—	—	9	2,04	10	1,75	7	1,08	1,01	1,96	65	95
Post Office Savings, Bank Deposits	—	—	20,44	321,85	19,06	308,42	19,28	294,64	241,98	325,35	228,77	297,77
Cash Certificates, Defence Savings Certificates and Defence Savings Bank Deposits	—	—	—	—42.50	—	—42.39	—	—42.08	—	—42.46	—	—42.00
Treasury												
10 years Deposits (3½%)	—	26,11	—	26,78	—	28,78	—	36,49	—	27,50	—	38,80
Savings Certificates (4%)	92	55,61	1,19	54,68	1,17	51,38	1,32	40,92	16,79	53,35	16,14	37,34

Note: Annual figures refer to the year beginning April.

R = Receipts

O = Outstandings

Source : Accountant General, Posts and Telegraphs Department, Government of India and Reserve Bank of India.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Oct 5	Sep 28	Sep 7	Oct 6 '61
1 Note circulation	2054.34	2011.48	2044.06	1891.49
2 Rupee coin	123.04	125.63	122.27	126.15
3 Deposits				
(a) Central Govt	60.87	61.79	114.74	65.15
(b) Other Govts	17.95	13.76	21.64	4.68
(c) Banks	85.82	85.72	89.97	72.47
(d) Others	160.08	163.09	162.25	149.17
4 Foreign securities	88.33	88.34	88.34	116.86
5 Balance abroad	5.64	5.60	5.44	13.60
6 Rupee securities	1743.05	1708.05	1728.00	1548.80
7 Investments	136.64	172.76	221.02	191.59
8 Loans and advances to Govts	35.43	31.38	27.12	57.04
9 Other loans and advances	154.59	146.56	184.24	139.14
Scheduled Banks	**Sep 28**	**Sep 21**	**Aug 31**	**Sep 29 '61**
1 Aggregate deposits (net)	2035.27	2031.22	2040.84	1799.29
Demand (net)	799.46	794.66	806.22	720.20
Time (net)	1235.80	1236.55	1234.62	1079.09
2 Cash in hand	47.38	47.96	48.57	43.31
3 Balance with Reserve Bank	79.05	81.83	77.06	72.69
4 (2) + (3) as % of (1)	6.21	6.39	6.19	6.45
5 Borrowings from Reserve Bank	4.51	6.19	15.77	11.07
(a) Against usance bills and/or promissory notes	2.31	4.78	8.46	5.35
(b) Others	2.20	1.41	7.31	5.73
6 Advances	1180.24	1186.76	1204.19	1052.90
(a) State Bank	256.00	—	260.78	—
(b) Others	924.24	—	943.41	—
7 Bills discounted				
(a) Inland	149.61	147.45	140.63	124.81
(b) Foreign	48.53	48.90	50.05	46.60
(c) Total	198.14	196.35	190.68	171.41
(i) State Bank	12.02	—	14.74	—
(ii) Others	186.12	—	175.94	—
8 (6) + (7c) as % of (1)	67.72	68.09	68.35	68.04
9 Investment in Govt Securities	68.93	683.82	699.35	617.83
10 (9) as % of (1)	33.90	33.67	34.27	34.34
Cheque clearance	**216.46**	**237.47**	**293.30**	**214.22**

Bombay Money Rates

(Per cent per annum)

	Sep 28	Sep 21	Aug 31	Sep 29 '61
Call money from Banks	3.00	3.94	3.38	4.17
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Oct 11	Oct 3	Sep 12	Oct 12 '61
Gold (per 10 grams)				
Spot	116 50	118.55	126 95	125.10
Forward	117.40	119.35	125.75	125.55
Silver (per kilogram)				
Spot	219 70	217 80	219 10	205.85
Forward	220.10	218.80	219.20	206.85

INDEX NUMBER OF WHOLESALE PRICES

(*Base : Year ending March* 1953 = 100)

	July, 1961	June 1962	July 1962	Increase or (+) or decrease (—) in July, 1962
Food Articles	124.2	125.5	128.6	+ 3.5
Cereals	104.1	105.0	107.2	+ 3.0
Pulses	91.3	102.5	105.5	+15.6
Fruits & Vegetables	147.5	142.0	148.0	+ 0.3
Milk and Ghee	119.1	126.7	127.3	+ 6.9
Edible Oils	165.5	152.2	155.3	— 6.2
Fish, Eggs and Meat	139.0	141.4	144.7	+ 4.1
Sugar & Gur	123.2	138.9	152.1	+23.5
Others	184.2	170.3	170.8	— 7.3
Liquor & Tobacco	98.6	99.7	98.5	—.0.1
Tobacco	95.0	96.2	94.9	— 0.1
Fuel, Power, Light & Lubricants	122.1	123.3	124.5	+ 2.0
Industrial Raw Materials	151.4	136.1	138.8	— 8.3
Fibres	152.5	127.3	130.2	—14.6
Oilseeds	165.4	151.6	156.3	— 5.5
Minerals	95.2	93.6	93.4	— 1.9
Others	126.7	126.7	125.3	— 1.1
Manufactures	126.7	128.9	129.4	+ 1.4
Intermediate Products	141.9	139.5	142.6	+ 0.5
Finished Products	125.3	127.2	127.2	+ 1.5
Textiles	127.3	126.9	126.5	— 0.6
Cotton	127.5	129.5	129.5	+ 1.5
Jute	130.5	118.1	116.5	—10.7
Woollen	123.3	141.3	141.3	+14.6
Silk & Rayon	119.1	129.1	129.7	+ 8.9
Metal Products	151.6	160.3	160.4	+ 5.8
Chemicals	110.6	113.8	115.3	+ 4.2
Oil Cakes	146.8	154.7	157.1	+ 7.0
Machinery & Transport Equipment	112.8	117.8	117.9	+ 4.5
Others	120.8	124.3	125.7	+ 4.1
All Commodities	128.8	127.5	129.7	+ 0.7

Foreign Trade

(Merchandise Value)

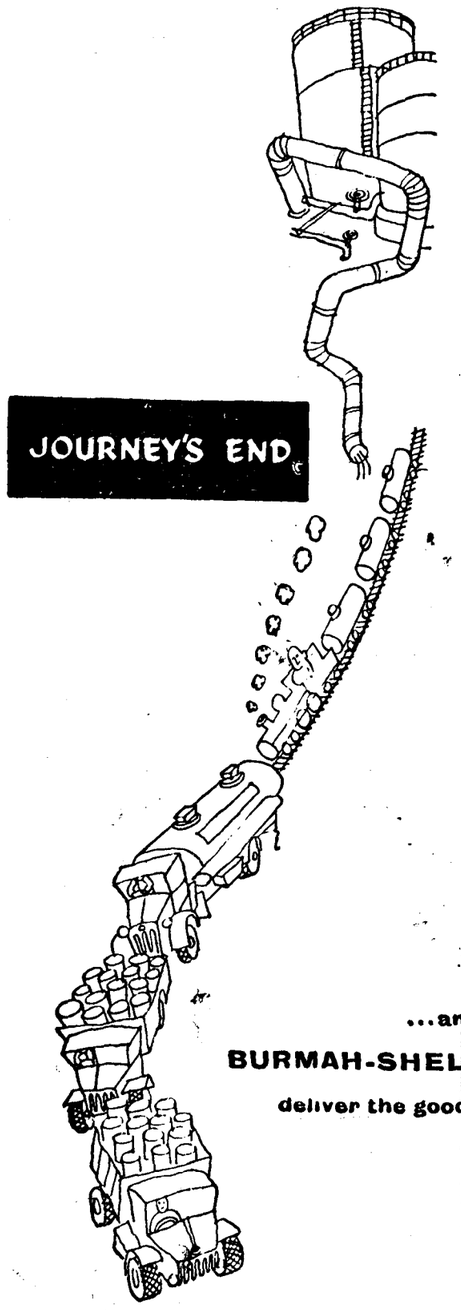
(Rs crores)

		Imports	Exports†	Balance of trade
1962	August*†	79.76	63.28	—16.48
	July*†	75.64	57.41	—18.23
	June*†	82.33	50.37	—31.96
	May*†	76.30	51.69	—24.61
	April*†	83.85	51.42	—32.43
1961	August*†	77.24	60.15	—17.09
1961–62		1001.50	665.18	—336.32
1960–61		1003.15	648.33	—354.82
1959–60		956.32	639.36	—316.95
1958–59		903.64	572.64	—331.00
1957–58		1036.40	635.14	—401.26
1956–57		902.91	619.62	—283.29
1955–56		774.35	608.91	—165.44
1951–52		979.34	732.95	—246.39

* Provisional.

† Includes re-exports.

Source : Department of Commercial Intelligence and Statistics, Ministry of Commerce and Industry.



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Life Insurance

AMONG the unsavoury aspects of life insurance is the opportunity it leaves open for fraud, fictitious or fraudulent death claims being one of the devious means by which the life insurance companies can be defrauded of large sums of money. The practice was quite well known before nationalisation of life insurance, and the different companies had quite a variety of experiences depending on the quality of their organisation and the nature of the business carried on by them. Against this general setting, sometimes a regional pattern seemed to emerge — particular areas became notorious from time to time for some special types of fraud. But once the companies were alerted, the repetition of the same technique of deception could not prevail for long and, if the company was well managed and alert, it was as a matter of course put down energetically, but in some other area, perhaps, the variation in the same technique could be tried for a while even successfully. Such cases, however, were no more than marginal though they ranged from false impersonation and the miniature conspiracy in which the medical examiner or some agents were sometimes involved, to quite genuine cases of doubtful lives which had been unsuspectingly passed and accepted, because some material facts about the health of the party seeking insurance had been suppressed or had escaped notice. To repeat, by and large, the system was nearly fool-proof, where a management was honest and reasonably efficient, but not entirely so.

While false claims involved insurers in loss against which they had naturally to guard themselves, prompt settlement of claims greatly strengthened the insurance companies in a fiercely competitive market. So big companies which could take minor losses in their stride built upon energetic expansion of business did not always press matters as far as they could have done and would pay up even in doubtful cases than face the unfavourable publicity which nonpayment of claims invariably entailed. It was often the smaller and weaker companies which, in order to get any business at all, could not afford to be too selective about the quality of the life they insured and took doubtful cases, which resorted to litigation and sometimes to devices not so straightforward, in order to evade death claims about the genuineness of which they were doubtful or about which they could possibly raise some objection.

No one seriously believed that with the nationalisation of life insurance and the rationalisation of its operation as also adoption of uniform standards which would follow, doubtful claims would be entirely stamped out. But the belief was justified that with the improvement in the organisation of insurance and better and more uniform administration, the scope of either deliberate fraud or acceptance of doubtful cases because of inefficient or slipshod administration would be greatly reduced. By and large, probably these expectations have not been belied though no thorough statistical appraisal of the situation seems to have been undertaken.

But that insurance has not become entirely fool-proof or that settlement of claims has not become in all cases prompt and free from vexatious delays if not automatic, the public was painfully made aware by a

judgment of the Madras High Court delivered early last month. In this case, the death claim for a large amount (Rs 50,000) was dismissed on the ground that three years had elapsed since the death of the party concerned and, therefore, the claim was dismissed on the technical ground that it was time-barred. While giving the judgment in favour of the L I C, the Court, however, passed some serious strictures against the conduct of the L I C in this case in delaying the settlement and "lulling" the claimant "into inaction" until the claim became time-barred and then informing him that the claim was not entertainable. The judge finally concluded :

> "The policyholders and the public are entitled to expect fair play from the Life Insurance Corporation and it is hoped that the concerned authorities will take steps to prevent such action in future and inspire public confidence".

This was a terrible indictment, indeed, but this was not all. The Judge also held that the contention of the defendants that the policy was null and void could not be accepted, as the evidence was totally inadequate to prove that the policy-holder had suppressed facts which it was material to disclose and that he did it fraudulently. The L I C made what amends it could by paying the claim in full though it did not have to do that, but obviously that was not enough. The case naturally gave rise to a tremendous public commotion.

It must be said to the credit of the Chairman of the L I C that, when he met the members of the Press in Bombay last week, he made no attempt to stall and fully accepted the blame for what had happened. He assured that every attempt was being made and will be made to settle claims as promptly as possible, that the administration was being geared up for this purpose and that normally the settlement of claims should not take much time at all. He pointed out, however, that while every attempt would be made to settle claims promptly, and as expeditiously as possible, there might be cases where investigation would be necessary. There would be reasonable doubts about the validity of claims, e g, in cases where material facts had been suppressed and thus lives had been accepted for insurance which, had these material facts been made known, would not have been passed. He also declined to surrender the right of the L I C which was given by law to everyone under Limitation Act, taking his stand on the principle that no one should be deprived of the rights which the law confers, even if he voluntarily wished to forego them. However unfair it may have been for the L I C to have invoked limitation in the unfortunate Madras case, situations are conceivable in which this measure of protection is absolutely necessary and it is fair that L I C should continue to enjoy that, though, of course, it should never, in its own interest, abuse it.

The speed with which claims arising out of death and maturity are settled is one of the major criteria for judging the efficiency of an insurance organisation and also one of the major components of its public image. About three-fourths of the claims on L I C arise out of maturity and only one-fourth due to death. The magnitude of the problem of disputed claim settlements is, therefore, quite small but its publicity potential is considerable. As trustee of policyholders' funds, L I C cannot afford to relax the usual precautions against fraud but these precautions could be made less time-consuming after the death of the policyholder — and more fool-proof at the time the policy is taken out. In the case of policies for large amounts, L I C could reasonably and justifiably insist upon a second medical examination within one year of the taking out of the policy, with the assurance that this procedure will cut down claim formalities in the event of death.

That somebody may slip up somewhere and that even the best-managed organisation may occasionally be caught napping is, of course, well understood. But what the Madras case has done is to sharply bring into focus the public expectations aroused by nationalisation. Have the benefits been commensurate with the promise? Rationalisation and elimination of competition should also lead to greater efficiency, improvement in the quality of service and progressive reduction in costs. Is it not high time for the public to ask for an assessment of the situation ?

What is the L I C doing, for example, about the mortality table ? The table in use now is of hoary antiquity — has it been brought up-to date? Does it reflect present day mortality experience? At its inception, L I C just took over the Oriental life table and set premia at a flat rate of one rupee below the rates

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DA 62/2

quoted on its basis. Even then these rates were somewhat higher than those quoted by other private insurance companies before nationalisation. Mortality experience has improved since the twenties but premium rates are still practically pegged at the old levels. Since the consolidation phase of the L I C is now over, it is worth considering whether new business can be expanded further by a reduction in rates without too adverse an impact on the lapse ratio resulting from surrender of old policies and issue of fresh policies at the new rates.

People look for a better deal from a nationalised service, not only in reduction of costs but in many other aspects as well. To what extent have policy conditions been simplified? Are life funds being deployed more profitably and constructively for the development of the economy and the welfare of the people? And it is not enough for the L I C to progress along all these fronts, it has to establish closer public relations to convince the people that all these are being done and the hopes they had placed in nationalised insurance are being redeemed.

The Maharaja Slips Up

NOT only has the Air-India set up and maintained a standard of performance and service which compares with the best anywhere in the world, it has set up both in India and abroad a standard of publicity which is unique without anything comparable to it anywhere in the world. The campaigns which Air-India have run in the United States have made even Madison Avenue sit up and take notice. True, the execution, as usual, was through an American agency but the creative ideas behind the campaigns have always been those of the Air-India, centering on the 'Maharaja' which has become a lovable figure all over the world. One can read much into the 'Maharaja'. It is a remarkable creation of an image which symbolises social change and progress which India has been trying to bring about in a non-violent, humane manner.

The Minister of Heavy Industry and Steel must be singularly lacking in a sense of humour in failing to understand what this image stands for. He went out of his way to condemn this image while presenting the gold medal of the year awarded by the Indian Society of Advertisers to Shri R K Sarkar of Dunlop. It would be enough to mention here that the first recipient of the award by the I S A was the creator of this image — Shri S K Kooka. But what went wrong with Air-India's publicity for the thirty year anniversary of the Tata Airlines, now Air-India?

How did Air-India publicity slip and allow the flamboyance of its admen to turn this memorable anniversary, among others, of the first scheduled air service in India into a sickening ballyhoo, a knowledgeable correspondent asks. The correspondent goes on to say:

> As a pioneer of Indian aviation, J R D Tata is entitled to the esteem of his countrymen in ordinary course. Much more so because his unflagging enthusiasm and personal interest have contributed over "thirty summers" to the progress of aviation. If J R D was persuaded to reenact his historic flight for the Air-India anniversary of this year this was a memorable occasion of universal human interest that would have doubtless made the headlines all over the country and many parts of the world without the assistance of the airline's admen.

But don't admen ever know when enough is enough? Should their hands itch to gild the lily or embroider the obvious, to change the metaphor, only to make it dowdy? Where was the need to rub it into the Indian public that "the aviation department of Tata Sons is now Air-India with 77 offices" ? Surely, the enterprise of Tata Sons and its role in pioneering Indian aviation could have been left to be inferred from the plane's eye-stopping markings? A more intelligent tribute to Tata Sons could have been paid if the admen had recalled that Tata Airlines started on a shoestring without any encouragement from the Government in Simla, the request for a subsidy or a guaranteed minimum revenue having been turned down.

The most unfortunate part of it is that uncharitable critics will put the blame on J R D; for after all "he is the Chairman of his Corporation" as Air-India's lavish full-page ad said. It is hard to believe that a man of J R D's gentlemanly, decent instincts and discretion knowingly allowed such excesses to be perpetrated.

No one, not even Air-India's admen, can ignore the temper of the country. J R D is not a retired elder statesman but is very much active on the economic, and perhaps also the political scene, via his espousal of the Swatantra cause. Making him the focus of this public sector anniversary, let us face it, ran some risk of misinterpretation in the Lok Sabha, but historical circumstance more than justified it and men of good sense would have firmly rejected unfair imputations. Unfortunately, the admen's excesses make this now less likely and every thing connected with the occasion will probably be subjected to damaging scrutiny.

The synthetic effusions of the tribute to "Mr Chairman" spread over a page, was the last straw. Was it necessary to remind the country, through paid-for space, that "there are not many chairmen in this world of flying who would have cared, who would have dared" to repeat a flight of 30 years ago? On their own, the newspapers would have said as much, if not more, in salute to the holder of India's first 'A' licence, evoking a spontaneous response from the public. But no! the admen were not going to leave anything to chance. If in their irresponsible ebullience they slipped up somewhat on grammar, that is, of course, beside the point.

Weekly Notes

Another L I C Landmark

THE Life Insurance Corporation crossed another landmark in 1961 when its premium income exceeded Rs 100 crores for the first time. The actual figure was Rs 112 crores against Rs. 97 crores in 1960. New life business underwritten in India reached nearly Rs 600 crores, more than twice the amount assured in 1957, the first complete year after nationalsation. The total life fund increased during the year by Rs 72 crores to Rs 632 crores. These are impressive figures indeed but their significance is offset to some extent by the steady rise in the lapse ratio. The ratio of lapses less revivals to the mean business in force during the year has risen consistently from 5.1 per cent in 1958 to 7.0 per cent in 1961. About one-third of the lapses tend to occur within the first three years of new business underwritten. The efforts of the Corporation to reduce the incidence of lapses appear to have succeeded only in postponing them from the first to the second and third years of taking out of new policies.

It is difficult to assess the extent to which inflationary conditions are undermining the capacity of weak policyholders to keep their policies alive. More important than that, perhaps, is the fact that life insurance is being extended to new sections of the population among whom the insurance habit is still to take root. About 70 per cent of the total policies issued in India in 1961 were on lives of persons who were insuring for the first time and nearly 37 per cent were underwritten in rural areas as defined by the 1961 Census. Though L I C's annual report throws no light on this question, one can safely assume that most lapses occur in first insurance — and in policies for smaller amounts. The Corporation has 156,000 commission agents but only about 125,00 of them are active. The average business per active agent in 1961 was Rs 47,900, roughly the same as in 1960. Obviously, the L I C sales force still suffers from a number of deficiencies which have to be rectified if new business is to be placed on a sound footing. Most of the new business is still done in a rush during the last quarter of the year, often without adequate attention to its quality. Little has been done so far, beyond mere exhortation, to rectify this long-standing ailment of the insurance business.

Stinting on Publicity

INSURANCE, perhaps, more than any other service, depends in considerable measure upon good public relations. This is a field in which L I C has not done too well. In the first flush of nationalisation the publicity budget was cut drastically in the misplaced belief that elimination of competition had made publicity almost superfluous. Though this attitude has changed and there is now better appreciation of constructive advertising, L I C's expenditure of Rs 20 lakhs (and Rs 2 lakhs overseas) only on advertisements in 1961 (though an improvement on Rs 13.89 lakhs) still remains woefully low. The damage to the public image of L I C by the Mundhra deal has by now been fully repaired. But since the Mundhra deal has not been entirely forgotten, it is worth pointing out (though L I C itself has never stressed it) that the deal involved it in a loss of only Rs 24.72 lakhs, against which a special reserve has been created. Leaving aside the fact that this loss has probably been more than made up by appreciation on the remaining Mundhra scrips, the amount of the loss is quite small as compared with investments worth Rs 56.80 lakhs that were 'found missing' before the Corporation was set up, not counting Rs 180.50 lakhs that was missing from Bharat Insurance!

In view of the shortage of good scrips for investment, the L I C had to look for other remunerative outlets for its funds and housing naturally offers wide opportunities. L I C has been moving slowly into this field. In 1961 it gave Rs 21 crores as loans for house construction to State Governments and co-operative societies. This amount, however, is less than 4 per cent of its life funds. The restriction of housing loans to very limited categories of borrowers, however, is a handicap. Building construction is a specialised job which cannot be handled by policyholders individually or organised in co-operatives. Sooner rather than later, L I C must venture into direct financing of professional builders and organise a market in house and land mortgages.

Finally, one must admire the L I C's acumen in making a capital gain of Rs 61 lakhs on sale of investments in 1961 against Rs 28 lakhs only in 1960. But why does it have to keep as much as Rs 11 crores in interest-free current account with banks?

U S Trade Bill

FROM the point of view of its international implications, the Trade Expansion Bill is probably the most important achievement of the Eighty-seventh U S Congress, of which President Kennedy has said that no Congress has done so much for the American people in a generation. The Foreign Aid Bill is no less important, of course, for the large number of countries whose development has come to depend in a large measure on U S assistance, though before approving it the Congress lopped off $ 950 million from the $ 4,879 million the President had asked for.

The Trade Expansion Bill is a significant victory for the Kennedy Administration's liberal policies and a setback for the protectionists. The Bill gives President Kennedy long-term authority to reduce tariffs on U S imports upto 50 per cent of the present levels. Moreover, in the case of commodities for which the U S, Great Britain and the European Common Market countries together account for 80 per cent of the world market, the President has been authorised to completely abolish tariffs.

However, in one important respect the trade bill marks a step backward. It requires the President to withdraw, as soon as possible, the most-favoured-nation treatment hitherto extended to Poland and Yugoslavia and forbids him to grant any trade concessions to these two countries. At present most-favoured-nation treatment is applied to all countries outside the Sino-Soviet bloc, to Yugoslavia, and also to Poland. The latter is treated, for this purpose, as if it were not a member of the Communist bloc. Under the new trade bill, imports from these countries will be subject to discriminatory tariffs.

Both Poland and Yugoslavia, particularly the latter, have substantial trade relations with the U S. For Poland, the U S is the most important source of imports after the Soviet Union, East Germany, Czechoslovakia and the U K in that order. For Poland's exports, the U S market is the most important after the Soviet Union, East Germany, Czechoslovakia, West Germany and the U K. In 1960 Poland's imports from the U S amounted to roughly $ 84 million and exports to the U S $ 32 million. The value of Yugoslav trade with the U S is even higher. The U S is Yugoslavia's most important market after Italy, the Soviet Union, West Germany, East Germany and the U K and her most important source of imports after West Germany, Italy and the Soviet Union. In 1960 Yougoslav imports from the U S amounted to

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about $ 89 million and exports to the U S $ 39 million. In the case of Yugoslavia the impact of the imposition of discriminatory tariffs on her exports to the U S is likely to be particularly severe since her exports to Common Market countries like Italy and West Germany, both very important markets for her, are bound to suffer from the discriminatory external tariffs of the E C M.

It is interesting that in its treatment of Yugoslavia and Poland, the trade bill is actually more restrictive on the initiative of the Administration than the foreign aid bill. The foreign aid bill permits the President to extend economic or financial assistance to Communist countries, including Yugoslavia and Poland, if he determines that (a) it is vital to U S security; (b) the recipient country is independent of the Sino-Soviet "conspiracy"; and (c) it promotes the recipient country's independence. The trade bill, however, leaves nothing to the President's discretion. Thus we have the curious position that the Congress considers that U S interests may be furthered by economic assistance to Yugoslavia and Poland, and yet believes at the same time that normal trade relations between the U S and these countries would be contrary to U S interests.

Judged from the standpoint of the objective of expanding world trade the discrimination against Yugoslavia and Poland is a retrograde step. But even on the pure cold war logic which governs the U S Congress's approach to trade and aid, this is difficult to understand since, along with the discriminatory policies of the E C M, it can only compel these countries to have closer ties with the Soviet Union and other Communist countries and, therefore, prove invaluable to the Soviet Prime Minister in his efforts to build up the Comecon as a counterblast to the Common Market.

Expansion of Trombay

THE acute shortage of power in different parts of the country notwithstanding, the Government has so far successfully resisted pressures to permit power plants in the private sector. In fact, the Plan mentions only one private sector project — the expansion of the Ahmedabad thermal station in Gujarat — in the list of principal power generation schemes included in the Plan. The expansion of the Tata power complex through the installation of a fourth generating unit at Trombay was not included in the Plan though the Chairman of the Tata group of power companies had informed the shareholders of the companies in August 1961 that "as a result of certain meetings held at the highest level with the State Government, the companies have been informed that the Government would like them to proceed with the project for expansion at Trombay". It is possible that at the time the Third Plan was finalised (May-June 1961) the decision to permit the expansion of the Trombay power station had not been taken, but it is clear from the estimate of investment on private sector power projects mentioned in the Plan (Rs 50 crores) that some private schemes other than the expansion of the Ahmedabad thermal station were anticipated.

The decision to install a fourth unit at Trombay was taken after a comparison of the projected capacity of the Tata-Koyna-Railway grid with the load forecasts had clearly established that unless capacity was expanded, power shortage would be inevitable in the Bombay industrial region by the end of the Third Plan. The Government accepted Tatas' contention that to expand capacity, from a technical standpoint the installation of a fourth unit at Trombay was the simplest to plan and quickest to execute and that with the existing facilities at Trombay, the new unit should be of 125 mW rated capacity. The project was included in Maharashtra's Third Plan for power which envisages increasing the total installed capacity in the State from 764 mW to 1,774 mW. The installation of the 125 mW unit at Trombay will bring the total capacity of the Tata power complex to about 600 mW. Even this will not, however, be adequate to meet the demands on the Tata complex in 1955-56 and so the Tatas will have to purchase some 100 mW from the Maharashtra Government.

The expansion of the Trombay station proposed is the installation of a single generating unit of 125 mW. The only other generators of comparable capacity in India will be at the Chandrapura power station of the DVC which is also being financed by the U S Agency for International Development. The cost of the project is expected to be Rs 12.5 crores. The entire foreign exchange cost will be met by the loan of $17.9 million from the U S Agency for International Development which was announced by the U S Ambassador, Mr J K Galbraith, on Friday last. The A I D will make the loan to the Government of India which will re-lend the amount to the Tatas. The loan would be repayable by the Government over 40 years with no payments due in the first ten years. The loan will be interest-free and will carry only a service charge of three-fourths of one per cent as in I D A loans. However, the Tatas will repay the loan to the Government of India over a period of 20 years with an interest charge of 3.5 per cent per annum. The engineering consultants on the Trombay project are Ebasco, the New York firm with whom the Tatas have recently entered into a partnership to form a firm of consulting engineers in this country.

Letter to Editor

Slaughterhouses

IT has been a great shock to read your editorial "Modernising Slaughterhouses" (October 6, 1962).

How painful it will be to the many readers of your paper I do not know. You have struck at a very delicate part of the "Hindu Sanskriti".

If money is the only "God" in the world and if India is to inherit all the evils of the so-called advanced nations, let her remain poor and not lose her spiritual riches.

K C JAIN

Honorary Secretary,
Federation of Associations
of Small Industries,
New Delhi.

[If "Hindu Sanskriti" can accept and tolerate slaughterhouses which are cesspools of dirt and filth as it has done all these years and decades, why should it revolt against modernising these slaughterhouses and making them conform to modern standards of sanitation and public health and, in the process utilising the by-products which are now wasted ? — Ed.]

Capital View

NEFA And All That

Romesh Thapar

THE Chinese continue to envelop our thoughts. While the foreign press corps and a tiny section of the Indian Communist leadership are both speculating on whether Nehru is encroaching on Mao's territory in the NEFA area or Mao in Nehru's, a speculation based on alignments in differing maps and the Chinese capacity to change the names of locations in order to confuse, others are wondering what we are to expect in the coming months. Quite clearly there can be no 'talks' or 'negotiations' so long as the Maoists pursue their present tactics. Will the battle be joined or will winter paralyse operations? Have the Chinese 'dug in'? What is the explanation for the delay in taking the offensive against the intruders? If we have to wait until May, when the weather clears, what will happen during these months of the 'cold war'?

Directive or Decision?

This is not idle questioning. It arises from the Prime Minister's statement that the Chinese are to be 'pushed out' of NEFA and that it has been left to our armed forces to carry out this decision. The declaration was forthright and, coming as it did at the same time as the military reorganisation in NEFA, created the impression that a decisive action was planned. Then one morning came the headlines to announce a major clash in which a hundred Chinese soldiers had been killed.

The cynical sections of the foreign press stationed in the Capital and certain cold warriors in the diplomatic corps, so persistent in their jibes about India's inactivity on the border, now did a *volte face*. We were warned that the Chinese 'are not to be played with', that they are capable of 'hitting us' along the entire frontier, that we must 'prepare before we march to war'. Seemingly pugnacious Indians, who would be the first to run on hearing gun-fire, enjoyed this feeling of being cautioned, tamed. But now the lull, with minor interruptions, has again descended in NEFA. Hence the questioning in more serious circles.

It has not taken even amateur strategists long to realise that the Chinese move into NEFA was so timed as to give them about six weeks to entrench and consolidate before winter set in. They obviously calculated that India would be taken by surprise and would not be able to retaliate within this period. At one stage it appeared as if their assumptions would be disproved. But the lull in NEFA now suggests the opposite; if it continues, then it is clear that no major operation will be possible until May next year.

In this connection, another criticism heard almost daily in the Capital is about the much-publicised army reorganisation in the NEFA front. Why the implied suggestion that this reorganisation would spark immediate counter-measures against the intruder? Surely, the army staff was fully aware of the impending change in the weather. Or was it decided at the last minute not to undertake the hazardous operation because of likely repercussions along the entire Himalayan frontier? Official spokesmen, alternating between excessive chatter and excessive reticence, have made the confusion much worse.

Pathetic Belief

The suspicion persists that there has been bungling in high places. If we were to 'talk' or 'negotiate' the border with China, what made us cling pathetically to the belief that the McMahon Line would not be violated by a wily enemy intent on strengthening his bargaining position? If no such gullibility muddled our reasoning, why were we so late in concentrating our forces at the point of the Chinese breakthrough? It can be argued that the extended frontier deployment, together with the task of forcing the Pakistani army, compels us to maintain only a light defensive line, any sector of which can be reinforced as and when an emergency arises. Yet, no one has explained satisfactorily why it took a whole month to get into position to dislodge the intruders. Something is wrong somewhere.

It is always difficult for laymen to understand all the ramifications of the military situation on the border. In the first place, it is not possible to tell us the whole truth. Second, strategic and tactical considerations make it difficult to keep us informed of day-to-day developments. Third, there are far too many provocateurs waiting for an opportunity to embroil the Government in a public debate on defence matters merely to embarrass the Prime Minister and his Defence Minister. Nevertheless, it is the contention of the most sober elements in the Capital that the handling of the NEFA situation has had precisely this effect. Now everybody is talking defence.

From what one can gather, the lull on the NEFA front is going to rouse a number of MPs into action as soon as Parliament convenes early next month. There is talk about calling for an enquiry into the handling of the situation — and the 'politicking' which accompanied it. Swatantra leader Ranga has gone to the extent of demanding that the present military and foreign policy experts be changed. All very unfortunate, considering that we had almost reached a certain degree of military and political cohesion to undertake the tedious 'talks' and 'negotiations'. Now, in a sense, we are back at the beginning.

To Reinforce the Policies . . .

Where do we go from here? It would be ridiculous to attempt to sketch some hypothetical, all-embracing programme to counter the Chinese. I would like to record a few of the suggestions which have been made in the course of the last few weeks to reinforce the broad policies adopted by the Prime Minister.

1. An immediate overhaul of external publicity and the preparation of a hard-hitting campaign to project India's case on the border problem. Through films, booklets, illustrated pam-

phlets and thoughtful press releases, we must break-through the ignorance and confusion, both at home and abroad, over this question.

2. A special campaign should be mounted to expose and isolate Chinese pretensions in South-East Asia and the Communist world. Large sections of South-East Asians have been duped into believing that we are either aggressors or unwilling to settle the problem peacefully. Communist countries, too, have to be educated, and if we are successful in carrying our case to them, Peking can be put in the dock.
3. We must take advantage of the winter and order a 'crash programme' to obtain the arms to neutralise the numerical superiority of the Chinese. We need the latest small arms, mortars, helicopters, electronic equipment — also modern road building machines, to solve the transport holdups. We must get this equipment, from whichever source is available to us, on rupee payment because we do not have foreign exchange. No protests should delay the implementation of this programme — for force is the only language that the Chinese seem to understand.
4. Demobilised soldiers and ex-servicemen, still capable of carrying out duties within the country, should be mobilised, put through training, and deployed in order to make reinforcements from the regular army available for the Himalayan frontier.
5. Repeated efforts should be made to suggest various patterns of mediation to the Chinese. Every refusal on their part to accept mediation isolates the Chinese further. We have yet to investigate these possibilities.
6. Something must be done forthwith to improve our intelligence work on the frontier. We have been 'surprised' too often and this indicates that we have no knowledge of Chinese movements or intentions.

There is much good sense in these ideas, but the problem is how to get them worked out at governmental level. It is here that serious-minded MPs can assert themselves; that is, if they avoid the temptation of playing to the gallery to score debating points. The trouble, of course, is that the GOI is chary of sharing the information it has with the leaders of the Congress and other political parties because past experience confirms that such information soon becomes available to all and sundry. However, some method has to be found to make consultation on these problems closer and more all-embracing.

Meanwhile, unconfirmed reports indicate that the Chinese are massing their forces at various points along the McMahon Line, particularly at Longju. This may well be a preparation to keep the border 'activised' even during the winter months. However, the Prime Minister, returning from Ceylon, seems supremely confident that the situation is well in hand. Discussions on defence matters begin this week with Bhutan and Sikkim. The possibility of Pakistan creating diversions in the East and the West is also under scrutiny. And the situation in Nepal is being reviewed. Perhaps, this re-thinking and reassessment will lift the fog and reveal clearer perspectives.

From the London End

Parties Take Their Stand on Common Market

THE Conservative Party Conference at Llandudno has brought to an end the season of party political conferences and has demonstrated quite clearly that in the months to come, the Common Market issue is going to dominate political life in Britain.

The Conference was overwhelmingly and enthusiastically in support of Britain's entry into the European Economic Community. The pro-Common Market resolution was carried with an enormous majority on a show of hands. The Conservatives feel that Labour's lurch to the left at Brighton has dished Labour's chances of winning the next election and they, therefore, went all out to convert the Conference to the belief that a solid massing behind the leadership on this issue was the road to electoral victory. Honest political commentators would admit that even before they heard the speeches, the Conference was determined to support entry, and that neither Mr Heath's nor Mr Butler's performance on the subject was above average. Everything that was said in favour of entry — however banal — was greeted with tremendous enthusiasm while Sir Derek Walker-Smith's summing up speech for the anti-marketeers —an eloquent, logical and well reasoned speech, far above the standard set by the pro-marketeers—was greeted with embarrassed silence. The Llandudno Conference has confirmed that the Government is finally committed and determined to join the Common Market and there can now be no turning back. no room for future compromise or adjustment of policy.

Thus, Llandudno and Brighton have now established the prepared positions from which the decisive political struggle will be fought in a few months time. Dealing with the impact of the Labour Party's support of Mr Gaitskell's motion on the Common Market, Mr Iain Macleod said: "I think the effect of what happened at Brighton last week has been to leave only the heavyweights in the ring. There isn't much room for Grimmond or the Liberals now — it will become a personal contest between Macmillan and Gaitskell".

There is now little doubt that Labour will be committed to intensive opposition to joining on the final conditions which most people now expect. Indeed, at a Labour rally at Cambridge on Saturday, Mr Gaitskell said that the Government had scrapped its pledges of safeguarding the Commonwealth and had "plumped for unconditional entry" into the Common Market. Nothing the Government might say would justify

duct". In this situation, whatever doubts Mr Macmillan may himself have about entry, in the heat of political conflict these are bound to be stifled. It must, for example, be quite clear that Macmillan knows that the transitional arrangements were worse than Mr Heath had hoped to get and that at the end of July concessions were made by the U K which shou'd probably not have been made. He must be aware of the fact that the terms for the Commonwealth are worse than expected and that vital matters have still to be settled.

E C M Issue to Conservatives' Rescue

There is no doubt that the Common Market issue came to the rescue of the Conservative Party. This can now be played as the Party's trump card which will allow the failure of economic policy, the inaction on social policy and the fumbling on defence to be overlooked.

Mr Maudling made a pretty poor showing when he dealt with economic questions. Having been slapped down in no uncertain terms at Washington and faced with growing difficulties in the balance of trade (seasonally adjusted the trade gap in August widened to £ 66 millions against £ 49 millions in July and £ 27 millions in June) all hopes of a new Chancellor of the Exchequer making dramatic changes leading to a new economic policy of expansion have now been obliterated. His speech made it quite clear that he had no quick stimulus for the economy, but proposed instead to haul it slowly and steadily to a position from which a more vigorous policy on growth cou'd eventually be launched. His positive proposals mean only a mild once-for-all injection of purchasing power through Post War Credit repayments, progressive easing of monetary controls and a small planned increase of public investment in roads and schools. But such a policy involves the risk that the present slight industrial recovery may peter out for lack of adequate demand and in the absence of any new incentive for private investment.

Growing Idle Capacity in Industry

In this connection, the latest enquiry into industrial trends conducted by the Federation of British Industries is relevant. This report confirms that the unused capacity in Britain is still widening. A year ago one half of the companies questioned said that the limit to expansion of output was now a shortage of orders and that they were working below full capacity; this year the number has risen to two-thirds of the firms concerned. Moreover, the rundown of capital expenditure by private industry is continuing. The majority of firms questioned expect to authorise less capital expenditure in the ensuing twelve months than they did in the past year.

It is quite obvious that the F B I is disappointed by the mild measures that the Chancellor has taken. It says, for example; "the general picture suggested by the replies to our enquiry supports the view that the economy needs stimulation, that the measures recently announced by the Chancellor are justified, and that some further action will probably be necessary in the near future". However, it goes on to say: "We believe that a high level of investment in plant which makes better use of labour and reduced manufacturing costs is essential for the future success of the economy, both at home and in overseas markets. This will remain true whatever the outcome of the Common Market negotiations and we, therefore, urge the Chancellor to develop and apply as part of his stage by stage programme, fiscal and other measures which will encourage industry to make such investments". All that was offered to the Conservative Conference was the hope that the long awaited first report from NEDC will paint a sufficiently rosy picture of future economic possibilities to restore some confidence to business. At present this is singularly lacking.

Common Market Pamphlet War

In the months ahead, however, economic issues will be dwarfed by the campaign in favour of British membership of the Common Market. From now on, an ever increasing spate of Common Market propaganda will descend upon the British people. The first shot in this battle was fired by the publication of Mr Macmillan's own pamphlet. Last week-end the promised flood of leaflets in favour of Britain's entry into the Common Market began to pour out of the Conservative Central Office. Nine single page leaflets each dealing with a separate topic have been produced — the whole set selling for sixpence. As the controversy gets more heated, objective analysis will become even more difficult.

Typical of this trend perhaps is the article which appeared last week-end in the **Observer**. Obviously, the pro-marketeers have been upset by Mr Gaitskell's statement that the economic arguments for going into the Common Market or staying out are equally balanced and the fact that many distinguished economists have maintained that the economic arguments for Britain's entry are not compelling. In order to combat this view the Economic Editor of the **Observer** made an investigation into the opinions of leading economists on whether Britain should enter the Common Market or not. A questionnaire was sent out to every Professor and reader in economics in Britain and to at least one Fellow in each Oxford and Cambridge College. A few economists heading Research Institutes were also included. Of the 127 economists, 83 sent replies.

From this very unscientifically weighted opinion poll where young and inexperienced economists' views were given equal weight with those of well known and distinguished economists, the **Observer** comes to the conclusion that 49 out of the 83 were in favour, 12 were against, 18 were evenly balanced and 4 were non-committal. But even the **Observer** has to admit that the quality of opinion on Mr Gaitskell's side is better than the quantity. They include people such as Professor Richard Kahn, Mr Nicholas Kaldor, Mrs Joan Robinson (all according to the **Observer** usually regarded as left of centre) as well as Sir Roy Harrod who is a Conservative. It is also well known, although their replies were not given, that distinguished economists like Sir Donald Macdougal, Professor Meade and Professor Pickles are also against the Common Market.

Those who are quoted as being very much in favour of British membership are Alan Day of the London School of Economics, Professor D C Hague of Sheffield and

Professor Lady Gertrude Williams, who with overwhelming clarity says: "The economic arguments in favour of joining are so overwhelming that they override most other considerations". With all due respect to the **Observer** it is hardly a brilliant galaxy that has been produced to argue in favour of entry. This little questionnaire does little to dispute the statement made by Mr Gaitskell on the Common Market on June 6 when he said: "I do not know a single well known experienced economist who takes the view that the arguments are all on one side. Indeed, almost all of those whose judgement I would trust take the view that there is practically nothing in it on economic grounds."

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Letter from South

Kerala : After Coalition's Collapse

KERALA, as perhaps the country as a whole, desperately needs politics, the clash and the conciliation at the level of policies and of ideas. Instead what it is experiencing at the moment is the continuation of the struggle for power.

The impressive defeat of the Communist-sponsored no-confidence motion, despite the P S P pull-out from the coalition, has not ended the political stalemate in Kerala. All it has done is to secure a respite for the uneasy Nair-Catholic combine which is in total possession of the Congress. The lack of amity in the combine was dramatically revealed by the Congress High Command's decision to postpone the elections to the important post of the Pradesh Congress Committee President—a dubious honour which Kerala shares with Bihar and Madhya Pradesh.

Struggle for P C C Presidentship

The retiring President C K Govindan Nair has been offered an important post in Indian Refineries. In any event having been in office for two terms he could not have contested for the post again. In this situation there were two important contenders — P T Chacko and Damodara Menon. Baulked of the Chief Ministership at least for the time being, the aggressive Catholic Home Minister had wanted to spread himself by gaining further control over the organisation. Damodara Menon had put himself forward as the candidate likely to secure the votes of Malabar and the Nairs. It was likely that Chief Minister Sankar would also have backed him.

It needs to be underlined that neither contestant even made a pretence of putting forward any ideas or policies in support of their candidature. It was pure and simple a struggle for power on the basis of communal and caste affiliations. However, to maintain the precarious poise established by Shastriji's manoeuvre it was essential that the contest be postponed. And, so it has been.

Consider next the Ministerial reshuffle following the exit of the P S P. Chacko had pressed for two favours : expansion of his kingdom of portfolios and inclusion of Alexander Parambithara (the present speaker) as the representative of Latin Christians. The Nair Chief Mannath Padmanabhan, while continuing to press for P S P merger with the Congress, had insisted that there should be (for the time being, so long as the P S P refused to oblige) only one new Minister — his protege, N S Krishna Pillai.

Frantic negotiations and excited deliberations, with the help of K K Shah, the Congress General Secretary, finally produced a compromise. Chacko won an increase of portfolios, including the important ones of Law and Land Revenue. But no Latin Christian nominee came in. Mannath failed to get his particular protege included. But the selected Minister was M Govindan Nair, a member of the Board of Directors of Mannath's Nair Service Society. Govindan Nair's man was put in charge of Devaswoms and Religious Institutions, which are of special importance to Mannath and which had previously been in charge of the late Velappan (who had also been an open candidate of the Nair Chief). As a result the Nair-Catholic balance of power within the Ministry remains roughly where it was before Pattom left and the P S P resigned in a huff.

Hobson's Choice Before P S P

Take next the P S P withdrawal from the Ministry. After the humiliations inflicted upon it by the Congress and the defections of Pattom and K B Menon it might have seemed that the best course for the P S P would be to formally dissolve itself. Sankar and the other Congress leaders had made it clear that there was no question of the P S P Ministers remaining both Ministers and P S P members. Knowing quite intimately the pulls and pressures within the Congress, the P S P ministers realised that even joining the Congress was no guarantee that within a short period they would not be pushed out of their **gaddis** and even denied tickets in future elections.

They then came to the sad conclusion that their power to bargain would be strengthened if they could somehow keep up the semblance of an independent political entity, with some nuisance value to the Congress. They calculated that the coming by-elections could be used to scare the Congress and secure some accomodation and that in any future general elections there was a better chance of securing a few constituencies for themselves as members of the P S P than in the milling crowd of Congress claimants for tickets.

Even then there is a lurking suspicion and fear that some of the P S P M L As might jump the fence. This is reflected in the frequent warnings to the Congress about the dire consequences of such buying up ! A possible indication of likely defections is the decision of C G Janardhanan to become a primary (four-anna) Congress Member. He had earlier quit the P S P on the ground that Pattom was behaving in far too dictatorial a manner, but with Pattom gone he has shown no inclination to return to the P S P.

The P S P position vis-a-vis the Congress was clearly revealed both in its statement of withdrawal from the Ministry and in its stance during the no-confidence motion. They criticised the Congress only for not displaying constitutional propriety and, at the same time, promised the Ministry support against the "totalitarian menace". When Sankar was not impressed and proclaimed that the Congress had never promised during the mid-term elections that it would form a coalition, the P S P decided to move from "responsive cooperation" to "constructive opposition" with the continuing objective, however, of allowing Kerala "to live in freedom and prosper in equality" !

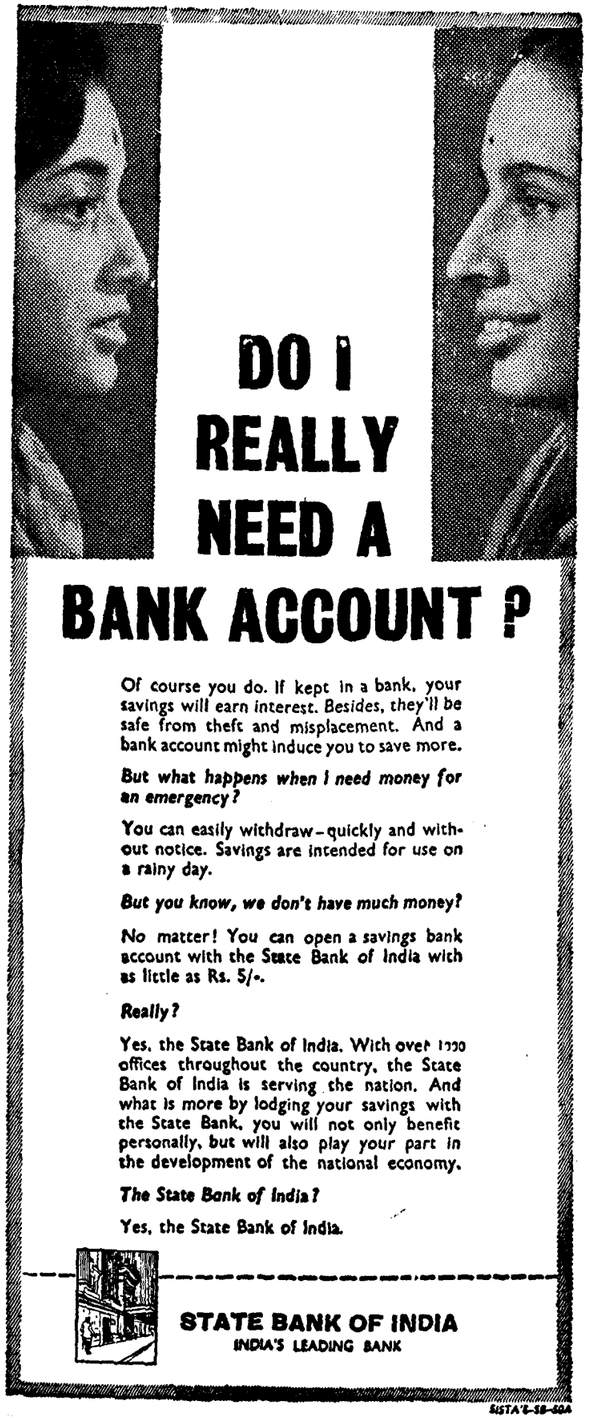
This rather depressing picture of a land without politics has, however, some hopeful aspects. The Communists, of course, pressed their no-confidence motion and their demand for fresh elections. But E M S Namboodiripad, who made one of his rare appearances in the as-

sembly, frequently returned to the theme that the Communists would have supported the Congress if it had openly declared that Pattom's presence was hampering the progress of Kerala. The C P I would have no hesitation, its most authoritative spokesman declared, in voting for a Congress ministry that would earnestly tackle some of the numerous problems of Kerala's backwardness. The obvious implication is that the break up of the coalition if followed by a break from the sterile politics of the coalition, would find the Communists in a position of responsive cooperation.

And this would seem to be the only way in which politics could re-appear in Kerala. The recent Municipal elections have shown that the Congress has control of 13 out of 26 Municipalities, with the Communists and their supporters winning 8 and with 5 in an indeterminate position. Thus, despite all the decline in its prestige, the Congress still has a mass base. Equally, despite all its rather shady manoeuvres the Congress has not been able to shake the position of the Communists even in the towns, which were never the Communists' forte in Kerala.

Unthinking anti-Communism on the part of the Congress will inevitably entail further unscrupulous moves and further surrender to the already powerfully entrenched communal groupings. Blind anti-Congress policy on the part of the Communists will equally inevitably necessitate attempts at wooing the Muslim League (there are some reports that the Communists and Muslim League are going to join hands in the Calicut Corporation) and joining the communal chess game. Both attitudes, in essence, would amount to an obsession with power at the expense of a concern for politics.

The Namboodiripad approach of highlighting policies and the endeavour to build unity around agreed ideas of development is the only sane course in the jungle of power fights in Kerala. Obviously, the Kerala Congress on its own would never respond. But Shastriji could redeem his reputation if he gave serious thought to such an approach and exerted pressure to make the State Congress accept it.



Book Review

Industrial Law: Theory and Practice

Rashid Ali

Industrial Jurisprudence by S R Samant, N M Tripathi Private Ltd, 1961; pp 175, Rs 12.50.

Growth of Labour Legislation in India since 1939 and Its Impact on Economic Development by R D Vidyarthi, Star Printing Works, Calcutta, 1961; pp 335, Rs 12.50.

Law of Industrial Disputes in India by R F Rustomji, Law Publishing House, Allahabad, 1962; pp clix + 623, Rs 25.

THE phrases 'labour laws' and 'industrial laws' are used in this country, as elsewhere, synonymously and denote those laws and legal rules which regulate the employer-employee relations. Some of these laws, though not directly dealing with such relations, nevertheless impose certain obligations or confer certain rights upon the employers or the employees so that in the ultimate analysis they can be deemed to impinge upon employer-employee relations. The literature on industrial laws, however, must confine itself to those laws which directly and substantially, and not remotely and incidentally, deal with the relationship between employees and employers. "A code of civil procedure may prohibit the attachment of the wages of a servant in execution of a decree. An educational act may indirectly eliminate children's entry into industry by providing for their compulsory education. Yet, surely, these cannot be called industrial laws". (Samant, p 25). By law, of course, is not meant merely the acts of legislature. Customs and agreements having the force of law or giving rise to laws should legitimately be included in the term industrial laws. So also case law or judge-made law which, at any rate in this country, has been enormous especially in matters like bonus, scales of pay, discipline in industry etc.

The three books under review deal with industrial law in its different aspects and from different angles. Though they overlap to some extent, they are in fact complementary to each other. Samant, a judge of the Labour Court in Bombay, is concerned with the examination of the basic principles that go to make industrial jurisprudence; Vidyarthi, an economist and official of a Chamber of Commerce, provides a neat historical sketch of the growth of legislation; Rustomji, a Senior Advocate, has made a thorough analysis of one Act, namely, the Industrial Dispute Act, in the light of decisions of the Courts to-date. Rustomji has, in addition, written an introduction dealing with the background to the subject of industrial disputes.

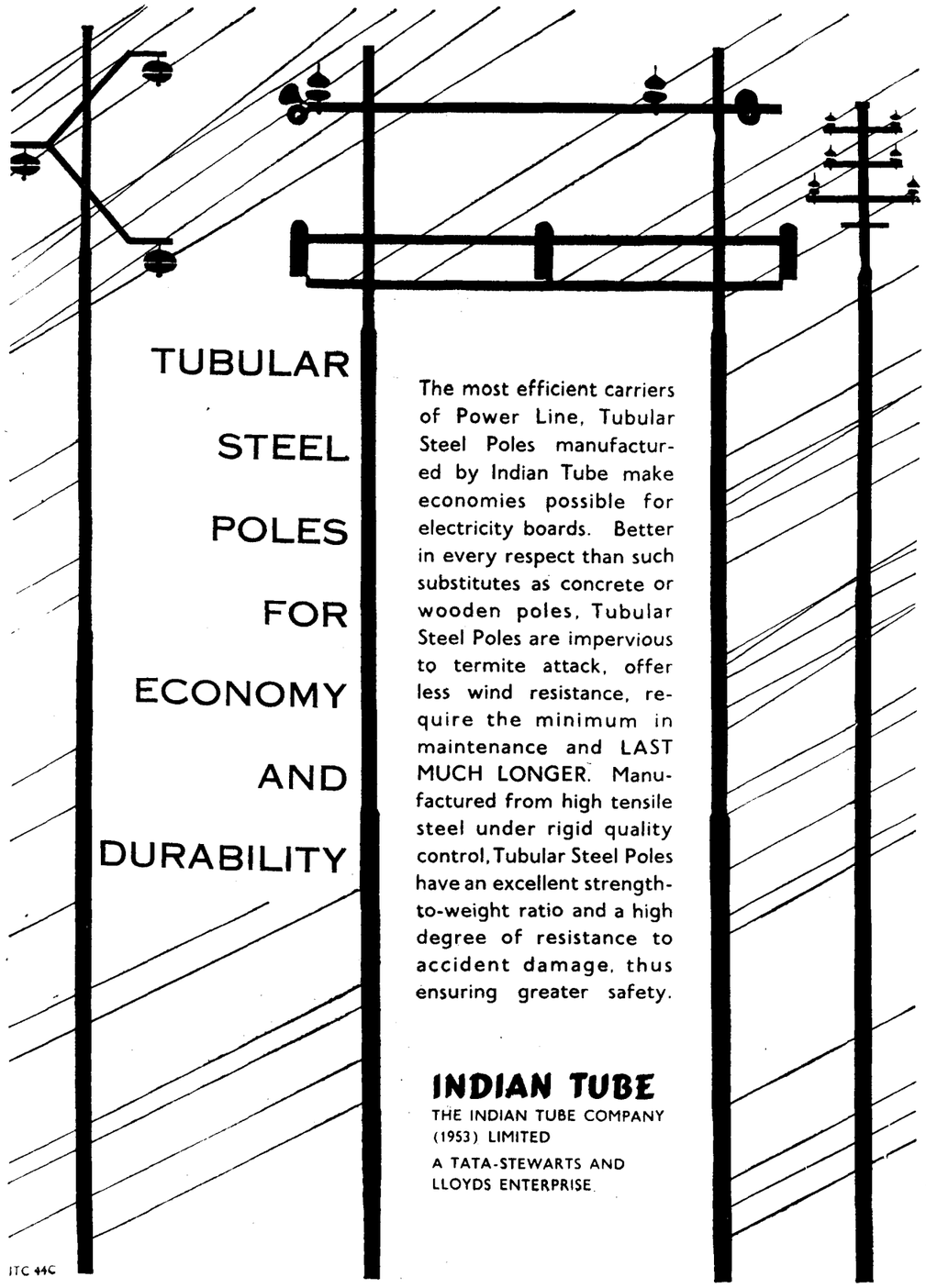
Why Industrial Courts ?

Samant begins at the beginning, namely, why industrial jurisprudence ? Does the set of industrial laws provide any rules or system meriting the name of industrial jurisprudence ? Though the growth of legislation, as Vidyarthi's study shows, has been haphazard and often to meet the needs of the day, there has been a steady growth and enlargement of certain principles which can collectively be embraced by the title of Samant's book. The origin and the predominant purpose of industrial laws have not been maintenance of law and order or the raising of money by the State. Industrial laws are essentially beneficial laws and these benefits they seek to provide along certain rules which are not a part of 'normal' law. For instance, the dismissal of an employee is no longer to be governed by the common law of master and servant; the hours of work, wages and conditions of service shall no longer be dependent upon contract alone; the recovery of delayed or illegally deducted wages shall be made expeditiously; and, above all, several questions of industrial life shall be decided not by express provisions of law but by the dictates of social justice.

Corresponding to the growth of industrial law has been the growth in the number of industrial courts and the volume of their business. Why should there be separate courts for dispensing industrial justice ? This question comes too late in the day and can be shortly answered by citing the fact that there are income-tax tribunals for income-tax law, co-operative tribunals for co-operative laws and tenancy courts for tenancy laws. Samant's laborious arguments supporting a separate judiciary are not all convincing. It is universally agreed that "the industrial disputes have become so numerous that common or ordinary courts of law, already burdened with overwork, are not in a position to cope up (sic) with them." (p 35) It is also true that the complicated and protracted procedure of the common courts of law presents a problem to litigants in labour matters. But this argument would be appealing if it could be shown that industrial courts are following a markedly simplified procedure. Unfortunately it is not so, partly because justice cannot be doled out without legal trappings. That the common courts of law are costly is another argument endorsed by Samant. However, courts of law are not inherently so. The exorbitant court fees and the delay in the disposal of cases are the two main factors responsible for the high cost of litigation.

Bar on Lawyers Unjustified

Samant treads on still more controversial ground when he says that common courts of law are biased and reactionary and that industrial matters are complicated and therefore need both technical and legal expertise. In the first place, judges for both the categories of courts are recruited from the same society and inherit the same outlook — unless, of course, judges of industrial courts are picked and chosen for their "progressive outlook". Secondly judges have to dispense justice on the basis of the evidence placed before them and according to law and for this they need not have 'technical' know-



ledge. In any case, the present judges of industrial courts are *not* technically qualified persons.

Closely connected with the judiciary is the question of the role of lawyers in industrial courts. In some courts like those established under the Payment of Wages Act, lawyers can appear by right. However, before tribunals established under the Industrial Disputes Act, a lawyer can appear on behalf of one party only with the consent of the other party and the permission of the tribunal. This invidious bar against lawyers has been completely ignored by Samant and appropriately discussed at length by Rustomji. This bar is based upon a suspicion, old but unjustified, "that lawyers might foment litigation and their approach would be technical and legal" (p cxxv). The exclusion of lawyers from tribunals has far reaching consequences which are too patent to be ignored. It deprives parties before tribunals of the valuable assistance to which they are entitled. As a result, very often, some cases go by default because of the failure to put forth effectively the necessary points of view and of law. Secondly, without the assistance of lawyers the development of law will be handicapped. Thirdly, without an active and vigorous bar it would be impossible to find judges of *tomorrow*.

Historical Perspective

Samant is eminently fitted to realise this situation and to make valuable recommendations. But he makes none. His criticisms and recommendations even in other matters, are halting and hesitating —in keeping with the outlook of a judge. Vidyarthi, on the other hand, is eager to analyse the theory and practice of industrial law critically, and provides a better historical analysis. He is also concerned with the practical difficulties of administering industrial laws — difficulties faced by the management. Incidentally, Vidyarthi throws up certain interesting facts. For instance, how many people know that the first Indian Factories Act was put on the Statute book as a result of agitation by Lancashire Manufacturers who were aggrieved by cheap Indian Labour and therefore wanted a ban on the employment of child labour in India?

Vidyarthi has his quota of complaints. He says that "for small factories ..... it is impossible to comply with provisions relating to cleanliness, health, welfare etc" (p 71). If that is so, these small factories have no business to exist. The Factories Act prescribes only certain minimum standards and if even these cannot be complied with, industrial establishments would become a menace to the safety and health of the workers. Vidyarthi's complaint that "a factory inspector carries out his duties as a policeman", (p 72) is misplaced because he is expected to do so. The violation of the provisions of the Factories Act invites penalties and the Factories Act, after all, finds its appropriate place in a manual of criminal laws.

Regarding the settlement of industrial disputes, Vidyarthi complains that the present machinery does not ensure joint consultation and makes arbitration compulsory (p 92). But the present machinery does not bar joint consultation. On the contrary it is only when negotiations and conciliation have failed that resort is made to the machinery under the law. Without this machinery every small industrial dispute would have had a multiplier effect—a result no one desires. If the machinery has not worked well in practice, it is not the fault of the law-makers. Trade unionists who are ready to agitate at, or even without, the slightest provocation and Indian employers who would give only the legally minimum and that too after legal action — they are responsible for the disrepute in which the working of industrial laws has fallen.

Indiscipline in Industry

Vidyarthi has completely failed to take note of the problem of indiscipline in industry. Law in this respect is predominantly judge-made and appropriately dealt with by Rustomji. No law can adequataly cover the variety of acts of misconduct which range from mere insubordination to open violence. Under law, today, an employer cannot take any disciplinary action against an employee without following rules of natural justice. He must hold a proper **bonafide** inquiry into the misconduct of the employee and if the charge is proved, the employer can punish the worker. Several decisions of the Supreme Court have by now laid down that the inquiry must be fair and need not be strictly according to rules followed by courts of law and that the quantum of punishment is a decision of the management and the courts would not substitute this judgement for that of the management. Unfortunately on several points the law is not yet settled. The problem of indiscipline in industry is not likely to be solved by courts; it is a problem which has to be tackled by trade unions and employers together and to be solved in the interest of the industry as a whole.

Rustomji's survey of case law is extremely helpful to a lawyer in industrial tribunals. He has examined the various decisions carefully and pointed out the principles involved in them. He has traced the trend of decisions, though he is careful enough to show that in certain matters there has not been a consistent development. Rustomji's book is meant essentially for lawyers though the introduction of nearly 150 pages might be read by others with interest.

As said earlier, these three books written by three persons in different positions present different aspects of the same subject, though the level of treatment varies. Rustomji's is a study of a specific Act and hence intensive; Samant writes of the basic principles underlying industrial laws; and Vidyarthi is occupied with the historical development of labour legislation.

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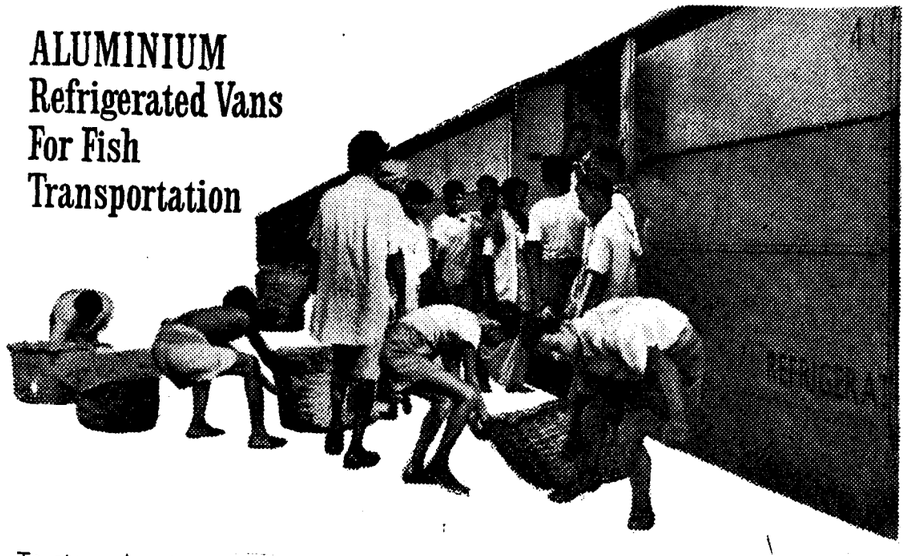

To streamline the transportation of fish from the fisheries to the marketing centres, the Ministry of Railways designed and constructed special purpose refrigerated vans which were put on the rails in 1960. The South Eastern Railway, for instance, runs a refrigerated van, which takes on loads from stations between Chatrapur and Khurda Road, in Orissa, and delivers Chilka and other varieties of fish fresh to Calcutta every day. Aluminium has been used for the construction of a large part of the body of these vans.

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Group Differences in the Perception of Village Needs

T N Valunjkar

The understanding of the needs of the village community is of basic importance for the realistic planning of the rural development programmes.

The problem of planning deveopmental projects which would be appreciated by all the sections of the village population is complicated by the existence of various castes, each enjoying different social position in a village.

The village leadership has also to play an important role in understanding the village needs and in implementing developmental schemes in a village. The perception of the village leaders regarding the needs of the village community is likely to influence the success of the developmental programmes.

This paper investigates the problem of the differences in the perception of different caste-groups, and of leaders and non-leaders of the developmental needs of the village.

VILLAGE Divad, where the investigation was carried out, is in the North Satara District of Maharashtra State. The population of the village is 1,300 approximately. The major source of livelihood is agriculture. The village has a panchayat and a co-operative society.

The social structure of the village shows three distinct hierarchical layers. At the top are the Marathas, who are the founders of the village, and who are the dominant group in the village. The main occupation of the Marathas is agriculture and the major portion of the village land is owned by this caste. In the political and social life also the Marathas are dominant. The post of the village headman, who is called Patil, belongs to this caste. In the village Panchayat as well as in the co-operative society the Maratha members are in the majority.

Next to the Marathas are castes, like Dhangar, Sutar, Lohar, Nhavi, Sonar etc. Except the Dhangars all these castes render services needed for agriculture. Dhangars are shepherds who have also taken to farming. In the social and political life, the status of the Dhangars is below that of the Marathas. The service castes mentioned above, the Dhangars and the Marathas, constitute the touchable section of the village population. However, for the convenience of discussion all the touchable castes except Marathas are called here as Touchables.

The lowest group in the social hierarchy is the Harijans. Castes in this group perform menial occupations, and to a lesser extent unskilled or semi-skilled services, like rope weaving, leather tanning, making leather articles, etc. These occupations are regarded as socially inferior.

The total sample of the present study covers 49 persons. Sixteen persons, who are either members of the village panchayat or of the co-operative society, or who are very active and influential in the social and political life of the village, constitute the leader group. Thirty-three persons who are randomly chosen constitute the non-leader group. In the leader group there are 10 Marathas, 2 Touchables and 4 Harijans. In the non-leader group, 19 persons are Marathas, 8 Touchables, and 6 Harijans. The distribution of 49 persons into three broader caste groups shows that there are 29 Marathas, 10 Touchables and 10 Harijans. The sample represents the relative proportion of the population of various caste groups in the village.

Method of Data Collection

A list of twelve projects which were demanded by the villagers and which as yet were not undertaken in the village was prepared by the research worker. These projects were as follows : (1) Maternity Home; (2) Latrines; (3) Gymnasium; (4) Library; (5) Bazaar; (6) Public roads; (7) Fair Price shop; (8) Lift Irrigation; (9) Seed Store; (10) Preventive Medicine; (11) Bunding; (12) Dharmashala.

Of these twelve projects, three projects namely lift irrigation, seed store and bunding have more direct reference to village agriculture, while the rest of the projects have reference to public health and sanitation, recreational and educational facilities, communication, and other facilities. Each informant was asked to choose five projects which he thought were the most useful to the village and to rank-order them.

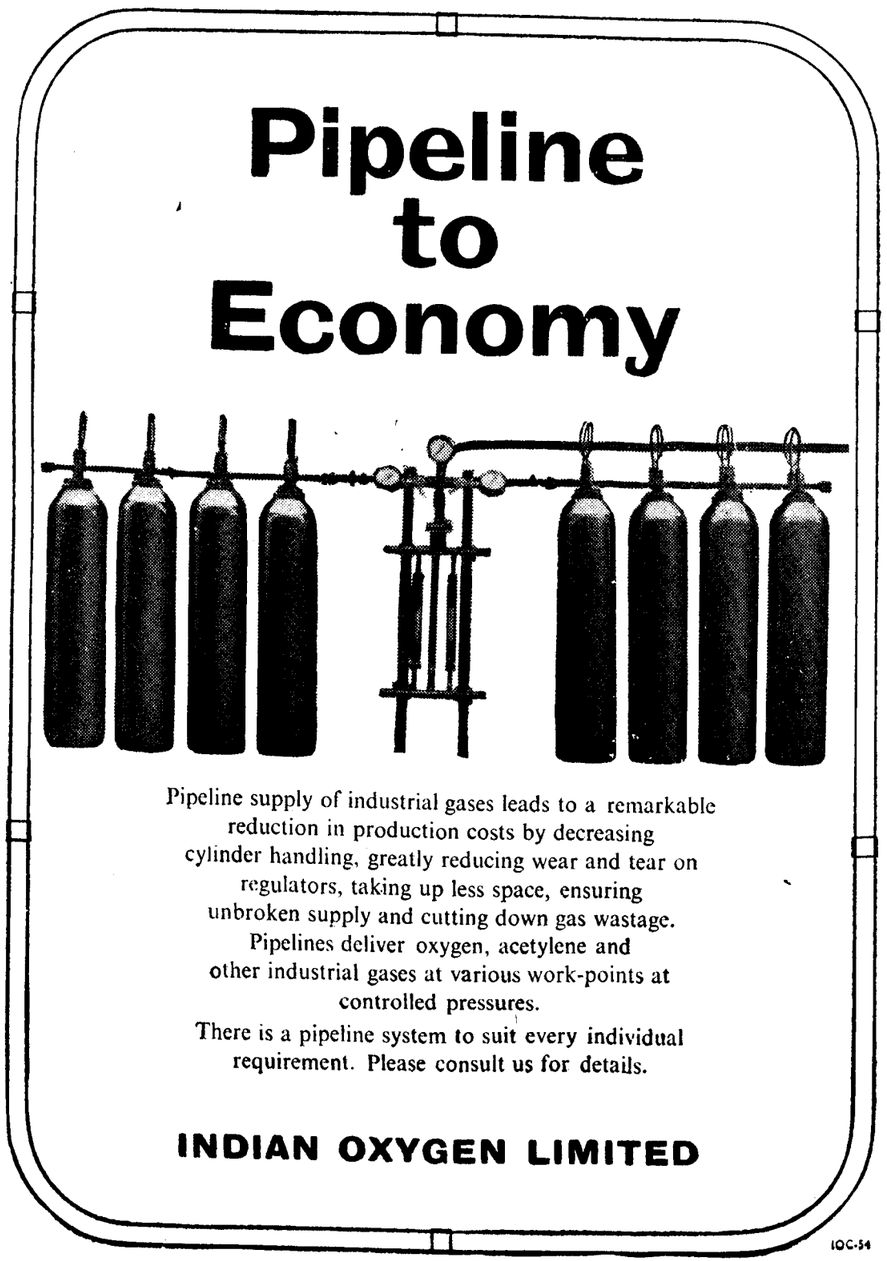
In analysing the data, ranking of five items were given scores; first priority receiving five points, second priority receiving four points, third priority receiving three points,

Table 1 : Distribution of the Sample

	Leaders	Non-leaders	Total
Maratha	10	19	29
Touchables	2	8	10
Harijans	4	6	11
Total	16	33	49

Table 2 : Average Scores of the Leaders and the Non-Leaders

Item	Leaders	Non-Leaders		
		Marathas	Touchables	Harijans
1 Maternity Home	0.44	0.16	0.38	1.00
2 Laterines	2.31	0.84	2.50	3.33
3 Gymnasium	0.62	0.75	1.75	0.50
4 Library	0.93	0.26	0.38	0.83
5 Bazaar	1.18	1.94	2.25	1.33
6 Public Roads	1.43	1.36	1.37	1.00
7 Fair Price Shop	2.37	2.84	3.25	3.50
8 Lift Irrigation	2.12	3.15	1.00	0.83
9 Seed Store	1.37	0.74	0.50	0.50
10 Preventive Medicine	0.50	0.47	0.50	—
11 Bunding	—	—	—	—
12 Dharmashala	—	0.31	0.25	—



fourth priority two points, and fifth priority one point. Adding the scores of the total number of persons of each group item-wise, and dividing it by the total population of each group, mean average score was worked out for each group. The difference in the mean score of each item between two groups is called here as the difference in the perception of the need of that item, between the two groups. Adding together the differences in the mean scores of all the items, total difference is worked out which is called here as the total difference in the perception of needs between the two groups.

Results

Table 2 shows the average scores of the leaders, and Marathas, Touchables and Harijans of the non-leaders. It will be observed that among the non-leaders, Marathas have given top priority to lift irrigation, a project which is of great importance to village agriculture, while Touchables and Harijans have given top priority to fair price shop. The comparison of the scores of the leaders, and Marathas, Touchables, and Harijans of the non-leaders shows that lift irrigation which is the first priority of Maratha non-leaders is ranked second by leaders. Leaders have given first priority to fair price shop, which is also the first priority of Touchables, and Harijans of the non-leaders. The first five projects of the leader group, which are, fair price shop, latrines, lift irrigation, public roads, and seed store, cover four of the first five projects of the Maratha non-leaders, three of the first five projects of the Touchable non-leaders, and three of the first five projects of the Harijan non-leaders.

Table 3 shows the differences in the perception among Marathas, Touchables, and Harijans of the non-leaders. The total difference between Marathas and Touchables is 6.23, between Marathas and Harijans is 9.10, and between Touchables and Harijans is 5.61.

No castewise analysis of the leader group is attempted here because of the small size of the sample. However, the analysis of the leader group shows good deal of interpersonal agreement and very little caste differences.

Table 4 shows differences in the perception between the leaders and Marathas, Touchables, and Harijans of the non-leaders. The total difference in the perception between the leaders and the Maratha non-leaders is 5.83, between the leaders and the Touchable non-leaders is 6.18, and between the leaders and the Harijan Non-leaders is 6.17. Thus leaders differ from the Maratha, the Touchable, and the Harijan non-leaders by more or less the same degree of difference in the total scores.

Discussion

The analysis of the differences in the perception of Marathas, Touchables, Harijans of the non-leaders has revealed the tendency on the part of each caste group to think primarily in terms of the caste needs. For instance, the Marathas who are agriculturists have given the first priority to lift irrigation, while the Touchables and the Harijans who are non-agriculturists have given the first priority to fair price shop. Similarly the total differences in the perception of these caste groups show similarity with the social distance of each caste group in the village. Thus, the Touchables who are nearer to the Marathas in social life, also show less difference in perception from the Marathas (6.23). On the other hand the Harijans who are removed from the Marathas in social life, show greater difference in the perception from them (9.10).

The analysis of the differences between the leaders, and Marathas, Touchables, and Harijans, of the non-leaders, shows that the leaders show more or less equal difference in the perception with the Marathas (5.83), the Touchables (6.18), and the Harijans (6.17). This shows that as compared to the non-leaders, the leaders do not show any caste bias. This also supports the earlier observation that there is a greater interpersonal agreement among the leaders.

To sum up, the analysis of the differences in the perception between various groups has revealed the following trends :

(1) The non-leaders show greater caste bias as compared to the leaders.

(2) The differences in perception between the Marathas, and the Touchables, and between the Marathas and the Harijans, of non-leaders, show similarity with the social distance in the village.

(3) The leaders have shown equal differences in the perception with the Marathas, the Touchables, and the Harijans, of the non-leaders.

These trends in the differences in perception, suggest the relationship of the differences with the degree of interaction between various groups. The work activities, which are primarily oriented towards earning a living, frequently bring together the

Table 3 : Differences among Marathas, Touchables, and Harijans Among Non-Leaders

Item	Non-leaders		
	Marathas & Touchables	Marathas & Harijans	Touchables & Harijans
1 Maternity Home	0.22	0.84	0.62
2 Latrines	1.66	2.49	0.83
3 Gymnasium	1.02	0.23	1.25
4 Library	0.12	0.57	0.45
5 Bazaar	0.31	0.61	0.92
6 Public Roads	0.01	0.36	0.37
7 Fair Price Shop	0.41	0.66	0.25
8 Lift Irrigation	2.15	2.32	0.17
9 Seed Store	0.24	0.24	-
10 Preventive Medicine	0.03	0.41	0.50
11 Bunding	—	—	—
12 Dharmashala	0.06	0.31	0.25
Total Difference	6.23	9.10	5.61

Table 4 : Differences between Leaders and Maratha, Touchable and Harijan Non-Leaders

Item	Leaders & Maratha Non-leaders	Leaders & Touchable Non-leaders	Leaders & Harijan Non-leaders
1 Maternity Home	0.28	0.06	0.56
2 Latrines	1.47	0.19	1.02
3 Gymnasium	0.11	1.13	0.12
4 Library	0.67	0.55	0.10
5 Bazaar	0.76	1.07	0.15
6 Public Roads	0.07	0.06	0.43
7 Fair Price Shop	0.47	0.88	1.13
8 Lift Irrigation	1.03	1.12	1.29
9 Seed Store	0.63	0.87	0.87
10 Preventive Medicine	0.03	-	0.50
11 Bunding	—	—	—
12 Dharmashala	0.31	0.25	-
Total Difference	5.83	6.18	6.17

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Marathas and the Touchables. Agricultural activities require the cooperation of Touchable craftsmen like Sutar (Carpenter), Lohar (Blacksmith). Similarly services of Nhavi (Barber), Gurav (Temple Minister), Sonar (Goldsmith) are often required by Marathas. But in the case of Harijans, rules of untouchability create barriers in the social interaction with the touchable population. The residential area of Harijans is also considerably removed from the residential areas of the touchable population. Thus, so far as the intercaste interaction is concerned, it might be said that the Marathas and the Touchables have greater interaction with each other, while Harijans have less interaction with the rest of the two groups. However, it might be stated here that interaction within the caste i e, intracaste interaction, is greater than intercaste interaction.

In the light of the above discussion, it will be seen that the differences in the perception between the Marathas, the touchables, and the Harijans of the non-leaders are related to the differences in the interaction. Also the fact that each caste group of the non-leaders, has tried to emphasise the caste-needs first, is in agreement with the observation that the intracaste interaction is greater than the intercaste interaction. Leaders have shown very little caste bias and have shown greater interpersonal agreement. The leadership functions give the leaders greater opportunity, in spite of the caste differences, to interact with each other, and they have shown greater interpersonal agreement and less caste bias.

Summary

The paper gives an analysis of group differences in the perception of village needs. It was found that the leaders are less caste-centred as compared to non-leaders. Also caste differences in perception among non-leaders are related to the social distance of each caste group in the village. The findings of the paper suggest that the degree of interaction is likely to bring about agreement or differences in perception of the needs among various groups.

State Tax Burden In India

A Comparative Study

M R Madhavan

Whether or not the people of different States in India bear an equal burden in contributing to their respective Governments' revenue is a question worth consideration. The answer to this query will be of particular interest especially in the present phase of India's economic development.

Taxes per capita and taxes as a per cent of income are customarily employed to assess the inter-State tax burden. The former measure gauges variation in tax burden by reducing all States to a common denominator of population, while the latter method uses personal income in each State as a basis for comparison.

The inadequacy of these methods led Henry J Frank to suggest a new device making use of the above mentioned measures for comparing inter-State tax burdens. In this paper,† an improvement is introduced in the index of tax sacrifice suggested by Frank to measure the relative degree of sacrifice involved in the payment of taxes in each State.*

[I am indebted to Professor H M Groves, University of Wisconsin, for his helpful comments on an earlier draft.]

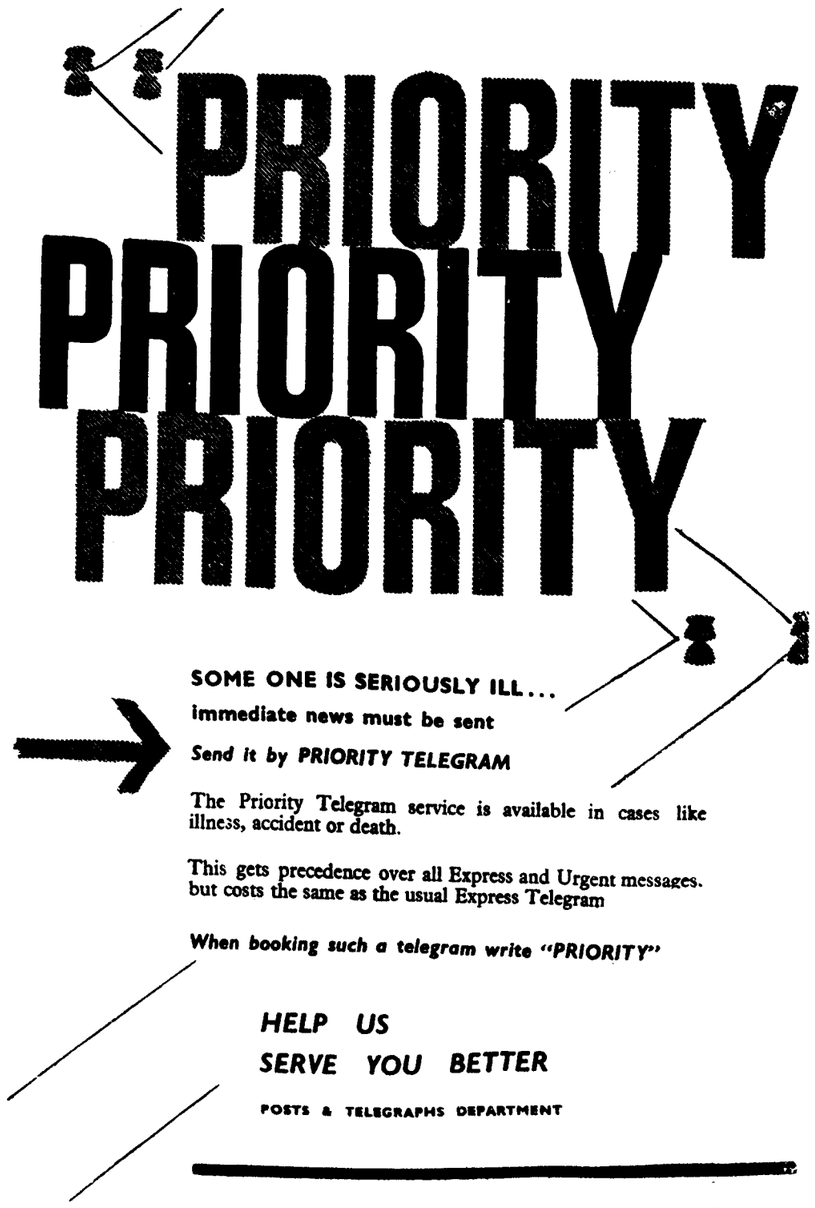
ESTIMATES of State tax collections per capita in each of the 14 States (excluding Jammu and Kashmir) have been made for the years 1955-56 and 1960-61. (See Table 1). In 1955-56 they ranged from Rs 11.2 in undivided Bombay to Rs 3.5 in Orissa with an average of Rs 6.8. In 1960-61, they ranged from a high of Rs 15.8 for Maharashtra to a low of Rs 6.8 for Bihar, and averaged Rs 10.8. Though there has been a general increase in the per capita State taxes, the rates of increase for Assam, Bihar, Gujarat, Kerala, Maharashtra, Rajasthan, Uttar Pradesh and West Bengal are below the all-States average. While Maharashtra maintained the *status quo* as the "top notcher" in both years, Orissa and Bihar held the last position in 1955-56 and 1960-61, respectively.

If, however, per capita tax revenue figures adjusted for price variation among the States are considered, Punjab occupied the pride of place in 1960-61 followed by Maharashtra with Orissa at the bottom.

Taxes as Per Cent of Income

This measure of tax burden is often used in international comparison of taxation levels in various countries. It may also be applied to the States of India. State taxes as a per cent of total income ranged in 1955-56 from a high of 4.02 per cent for Mysore to a low of 1.91 for Punjab, and averaged 2.81 per cent. In 1960-61, while Mysore continued to be at the top with 5.13 per cent of its income collected as tax, Uttar Pradesh was at the bottom and the average take was 3.40. In 1955-56, the two States with the heaviest burden were Mysore and unbifurcated Bombay; in 1960-61, Madhya Pradesh replaced the latter. In 1955-56, Punjab and Orissa imposed the lightest tax burden. These States were replaced by Uttar Pradesh and Gujarat in 1960-61.

The highest increase between 1955-56 and 1960-61 in State taxes as a per cent of income took place in Madhya Pradesh where they rose by about 79 per cent. Andhra Pradesh's increase was also substantial — about two-thirds. The States where the percentage increase was greater than the all-States



average were Punjab, Orissa, Rajasthan, Mysore, and Bihar. Assam, Gujarat and Uttar Pradesh showed an absolute decline in the percentage of income collected through State's taxation. If it had been possible for us to separate the taxes collected in the present Maharashtra territory of the former Bombay State for 1955-56, it is likely that Maharashtra would also have joined the latter group of States.

State taxes as per cent of income measure the amount of income that individuals must give up to defray a part of the State's expenditure. In many of the low income States, people seem to give up a greater proportion of their income as taxes than people in high income States. But the simple linear correlation coefficient computed between State taxes as a per cent of income and per capita income for each of the years do not decisively show that higher per capita incomes among States are associated with lower percentage of State taxes to income, the value of r being — 0.2472 for 1955-56 and — 0.009 for 1960-61. However, these values do indicate that taxes as a per cent of income are inversely correlated with per capita income.

Relative Degree of Sacrifice

Measurement of differences in tax burden among the States by the above methods is not completely satisfactory. Their inadequacies led Henry J Frank to weld these concepts to get a measure of the degree of sacrifice involved in the payment of taxes.[1] It seems to the present writer that this device may be modified to take account of price variation among the States. This is done here by adjusting the burden index suggested by Frank for differences between the State and all-India consumer price index. State's index here refers to the index available for the principal city of the State or the average of such indices for the cities. The writer realizes the limitation of applying the city consumer price index for the whole State. But there will not be two opinions that however inadequate, it improves the index of sacrifice.

[1] Frank's index of sacrifice is arrived at by dividing State taxes as a per cent of State income by per capita State income.

In 1960-61, State taxes as a per cent of income were more or less the same in Gujarat, Orissa, West Bengal and Uttar Pradesh. But the differences in per capita income were very wide among these states — W Bengal: Rs 462, Gujarat: Rs 391, Uttar Pradesh: Rs 273, and Orissa: Rs 238. According to Frank's index the Bengali makes the least sacrifice and the resident of Orissa the most. But if differences in the consumer price index are taken into consideration the resident of Uttar Pradesh makes the greatest sacrifice. The results are given in Table 3.

The results for each State. based on the formula

$$B = \frac{\frac{T}{Y} \times 100}{\frac{Y}{N}} \times \frac{P}{Pi}$$

where B = relative degree of sacrifice, T = Taxes collected through State's efforts, Y = State's total income, N = population of the State, P = All-India consumer price index, and Pi = State consumer price index, are given in Table 4.

It may be seen from Table 4 that the application of this measure does make some difference in the rankings of the States as compared with Frank's concept. The ranks of 6 States in 1955-56 and all but 2 in 1960-61 changed consequent to the application of this measure.

Our measure will be of particular value when prices rise at different rates in different parts of the country. It also helps us to find out if there exists an inverse correlation between per capita income and tax burden. Rank correlations calculated between per capita income and the relative degree of sacrifice involved in the payment of taxes reveal that the States with higher per capita income bear a lower sacrifice and States with lower income a higher sacrifice, rank correlation being —0.5 and —0.83 for 1955-56 and 1960-61, respectively. The higher value for 1960-61 may also be interpreted to mean that the differences in the relative burden borne by the residents of lower and higher income States have widened during the Second Plan period.

Table 2 : Tax Revenue Realized through State's Efforts as Per Cent of State's Income : 1955-56 and 1960-61

State	1955–56 Percentage	1955–56 Rank	1960–61 Percentage	1960–61 Rank
Andhra Pradesh	2.34	11	3.86	4
Assam	3.38	4	3.20	9
Bihar	2.78	8	3.43	7
Gujarat	3.72	3	2.88	13
Kerala	3.24	5	3.43	6
Madhya Pradesh	2.27	12	4.07	2
Madras	2.95	6	3.22	8
Maharashtra	3.72	2	3.87	3
Mysore	4.02	1	5.13	1
Orissa	2.06	13	2.88	11
Punjab	1.91	14	2.98	10
Rajasthan	2.73	9	3.62	5
Uttar Pradesh	2.91	7	2.87	14
West Bengal	2.46	10	2.88	12
All States	2.81		3.40	

Notes : As in Table 1. In ranking the States, the third decimal was also considered.

Table 1 : Per Capita Tax Revenue : 1955-56 and 1960-61

State	1955-56 Amount (in Rs)'	1955-56 Rank	1955-56 Adjusted Amount	1960-61 Amount (in Rs)	1960-61 Rank	Adjusted Amount
Andhra Pradesh	5.2	12	5.0	11.4	7	10.7
Assam	4.4	4	9.5	10.6	10	12.8
Bihar	4.4	13	4.3	6.8	14	7.0
Gujarat	11.2*	2	10.9*	11.3	8	11.6
Kerala	8.3	5	7.5	12.5	5	11.9
Madhya Pradesh	5.3	11	5.5	11.2	9	12.5
Madras	7.1	7	6.9	11.6	6	10.0
Maharashtra	11.2*	1	10.9*	15.8	1	14.5
Mysore	7.6	6	7.0	13.2	3	11.2
Orissa	3.5	14	3.4	6.9	13	6.7
Punjab	5.7	10	6.4	12.9	4	15.7
Rajasthan	6.1	9	6.9	9.8	11	10.4
Uttar Pradesh	6.2	8	7.4	7.8	12	9.7
West Bengal	8.8	3	9.1	13.3	2	14.3
All States	6.8	—	6.8	10.8	—	10.8

Notes : Figures for 1955-56 relates to pre-States' Reorganization status of units.
* Relates to undivided Bombay.

The last column of Table 3 gives the 1960-61 index adjusted for price variation over the Second Plan period. The only State, where the relative degree of sacrifice has risen, is Madhya Pradesh, which also had the greatest increase in taxes as a per cent of income. While the average relative burden has declined during 1956-61, it has risen in Andhra Pradesh, Orissa, Punjab and Rajasthan. But Punjab's increase was not sufficient to catch up with the all-States average in 1960-61. The rate of decline of tax sacrifice was negligible in Bihar and relatively low in Mysore. The greatest decline occurred in Gujarat and Madras.

The results of this analysis point to the conclusion that, if the relative degree of sacrifice concept is used to measure the burden borne by the people of different States, residents of low income States such as Bihar, Madhya Pradesh, Mysore and Rajasthan bear a heavier burden than the people of high income States such as West Bengal, Punjab and Gujarat. At the extremes we may safely conclude that the people of Madhya Pradesh make the greatest sacrifice, and of Bengal the least. This analysis assumes greater significance especially when we see that relatively well-developed States which rank high in the per capita taxes scale come at the bottom of this alternative scale.

If this analysis is accepted one can explain the inability of States such as Madhya Pradesh and Bihar to reach the additional taxation target in the Second Plan period.[2] One would also expect the high income States to increase their tax revenue to a much higher level so that the relative degree of sacrifice borne by the people of various States may approximately be the same. It may be argued, however, that we must also take into consideration the direct taxes paid by the people to the Central Government. The inclusion of these taxes in calculating the sacrifice may narrow down the differences but it is not likely to alter the general conclusion.

Table 3 : Measure of Degree of Sacrifice

State	Taxes as a Per cent of Income Measure	Frank's Degree of Sacrifice		Relative Degree of Sacrifice	
		Index	Rank	Index	Rank
West Bengal	2.88	.00624	14	.00672	14
Orissa	2.88	.01213	6	.01176	7
Uttar Pradesh	2.87	.01051	7	.01311	5
Gujarat	2.88	.00737	12	.00772	13

Table 4: Measure of Degree of Sacrifice in States : 1955-56 and 1960-61

1955-56

State	Income (in Rs) Per Capita	Rank	Burden Index	Rank	Adjusted Burden	Rank
Andhra Pradesh	222	10	.01076	11	.01033	11
Assam	256	6	.01321	4	.01458	4
Bihar	158	14	.01757	2	.01704	2
Gujarat	302	3	.01231	7	.01194	7
Kerala	257	5	.01260	5	.01130	10
Madhya Pradesh	231	8	.00981	12	.01030	12
Madras	242	7	.01216	9	.01167	8
Maharashtra	302	2	.01231	6	.01194	6
Mysore	190	12	.02114	1	.01951	1
Orissa	171	13	.01207	10	.01159	9
Punjab	297	4	.00643	14	.00726	13
Rajasthan	223	9	.01224	8	.01382	5
Uttar Pradesh	212	11	.01373	3	.01668	3
West Bengal	357	1	.00688	13	.00710	14
All States	241	—	.01163	—	.01163	—

1960-61

State	Per Capita Income (in Rs)	Rank	Index	Rank	Adjusted Burden Index	Rank	Adjusted for Price Variation Over the Period 1955-1961
Andhra Pradesh	296	8	.01303	5	.01225	6	.00972
Assam	332	7	.00964	9	.01168	8	.00806
Bihar	198	14	.01736	2	.01681	3	.01685
Gujarat	391	4	.00737	12	.00772	13	.00533
Kerala	366	5	.00938	10	.00896	9	.00766
Madhya Pradesh	274	9	.01645	3	.01843	1	.01523
Madras	360	6	.00894	11	.00772	12	.00612
Maharashtra	399	3	.00970	8	.00891	10	.00736
Mysore	257	12	.02000	1	.01703	2	.01405
Orissa	238	13	.01213	6	.01176	7	.00933
Punjab	432	2	.00689	13	.00842	11	.00569
Rajasthan	271	11	.01337	4	.01546	4	.01403
Uttar Pradesh	273	10	.01051	7	.01311	5	.00822
West Bengal	462	1	.00624	14	.00672	14	.00496
All States	317	—	.01073	—	.01073	—	.00818

[2] See Government of India, Planning Commission, "*Plan Resources and Outlay — A Review*", 1959, p 26.

* "Measuring State Tax Burden", *National Tax Journal*, 1959, pp 179-185.

For purposes of comparison, the last years of the First and Second Five Year Plans are taken. Population estimate of each State for 1955-56 is based on 1951 census figures of the respective States with due adjustment for boundary changes that took place before November, 1956, and the annual average rate of increase estimated for 1951-61 decade. Since measures of inter-State variations in tax burden depend on personal income, population and tax collections — all of which are estimates — the results of this analysis should be interpreted with caution. Non-availability of personal income data has necessitated the use of total income estimates made by the Indian Institute of Public Opinion. However, these limitations may not appreciably vitiate the analysis.

† Data required for this study are chiefly drawn from the *Reserve Bank of India Bulletins*, *India Reference Volumes*, *Census Commissioner's Reports* for 1951 census and preliminary results of 1961 census, and the *Monthly Statistical Commentary* on *Indian Economic Conditions*.

Small Enterprises:

Their Contribution to National Income

A Comment

M A Deshpande

AFTER reading "Small Enterprises: Their Contribution to National Income" by P N Dhar and S Sivasubramonian (Special Number, July 1962) one feels disposed to agree with the views expressed by A Rudra in his article, "National Income Estimates: Why Not Discontinue Them?" (Annual Number, February 1962). Dhar and Sivasubramonian state that to estimate the income from the small industries sector, two key sets of figures, the number of workers employed and the average net value added per worker, are required. The questions which arise in this connection are: Do we need a *national* average? Can't we estimate the contribution of small industries to national income by aggregating regional (State) estimates based on regional studies? Finally, do the available data provide a reliable base for computing the national average?

Most of the surveys referred to by Dhar and Sivasubramonian are regional surveys. (It is surprising, however, that the authors have missed a number of surveys carried out by the Statistical Bureau of the former Bombay Government in the areas of Maharashtra, Gujarat and Karnatak.) It is not clear then why they should have tried to work out a national average when so much regional data were at their disposal which they could have utilised for building up estimates of income at the State level. These estimates could then be aggregated to arrive at national income. But they are after a national average for, once that average is obtained, the task of income estimation is reduced to a simple arithmetic operation.

The tendency to aggregate basic data needs to be discouraged. What is needed in a vast land like India is the 'dis-aggregation' or 'sub-aggregation' or 'de-consolidation' of statistics. It is rightly commented that the "aggregates, despite their usefulness, conceal within them too many contradictory and arithmetically cancelling elements. In other words, the aggregate although superior to the atomistic is not necessarily the optimum or most useful level of observation for many problems". ("Regional Statistics and Regional Statistical Classifications" *Canadian Statistical Review*, August 1961.)

Further, confronted with non-availability of data on value added per worker in the reports of the Development Commissioner for Small Industries, the authors state:

> "To obtain the value added per worker, the ratio of value added to gross output available from the *other field surveys on small-scale industries has been used.*"

The ratio of value added to gross output is the most significant ratio in income analysis, for, this refers to the whole structure of costs involved in the manufacturing process. If the ratio derived from one regional survey or a group of such surveys is made to fit others, we are making sweeping assumptions which require very thorough investigation.

Small enterprises are small undertakings measured by any one of many yardsticks — employment, capital or value added. They differ widely in production technique. Therefore, it is no wonder if surveys of small industries are characterised by marked variations. Table 2 in Dhar and Sivasubramonian's article reveals many such regional variations. According to this table, the agricultural implements industry records gross output per worker of Rs 3,375, Rs 2,297 and Rs 807 in the Western, Southern and Eastern regions, respectively. Thus gross output per worker in the Western and Southern regions is nearly 4 and 3 times that in the Eastern regions. One can only imagine what would be the variation in net value added per worker! I, therefore, regard the data contained in these reports as "baseless statistics" for national income estimation.

Dhar and Sivasubramonian have worked out estimates of rural and urban income from small industries. The statistics used by them for the rural sector are too inadequate to give any precise or even near precise average. Further it is not known whether any accidental error also has contributed to national income. Thus in Table 5, two estimates of rural and urban incomes are given. The second estimate for the rural sector is mentioned as Rs 300 crores, while it is clear that it should be Rs 400 crores — a difference of just Rs 100 crores!

Lastly, the authors have neither suggested any refinement on the CSO's methods, nor have they introduced any dependable method of their own. Even their contention that the CSO has erred on the side of underestimation is unconvincing.

It is time to reconsider the whole methodology of national income estimation. Estimates for all sectors should as far as possible be based on data available at the regional level. This will make for maximum reliability and will show who has erred and on which side.

Reply

P N Dhar
S Sivasubramonian

DESHPANDE has raised certain issues relating to the estimation of the contribution of small enterprises to national income, viz the need for and relevance of a national average, the importance of regional estimation prior to aggregation and the validity of available statistics for obtaining national averages. The very fact that attention has been drawn to these questions shows that our paper has achieved its primary purpose.

Before answering the questions raised by Deshpande, we would like to point out that the limitations of the data at our disposal were clearly brought out in our paper. While pointing out that "the authors could

have easily utilised the mass of material for building up income at State level", Deshpande obviously fails to note that out of the two sets of data, one on employment and the other on net output per worker, necessary for estimating the contribution of small enterprises to national income, we have only the latter available for different areas from a number of sample surveys. With only one of the two key figures available for different regions (even these data are not adequate) and employment data obtained from a special tabulation of NSS material on an all-India basis, it is obviously not possible to attempt any State-wise (regional) estimation. If both the key figures had been available for different States (regions), it indeed would have been a question of simple arithmetic! But unfortunately the present position is not so simple. Deshpande contradicts himself later in his note when he tries to highlight the inadequacy of statistics used for the rural sector. If as he points out (somewhat superflously, since we had already done that), the data are not adequate for estimating the contribution of two broad sectors of the economy separately, it can easily be imagined how difficult it would be to attempt State-wise (region-wise) estimation.

As regards the point of using gross/net ratios to obtain the net output from the gross output figures taken from the Studies by the Development Commissioner for Small-Scale Industries, we fully realise the limitations of doing this. But short of abandoning all efforts to use the data, has Deshpande any 'suggestion' or 'refinement' to offer ?

One last point. Accidental errors may occur — for nobody can foresee and prevent accidents from occurring — but the error in Table 5 pointed out by Deshpande is not an error in computation, but in printing, as is obvious from the total of row (2) in the Table as well as from the figure for contribution of small enterprises to national income in the rural/ sector (Estimate II) given in Table 4.

Company Notes

The I F C Comes of Age

THE year ended June 1962 has, on all counts, been a good one for the Industrial Finance Corporation. The gross income earned during the year was the highest and so were the amounts of loans approved and disbursed. The looks of the loan account, always fairly good, improved further; not only was there no further accretion to bad debts, but anticipated shortfalls in loan repayments did not, in fact, materialise. A special Reserve Fund was created to qualify the I F C for the income tax concession introduced last year, allowing financial corporations the claim of a rebate on the transfer to such a Fund up to 10 per cent of total income. Further, the I F C was able to obtain some credits in forign currencies— a $ 20 million loan from the U S Agency for International Development, a D M 15 million loan from the West German Bank for Reconstruction besides an allocation from the Government of India of yen credit equivalent to $ 2 million. In March, when the Corporation feeling the need to enlarge its capital structure entered the stock market, its share issue of Rs 2 crores was a success; the quota reserved for institutional investors (scheduled banks, co-operative banks and insurance companies, etc) was actually oversubscribed. Also during the year the Corporation completed repayment to the Central Government of the subventions granted in the first eight years of its working to enable the payment of the guaranteed dividend. The fulfilment of this obligation brought forth from the Chairman the claim that the Corporation has now come of age "as an institution depending more and more on its own strength in its task of promoting the industrial development of the country".

All this does not mean of course, that there is no scope left for improvement. Actually, such scope seems to be quite apparent and fairly ample. The amount of loans approved has increased steadily, so has the amount of loans disbursed. But the gap between the two has shown no sign of diminishing. In fact, if cumulative totals are considered, the position has even worsened. In 1959 the total of loans disbursed was 60 per cent of the total loans approved up to that date; but at the close of 1962 this proportion was definitely lower at 53 per cent.

The Report gives as many as six reasons for this gap, all of which neatly place the entire onus on the applicant concerns. An applicant concern many revise, postpone or abandon its programme; it may cease to feel the need for the loan or find another source; it may be unable to accept or fail to accept the terms and conditions offered; or there may be other adverse developments in its affairs. All of this sounds plausible enough but surely delay and tardy movement are possible at the supply end also ? The I F C is a State-sponsored institution and as such, it is heir to a quota of red tape. There is some hint of this even in the Report. The approval of the Central Government appears to be necessary for final sanction in the case of the majority of the loans. At the close of last year, loans aggregating over Rs 5 crores were held over, pending Government approval. This may cause only an initial delay but it suggests the setting of a somewhat slow pace for the progress of loan operations.

The industry-wise breakdown of the loans shows that its by now well-known bias towards the sugar industry, particularly in the co-operative sector, continues. Nearly a third of the loans approved so far have been to sugar factories mostly co-operatives. What is a little strange is that the bias should apparently have taken root and come to be accepted by the business community. Such is what the pattern of applications would suggest. The applications received last year were for a total loan amount of Rs 3,140 crores; the applications from the sugar industry were the largest single group in this, amounting to over Rs 685 crores.

There is no reason why the promotion of regional balance should be a major concern of a financial institution such as the I F C. Nonetheless, the Report makes the claim that the Corporation "continued to give special attention to the less-developed areas of the country".

But the State-wise breakdown of the loans does not sustain the claim. The three States — Maharashtra, West Bengal and Madras — generally considered the most advanced industrially, claim about 40 per cent of the total loans approved so far. On the other hand, the aggregate loans approved in four 'backward' States — Madhya Pradesh, Rajasthan, Orissa and Assam — amount to considerably less than the loans approved for Maharashtra alone. It is surprising either that only two only two loans should so far have been approved for Madhya Pradesh, totalling just about a crore.

Another promotional activity is the underwriting of shares. Here too, there has been an increase. But while applications totalling Rs 549 lakhs were received, underwriting facilities were approved for only Rs 73 lakhs, part of which were in respect of proposals held over from the previous year. What this would point out is not so much an expansion in the activity of the I F C as the need for more underwriting institutions in the country.

Nepa Mills

JUDGED by all accounts, National Newsprint and Paper Mills can now be said to have almost turned the corner, and the shareholders can expect a return on their investments within a short period. The chairman's statement to the annual meeting of shareholders held early this week which was read out by Major Raja Bahadur Birendra Bahadur Singh, a director of the company, who presided over the meeting in the absence of Sir A Ramaswami Mudaliar, pointed out how the company had been able to retrieve what looked like a hopeless position at one time and hoped that within a short time the private investor, as well as the Government —the latter having a very big stake in the company — might look forward to a "reasonable return" on their equity investments.

The company at one time was burdened with a loss of Rs 1.95 crores. This had been reduced to Rs 24.83 lakhs by the end of March 1962, thanks to the sustained improvement in the working of the company during the last four years. After conversion of the loans taken by the company into equity capital, there had been still an outstanding loan of Rs 1.05 crores payable to the M P Government and another of Rs 32.73 lakhs payable to the Union Government. These were also wiped out in the last four years. In addition, the non-interest-bearing loan of Rs 1.11 crores coverted out of the accumulated interest payable to the M P Government has been reduced to Rs 77 lakhs and this will be repaid in seven annual instalments.

Having retrieved its position, the company bids fair to improve just. It will have a comfortable power supply from the Chambal hydro-electric project from the end of this year. With the establishment of a caustic soda chlorine plant with a capacity of 10-12 tons per day by the middle of next year, the company will be able to get all its requirements of these materials and thus reduce its cost of production. The suggestions for improvement made by the team of American experts when implemented will help the company to reduce the breaks in production and waste of paper and to increase production and improve quality of newsprint.

With the increasing demand for newsprint, the company expects to step up its production during the current year to about 28,000 tons. The company will supply 20,000 tons to newspapers as suggested by the Government of India, against 18,500 tons supplied in 1961-62 and 13,250 tons in 1960-61, and the balance to other consumers. Following the Government's order that 25 per cent of the quota of each newspaper will have to be met by Nepa paper, orders are said to have started coming in and the Chairman hopes that the company will be able to clear the accumulated stock and to ensure a regular manufacturing programme in future.

New Central Jute

THE disparity in prices of raw jute and jute goods during 1961-62 was so wide at times that jute mills have had to incur a loss of as much as Rs 300 per tonne on simultaneous business. This hit many jute mills and one of the worst sufferers was New Central Jute Mills Co, Ltd. The loss on jute good manufacturing was apparently not made good to any extent by the company from its chemical unit, the Sahu Chemicals and Fertilisers at Varanasi (U P). The latter too suffered from the uneconomic price fixed for soda ash and the higher freight rates on basic raw materials. The year ended March 31, 1962 was, therefore, among the worst in the history of the company, with the result that the shareholders have had to go without a dividend for the first time in many years.

The disappointment of the shareholders must have been particularly keen for it was only in March 1961 that they had subscribed to the one-for-two rights issue offered by the company at the heavy premium of 32.5 per cent and these shares were entitled to the dividend for the year ended March 31, 1962; and the sales of the company during the year reached a peak of Rs 15.10 crores —representing an increase of Rs 3 crores over the previous year. The company earned a gross profit of Rs 28.94 lakhs on a turnover of Rs 15.10 crores, against Rs 71.22 lakhs in 1960-61 on sales aggregating Rs 12.10 crores. The ratio of gross profit to sales which was already low at 5.9 per cent in 1960-61 has dwindled to a mere 1.9 per cent in the year under review. After providing Rs 47.47 lakhs for depreciation against Rs 36.23 lakhs in the previous year, the company has incurred a loss of Rs 18.53 lakhs, against a profit of Rs 34.99 lakhs. The year's loss has been wiped out by transferring Rs 16.29 lakhs from general reserves and adjusting the income-tax rebate of Rs 2.86 lakhs.

The shareholders may gain some consolation from the directors' optimism about the current year's outlook. The jute industry has never done business in jute goods at such a good margin. Judging from the keen demand from overseas markets, the jute industry may earn, the directors feel, a record foreign exchange of Rs 150 crores in 1962. The demand for the company's backing cloth has been steadily rising. In addition to the 42 broad looms added during the year under review, the company has subsequently acquired 45 broad looms, bringing up the total to 197. The company has received a licence to raise it further to 350. With high profit margins in jute manufacturing and the higher production expected from the chemical plant, the directors expect the current year's results to be better.

The National Newsprint and Paper Mills Ltd. Nepanagar (MP)

Speech of the Chairman, Sir A Ramaswami Mudaliar

THE following is the text of the speech prepared by Sir A Ramaswami Mudaliar, Chairman of the National Newsprint and Paper Mills Ltd, for the 15th Annual General Meeting of the Company held on October 15, 1962. As Sir Ramaswami Mudaliar could not be present at the meeting, his speech was read out by Major Raja Bahadur Birendra Bahadur Singh, a Director of the Company, who was elected Chairman of the meeting.

Gentlemen,

I have much pleasure in welcoming you to the 15th Annual General Meeting of the Shareholders of the National Newsprint and Paper Mills Limited. The Directors' Report, the Balance Sheet and the Audited accounts for the year ending 31st March, 1962, along with the comments of the Comptroller and Auditor General have been in your hands for some time, and with your permission I shall take it as read.

The progress during the year ended 31st March, 1962, has been satisfactory. During the year the production was 25,279 metric tons, of which only 895 tons was unbleached paper. The year ended with a net profit of Rs. 40,84,837.05 after providing for depreciation and Development Rebate Reserve. The profit has been utilised to reduce the debit balance of Rs. 65,67,818.00 standing at the beginning of the year, leaving a debit balance of Rs. 24,82,890.95 on 31st March, 1962. This is the fourth year in succession in which the Company has shown a surplus after meeting all expenditure and depreciation. The Directors have utilised the profits to further reduce the losses incurred in the earlier years, which at one time amounted to 195 lakhs. I think it is necessary for the private shareholders, apart from the Government Shareholders, to understand the position of the Company and what difficulties it had to overcome before attaining the present position. I should like to tell them that the venture was started with about 60 lakhs subscription from the private shareholders and 60 lakhs subscription from the Government, and as everybody must now realise, it was an impossibility to establish a Newsprint Factory of the present productive capacity with such meagre resources. The difficulties were fortunately overcome by the loans which the Madhya Pradesh Government liberally gave, and partly by loans which the Union Government gave. The shareholding of the Company after it was reorganised was nearly 5 crores, the shares being held as follows:—

Govt. of India	255,00,000.00
Govt of Madhya Pradesh	169,72,90,00
Private Shareholders	62,48,500.00
Amount from forfeited shares	6,03,477.50
	493,24,877.50

Loans Repaid

Even after conversion of much of the loan into equity capital by the two governments, there was still a loan of Rs. 1,05,13,752.39 with interest payable thereon to the Madhya Pradesh Government and Rs. 32,73,000 payable to the Union Government with interest. The results of the working of the last four years have wiped out these loans and the interests payable thereon. Apart from this, there was an amount of Rs. 111,19,218.74 which had accumulated as interest on the original loan granted by the M. P. Government. The Private Shareholders must be grateful to the M. P. Government for having agreed to convert this amount into a non-interest-bearing-loan payable in 10 instalments. The Company has so far paid three instalments and there is an outstanding non-interest-bearing-loan of 77 lakhs which has to be paid in equal amounts over a period of 7 years. I hope it will be realised that the Company has done its best to retrieve what looked like a hopeless position at one time, and I venture to think that within a short time the private investor as well as the Government, may look forward to a reasonable return on their equity investments. While I can well understand the natural concern of the Private Shareholders, I trust that they will realise the efforts that have been made to bring the day nearer when they can expect a return from their investment.

The position of supply of electric power and steam offered by the Chandani Power Station continues to cause occasionally some concern. It is understood that the original plan of expanding the Power House at Chandani has been given up and that the Madhya Pradesh Electricity Board proposes to supply power from the Chambal Hydro-electric Project. Steps have been taken by them to construct the transmission line and the sub-station etc required, and it is expected that the power will be available by the end of this year and that the Factory will have a comfortable position regarding the supply of power and steam.

Chlorine Plant to be Set Up

I stated last year that there has been considerable difficulty in the procurement of chlorine, as the supplies have to come from several distant places. On many occasions supplies failed either on account of breakdown in the supplier's plant or due to transport restrictions. Further, heavy freight charges have to be incurred on these supplies. Your Directors have therefore decided to establish a Caustic Soda Chlorine Plant to meet the Factory's requirements of chlorine and Caustic Soda. An order for a 10/12 ton Caustic Soda Chlorine Plant has been placed with a Swiss firm and the civil engineering work is well in progress. It is hoped to receive all the machinery by the end of January/February 1963 and complete the erection of the plant within the next two or three months thereafter. When the Plant is brought into commission, it is expected that it will be possible to meet all requirements of Chlorine and caustic soda and would be reducing the production cost to some extent.

A scheme for doubling the capacity of the Mill and stepping up the production to 200 tons per day has been included in the Third Five Year plan. The project plan for this expansion was prepared some time back, but doubts have been recently expressed as to the availability of the necessary raw material. The Board of Directors have considered it necessary to examine this aspect carefully before the Project can be further progressed.

The quality of our newsprint has been improved to a certain extent by mixing a small proportion of imported mechanical and chemical pulp which has not only added to the strength but also has improved the appearance and colour. Bleaching with hydrogen-peroxide has also been tried out and extended trials are being done with this form of bleaching as it has given better results. In addition the Board of Directors arranged for a team of 4 American Experts to visit the Mill for a period of three months to improve the quality of newsprint manufactured at this mill, obtain maximum output out of the present equipment, reduce the cost of production, examine raw material question, and suggest ways and means for expansion of the Mills. The American Experts arrived early in January and worked for a period of three months at the factory. They have suggested a number of improvements particularly in the grinding and recovery sections. They have also made slight modification to the equipment on the paper machine which have helped in bringing down the number of breaks and waste of paper and improving production and quality of newsprint. Their detailed report has not been received yet and we hope to implement their recommendations and take necessary steps to see that the improvement in quality is achieved.

The demand for newsprint has been increasing and the quantity supplied to newspapers has been considerably stepped up. During the year nearly 18,500 tons were supplied to the newspapers as against 13,250 tons supplied last year. During the current year in order to save foreign exchange the Government have decided that at least 20,000 tons of the production should be supplied to the newspapers. We have estimated for a production of nearly 28,000 tons and it is hoped that it will be possible to supply this quantity to newspapers, only the balance being distributed to Printers and Publishers, Government and the Dealers. In this way there is likely to be a saving of foreign exchange of nearly two crores of rupees. I would like to point out here that even though cost of all raw materials and power and steam have gone up and the establishment and labour costs considerably increased, the price of Nepa newsprint has not been increased since May 1958.

Impact of Excise Duty

The distribution of newsprint during the last year was very smooth but early this year this has been disturbed by the removal of the concession of excise free duty on newsprint supplied to newspapers. Instead the full excise duty of 22 nP per kg was enforced on supplies to the newspapers when the Budget was introduced on the 24th April, 1962. As a result the supplies to the newspapers decreased considerably owing to lack of orders. The matter was represented to the Ministry both by the newspapers and by us and the Government have revised the concession to the extent of 17 nP per kg. The newspapers have to pay now an excise duty of 5 nP only per kilogram subject to certain conditions. This has relieved the situation to some extent. The Government have also decided that 25% of the quota of each newspaper will be supplied from Nepamills. As a result orders have recently started coming in and it is hoped to clear the accumulated stock and also ensure a regular manufacturing programme and supplies.

The welfare of staff continued to be given attention by the Directors. This year also an incentive award equal to a month's pay and allowances to all employees getting a basic pay of upto Rs 500|- subject to a maximum of Rs 325|- was given. We have taken in hand the building of a full fledged 40 bed hospital which I hope will provide the necessary medical facilities to all the employees. The School has been taken over by the Management from the 1st April of this year and it is hoped to re-organise the educational facilities given to the employees in such a manner that it will cater to the needs of all in this small place. Considerable amenities and concessions have been given with the result that the salaries and wages have increased from 14 lakhs in 1957 to nearly 24 lakhs in 1962, though there has been no appreciable increase in the number of employees.

Acknowledgements

I would like to thank all the employees for the work they have done during the year 1961-62. It has been a difficult period and inspite of all the difficulties they have stepped up production and manufactured 25,279 tons even though it is less than the target. I would like to take this opportunity to recognise the enthusiastic help and co-operation that has been extended by all the employees, both on the factory side and in the administrative offices. In token of the increase in production this year, we have recommended a payment of 1¼ month's incentive award to all the employees. I would like to make an appeal to all of them to see that they improve on the performance of last year and try to reach the target production of 30,000 tons as expeditiously as possible so that they can get increased benefits.

I should fail in my duty if I did not recognise the valuable work done by the Assistant Works Manager and the technicians in charge of the Mill. The Mill has had no Works Manager for some time, as it was not possible to get a highly qualified officer at the level of salary permitted by the Government. The Government has since relaxed the rule and it is expected that a Works Manager will be joining very soon. It is all the more creditable that the Assistant Works Manager and the comparatively junior staff of technicians have, with their experience and initiative, carried on for nearly two years, increasing the production and with no damage to the Mill.

I must pay a special tribute to the devoted services of Mr S L Visvanadhan, Managing Director, who will be retiring in a few weeks. His knowledge and experience as an Engineer and as an administrator has been of very great value to the Company. His place is expected to be filled by the Officer to whom I have referred, both as Works Manager and Managing Director.

Lastly, I have to convey my apologies to the Shareholders for my inability to attend this meeting and to have the pleasure of meeting them once again.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

CURRENT STATISTICS

BANKING RETURNS

(*Rs crores*)

Reserve Bank	Oct 12	Oct 5	Sep 14	Oct 13 '61
1 Note circulation	2071.14	2054.34	2041.70	1906.13
2 Rupee coin	122.10	123.04	122.95	125.55
3 Deposits				
(a) Central Govt	59.49	60.87	84.42	61.07
(b) Other Govts	21.20	19.95	29.40	3.98
(c) Banks	83.68	85.82	84.47	82.10
(d) Others	161.45	160.08	160.25	147.12
4 Foreign securities	88.08	88.33	88.34	116.86
5 Balance abroad	4.58	5.64	5.76	10.02
6 Rupee securities	1763.31	1703.05	1728.03	1558.86
7 Investments	115.94	136.64	193.47	181.71
8 Loans and advances to Govts	37.73	35.44	24.88	63.37
9 Other loans and advances	144.29	154.58	158.92	136.18
Scheduled Banks	**Oct 5**	**Sep 28**	**Sep 7**	**Oct 6 '61**
1 Aggregate deposits (net)	2036.20	2035.27	2020.97	1793.32
Demand (net)	796.53	799.46	790.52	717.68
Time (net)	1239.68	1235.80	1230.45	1075.64
2 Cash in hand	49.19	47.38	49.04	46.12
3 Balance with Reserve Bank	79.96	79.05	87.28	75.91
4 (2) + (3) as % of (1)	6.34	6.21	6.75	6.81
5 Borrowings from Reserve Bank	10.62	4.51	42.01	16.40
(a) Against usance bills and/or promissory notes	6.06	2.31	21.77	7.83
(b) Others	4.56	2.20	20.24	8.58
6 Advances	1188.82	1180.24	1210.64	1057.36
(a) State Bank	259.30	256.00	262.81	233.67
(b) Others	929.52	924.24	947.83	823.69
7 Bills discounted				
(a) Inland	152.32	149.61	149.96	130.98
(b) Foreign	49.97	48.53	50.02	47.46
(c) Total	202.29	198.14	199.98	178.44
(i) State Bank	11.53	12.02	14.22	10.90
(ii) Others	190.76	186.12	185.76	167.54
8 (6) + (7c) as % of (1)	68.32	67.72	69.80	68.91
9 Investment in Govt Securities	692.57	689.93	678.63	612.78
10 (9) as % of (1)	34.01	33.90	33.58	34.17
Cheque clearance	**235.23**	**216.46**	**247.73**	**191.63**

Bombay Money Rates

(*Per cent per annum*)

	Oct 5	Sep 28	Sep 7	Oct 6 '61
Call money from Banks	3.29	2.73	4.66	4.43
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	3.50
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	Oct 18	Oct 11	Sep 20	Oct 18 '61
Gold (per 10 grams)				
Spot	120.15	116.50	121.95	124.95
Forward	119.70	117.40	121.75	125.10
Silver (per kilogram)				
Spot	221.20	218.60	219.15	205.50
Forward	222.70	220.10	220.65	206.10

INDEX NUMBER OF WHOLESALE PRICES

(*Base* : 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 22-9-62	15-9-62	25-8-62	23-9-61
Food Articles	**129.9**	**130.8**	**131.5**	**120.4**
Cereals	108.9	109.4	109.9	103.0
Pulses	110.7	110.7	113.2	88.7
Fruits & Vegetables	126.3	129.3	141.0	145.5
Milk & Ghee	126.6	130.0	130.4	116.0
Edible oils	157.8	158.1	160.6	154.2
Fish, Eggs & Meat	157.2	157.9	148.9	131.9
Sugar & Gur	153.4	153.4	154.8	123.3
Others	175.9	175.6	172.0	171.5
Liquor and Tobacco	**99.9**	**99.9**	**99.5**	**99.5**
Tobacco	96.3	96.3	96.0	96.0
Fuel, Power, Light & Lubricants	124.3	124.3	124.4	121.4
Industrial Raw Materials	**139.8**	**139.4**	**139.6**	**138.5**
Fibres	129.6	129.7	128.3	129.3
Oilseeds	159.9	158.9	160.6	155.1
Minerals	93.4	93.4	93.4	94.8
Others	124.6	124.2	125.0	127.4
Manufactures	**129.4**	**129.7**	**129.0**	**125.4**
Intermediate Products	**143.4**	**143.0**	**142.5**	**140.0**
Finished Products	**127.1**	**127.5**	**126.7**	**123.0**
Textiles	125.7	126.5	125.2	123.3
Cotton	129.1	129.4	129.2	127.9
Jute	112.6	114.9	111.0	113.8
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	133.4	133.4	131.5	118.6
Metal Products	161.0	161.0	161.0	151.6
Chemicals	116.4	116.1	115.2	111.6
Oil Cakes	164.9	163.2	165.1	144.2
Machinery & Transport Equipment	117.7	117.7	117.9	113.5
Others	125.3	125.3	125.2	121.3
All Commodities	**130.5**	**131.0**	**131.1**	**124.2**

COAL PRODUCTION AND DESPATCHES

(Monthly Averages or Calendar Months)

('000 *Metric Tons*)

	Raisings	Despatches	Stock at pit heads †
1962 : Jun *	4,835	4,360	3,840
May *	5,127	4,441	3,869
Apr	4,997	4,460	3,731
Jan	4,978	4,330	3,428
1961 : Jun	4,182	3,997	5,129
May	4,599	4,182	5,375
1962	4,995	4,373	2,421
1961	4,675	4,190	2,273
1960	4,384	3,860	1,513
1959	3,984	3,522	2,650
1958	3,838	3,415	3,130
1957	3,683	3,190	1,647
1956	3,338	2,959	1,735
1955	3,236	2,789	1,949
1951	2,915	2,473	2,536

* Excludes despatches by rail from Assam coal fields.

† At or about the end of each period.

Source : Coal Controller, Ministry of Steel, Mines and Fuel, Government of India.

RAILWAY WAGONS LOADED

Aggregate from April 1, 1962 to August 31, 1962

(*In '000*)

	Broad Gauge 1962-63	1961-62	Increase (+) or decrease (—) percentage	Metre Gauge 1962-63	1961-62	Increase (+) or decrease (—) percentage
Revenue earning traffic						
Coal and Coke for public	635.89	601.59	+ 5.70	111.01	109.98	+ 0.93
Grains and pulses	176.22	183.71	— 4.08	159.05	168.05	— 5.38
Oilseeds	23.55	24.59	— 4.23	25.02	23.02	+ 7.85
Raw cotton	9.23	9.87	— 6.49	8.51	7.85	+ 8.38
Cotton manufactured	4.50	4.72	— 4.71	1.06	1.31	—19.40
Raw jute	25.77	12.82	+101.10	26.40	16.61	+58.90
Jute manufactured	2.54	2.08	+21.80	2.54	2.28	+11.70
Sugar	30.46	23.29	+30.80	34.22	30.32	+12.90
Cement	78.45	81.80	— 4.09	73.52	79.09	— 7.05
Sugarcane	11.73	12.60	— 6.92	71.98	66.71	+ 7.91
Iron and Steel						
Pig iron	16.88	20.95	—19.40	3.38	2.61	+29.80
Others	137.46	119.19	+15.30	29.69	27.06	+ 9.75
Tea	4.34	4.29	+ 1.26	7.45	7.90	— 5.80
Metallic ores						
Manganese ores	25.66	30.83	—16.80	6.47	7.21	—10.30
Iron ore	239.29	199.08	+20.40	28.19	28.39	— 0.71
Others	11.75	6.49	+81.00	10.50	10.36	+ 1.36
Non-Revenue traffic						
Railway coal and materials						
Coal for home line	118.14	112.82	+ 4.21	115.19	104.63	+10.10
Coal for other Govt railways and manufacturing units	206.27	187.64	+ 9.93	9.61	18.57	—48.20
Other stores	82.60	71.09	+16.20	62.73	62.26	+ 0.76
TOTAL	2,594.97	2,762.54	+ 6.46	1,463.87	1,458.33	+ 0.38

Source : Ministry of Railways (Railway Board), New Delhi.

CALCUTTA TEA AUCTIONS

Leaf

Districts	Sale No 12, August 27 & 28, 1962			Sale No 13, August 28 & 29, 1961			Up to and including Sale No 12, August 28, 1962			Up to and including Sale No 13, August 29, 1961		
	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)
Assam	28.84	13.98	6.17	32.80	16.25	5.38	168.98	82.13	6.55	184.82	91.37	6.25
Cachar	3.78	1.86	3.90	7.94	3.96	4.29	22.93	11.33	3.85	39.70	19.66	4.59
Darjeeling	6.23	2.50	6.52	7.85	3.26	6.39	82.20	34.59	8.32	80.80	33.56	7.56
Dooars	12.76	6.18	4.49	15.85	7.72	4.49	140.65	69.35	4.57	154.37	76.38	4.87
Terai	1.92	0.91	4.47	1.91	0.92	4.43	25.24	12.32	4.45	23.27	14.23	4.86
Tripura	0.71	0.33	3.71	0.91	0.43	4.34	6.00	2.74	3.82	8.65	3.97	4.62
TOTAL	54.31	25.81	5.55	67.26	32.55	5.10	446.22	212.58	5.89	491.65	236.37	5.76

Dust

Districts	Sale No 12, August 29, 1962			Sale No 13, August 30, 1961			Up to and including Sale No 12, August 29, 1962			Up to and including Sale No 13, August 30, 1961		
	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)	Packages ('000)	Qty (Lakh kilos)	Average Price per kg (Rs)
Assam	19.17	7.55	5.17	13.15	5.39	5.31	107.70	42.32	5.26	92.87	37.37	5.84
Cachar	1.53	0.55	3.81	3.04	1.18	4.12	9.52	3.55	3.51	15.22	5.87	4.31
Darjeeling	0.34	0.14	4.66	0.37	0.15	4.66	2.43	0.99	4.94	2.80	1.14	5.20
Dooars	7.75	2.94	4.30	5.51	2.06	4.40	70.62	27.21	3.95	63.12	24.62	4.65
Terai	0.37	0.14	3.74	0.09	0.04	4.10	3.27	1.25	3.50	4.12	1.62	4.39
Tripura	0.24	0.09	3.25	0.24	0.09	4.00	0.89	0.33	3.05	1.52	0.57	4.16
TOTAL	29.40	11.40	4.84	22.40	8.91	4.92	194.41	75.65	4.66	179.66	71.18	5.25

Source : Department of Commercial Intelligence and Statistics, Government of India.

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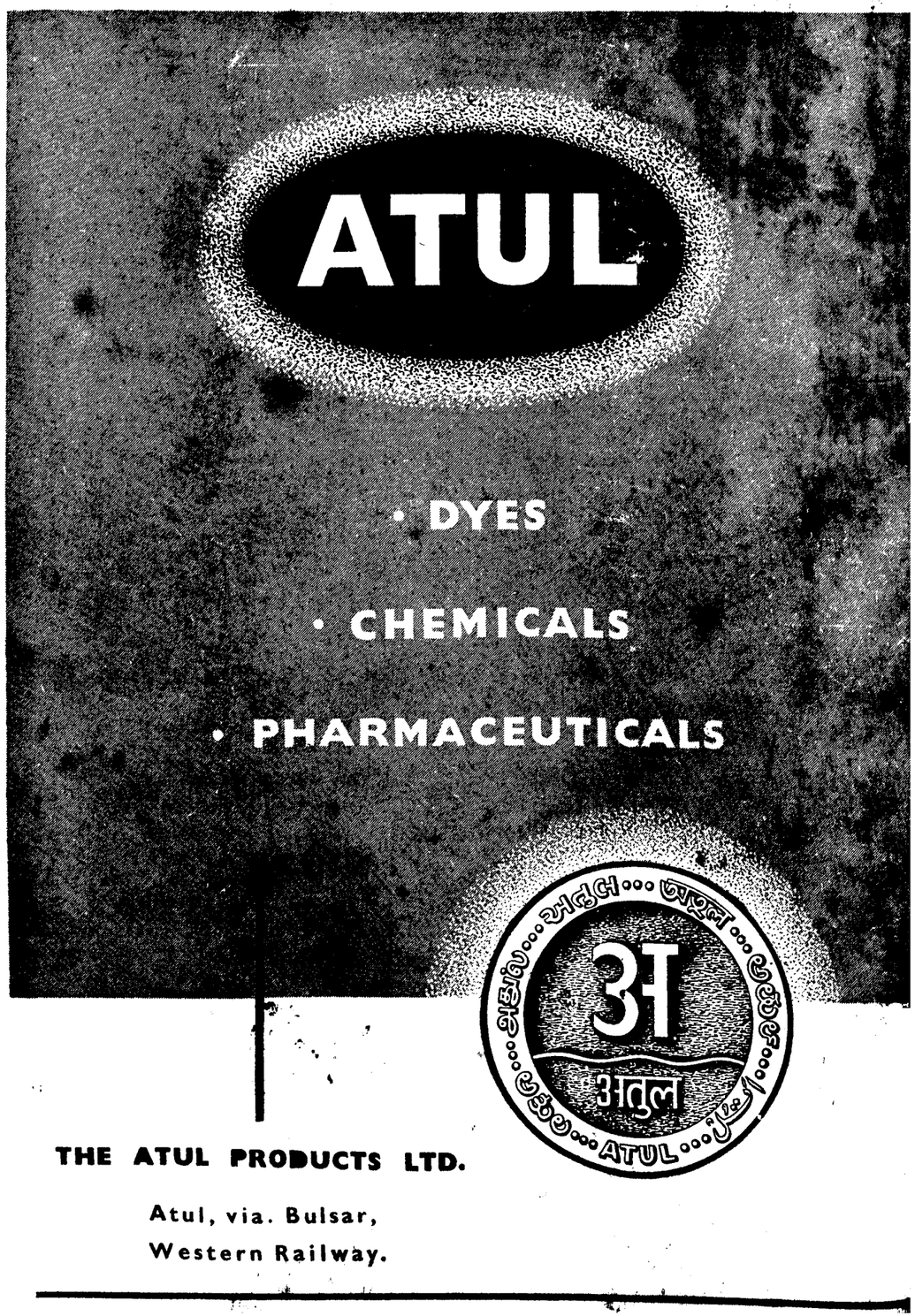

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Defeat Chinese Aggression

THE Chinese aggression on the frontier has rapidly assumed menacing proportions. It is no longer confined to uninhabited and inaccessible heights of the Himalayas in the Ladakh area nor to one or two breaches of the McMahon Line. The Chinese have broken through with a massive three-pronged attack, occupied the road-head in the north-western part of NEFA and taken possession, for the first time, of a populated area in this region. The latest phase of the Chinese aggression has shocked the Indian people as nothing else had ever done. And they have reacted in the only manner in which a free people can react in a situation of grave threat to the nation. India has been involved in two world wars but that was without any emotional commitment on her part. Even in the freedom struggle, the response had come only gradually, gaining strength over the years.

The danger, therefore, is not indifference, lethargy or lack of response or even of cynicism and distrust which have vitiated to some degree all our collective efforts in the past. There are many straws in the wind to show which way the wind is blowing. The separationist D M K has formally called off all its activities in view of this national crisis. The Eki-Karan Samiti has called off the demonstration it had planned for the incorporation of Belgaum in Maharashtra and remitted the funds it had raised for the purpose to the Prime Minister as a donation towards the cost of the fighting on the frontier. Not only have such evidences been pouring in from all sides — of people closing their ranks and getting united to carry out whatever tasks may be allotted to them in this national emergency, spontaneous response has come, offering to join the fighting forces or volunteering their services in any other capacity — from all manner of people.

The danger is really of the quite opposite kind. It is so easy to work up war hysteria and mass frenzy in this situation and so much more difficult to restrain the emotions and channel them into the directions which are necessary for the country to meet the challenge in the most effective manner possible. To re-orient the economy and re-phase the Plan, so that supplies may flow uninterruptedly for fighting a long-drawn campaign, and to ensure that this gearing of the economy to the needs of defence may not produce jolts and threaten a breakdown, lead to unwarranted rise in prices, profiteering and the exploitation of the situation, for which opportunities are bound to increase — these are really difficult things; not anything the people but to give a planned direction to the energies that are released.

Both the people and the Government have behaved with admirable calm in this situation, the most trying that either has faced so far. Not even the markets have panicked; the price of gold, the unfailing barometer in a crisis, has actually gone down, for even market operators, conscious of the temper of the people, could not ignore that the nation's gold stocks must spontaneously flow into Government coffers, if the emergency demands it.

The restraint the Government has shown is even more admirable. It is determined not to spare any effort to keep the fighting localised;

Indian troops have been denied air support, despite their relative and often crippling disadvantage in arms. While the Chinese have planned an enormous campaign over the months, India had thought of no more than ordinary defensive operations, and not even that perhaps along the McMahon Line which the Chinese had observed *de facto* until the present offensive, though never accepting it *de jure*. The only air support which Indian troops have been given is that of transport planes and helicopters, and that too, only marginal.

India has shown the same patience in not rejecting outright another Chinese offer of negotiations, asking instead for a clarification of the offer and also stating clearly that India would still be prepared to talk, if the Chinese go back to their positions on September 8 from which the last major offensive started. This is remarkable restraint indeed, considering that India knows only too well how deceptive Chinese terms for settlement have been in the past. The terms suggested by India show a significant relaxation from the previous stand of Pandit Nehru that the Chinese have first to vacate aggression before there can be any talk of settlement.

The most difficult choice before the country, however, does not concern China but itself. Can the people be keyed up to that pitch of supreme national effort which will be necessary if the fighting on the border grows more and more intense and is indefinitely prolonged and at the same time retain the sanity, calm and objectivity needed to keep the door open to an agreed settlement? And all this, while straining every nerve to contain the Chinese and keep the dispute localised. Both the Government and the people have shed their illusions about the Chinese, though no one has yet given a fully satisfactory explanation of the Chinese motivation. The illusion that the people have still to shed, however, is the one which is in our bones, viz, that the Himalayas are a natural and invincible frontier. That might have been in the days of yore. Modern technology, and even more, the social engineering perfected by totalitarian States have put an end to all that. Even amateur strategists, however, will have to be reconciled to the idea that the defenders of the frontier have first to find a viable line to hold and fight from and then slowly and painfully build the roads, communications and bases, from which they can operate effectively. The frontier dictated by defence strategy may not necessarily be along the lines which had been valid in the past and sanctified by history and long usage.

The Himalayan frontier that we had known was for more than three-quarters of its length the frontier with Tibet which never looked beyond it nor had the energy or strength for aggrandisement. The disappearance of Tibet brought India into a direct confrontation with China, a new China, which has nevertheless inherited the expansionist urge of the old. We had not mentally prepared ourselves for this challenge. Today the problem, at no time easy, has become colossal and it may take years to solve it.

In this hour of peril India needs, above all, faith in herself, and a renewal of faith in the principles, to which she has adhered so steadfastly, and despite occasional pin-pricks, with success. Non-alignment will stand this acid test also, without a question. It does not stop us from buying arms wherever we can. On the contrary, it widens the field of choice and retains for us the goodwill of friends that we have succeeded in making. No great nation ever deviates from its chosen path led by temptations of illusory advantage or allows itself to be distracted because others falter.

Creative Advertising

AMONG the many paradoxes, one that should hit the eye but doesn't, is the high level and increasing sophistication of advertising in this country, to persuade people to buy things, while the things to buy get more and more scarce and prices go up and up. No producer or industry in this country today has to face any serious problem of shortage of demand. On the contrary, how to restrain demand, how to keep down prices and prevent costs from going up is the problem that has been baffling the public and the Government. What is the social role of advertising in this situation of shortage, a situation which is bound to continue until the country has moved on to the next stage? The question seems to have disturbed the thoughtful Chairman of the remarkably progressive and, incidentally, the largest Indian Advertising Agency, or rather the largest Agency under Indian management, Clarion Advertising.

Commenting on the current situation of rising prices and the need for keeping cost inflation in check, Sir Dhiren Mitra referred, approvingly, to the Government's efforts to reduce distributive overheads, "as evidenced by the effort to introduce cooperative marketing of agricultural products to eliminate intermediaries". But why agricultural products alone? Do not the consumers' cooperative societies, which are also an integral part of the Government's programme to bring down prices, include non-agricultural products also? "In this exceedingly complicated background", Sir Dhiren is constrained to remark, "advertising will have to be used with restraint". On behalf of the Clarion, he gave the assurance that in consciousness of both its larger obligations and its duties to safeguard clients' interests, the Agency "will not hesitate to give what it considers to be the right advice in a specific marketing situation". That, however, does not go very far, does it?

Now there are directions in which the hidden persuaders can and should fruitfully expand their activities — in helping Shri Manubhai, for example, in his efforts to instil social responsibility into the producers and industrialists through their respective organisations and give effective expression to it by adopting and enforcing fair trade practices, marking the prices on the goods sold, publicising these prices and creating a strong public opinion that nobody should pay more and that no retailer must charge more. The force of public opinion alone can ensure that a temporary shortage of goods caused by accidental breakdown of transportation or failure of supplies does not push up prices. All the skills of modern publicity could be pressed into service provided the producers and industrialists have a proper dose of social sense instilled into them. There is, however, in this as in many other cases, a question of ends and of means — the admen have techniques and can only provide the means; of the ends the producers and distributors have to be made aware in other ways and they have to be made to accept them without any reservation.

But while Sir Dhiren's reservations in regard to the advertising of consumer goods will be widely endorsed, he need not feel so inhibited in regard to advertising of producer's goods which is necessarily associated with progressive improvement in techniques of production. The advertising of such goods, therefore, need not be subject to any restraint even if the product, such as a machine, cannot be supplied in large enough quantity to cope with the demand. It would, nevertheless, be a socially constructive endeavour to widen the felt need for the improvement of techniques of production and, therefore, the reduction in costs which goes with it.

There is, indeed, the whole field of creative publicity which remains altogether untapped or which has only been very lightly scratched. Now Madison Avenue — and their local counterparts — have so tarnished the word 'creative' as applied to publicity that one has to make it clear that by creative publicity is meant the opposite of competitive advertising, the selling of one's own product in preference to someone else's. From public health campaigns to popularising of improved agricultural or other production techniques, from persuading parents to send their children to school, to telling people to queue up at bus-stands or for railway tickets, campaigns for better living and cleanliness — in fact, the entire range of activities covered by the Five Year Plans come under this category. It would be interesting and revealing if some advertising association or other made a statistical study of how much of the country's specialised talents and skills in publicity is being currently employed for competitive advertising of branded goods and how much of it has been enlisted for that great social and economic adventure which is the Plan. Social Sciences Faculties in American Universities complain that they get only a small fraction of the funds that are spent annually on social and allied research in the United States; the lion's share of these funds goes to competitive selling and marketing of branded goods. Could our experience be very much different? One wonders!

One field of advertising in which there need be no mental reservation whatsoever or any necessity of restraint is that of export promotion, whether such advertising is directed to the domestic producer who is the potential exporter or the potential buyer in the export markets. On this subject Sir Dhiren has many weighty observations and constructive suggestions to make. Exports are the end point of a long chain which begins with the planning of production and the creation of a surplus, in whatever manner the latter may be brought about. What will finally clinch sales, however, is not the aggregate quantity but the precise categories and qualities of products acceptable in particular export markets.

What makes people drink coffee in preference to tea or drink wine in preference to either, goes back deep in climate, social mores and habit formation. Advertising men do not despair of the possibility of influencing preferences even in such matters. But it is, however, within the limited range of choice for different kinds of, say, tea that intelligent advertising can offer ready results. On this, Sir Dhiren observes:

> "High quality Indian teas, acknowledged to be the best in the world, will not be of much value to the American importer trying to make up low-priced tea bags. What he needs is medium teas of good cup quality at a price roughly comparable with what he pays in Ceylon. It is unfortunate that export problems are rarely looked at in such meaningful detail, emphasising the need for a more knowledgeable and expert approach at the policy-making levels in Government".

He goes on to add: "The endeavour to promote the specific image of Indian tea as distinct from general propaganda for the beverage should be of value in ensuring a fair share of the trade to us". This sounds eminently sensible.

How best can Indian advertising agencies operate in export markets: through their associates abroad, since the present volume of advertising is clearly not large enough to permit branch development? Or would it not be the better alternative to allow the Indian agency to secure, in suitable cases, collaboration with foreign advertising firms with large and experienced overseas agencies, whose intimate knowledge of their home and export markets would then become available to Indian clients at an economic cost? In principle, the idea is similar to that of foreign collaboration in the setting up of export houses or export industries, in order to obtain the initial advantage of market connections or specialised know-how.

These are, as Sir Dhiren rightly emphasises, considerations not to be lightly dismissed in the present difficult situation but what he suggests is a change of policy in regard to foreign collaboration which is currently being followed. So far, it has not been the policy to encourage foreign collaboration in case of purely trading firms but where technical expertise is concerned, Government has usually been extremely accommodating. If the role of skilled advertising in export promotion is properly appreciated, surely advertising firms would qualify for foreign collaboration on the same ground on which technical collaboration in industry is so readily welcomed and so freely allowed.

Greetings

We wish all our readers and well wishers a happy Divali and extend to them the greetings of the season.

There will be no issue of *The Economic Weekly* on November 3, on account of Divali holidays. The next issue will be on November 10.

BUSINESS MANAGER

Weekly Notes

Brinkmanship over Cuba

THE immediate threat to peace constituted by President Kennedy's decision to impose a blockade of arms shipments to Cuba has been removed by the Soviet Prime Minister keeping his promise that Russia will not act rashly. The U S move to challenge on the high seas all ships headed for Cuba with a view to searching them and turning them back if they were found to be carrying offensive armaments is an act which, in the words of the U N Secretary General, is "unusual, even extraordinary, except in wartime". The world has much reason to be thankful to Prime Minister Khrushchev for refusing to be provoked by so patently bellicose an act. The time that has been gained as a consequence must prove invaluable to efforts to achieve a detente.

Foremost among such efforts is that of the U N Secretary General who has appealed to President Kennedy to suspend the blockade and to Premier Khrushchev to suspend arms shipments to Cuba for a period of two or three weeks. The Soviet Prime Minister has accepted U Thant's proposal as being in the "interests of peace". President Kennedy, on the other hand, is known to be prepared to accept it only "on conditions" though what these conditions are has not been disclosed.

That there has been a systematic arms build up in Cuba by the Soviet Union has been widely reported. President Kennedy claimed in his statement announcing the blockade that there already existed missile bases in Cuba capable of launching medium-range ballistic missiles with a range of about 1,000 miles and that other bases were under construction which would launch intermediate ballistic missiles with a range of upto 3,000 miles. President Kennedy is, therefore, right in claiming that Cuba constitutes a threat to the U S. But on the nature of this threat it is difficult to accept the U S view. For, it is impossible to be convinced that Cuba intends to launch an attack on the United States. That would be foolhardy. The real threat to U S security is of a different character —setting aside, for the moment, the fact that in spite of the Alliance for Progress and U S propaganda, the Cuban revolution is still the shining example for many Latin American peoples beset by feudalism and imperialism. It arises from the fact that in the event of an armed conflict between the West and the East, the Soviet Union could use its bases in Cuba, 90 miles away from the U S, to deadly effect against the U S. The threat to the U S from Cuba is, therefore, of the same nature as the threat to the Soviet Union from the dozens of bases with which the United States has ringed the Soviet Union. In essence, therefore, the problem of Cuba is the same as that of U S or Soviet military bases in foreign countries, whether in Pakistan, Turkey or Poland. It is only U S pique at Russia adopting the same strategy that the U S has systematically pursued since the war which makes it think that the danger to peace from Cuba is more acute and immediate.

Any suggestion to link the problem of Cuba to the general problem of military bases on foreign territories would, however, be intolerable to the U S. In the draft resolution it submitted to the emergency session of the U N Security Council called at its request on Monday last, the U S has asked for "the immediate withdrawal from Cuba of all missiles and other offensive weapons" under the supervision of a U N observer team. It may be taken for granted that such a solution based on unilateral concessions will not be acceptable to the Soviet Union. And rightly, because Cuban fears that the virtual disarming of Cuba under U N supervision will be followed by a military invasion of the country by the U S, either openly or using the anti-Castro exiles in the U S as a front, cannot be dismissed offhand. The memory of the U S invasion of the Bay of Pigs must be still fresh in Cuban minds. The very least that President Kennedy can do towards a peaceful solution of the Cuban problem is to immediately renounce U S schemes to forcibly bring about a change of Government in Cuba by military intervention. But the fear is that the Kennedy Administration's complicity in the manoeuvres to overthrow Fidel Castro has gone so far that the President is no longer free to make, and keep, such a solemn commitment which must precede any action on the lines suggested in the U S draft resolution.

Sugar Production

THOUGH the imbalance between sugar production and consumption has been partially rectified by simultaneously restraining production and expanding consumption during the 1961-62 sugar year just ended, the imbalance has not been eliminated. In this necessary re-adjustment the industry played its part in restraining production but its performance during the year has not been such as to explain, far less to justify, the Government decision to withdraw the 10 per cent cut on the production of sugar mills imposed at the beginning of the season. Production of sugar in this season till the end of September was 27.3 lakh tonnes compared with 30.4 lakh tonnes last season up to the end of September 1961. The offtake of sugar this season amounted to 25.8 lakh tonnes compared with 21.3 lakh tonnes last year. Both domestic consumption and exports were higher this season. The unsold stock out of the current season's production at the end of September was 1.5 lakh tonnes. Taking into account 11.5 lakh tonnes carried forward from the last season, the total closing stock with the mills on September 30 was 13 lakh tonnes which was only 1.5 lakh tonnes lower than the stock on the same date last season.

Why has the Government then decided to remove the restriction on sugar production? The basis for this decision is probably the current appraisal of production prospects in the 1962-63 season which appears to be based on two assumptions. First, contrary to earlier expectations, it is now believed that the 1962-63 sugarcane crop will be appreciably smaller than last year's. The considerable damage to the crop in North India as a result of floods has led to the downward revision of the sugarcane crop estimate. Even in Maharashtra the crop is expected to be shorter than last year. Second, since March this year there has been a steep movement in the relative prices of sugar and gur against sugar. The index of wholesale price of sugar and gur in August stood at 134 and 161 respectively, compared with 127 and 123 respectively in August 1961. It is reasonable to expect that if relative prices of sugar and gur remain what they are, there would be considerable diversion of sugarcane from sugar production to gur and khandsari. Everything, therefore, points against any significant increase in sugar production in the coming season. In fact, the industry has predicted that it will be no more than 24 lakh tonnes though this may well turn out to be an under-estimate. For, of late, the industry has been arguing for a reduction in excise duty on the ground that the present rate of duty places the sugar mills at a disadvantage compared with gur and khandsari makers in the competition for cane.

New Approach to Exports

GRANTING that the smaller sugarcane crop and the rise in prices of gur and khandsari will make an appreciable impact on sugar production next season, it is still too premature to raise the scare of sugar shortage in view of the very large stock of 10 lakh tonnes which will be carried over from this season. That is not to say, however, that the time has not come for a change in the approach to the problems of the sugar industry. It need not, any more, be determined by the pressing need to take the crushing load of surplus stock off the mills. This happy change in circumstances is evident in the increasing attention that is being paid to exporting raw sugar. Export of crystal sugar hitherto was primarily a means of disposing of our surplus stock; export of raw sugar, on the other hand, will be, it is hoped, a long-term foreign exchange earning programme.

The sugar industry, however, has been by no means unanimous over the merits of a partial switch-over to production of raw sugar for export. This is because the manufacture of raw sugar is relatively less attractive to mills having adequate boiling house capacity and making bold grains. Similarly, the saving in cane cost per maund of raw sugar is lower the better the quality of cane used and so mills with high recovery rates will be relatively less attracted to raw sugar. Finally, and most important, the considerable technical and administrative adjustments and the building up of storage facilities necessary for raw sugar will be worthwhile to the mills only if a stable market for raw sugar can be assured.

On Saturday last, Shri S S Kanoria, Chairman of the Indian Sugar Mills Association's Export Agency Division, announced that the I S M A had concluded an agreement for the export of 2 lakh tonnes of raw sugar in the first half of 1963. The sugar is to be delivered to an "international trade house" — whose identity is not disclosed in the I S M A's press note — for export. Most of this sugar is expected to be shipped to Japan, one of the world's largest importers of raw sugar. Other countries and regions to which this sugar is expected to be sent are South Korea, Viet Nam, West Europe and North Africa.

One aspect of the deal requires to be explained: why was it necessary to enter into a barter agreement—exchanging the sugar for fertilisers? Raw sugar is believed to have a good international market and it is not at all clear if all possible avenues of selling the raw sugar for cash were fully investigated before entering into the barter deal.

The export of raw sugar will not be at the cost of our existing markets for refined sugar like Malaya, Japan to whom the bulk of the 2 lakh tonnes is to be exported does not import any sugar at all from India at present. Apart from the contract for export of raw sugar, an agreement for the supply of one lakh tonnes of white sugar to Canada is expected soon. Taken with other export commitments amounting to 70,000 tonnes which have been already entered into, 3.7 lakh tonnes of sugar have been contracted for export in the 1962-63 season. The I S M A is confident that it should be possible to export another 1.3 lakh tonnes to bring the total exports in the season to 5 lakh tonnes which is the Third Plan target for sugar exports.

If raw sugar exports need not be regarded as necessarily displacing exports of refined sugar, there exists a sound case for price incentives for production of better quality white sugar, higher than the top "29" grade now manufactured. Export of both raw and refined sugar will, incidentally, spread the export effort more evenly between the southern and northern sections of our sugar industry. The industry in the south, by virtue of its higher recovery rates, has a relative advantage in export of refined sugar. Now, if production of raw sugar is more attractive to mills with low recovery rates, then it would be natural to expect that the export quotas for raw sugar will be allocated mainly among mills in the north.

Air-India's Resilience

THERE was a phenomenal increase in international air transport capacity in 1961-62. This was the result of the scramble to change over to jet aircraft in the attempt to win, what it was hoped would be, the rich harvest of a rapidly-expanding international market. By the end of 1961 the world's airliners had added some 600 jet to their fleets and expected to add another 300 in the near future. Jets are not only bigger but also faster than piston-engined aircraft. The rapid change-over to jets thus meant more seats as well as flights and much larger capacity in terms of seat kilometres.

Against this expansion of capacity, the increase in demand for air transport was disastrously sluggish. Ironically, the increase was the smallest on the Atlantic route which, only the previous year, had appeared to the airlines to be the most profitable, leading them to deploy there a large portion of their capacity. The result was a sharp decline in load factor for almost every major international airline. For many airlines, the load factor fell below the break even point. British BOAC, American TWA, Dutch KLM, Scandinavian SAS — all ended the year in the red. And this at a time when heavy capital expenditure had been made to finance the entry into the jet age!

Against this background, Air-India International is justified to claim that its performance in 1961-62 was satisfactory. The A-II showed an operating profit of Rs 77 lakhs in 1961-62 which, though smaller than the previous year's Rs

117 lakhs, was still substantial. After meeting non-operating expenses, the net surplus was Rs 39 lakhs against Rs 68 lakhs in 1960-61.

If A-II kept out of the red in an admittedly difficult year, it was not because it was able to attract a substantially larger share of available traffic than were the other airliners. Against the 34 per cent increase in its capacity, the increase in loads carried by the A-II was only 24 per cent, resulting in a decline in the average overall load factor from 47.3 per cent in 1960-61 to 43.7 per cent in 1961-62. This, it is significant, was lower than for a number of major airliners which did much worse financially than the A-II. For instance, the average overall load factor for the BOAC was 45.8 and for the TWA 55 per cent.

The secret of A-II's resilience is its cost structure. In 1961-62, while the operating revenue per available tonne kilometre fell from Rs 1.19 to Rs 1.00, reflecting the fall in the load factor, operating cost fell from Rs 1.13 to Rs 0.96 per available tonne kilometre. Comparisons of operating costs are difficult to make, but there is no doubt that the A-II is one of the lowest-cost operators among the major airlines. This gives it a break even load factor much lower than for many others. In 1961-62 the A-II made a surplus on operations with a load factor of 43.7 per cent. The BOAC, on the other hand, would need a load factor of 55 per cent to break even.

Not many airlines can afford a repetition of the low loads and the losses of the last year. An intensification of competition among airlines is, therefore, inevitable. If air traffic does not increase significantly, the efforts of the major airlines will be directed at carving out for themselves a larger share of the available traffic by high frequency operation and better service. In this competition the A-II will necessarily be at a disadvantage with its relatively small fleet and its exceptionally wide-spread route system.

From the A-II's point of view, therefore, the best chance of continued growth and profitability lies in a continuous enlargement of the traffic available by reducing fares. Here, however, it comes up against the opposition of the high-cost operators in the International Air Transport Association. Thus the BOAC has been clamouring for a 10 per cent increase in air fares and Air France for a 20 per cent increase. In the face of such sustained pressure, a 5 per cent increase in fares for the next two years has been agreed to in principle. Rather than make an all-out effort to increase traffic sufficiently to fill up their vastly increased capacities, the international airlines appear to be plumping for safety — a spirit which is clearly inconsistent with the boldness with which most of them have entered the jet age.

Letters to Editor

Licences for Whom ?

THE Minister for Steel and Heavy Industry certainly has some clear and fresh ideas on rationalisation of industrial licensing policy, though the means he has suggested to work out these ideas are not equally clear, adequate and realistic. In a note on industrial policy and concentration of economic power, he is reported to have made a clear distinction between technical concentration within an industry and concentration of economic power in industry as a whole — a distinction which his predecessor, Shri Manubhai Shah, overlooked consistently. Shri Subramaniam is in favour of licensing a limited number of plants of economic size in order to secure the economies of scale: their monopoly power could be curbed, if necessary, through fiscal and physical means. This change in policy is overdue, if only to save on foreign exchange and to reduce costs. Its implications, however, are not very clear, at any rate in the newspaper reports of Shri Subramaniam's note. Is the Development Wing, as organised at present, in a position to evaluate the economies of size and varying technology in various industries and more specifically, to evaluate data on expected costs for different scales of output?

Outsiders are bound to be innocent of the infinite complexity of working out flexible targets, scrutiny of applications and co-ordination of the activities of various Government organisations. From the little one knows, however, it is understood that after more than ten years of licensing experience, Government still does not have adequate background data to judge the merits of licence applications on the basis of relative costs and the factor supplies other than power and transport predicated for each project. The moment Government looks beyond output targets and foreign exchange cost of projects and cuts down the number of licences to be granted, it becomes much more than a licensing authority. In effect, it assumes all or most of the functions of a project evaluation authority as well as responsibility not merely for safeguarding the asset base of the project (as IFC and ICICI have) but also for its economic viability as a unit and as a component of the Plan. Is the Development Wing being reorganised for this task?

And what happens if the calculations of a project go wrong and/or the project does not come up? It is an excessive simplification to suggest that if a private project falls through, the public sector can step in. It is one thing to make a policy decision that the public sector should take over certain strategic or selected projects given up by the private sector, and quite another for the public sector to take up any and every project surrendered by private licensees. All that Government can reasonably do is to make it clear at the time of issuing licenses for specified industries that if the licensee does not succeed, Government will step in — and to make that policy effective, Government must have the necessary organisation and collaboration arrangements in reserve.

Subramaniam's remedy for growing concentration of economic power is that excessively large business houses should not be granted industrial licences in future, except for limited expansion of plants already under their control. New licensing should be reserved for smaller business houses and if they are not prepared or able to set up large-sized undertakings, the public sector should step in. This remedy has all the glamour of indigenous socialism without nationalisation but

lacks its flexibility, for the present, at any rate. Assuming that Government can evolve legal and administrative criteria to identify the 'excessively' large business houses in all their ramifications, why should their further growth be stopped in principle? Will Government set some kind of ceiling on the size of present and future 'excessively' large business houses and on what basis? Will these ceilings be revised as national income and capital formation go up and technology changes? And is Government prepared to select and underwrite the success and growth of smaller houses?

Subramaniam is clearly going too far without adequately consolidating what he has in hand. There is time enough to deal with concentration of economic power in more positive ways. Economic size of plants and balancing of inter-sectoral requirements is a more urgent need. Let him concentrate on the latter first.

R K HAZARI

St Xavier's College
Bombay 1.
October 25.

Devaluation

I FEEL, having read Bhagwati's "More on Devaluation" (October 6, 1962), that it was good I wrote those comments (September 8, 1962). For we now have a neater and more understandable exposition of his point of view than was conveyed in his original article, "The Case for Devaluation" (August 4, 1962). We now know that, in spite of its title, the arguments in that article were intended to be not so much a plea for devaluation in our present context as a demonstration of certain expenditure effects associated with devaluation which under certain assumed conditions may be non-inflationary. We are further told that to make up one's mind on the appropriate magnitude of devaluation, one would need more empirical evidence than is available at the moment and that Bhagwati himself is currently engaged in more detailed work in that direction, and that for the promotion of exports he would not have any objection to accepting the alternative measure of subsidies and taxes which, let me add, permit picking and choosing and which, so far as choice of magnitude is concerned, lend themselves more readily to the method of trial and error.

A K DASGUPTA

New Delhi
October 17.

Industrial Licensing

AT the end of my paper 'More on Devaluation' (October 6, 1962) I included a brief comment on Arthagnani's "Rejoinder" to my paper on industrial licencing (September 15, 1962). I referred to the fact of Arthagnani's total reliance upon *ignoratio elenchi* and gave a particularly striking example of this practice. I did not think then, nor do I now, that a 'Rejoinder" of this sort deserved detailed reply.

I am prompted, however, by Arthagnani's fresh writing, in reply to Bureaucrat's brilliant letter (October 6) to make just one more comment.

Those who are following this controversy cannot have failed to notice the way in which Arthagnani has turned a complete somersault on his original defence of the current form of intervention. He emerges now with a (typically unsubstantiated) plea for more private enterprise and initiative. It does not surprise me any more to find that Arthagnani thinks that this performance should suffice to worry both myself and Bureaucrat when it is abundantly clear that it has no relation *at all* to either my arguments (relating to the ways in which the current State intervention can be made more purposive) or to Bureaucrat's devastating critique.

J BHAGWATI

New Delhi,
October 10.

Our Delhi Letter

The Sub-Minimum Third

THE Congress sub-committee which has been constituted to assess the economic trends in the country and make recommendations to accelerate the advance towards socialism seems to be groping in the dark, judging from the notes that have been submitted to the committee by some of the members.

Among the notes presented to the committee, three are considered to be the most important. They are written by U N Dhebar, C Subramaniam , and Gulzari Lal Nanda. While the first two are lost in details and miss the basic points, the third is cast in the standard model of Planning Commission memoranda, full of well-intentioned platitudes and meaningless generalities. It is to the credit of Dhebar that he alone underlines the seriousness and the gigantic magnitude of the problem. Obviously Pitambar Pant has been speaking to him to some purpose and has converted him to the seven per cent growth rate (see Delhi Letter, "Planning for a Minimum Level of Living", September 1, 1962). While the lowest three deciles of the population have only 10 per cent of the total national income, the upper 20 per cent of the population carries away half of the cake of national income. The consumption standards of 60 per cent of the people are below the national average per capita consumption of Rs. 25 per month; the per capita consumption of 30 per cent of the people is below Rs. 15 per month and of 20 per cent is less than Rs. 12 per month. Recounting the above, with a note of despondency, Dhebar remarks: "Working out the possible rise in their living standards in the succeeding plans on the basis of the rate of growth now in view, the picture becomes all the more disappointing. It would need nearly 30 to 40 years more before we would be able to ensure to the lowest three deciles a national minimum — that too not at Rs. 35 per month but at the rate of Rs. 25 per month and provided the prices remain at par."

To Dhebar it is inconceivable that the lowest three deciles should hang on to their precarious existence till the end of the century. "The plan, therefore, requires to be reviewed and ways and means re-

quire to be found to ensure a minimum standard (even if it is bare to begin with) within a reasonable period to all the citizens of the country." Dhebar is not only all for a growth rate of 7 per cent till 1975-76. "If even then the lowest two layers of the society remain very much behind, it will be necessary to raise the rate of growth to 8 per cent." Well, what does this imply, particularly in light of our past experience?

It is here that Dhebar stumbles. True, an effort of this magnitude is not beyond the capacity of the country. But 7 to 8 per cent rate of growth is pretty high, though it has been sustained for a longer period by a country like the Soviet Union. For us, to step up the rate of growth from the average of about 3 per cent attained during the 11 years of planning to 7 or 8 per cent would be a Herculian task. It can be attained only by a bold and radical reorientation of our socio-economic policies and of their implementing agencies.

Instead of coming to grip with the problem, Dhebar also tends to get lost in non-essential details. Some of his suggestions like "foreign investments outside India of Indian citizens," "Government needs to bear in mind that it is a poor peoples' Government," "allowances and travelling at public cost should be curtailed," are perhaps harmless in themselves but they serve to side-track the main issue.

Subramaniam confines himself in his note to industrial policy. He suggests that the manufacturing sector should increase its output at the rate of 12 per cent a year. Basic and capital goods manufacture should continue to receive particular attention and the programme for industrial development should be such that the country will reach, within the next decade or so, a stage where a high rate of growth and of investment can be maintained with minimum reliance on external assistance. He underlines that the industrial expansion should be so regulated that it is not accompanied by excessive concentration of economic power in private hands.

In this connection, Subramaniam emphasises the importance of widening the scope of machine-building industries in the public sector as this will facilitate the regulation of other industries to be equipped by the machine-building industries, particularly under the conditions of import restriction and licencing of private industries. To prevent concentration of economic power, he suggests that no new licenses should be issued to large business houses and that the new field should be left free for exploitation by other business houses which have or can acquire the necessary experience and technical expertise. "This will not by itself solve the problem of concentration of economic power. But it will prevent the very large business houses from getting even bigger on the strength of past business experience and capacity to undertake large sized business ventures. And in case entrepreneurs outside of these houses are not willing or able to undertake the setting up of large-sized units, these units should be shifted to the public sector."

Preventing Concentration

If economic power which is exercised through control over financial institutions and trading operations is also to be controlled, Subramaniam says that "it will be necessary for the Government to intervene more extensively than at present in both financial and distributive activities." However, instead of elucidating and concretising his points, his note also meanders into irrelavancies, like suggesting that the "practice of giving letters of intent, indicating Government's willingness to consider the issue of regular licence after the details of the project have been scrutinised, should be extended."

Nandaji's note is the prize document of the three. It hardly makes a single significant point. Nandaji *is* the Planning Commission and the Planning Commission is the ocean of all wisdom and everything conceivable is being done to ensure the maximum feasible rate of economic growth, equitable distribution of income and a reasonable minimum level of living to all. Naturally therefore the note challenges the view that a specified rate of growth, such as 7 or 8 per cent per annum, is the indispensable condition for assuring the basic necessities to the vast majority of the population. Although the Planning Commission is generous enough to accommodate the Perspective Planning Division within its Catholic fold, so many irreconcilables have to be reconciled, and the harmony of the Plan cannot be risked, therefore, "the task of providing the basic necessities should be conceived as a direct and urgent responsibility of the community which, within the means available, must be met, in part through direct employment and the income which such employment provides, and in part through social services and social security and improvement in levels of consumption." (Mark the laboured construction of the sentence. It moves with the lugubriousness of the Planning Commission!) How is it to be translated in practice? Through rural works programme, which Nandaji has already introduced in the Third Plan! Besides this, the note has nothing to offer. The problem of economic concentration, according to Shri Nanda, should be approached through the "expansion of the public and cooperative sectors, regulation of financial and other institutions, including the banking system, bringing an increasing proportion of the unorganised section of the economy within the scope of regulation and of public and cooperative organisation, and tax policies which will give the surpluses, wherever they may arise, back to the community."

Discussion about the advance towards socialism therefore remains vague and deceptive as usual. The concept of socialism is not differentiated from that of what could be a welfare state. For instance, Nandaji holds that the "major tests of socialism are the ability to provide employment at a reasonable level and to ensure the basic necessities to all." In the present discussion, no one is prepared to go beyond this. The implications for realization of even this restricted goal are being faced. If every one in this country is to be provided with a minimum level of living within a reasonable limit of time, then it will mean, first and foremost, increasing the income of the lower sections of society at the cost of restricting the income of upper sections of the society. In other words the gains of development should accrue more to the weaker than to the stronger sections. Unfortunately no body is prepared to face this central problem.

Our Calcutta Letter

Foreign Trade Seminar

THE long-awaited foreign trade seminar of the Indian Chamber of Commerce was held last weekend, its formal inauguration coinciding, incidentally, with the major Chinese offensive simultaneously on the NEFA and Ladakh fronts. Nothing was said at the inauguration or at the business sessions that had not been said before, many times over. A senior official, intimately concerned with exports, remarked afterwards that he had been put to sleep by the wearisome repetition of well-worn formulae at one committee meeting that went on all morning. A young business executive from an engineering firm very keen to earn additional import entitlements sounded equally disappointed. These reactions left one wondering at the end what was the point of the junket.

Apparently, the seminar's purpose was to make the business community in eastern India export-conscious. The idea came, one gathered, from New Delhi because eastern India is the base of such important export industries as tea, jute, chemicals and engineering. If consciousness is assumed to be heightened by exposure to yet more speeches, one would have no quarrel with the seminar's New Delhi sponsors or its organisers in Calcutta. But as anyone could see the seminar provided no evidence that business had moved even in the slightest degree from traditional patterns of thought. All failures and disappointments were traced back, indefatigably and relentlessly, to the Government's ideologically-oriented policies. Without necessarily holding a brief for the Government, it is pertinent to ask whether industry's own short-sighted policies, classically exemplified in OJMA's past curbs on output, did not contribute their share to the present impasse. There was neither at the open session or in the committees any attempt at introspection or any reappraisal of past performance, making the whole exercise of formulating statements on trade policies and export problems somewhat unreal.

Shri Manubhai Shah opened his hour-long address with a reference to the perils on our borders, and went on to anticipate the Prime Minister's broadcast appeal for maximising production irrespective of any differences of opinion on other issues. He tried to relate (not very successfully as one must point out) the task on the export front to the national emergency, hoping perhaps to strike a responsive chord among the massed ranks of Calcutta businessmen. At the end of his speech, he renewed his plea for a sense of national purpose, and demanded from his listeners dedicated determination in pushing up exports. He was not ashamed, he said, of repeating that substantial exports could not be achieved without patriotism since no scheme of incentives or assistance could wholly offset the losses inevitable in the international marketing of manufactured goods.

If his intention was to arouse a sense of urgency appropriate to the country's critical circumstances, the Minister failed in the effort. Three out of the four speakers who followed the Minister did not consider it necessary even to refer to the national emergency. Shri Shanti Prasad Jain provided the sole exception, and he came up with a somewhat involved but nevertheless valid case for India's participation in economic development of neighbouring countries through export of capital goods on deferred payment both to promote trade and also to cement India's relations with them. Shanti Prasad also made the sensible point that programmes of import substitution were handicapped by the diversity of plant and equipment used in Indian industry which made it difficult to embark on indigeneous manufacture of spares and components. Some degree of standardisation in original equipment, he said, should be aimed at in future import licensing policies.

The seminar's sponsors were anxious to emphasise that export capacity could not be viewed in isolation but required a reorientation of economic policies of a fairly far-reaching character. If this was their central purpose, as one was subsequently given to understand, it was lost in the flood of verbiage cascading from the seminar. Shri K P Goenka, Chairman of the World Trade Department of the Indian Chamber who acted as the principal spokesman, argued for "elimination of uneconomic units" and "the need for giving due importance to the economics (sic) of large production". Here was a substantial point to be made but it was unfortunately left at the level of a feeble generalisation, not meriting even a comment from Shri Manubhai Shah.

Then followed the familiar argument for linking future increases in wages to productivity in export industries, another point on which international comparisons of labour costs would have been invaluable.

State Trading came in for the usual criticism that it had merely diverted to itself the trade that flowed formerly through private channels, and done precious little to enlarge the flow. Goenka alleged that some countries preferred to deal with private agencies, which might well be true since STC was not immune from the dilatoriness and rigidity of Government procedures.

Specific criticisms, however, were were left only to be inferred, in order to preserve a facade but for whose benefit one wondered.

Subsidy for Sacking

In regard to problems of individual commodities, the most substantial contributions came from the jute and sugar industries. Shri Chiranjilal Bajoria, (currently Chairman of IJMA) argued for a countervailing subsidy to sacking to protect Indian exports from the very grave threat posed by Pakistan's export bonus and lower raw material costs. The Indian minimum price for raw jute of Rs. 30 per md. Assam bottoms basis, he pointed out, was Rs. 6 to 10 higher than the price of corresponding grades in Pakistan, giving the latter an advantage of Rs. 220 to 270 per ton, in addition to the export bonus vouchers currently quoted at over Rs. 200.

The IJMA Chairman's case would have been more persuasive

if he had openly acknowledged (as some IJMA people do in private) that the present Indian floor price was the minimum needed to persuade the cultivator to grow jute at all. And when the jute grower was not persuaded, the result (as has happened) was not more jute goods exports but less, and the consequent scarcity pushed up prices where jute goods tended to lose markets permanently. Bajoria held that a subsidy of Rs. 4 crores on sacking exports would suffice in present circumstances and added that it was a small price to pay for protecting Rs. 45 crores of foreign exchange earned by sacking compared to the rupee losses borne on sugar.

Profound Inanities

Shri S. S. Kanoria (head of the Indian Sugar Mills Association's export division) asked for concessions in rail freight which now accounts for 20 per cent of the export price. He made the telling point that ocean freight to USA costs Rs. 1.25 per md of sugar against a railway freight of Rs. 3 from factories 1000 miles inland. With bulk of India's sugar capacity located at considerable distance from ports, this factor alone puts the country at a disadvantage **vis-a-vis** coastal plants in Cuba, Taiwan and Mauritius. He also made out a fairly convincing case for a long-term export policy, improved shipping and storage facilities, and price incentives for production of better quality sugar, higher than the top "29" grade now manufactured.

ECM and Britain's possible membership frequently featured in seminar discussions. Apart from urging liberal trade policies, the seminar failed to arrive at a firm assessment of future prospects or to recommend concrete counter measures. One influential business group, as its spokesman made clear, rejected the notion that ECM should be judged on its present record. A "proper" approach to ECM would overcome the difficulties now envisaged. The final statement from the seminar merely recorded its "concern at the adverse repercussions on the Indian economy from the U.K's proposal to join the common market, and hoped that" in the event of U.K. joining, the interests of India and other developing countries in general will be fully safeguarded". Not a tremendously profound contribution to the most challenging problems that Indian exports face!

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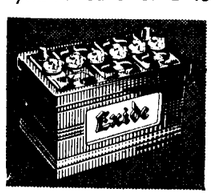

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Capital View

The War Crisis

Romesh Thapar

A WORLD war could begin any moment. And even if it does not, President Kennedy's illegal naval blockade of Cuba, and his extraordinarily aggressive double-talk to justify it, has precipitated a crisis which will have far-flung repercussions. The most immediate result is that the conflict between India and China will be treated throughout the world as a minor skirmish. We must consider the implications, and then see how these affect the position on our northern frontier.

Emboldened By Our Failures

Against the background of developments over Cuba, there is little point in detailing the causes of the many failures of our China policy, failures which have so emboldened our adversary that a fullscale operation has been launched against our defence system along the northern frontier. True, in the Capital, there is much criticism of the incapacity of the G O I to understand that the Chinese were capable of ordering a simultaneous offensive along the entire front. Others point to this woolly-headedness to explain why the armed forces are so ill-equipped at this critical juncture. Yet, the job now is to clear the cob-webs and face a complicated military-political-economic situation which is likely to remain with us for many years.

Students of the border question, who have refused to be carried away by the political and military colouring given to the conflict and have confined themselves to a study of the opposing claims and differing border alignments, are convinced that Peking has ordered its army to occupy and consolidate fully the territories claimed by it in Ladakh. These claims have been stressed with a monotonous repetition. In NEFA, the situation is not so clear. Peking appeared earlier to accept the McMahon Line. The pattern of the offensive in NEFA indicates that here, too, full claims are sought to be established.

The ferocity of the offensive, the elaborate preparation for it, the total disregard for casualties, emphasise that the enemy is determined to complete the operation within the shortest possible time; winter is already closing in and then campaigning will be difficult. It is expected in official circles that when the territory claimed is occupied and consolidated, China will then assume peaceful postures and call for 'negotiations'. This role they have already started to rehearse with the first offer of a 'cease-fire'. They have taken a calculated risk, hoping that the censure of the communist world will be negatived when India is compelled to rely heavily on the supply of US military equipment. Obviously, Peking firmly believes that the Soviet Union can now no longer provide military aid to India, that once this becomes clear the 'myth of Nehru's neutrality' will be shattered. The Chinese stand is, indeed, an extraordinary mixture of cynicism, opportunism and adventurism. It is highlighted by the fantastic charge that India launched the attack at dawn on Saturday, October 20.

Thinking aloud, the Prime Minister on several occasions during the past week has implied that we have been manoeuvred into a most unenviable position. In the past, repeatedly, we have urged many nations to settle their problems peacefully, by negotiation. Now, if the Chinese are able to occupy all the territory that they have claimed, grave political repercussions would follow any attempt to open talks with the aggressor. Only two possible alternatives remain. Both have to be pursued. First, immediate measures have to be taken to secure vitally-needed equipment for the armed forces from whatever source is available to us. Second, even as we confront the aggressor, we must continue to seek out every avenue of international mediation. To pursue the one and not the other is to block the chances of a peaceful settlement and to get dragged into a prolonged, exhausting war of attrition.

Russia and Sino-Indian Crisis

Take the question of equipment. There are only three sources of supply — the USSR, the USA and the leading members of the NATO alliance in Europe — and all are now threatened by the Cuban situation. In the past, we were able to draw on all three sources and so insulate our non-aligned status against the kind of pressures that usually follow agreements for the supply of military equipment. In the warlike situation which has been deliberately thrust upon us by the Chinese, it is going to become increasingly difficult for the USSR to come to our aid — unless, of course, Khrushchev decides boldly that Peking has gone too far in its adventurism and that there is every justification for the USSR to aid a leading non-aligned nation even at the cost of further damaging relations between the two main pillars of the communist world. True, the crisis over Yugoslavia and Albania has been a pointer to Khrushchev's capacity to hit out against those who would reduce communist thinking to dead dogma, but to expect similar developments on the Sino-Indian border question is premature, to say the least, and particularly so when peace throughout the world is threatened by Kennedyism in the Carribbean. It is with grave misgivings that the GOI is beginning to open negotiations for military aid from the West, but the Cuba tension will make it impossible for these powers to aid us substantially.

As for international mediation, the present climate appears thoroughly unfavourable. President Nasser's initial move to offer his services did not receive the response it should have because our political leadership could not grasp the role that mediation efforts could play in isolating the Chinese, exposing their false propaganda and building the basis for pressures which have to be mounted to compel Peking to abandon its aggressive tactics. We have nothing to lose through just and impartial mediation. India has not been

the provocateur. We still see the necessity for a peaceful solution. But there is fear that acceptance of mediation at this stage will be interpreted as a sign of surrender, of defeat.

No Bold Lead

The mood which prevails in the Capital today has to be understood in terms of the impact that the present war crisis is likely to have on economic development, particularly the industrial sector which has been much neglected. In other words, the Third Five Year plan, despite the vague talk of the Prime Minister about preserving it, will have to be expanded and strengthened very considerably if it is to serve the needs of the new situation. But where are the funds to come from? In addition, there is danger that prices will get out of hand and spark strikes. This will, in turn, lead to a further and more dangerous polarisation in our political life.

Many of those who listened to the Prime Minister's broadcast to the nation marvelled at his incapacity to move beyond a summary of the tragic events. There was no sign of taking the people into confidence, explaining the unscrupulous purpose of the Chinese offensive, accepting responsibility for some of the grave errors made in dealing with the situation or of calling for a dynamic reorganisation of government at central and state level to cope with the new challenges. It was left to a younger man to make the only new, but controversial, contribution to the debate now joined. Chief Minister Patnaik of Orissa called for national front governments which would consolidate the unity of the nation, lessen political and economic tensions and give us the muscle to salvage our plans, rearm our forces and lay the foundations for the isolation and defeat of the aggressors.

Reorganise Government

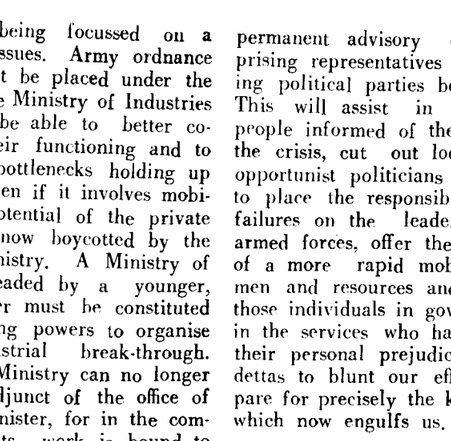
If the Congress Party is unprepared, during the present emergency, to share power with other political parties which subscribe to its programme, then quite clearly it must move with speed to put its own house in order. The demand is rising that members of the party take courage in both hands and insist on an immediate reorganisation of the Union Government. Attention is being focussed on a few crucial issues. Army ordnance factories must be placed under the control of the Ministry of Industries which will be able to better co-ordinate their functioning and to remove the bottlenecks holding up production even if it involves mobilising the potential of the private sector, until now boycotted by the Defence Ministry. A Ministry of Planning, headed by a younger, decisive leader must be constituted with overriding powers to organise India's industrial break-through. The Foreign Ministry can no longer remain an adjunct of the office of the Prime Minister, for in the coming months, its work is bound to increase many times. Transport and Communications must also be given a radical overhaul. And a Deputy Prime Minister has to be found without delay.

It is urged that, in the absence of a national front government, a permanent advisory council comprising representatives of the leading political parties be constituted. This will assist in keeping the people informed of the realities of the crisis, cut out loose talk by opportunist politicians which seeks to place the responsibility for our failures on the leadership of the armed forces, offer the possibility of a more rapid mobilisation of men and resources and discipline those individuals in government and in the services who have allowed their personal prejudices and vendettas to blunt our efforts to prepare for precisely the kind of crisis which now engulfs us.

To stir the powers that be is not easy. Even Parliament has not been called. It will take all the effort of energetic leaders to break the apathy which prevails at almost every level — apathy which can increase tensions, and invite greater disasters.

Happy Dewali

TO OUR PATRONS AND FRIENDS



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Official Paper

The Two Worlds of Food and Agriculture

M L Dantwala

The State of Food and Agriculture 1962, Food and Agric ulture Organisation, pp IX + 198, price $2.00 or 10 s.

OVER the last few years, the annual publication of the "State of Food and Agriculture" by the Food and Agricultural Organisation of the United Nations has become an occasion which serves as an unpleasant reminder of the fact that the economic gap between the developed and the underdeveloped regions of the world is becoming wider. The primary producing countries, while remaining predominantly agricultural in their national economies are rapidly losing their position in the international world of agricultural production and trade. This proves that economic progress is a single process and cannot be confined to a preferred sector, agricultural or industrial. It is no accident that agiculture in the industrial countries is more efficient and more prosperous than in the so-called agricultural countries.

These disparate trends in growth are brought within a sharp focus by FAO's Director-General B R Sen in the very opening paragraph of his Foreword to the Report: "Broadly it may be said that the key problems of food and agriculture in the less developed regions of the world are, first, underproduction, hunger and malnutrition, and, secondly, the continuing decline of agricultural prices on world markets, which erodes the earning capacity of these regions for foreign exchange and their potentialities for economic growth. In contrast, the problems of the economically developed countries are more often excess production in relation to commercial outlets, leading to accumulation of surplus stocks . . ."

Trends in Production and Trade

In the developed areas — consisting of Western Europe, Eastern Europe and U S S R, North America and Oceana — between the pre-War period and 1959-60 — 1961-62, population increased by 21 per cent, food production by 56 per cent, resulting in per caput increase in food production by 29 per cent. In contrast, in the less developed areas — Latin America, Far East and Africa — population increased by 51 per cent, food production by 54 per cent and per capita production by just 2 per cent. It should, however, be noted that in the Near East, per caput food production increased by 11 per cent, while in each of the other three less developed regions it *declined* by 1 per cent. If Japan were excluded for Far East, the decline would be larger.

Between 1952-53 and 1960-61, the volume and value of gross agricultural exports from industrial countries increased by 62 per cent and 36 per cent respectively, the corresponding figure for the primary producing countries is 28 and 5. The former set of figures, however, includes exports under special concessional terms; as such, it would not be a correct indication of the foreign exchange earnings of these countries. It is interesting to note that the percentage of world wheat exports made under special arrangements increased from 26 in 1957-58 to 35 in 1960-61.

Leaving aside the regional contrasts, we find that over the last decade, for farmers in most countries of the world prices are becoming more unfavourable. The ratio of prices paid has declined since 1952-53 by 20 per cent or more in the U S A, Canada, Australia, Belgium and Netherlands. There were minor declines in Japan, Norway and Germany. Only in France and Finland, the farmers were better off.

New Price Support Policy in U S

There have been important developments in agricultural policies in the industrial countries, which are likely to have a significant impact on the future pattern of world production and trade. In the U S A, a determined effort is being made to restrict production of commodities in surplus stock. A new price support policy has been evolved under which farmers receive subsidies to divert land to approved conservation uses and farm prices are raised to protect incomes. But only the output of re-allotted areas at normal yields becomes eligible for price support, and the incentive to intensify production is thus removed. For the first time, the policy has yielded results and the smaller acreage has ceased producing larger output. The programme is likely to be extended to more commodities.

If this programme gathers momentum, it would be unwise for the food deficient countries to bank on the flow of PL 480 commodity aid beyond the next quinquennium. The European Community on the other hand, is bent on protecting its agriculture from outside competition, though internally, its objective is to establish a single community-wide market for agricultural products and a uniform price.

The Widening Gap

While the main purpose of the Annual Report on the State of Food and Agriculture is to depict the present and the past trends, this year, the FAO decided to take a peep into the future of agricultural production and trade*. The projections of the likely production and consumption of cereals indicate that by the end of the decade (1970), in the high income countries the surplus of production over consumption for wheat will grow from the current level of 14 million to 32 million metric tons, while in the low income countries the deficit will grow from 11 to 17 or 18 million metric tons.† The trends in regard to other cereals would not be much different. Neither are the prospects of demand for farm products in world trade assuring; for most commodities the demand will grow at a slow pace, for some it may even decline. Such projections, no doubt, involve a number of assumptions, and the results must be read only in the context of the framework of assumptions and the methodology adopted.

The 1962 FAO Report devotes two special chapters to (1) the role of forest industry in the attack on economic under-development, and (2) the livestock industries in less developed countries. The contribution

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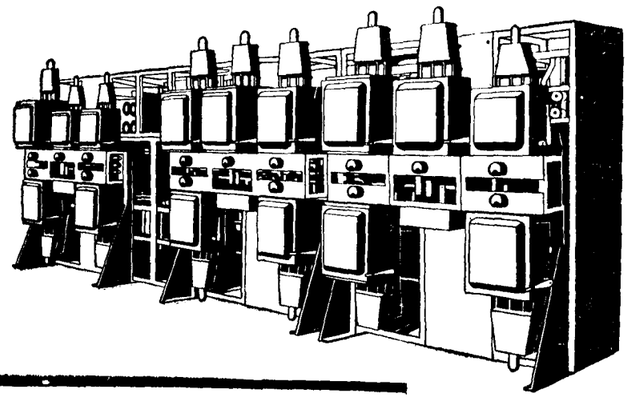

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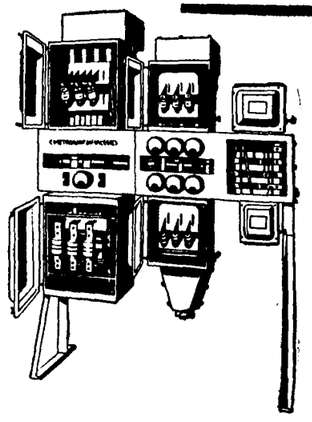

Typical fuse-switch distribution board with covers opened.

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which these two sectors of the agricultural economy are capable of making to the economy of the less developed countries is not as yet fully appreciated. The FAO Report suggests that investment in forest industries should rank high as a growth promoter, because of their linkage with other sectors of the economy. They are also very suitable for utilization of unemployed labour and industrialization of remote areas. The contribution which an efficient and growing livestock industry can make to rural incomes and dietary of the people is too obvious to need any emphasis.

* FAO, Agricultural Commodities, Projections for 1970".

† FAO, "Agricultural Commodities and the European Common Market".

Book Review

The Economics of Aggregates

Anupam Bose

Macroeconomics by F S Brooman, George Allen and Unwin Ltd, London, 1962. Pp 256, price 35s.

WHEN Keynes published his "General Theory" he had merely provided the basis for a more thorough and probing analysis of the economic system. Today the literature in this field is vast and scattered — in fact, one who has no regular access to journals on the subject is bound to lose touch with the latest developments and controversies. Mr F S Brooman's book "Macroeconomics" deals with income-output analysis, employment theory, money and other related topics. But it is not an encyclopaedia and, therefore, does not survey in detail Keynes' ideas and all that came after.

Mr Brooman makes clear the distinction between "micro" and "macro" economics. Gauging human satisfaction with the index number device does not free one from complications, for as soon as we adopt the "macro" approach there are problems of aggregation. The author points out the gaps in macro ana lysis and presents the problems in their proper perspective.

The analysis of income and out put — how they are estimated and computed — has been supplemented with statistical data. Yet nowhere does the presentation appear overburdened with figures. The beginner can acquire a fairly good idea not only of the important variables in national income analysis, but also of their inter-relations.

No Inevitable Tendency to Equilibrium

The discussion of equilibrium is thought-provoking, and deals with the conceptual ideas that underlie Keynes' theory of "sticky" wages and the liquidity trap. The oversimplified assumptions of an upward sloping supply curve and a downward sloping demand curve have to be modified in the light of market imperfections. Equilibrium cannot be expected to result inevitably from the automatic adjustment process built into the system. There are structural rigidities which distort the demand and supply equilibrium based on the behaviour hypothesis. The author has adopted the static method of analysis, but he never omits to state the possible dynamic interpretations of economic behaviour. His text is well-guarded; all the explanations have been conveyed in orderly sequences of clear, understandable statements.

The chapter on employment is distinctive of Mr Brooman's style. He scrutinises different facets of the problem of unemployment and the various forms in which it prevails in the developed and underdeveloped economies. While his discussion only briefly touches upon the Keynesian and classical conceptions of labour market equilibrium, his treatment is certainly adequate for the beginner. Everywhere the ambit of his discussion is broad and seeks to accommodate the complete macro picture without blurring the reader's perception.

Explanation of Business Cycles

Mr Brooman subjects the hypothesis of the consumption function to a critical examination. The author has brought together the different views on this subject and in their light discussed all aspects of the question of consumption patterns: to what extent they are stable and easy to predict. The concept of the multiplier is introduced to us in the same lucid style. The principle of the accelerator is also brought in. With the help of simple difference equations he explains time-lags. The two concepts of the multiplier and the accelerator are then linked to suggest an explanation of the business cycle.

In one long chapter on "investment" the author carefully traces the sources of investment demand. The way he explains the concept of marginal efficiency of capital is easily understandable. The chapters that follow — on foreign trade, public finance, monetary policies, growth, inflation and business cycle — are like the corollaries of a theorem. They can be classed with the best introductory reading on these topics.

For the title it bears, the book has very few pages. There are many things that Mr Brooman does not touch. He does not, for instance, compare Keynes to the classicists. He has also completely side-stepped general equilibrium analysis. There is nowhere a suggestion of the integrated market system. Neither are the ideas of J B Say, Leon Walras and Hicks introduced.

Mr Brooman's style is lucid. His analysis is systematic: the student is led from one subject to another in a logical manner. In sum, the book is a small and authoritative treatise which should prove immensely useful to the beginner.

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Indians in Burma

Problems and Prospects

K Krishna Moorthy

Earlier this month the Burmese Government amended Burma's Money-lenders' Act, a legacy of the British days. The new law restricts money-lending to Burmese nationals and precludes all non-nationals, mainly Indians and Chinese, from money-lending.

The new law reflects the change in the place of the Indians and Chinese in Burma in the country's economy.

In this article the author, who is the Delhi Correspondent of the Far Eastern Economic Review *and has visited Rangoon several times during the last two years, examines the Burmese image of India and the Indian community's long-term prospects in Burma.*

WHEN on March 2, 1962, General Ne Win and his military revolutionary team snatched the reins of power in Burma, officials at the Indian Embassy on Merchant Street, in Rangoon, probably had more reasons for worry than other foreign missions. Some of the diplomats as well as leaders of the Indian community in Burma had a lurking fear that Pandit Nehru might in his casual way make some remark or other against military regimes in general and India would start her relations with the new regime on the wrong foot. (Pandit Nehru's publicly expressed regret at the royal overthrow of parliamentary democracy in Nepal in December 1960 perhaps still disturbs King Mahendra).

Fortunately, the Indian External Affairs Ministry agreed quickly with the thesis of the men posted in Rangoon that the military regime had come determined to stay for a long time and Delhi realistically accorded recognition to the military government. In fact, India was the first to announce acceptance of the Ne Win administration.

Some diplomats, particularly Western representatives, found it ironical that deposed U Nu's supposedly closest friend, Pandit Nehru, should have appeared to be in such haste to deal with those who had humiliated U Nu. They thought that Indian foreign policy was beginning to acquire some of the facets of international pragmatism and cynicism. This realistic Delhi recognition of the facts of life in Burma was naturally welcomed by Indian leaders in Rangoon and I have reason to believe that the Burmese Foreign office was also grateful for India's quick decision. (There were some in Rangoon who felt at that time that cold war entanglements would have been suspected had Peking been the first to recognise the new rulers).

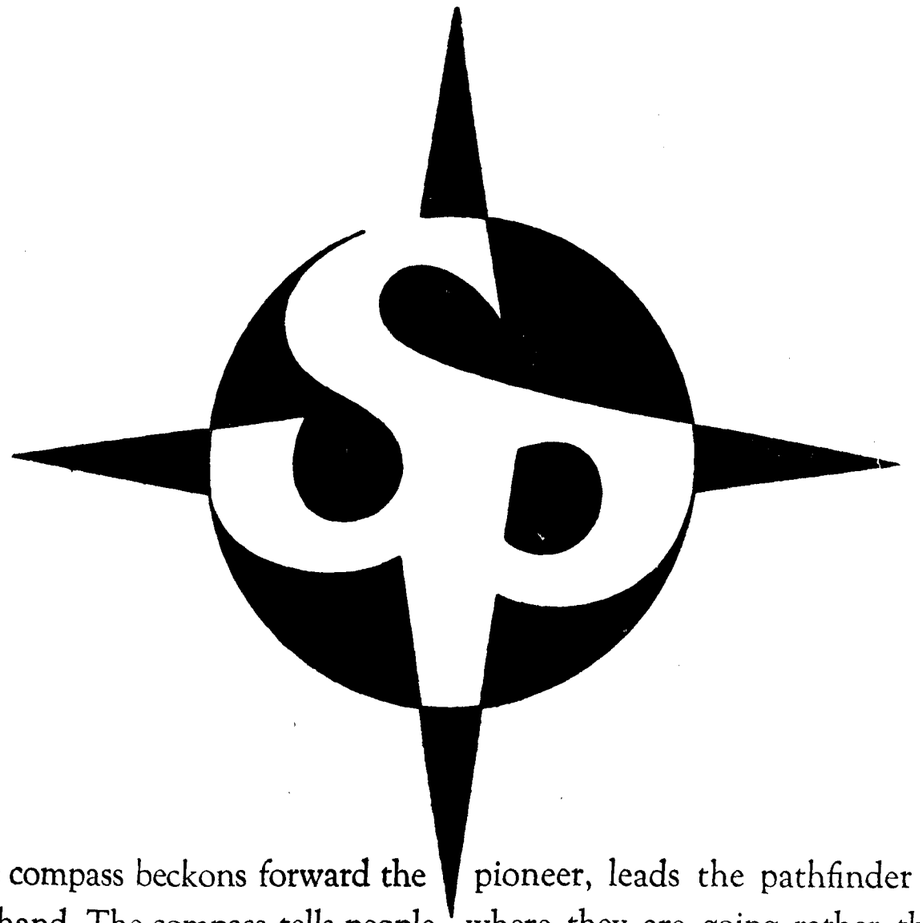
India and the Military Regime

Delhi started with goodwill towards the revolutionary military government and the goodwill has by and large been reciprocated by the Burmese Government which, for instance, was extremely helpful in repatriating the Indian Air Force men who had fallen into the hands of Naga hostiles.

A weak agrarian State, only just beginning to think clearly of going anywhere, loosely administered Burma shares her border with two dynamically progressing big neighbours, China and India, and the troubled areas of East Pakistan, Laos and Thailand. In her policy of neutralism, Burmese call their country 'neutral among the neutrals.' Burma was among the first to recognise the Peking Communist Government and by and large determinedly pursues the line of keeping herself aloof from the Western cold war. The King of Mandalay in the last century may have deluded himself that Mandalay was the centre of the world and there may still be some in Burma, including officials, who believe that 'if the world would leave Burma alone, there would be no need for industrialisation.' But the present military leadership is certain that the world will not leave Burma alone and that Burma has to catch up with history.

In the process the Ne Win Government also has to take measures to ensure that the Union does not break up, a threat which was the most important factor in the military action in March. The Ne Win team calls itself the true inheritor of the Aung San tradition and has great faith in the concept of a modern State, devoid of the quasi-religious overtones which bedevilled the U Nu regime. Nationalism and a form of state capitalism form the large base for its internal policies. There is no playing with the idea of a Buddhist base. In this attitude General Ne Win has more in common with the ideas of President Nasser or Algeria's Ben Bella (who both reject an Islamic bias and favour Arab socialism) than for example with Pakistan whose motivations are Islamic.

There are some who theorise that Burma can be neutral only so long as China will let her be neutral. There is no expressed fear in Burma of any physical threat from the other big neighbour, India, and for the record Peking has so far been more than considerate in her relations with Rangoon. Actually, China has gone out of the way to woo Burma. If one examines Burma's foreign relations in the last few years, one will find that the country has often quivered with phases of hostile attitudes to one foreign Power or another. There was the anti-British phase in the very early days after independence which took Burma out of the Commonwealth; then there was the bitter anti-American phase following the Kuomintang troubles on the northern border; and lastly the anti-Japanese phase resulting from difficulties in securing increased reparations payments. On the issue of reparations, Burma felt she had a bad bargain in comparison with Japanese dealings with some other



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countries occupied during the war. Japan has recently expressed her desire to resettle the reparations issue. The Burmese have been prudent in assuming their hostile phases against distant countries and have been careful not to be carried away so far by a belligerent stance towards Peking or India. Burma has not been shy of annoying India, as in the money-order question, but there has been no significant dispute between the two countries.

Burmese Neutrality

Despite the mess that the poorly trained administrators and the populace seeking religious merit and social status made of the country in which there was for years a lack of sense of national direction, many Burmese officials have taken pride in what they call their country's 'real neutrality.' Pakistan and Malaya, according to them, have been imperialist stooges and non-aligned India willing to make compromises in return for foreign aid. Rangoon thinks poorly of India for her failure to strike a settlement with China in the Himalayas; this was a view which U Nu also reputedly shared and this belief led to his miscalculated offer for mediation between China and India. After all, the Burmese made quick work of their border problem with China and came to an agreement in the enlightened self-interest of both the countries. The Burmese point out, with rightful pride, that the agreement with China on the Burmese boundary is a major and firm international commitment Peking has been persuaded to make.

When the Burmese won freedom, India acted with restraint and goodwill as the Burmese land reforms affected large estates owned by Indians. U Nu has publicly acknowledged Burma's gratitude for India's arms assistance to beat off rebel forces at a crucial moment when they were threatening Rangoon.

In February 1949, India had initiated a Commonwealth move to assist the preservation of the lawful government of Burma. Also participating in the move were Britain, Pakistan, Ceylon and Australia. By the second week of May that year India, Britain and other countries announced their intention of helping Burma out of her plight. India was liberal, despite her own problems, in assisting Burma with a loan of Rs 100 million in September 1955. India also gave Burma credit for making extensive purchases in India.

It is unfortunate that there is not much visible appreciation of India's assistance, though there is much enthusiasm with Chinese assistance which was announced only during the sixties. Hundreds of Chinese experts will be going to Burma during the coming years for the implementation of various industrial projects, but the Burmese Government has cancelled the invitation to a few dozen Indian doctors to work in Burma which suffers from a distressing shortage of medical personnel. There may, of course, be reasons for the Burmese Government's second thoughts on the question of invitations to Indian doctors. If Burma or some other non-aligned countries in the long run show a preference for Chinese technicians and experts, it could be due to Peking's attitude to such assistance. For instance, Chinese experts in Nepal work at local salary levels and there are no individual profit motives.

Distrust of Indian Trader

The reasons for the underlying popular distrust and dislike of the individual Indian in Burma are simple, historical and imperialist. As part of the territory governed by the British from Delhi, thousands of Indians moved into the province of Burma. Some of them no doubt were pioneers, who brought the land under the plough. The average Burmese of those days was certainly less industrious than the Indian and the Chinese. Both these communities prospered on land and in commerce. The numerous Indian Civil Service men also exercised their overlordship on the Burmese.

But it is useless today to harp on the Indian community's contribution to whatever little economic development Burma had before the war years. The image of the Indians in Burma is not that of cultured good samaritans, but that of mercenary exploiters who came in a flood after the British take-over of Burma. This impression persists although thousands of Indians in Burma are in near menial jobs. The shrewd Marwari operators, the Chettiars and other money-lenders combined to wield a tremendous economic force in the country where a powerful indigenous entrepeneur class still has to emerge. State capitalism is the Burmese Government's answer to the lag in individual national initiative. According to a Burmese Minister in office before the military takeover, the Indians have an estimated Rs 800 million available in their hands in Burma for investment. The Chinese community had around Rs 500 million. Over the years there has been a continuous attempt to kick the Indians and Chinese out of the avenues of commercial profit in the country. Licensing policies naturally favour the national, as in any other developing Asian and African country. But until quite recently the Indians and Chinese got around these restrictions through organised corruption of the administration and the Burmese business community and politicians. The Burmese often became the front men operating for Indian or Chinese businessmen for a commission. With greater orientation towards trading by the State and greater vigilance by the military administrators, the field of underhand activity by the Indians naturally has shrunk.

The Indian business community in Rangoon is certainly feeling the squeeze now. Though the Burmese Government has invited the Indians and the Chinese to put their money into industrial projects, it is not sold on the idea of quick development of industries by free-wheeling non-national investors. The controls on industrial investment will be severe. In this the Burmese policies may not be very different from measures taken by Ceylon. Nor is the Burmese Government willing to go out of its way to attract foreign investments. (The Japanese, however, have in recent weeks made admirable progress in tie-ups with State enterprises.)

Indians Shy of Burmese Citizenship

A danger in the coming years to the Indians in Burma stems from the fact that a majority of them did not try to become Burmese citizens and throw in their lot completely with the country. The reservations of the Indians in Burma have been as numerous as those of Indian expatriates in more distant lands. Thousands of Indians shuttle bet-

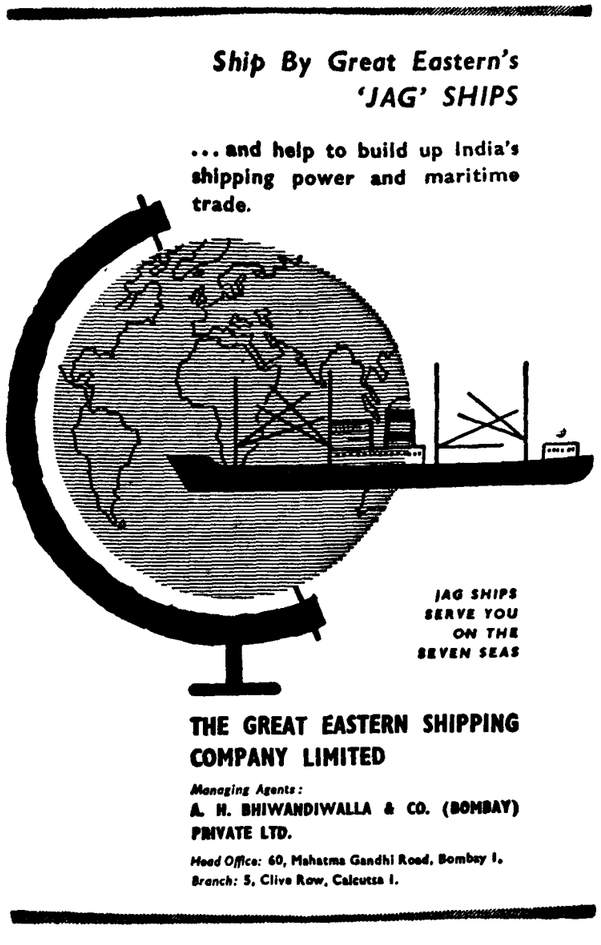
ween Rangoon, Calcutta and Madras with loyalty only to their profits. The number of people in Burma holding Indian passports is around 550,000 and a large number of the Indians are money-lenders, part-time or full time, exploiting the Burmese through high interest rates, much higher than those prevalent in their home country, India. The danger is that if and when the Burmese Government feels convinced that, with the increasing control of business and industry by the State, there is no place in the economic structure for the Indian business community, a stroke of Ne Win's pen can start a quick process of weeding them out of Burma. And in their thousands the Bengali, the Marwari and the South Indian now in Burma will have to find a new home and a new life in their own country.

If the Indians in Burma run into trouble there is not much hope of their receiving sympathy from official quarters in New Delhi. The Prime Minister has all along advised Indian expatriates that they should as far as possible settle down as citizens of the country of their adoption. In Africa or in Asia the Indian communities have been reluctant to act on this principle.

Impact of Indian Rice Purchases

In official relations between India and Burma the erratic Indian rice purchases in recent years are a bone of contention, although India in earlier years paid badly needed sterling for rice purchases from Burma. For Burma as for Thailand whoever buys her rice is her friend. Repeatedly at international conferences Burmese delegates have frowned on Indian attempts to achieve self-sufficiency in rice. There is a strong rice lobby in the ECAFE for example and there have been suggestions that India could assist Burma to produce and market more rice since Burma is more suited to profitable production of rice than India. In this context Burmese officials have cited to me the example of China's rubber deal with Ceylon. (What Burma and Thailand sometimes fail to take notice of is that India has had a record of famines and starvation deaths. The war and the occupation of Burma by the Japanese stopped imports of rice which may have averted or alleviated the disaster of the Bengal Famine. What happened two decades ago could happen again.)

Apart from the economic facts, after all, some Burmese have told me that India, "a big and rich country," can lean over backwards to assist the "weak and less prosperous neighbour". Also, apart from formal foreign and economic relations, a crucial factor for India in her relations with Burma in the coming years is a confrontation with China which, despite its tremendous internal problems, is extending considerable developmental assistance. What an Indonesian Minister once told me applies to Burma also : "Cannot India, with a Third Five Year Plan amounting to more than Rs 100,000 million specifically allot even a meagre one per cent to help less developed countries in South Asia and Africa"?



Why Not an Asian Common Market?

Burma, Ceylon, Malayasia, Pakistan and India

H T Parekh

The formulation and pursuit since Independence of a positive foreign policy of neutralism and non-alignment has paid handsome dividends. However, the lack of an external economic policy, based on our needs and the new economic forces operating in the world, are threatening to endanger the country's economic future.

Our membership of the Commonwealth was perhaps responsible for creating a false sense of security. But the rise of the European Economic Community and the prospect of Britain joining it should now serve as a warning that we cannot lose time in working out a positive long-term external economic policy in cooperation with our neighbours.

An attempt is made here to suggest the form of regional cooperation which would be most practical and best suited to India. What is intended is a discussion of broad policy. The different aspects of implementation will have to be separately considered.

A SIGNIFICANT development in the post-war era is the substitution of planned intra-regional economic cooperation for purely national economic policies. The idea of a common market, which has gained ground in recent years in different parts of the world, is meant to serve the dual objectives of promoting national as well as regional economic interests. A common market means primarily a customs union in which internal tariffs are abolished and external tariffs unified. This also involves monetary and financial integration through a payments union. It can, no doubt, go much further. The movement towards international cooperation in different parts of the world calls for rethinking and a fresh approach on the part of countries like India in the interests of their economic progress.

If we are agreed on the need for regional cooperation, the first point is to define the region best suited for such cooperation. A common market for the whole of Asia is not today a feasible proposition. The area is far too large and heterogeneous for evolving a common pattern of development. It would be more practical, therefore, to take up a well-defined and compact area such as India and her neighbouring countries and work out a pattern of regional cooperation among them. Once such an arrangement has worked effectively, it may be possible to admit other countries. The initial obstacles are so formidable that a beginning can be made only with a well-knit region.

Compact Region

Geography suggests the region consisting of India, Burma, Ceylon, Malayasia and Pakistan. This is a compact region consisting of countries on the Indian Ocean, bound together by close historical ties. Cooperation between the countries of this group would be mutually beneficial. All these countries, except Burma, have already a structure of preferential tariffs as members of the British Commonwealth.

It may be contended that the economies of these five countries are competitive and not complementary in respect of resource endowment and production and consumption patterns, and that, therefore, development on a regional basis will not be feasible. What regional cooperation attempts to achieve is the expansion of intra-regional trade. The volume of current trade is based on the complementarity of the economies of the countries concerned. The point to be considered, therefore, is how the volume of intra-regional trade can be raised from the existing level. The fact that two economies are complementary, as for example those of Malayasia and Japan, does not necessarily mean that the volume of trade between them is capable of substantial increase because present complementarity is already exploited. The process of industrialisation would give rise to new complementarities which can be exploited by international cooperation.

Some degree of competitiveness need not necessarily come in the way of closer economic ties as is amply illustrated by the steel and coal industries in the European Economic Community. The whole object of intra-regional cooperation is that through joint effort the participating countries would all be able to accelerate the pace of development. It is also implied that they would be able to put their resources to more efficient use.

Complementary Economies

Taken as a whole, there is much evidence to suggest that the economies of these countries are complementary to each other and that the existence of competition in certain directions need not be a deterrent to their evolving a common economic future. For instance, India need not attempt to achieve self-sufficiency in rice production. Burma can increase her rice production and India can import rice from Burma on long-term basis. India, in turn, can assist Burma's agriculture by supplying fertilizers for which she is setting up capacity in a big way, and which Burma may not be able to produce. Even in respect of industries which are competitive, such as cotton and jute textile manufactures between India and Pakistan, not only can India put to use the surplus cotton and raw jute of Pakistan but the two countries can also unite in promoting further exports of these goods to other countries. Moreover, India's new industries, such as textile chemicals and textile machinery, can assist in the further development of Pakistan's textile industry. Likewise, joint efforts of India and Ceylon can help both in the export of tea. Pakistan can perhaps more profitably purchase surplus Indian sugar instead

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of importing it from other countries. India can reassure the rubber producers of Malayasia and Ceylon by revising her policy of producing synthetic rubber and by entering into long-term arrangements to purchase rubber from these countries. India can in return supply sugar, cement and other commodities to Malayasia.

In so far as the economies of Burma, Ceylon and Malayasia have a restricted internal market, these countries will be able to industrialise and diversify their activities much more easily if they have access to the vast internal markets of India and Pakistan. Without such market openings, industrial development of these countries cannot go very far. Capital from India and Pakistan could be invested in the other countries to assist their industrial development.

Small Countries Will Benefit

The main problem of the developing countries in their effort to accelerate economic growth is their inability to pay for their mounting imports of capital goods, etc. They find it difficult to increase their exports which are largely of primary products and fairly simple manufactures such as textiles. External aid no doubt helps but servicing it requires additional exports. For successful industrialisation these countries have, therefore, to depend largely on their own internal market and on each other's markets. They cannot at this stage depend upon the markets of advanced countries whose sophisticated consumer requires more refined and better finished products.

The developing countries depend upon import substitution for carrying out their programme of industrialisation. Regional cooperation enables import substitution to be carried out on a scale broader and more rational than is possible in an individual economy. A regional approach is preferable to a national one, particularly for the smaller countries. Existing possibilites of specialisation and mutual trade within the region, therefore, require to be consciously cultivated. It would aid both import substitution and export promotion.

The table below gives the imports and exports of Burma, Ceylon, India, Malaya and Singapore and Pakistan and the imports and exports of each country from and to the proposed region. The reliance of the different countries on intra-regional trade varies significantly, depending on each country's specialisation and its complementarity with other countries. Burma's major export is rice and because of its shortage in the other countries of the region, Burma's exports to these countries are high. Malaya, on the other hand, exports tin and rubber for which its major markets are outside the region. The net trade of these countries with the region is also uneven; for example, Burma has a favourable balance with the other countries in the region, while Ceylon, India, Malaya and Singapore and Pakistan have unfavourable balances, through their magnitudes are not very large.

A major impact of a regional grouping of the countries would be to change, in some cases significantly, the volume and pattern of trade, particularly by bringing within the orbit of profitable exchange, goods which are now on the margin. It may, for example, be expected that India's imports of rice from Burma, tin and rubber from Malaya, palm oil and rubber from Ceylon and raw and manufactured jute and cotton from Pakistan will rise; on the other hand, India can hope to export more of her textile and other machinery, transport and other heavy equipment, cement and other manufactured goods like sewing machines, electric fans, electric wires and cables and cast iron spun pipes to these countries.

Any regional grouping of the kind suggested here will require a basic change in attitudes and in the exercise of national sovereignty. In fact, it is because of the possibility of such a change in the countries suggested here, owing to their common links in the Commonwealth, that the present grouping appears feasible. The two main changes that can be immediately envisaged are:

(a) a willingness to hold surplus currencies in the region arising out of unfavourable balances (there can be a gold clause to allay fears of exchange loss); and

(b) a willingness to forego some industrial development such as, for example, setting up cotton and jute textile mills, synthetic rubber factories by India (or, in the alternative, offering a minimum market for cotton and jute textiles to Pakistan, natural rubber to Malaya and rice to Burma). This will involve a degree of coordination in economic planning and industrial development.

These are not large demands and will prove to be in the long-term interests of all the countries in the region.

Table

(in Rs Crores)

	Total Imports	Imports from Region	(2) As Per cent of (1)
	(1)	(2)	(3)
Burma	109.3	16.3	15
Ceylon	189.4	39.8	21
India	971.9	62.2	6.4
Malaya & Singapore	749.0	29.2	3.9
Pakistan	222.7	18.4	8.3

	Total Exports	Exports to Region	(2) as Per cent of (1)
	(1)	(2)	(3)
Burma	101.2	47.4	46.9
Ceylon	170.6	5.9	3.5
India	602.5	49.2	8.2
Malaya & Singapore	696.5	23.7	3.4
Pakistan	160.6	13.6	8.5

Figures are average for 1958-60. Where exports and imports between individual countries in the region are negligible, they have not been taken into account. In aggregating the figures for Malaya and Singapore, exports and imports between the two countries have been treated as internal and, therefore, ignored.

Source : United Nations, "Direction of International Trade".

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A vast range of products, hitherto imported, are now manufactured in India by Bird-Heilgers. The group produces jute goods, paper and board, water treatment equipment, air compressors and springs, castings and fabricated steel. The refractory manufacturing plant is the largest single unit in the East. A factory for the production of coal washeries was the first in India.

The group's engineering units are extremely flexible. They contribute, with equal facility, to projects as far removed as blast furnaces and ceramic plants. Planned diversification finds the group engaged in shipping, insurance, exporting and importing. The agency department handles everything from heavy capital equipment to light consumer goods.

Towards a self-generating economy

A phrase on everyone's lips. A phrase that finds concrete expression in the urgent activity of an economy on the move. Bird-Heilgers reflects the nation's striving. The group is alive to the problems of a growing economy. It deploys the full potential of a century's resources, technical knowledge and executive skill to broaden its activities...increase domestic production...join in the national drive to economic independence.

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BRD/3C

External Assistance for Plan Programmes

Problems of Utilisation

A K Ghosh

Delays in utilisation of foreign aid arise because

(i) credits do not become available in time, in the sense that though promised they cannot be drawn upon readily;

(ii) the procedures attaching to the credits require the fulfilment of certain conditions which may take time; and,

(iii) these procedures and conditions are not fully understood by the project authorities.

The author, at present Economic Secretary in the Indian Embassy in Washington, examines below some of the aspects of the utilisation of aid from the U S Agency for International Development (A I D). As the A I D has been the main U S financing agency, this study, though limited in scope, still covers a substantial part of foreign assistance received by us.

ONE of the key factors in project planning is assurance of financial resources. India's dependence on external assistance for most part of the foreign exchange requirements of plan programmes makes the sound implementation of these programmes contingent on the orderly flow of external assistance. While, many major projects and programmes under the Third Five Year Plan have, one way or the other, been covered or are likely to be covered by external assistance already promised, problems of utilization of external assistance could still delay the implementation of plan programmes.

Delays pertaining to foreign exchange can arise because credits do not become available in time, in the sense that though promised, they cannot be drawn upon readily; or because the procedures attaching to the credits have certain conditions which may lead to delays; or because of a misunderstanding or lack of awareness of the procedures that are required to be followed.

From the point of view of project or programme financing, the two major ways in which external finance from the Western countries has been available are, first, assistance in the way of balance of payments support as in the case of certain loans from the U K and West Germany; and, second, assistance tied to specific projects and programmes, as for instance has been characteristic of a major part of the assistance obtained from U S lending agencies and World Bank.

A I D Procedures

In so far as straight balance of payments support of the UK-German variety is concerned, any delays that might occur would essentially be due to purely internal organizational problems of the Indian planning mechanism. Obviously, therefore, only the other type of financing would be relevant for the present study. To the extent that the U S A has been the source of bulk of the foreign exchange assistance received by India lately, a study restricted to procedures pertaining to assistance from the U S lending agencies, though limited in scope, might, however, still be useful.

There are two main U S lending agencies, the Agency for International Development (AID), which is the successor agency to the former Development Loan Fund (DLF), and the Export-Import Bank of Washington (Eximbank). The former — namely, DLF|AID — has so far been the main financing agency, contributing the bulk of the finances required for India's Third Plan. As a starting point, therefore, it may be useful to look at AID procedures, in relation to project financing within the Indian Plan programme.

Close Scrutiny

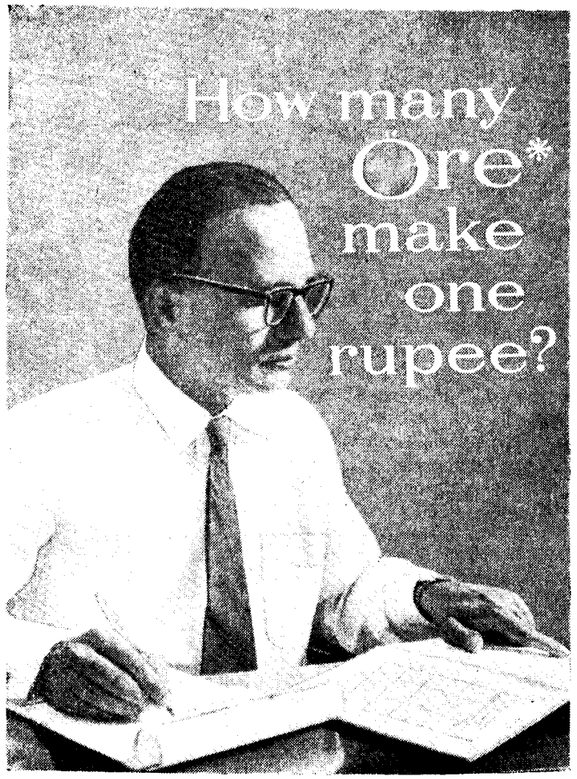
How does the AID make a loan? The A I D has, first of all, to receive a request for a loan from a borrower, which may either be the Government of India or any other party (or agency) approved by the Government of India for a direct loan from the A I D. While making out a loan application to the A I D, it is necessary to give a detailed analysis of the engineering aspects of the project or programme together with a financial analysis of the project. The technical and financial analyses are required for assessing the economic as well as the technical feasibility of the project. The A I D, therefore, requires a fairly detailed explanation of the type and status of engineering studies already completed, and copies of designs and engineering plans available for the project, together with an outline of the further engineering that may be required for the project.

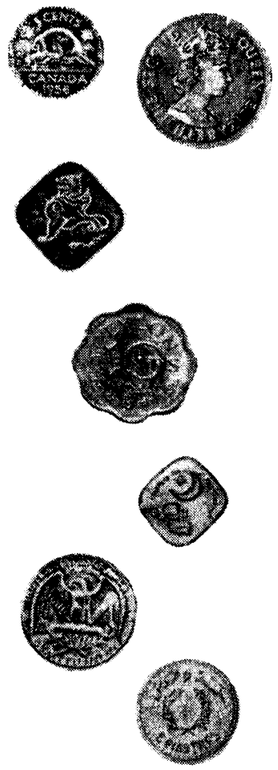
When such a loan application is received, the application is examined by a loan Committee inside the AID which consists of a Loan Officer (who is usually an economist and presides over the Committee), an industrial engineer, a lawyer and a financial analyst. Each member of this committee is charged with the responsibility to review, appraise and prepare a report on the part of the project which is within his particular area of competence. While the Loan Officer concerns himself with overall problems of the relation of the project to the overall Plan programme, and other policy aspects, the industrial engineer has to appraise the technical suitability of the proposal, and goes into such problems as adequacy of plant designs, specifications, engineering already performed, arrangements for further engineering, etc. He has also to examine the processes to be used, the competence of the administrative and technical personnel for running the project, availability of raw materials, labour, power, water, transport, and the reasonableness of the financial estimates presented in the loan application. The financial analyst looks into questions of financial stability (of existing companies or projects), financial estimates,

cash flows, and the like; while the lawyer is concerned mainly with ensuring that the loan does not run counter to the laws of the two countries, and, at a later stage, is responsible for the drafting of the loan agreement, should a loan be approved.

More Complete the Application, Quicker the Appraisal

The review by all these members takes between one to six months or even longer depending on the nature of the project and on the amount of information that might have been available ab initio. (It is thus obvious that the more complete the





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information received with the loan application, the easier, and quicker, will the appraisal be). Thereafter, the "Project Report", as prepared by the Loan Officer, in consultation with the loan committee, is considered by a body known as the Development Loan Committee of the AID, with the AID Administrator as the Chairman, and including several senior officials of the U S Administration. In practice, few proposals are approved by the Development Loan Committee without some modifications, such modifications being sometimes substantive.

One of the features that the AID wishes to maintain in all its loan operations is adequacy of engineering in regard to projects financed by it. Obviously, the more detailed the engineering and design already done on a project, the better its chances of getting a quick appraisal; and yet obviously also, the greater are the chances that some aspect of the design and engineering might get questioned in terms of the experience and the views of the reviewing officers in the AID. Delays are possible if industrial patterns and processes sought by the project authorities are deemed to be inadequate, or unsatisfactory in any manner, which will involve the calling of further information, explanation and justification. Such a hiatus could arise in respect of spheres or sectors in which there may, in India, be considerations of indigenous availability (of part of the materials), availability of personnel to handle certain types of plants, economies of maintenance and a variety of other local factors which must remain essentially specific to the project and to the area in which the project is sought to be put up. In practice, this hiatus does not arise frequently because it is the practice of the AID to send out teams to familiarize themselves with local conditions so that they take cognisance of these local factors and conditions in any review of a project report on a loan application.

Authorisation Is Not Disbursement

After a loan application has been approved by the Development Loan Committee, it has to be authorised by the Administrator of the AID and concurred in by the National Advisory Council. Authorisation marks merely the beginning of a cycle in regard to the utilisation of AID funds for the project in question, and in practice most of the problems of utilisation of aid are likely to arise thereafter.

Between the authorisation of a loan and the first disbursement under the loan, there are certain legal formalities to be gone through which are essentially a matter of time and do not present any serious difficulty. Nevertheless, one has to take cognisance of the time factor even in these purely "routine" procedures, while evaluating the progress of utilisation of external credits.

After all legal formalities are over, and certain "Conditions Precedent" to first drawal under the loan have been met by the borrower, the AID can open what is technically known as a "Letter of Commitment" in favour of any U S bank; commercial Letters of Credit can thereafter be opened against the Letter of Commitment for imports required for the project. This would be the stage at which orders can be placed for the project, and all consequential payments financed under the AID loan.

In recognition of the delaysin the full cycle of AID consideration of a loan application, including the legal and other formalities involved in meeting the various "Conditions Precedent" to first disbursement under the loan, the AID has accepted a technique known as "approval in principle" which merely amounts to acceptance of the responsibility to reimburse, in due course, any payments that might be made in pursuance to ordering and paying for a project under the AID's consideration, provided a loan is finally approved for the project, and provided further that all other loan conditions are met in respect of payments for which reimbursements are later sought.

The O S B Clause

At this stage, a number of ramifications set in, many of which tend to complicate matters. There are, necessarily, certain conditions attached to all AID loans, and Letters of Commitment issued by the AID naturally reflect all these loan conditions. It is necessary therefore to ensure that in all contracting to be done, these conditions are strictly observed. Even the slightest misunderstanding of these conditions — by project authorities, sometimes only dimly aware of these conditions — can hold up final ordering, and, therefore, delay the utilisation of the loan.

One such condition, as required by the laws of the U S A, and known as the "O S B" clause, stipulates that before any orders are placed against AID loans, due and proper publicity should be given to the procurement intentions, with full details of the items proposed to be imported, so that "small business" firms in the U S A are given a chance to "bid". Furthermore, since orders must be placed on the most competitive bidder, subject to considerations of quality, delivery dates, etc, it is necessary to wait for a certain period — usually 30 days after advertisement of the requirements — before orders can be placed. For proprietary or similar items which cannot be obtained except from given suppliers, "waivers" can be obtained from the AID. While the process of advertising the requirements interposes a period of something like two to three months between the decision to place orders and the actual ordering — and this time-lag is inevitable, considering the number of steps different authorities have to take, to get the necessary publicity given in official U S bulletins to the procurement intentions — the time-lag can increase if project authorities do not fully appreciate either the mechanism of O S B requirement or its purport.

Shipping Problems

Another condition of AID financing, again required by U S laws, is that at least fifty per cent of the cargo must be shipped by U S flag vessels. Difficulties and delays could arise where U S flag vessels do not operate at all, or are unable to lift the cargo for lack of shipping space. While "waivers" may again be obtained, on production of evidence of lack of shipping space, some delay may arise, because a whole series of "checks" has to be got over: first, by getting the necessary "waivers"; then, by getting the necessary modifications endorsed on the "Import Licence" in India, and thereafter on the commercial "Letter of

Credit", without which the customs authorities would refuse the goods to be cleared, and the banks would refuse to pay.

On major projects, the situation is somewhat complicated by the fact that not always can the import requirements be advertised. There may, for instance, be few firms in a position to quote, the items being either proprietary or such as have few recognised suppliers in the U S A, not all of which may be interested. In such circumstances, prior consultation becomes necessary with the AID. Such consultation is also necessary where services — as for instance those of consulting engineers — have to be purchased, since, by their very nature, there cannot be full scope of "competitive bidding" for the supply of designing or engineering services.

"Approval in Principle"

On occasion, it may become necessary to change basic designs or plans pertaining to a project, even in the course of implementation of the project, either because further technical facts or factors come to light or because the local situation has in some way changed. Since any such change would alter the basic premises on which the loan for the project may have been obtained, it is obviously necessary, as also required by the conditions of AID loans, to bring these facts and factors to the notice of the lending agency, and to seek its concurrence. Where project authorities neglect to do so, primarily because the project engineer may be only dimly aware of all the implications of the "tied" foreign exchange sanction issued against the loan, there may result a hiatus which may lead to some delay over and above that inevitable due to the change in the project design.

In the event the project has proceeded on the basis of an "approval in principle", of the type indicated earlier, it will become necessary eventually to transfer the commercial Letters of Credit which may have been opened, to the AID Letter of Commitment which may be issued after finalisation of the Loan Agreement. However, in such cases, difficulties may arise if the terms endorsed on the commercial Letter of Credit are in any way different — as they well may be — from the conditions that may be set out in the AID Letter of Commitment.

When Formalities Become Problems

The above are only a few of the procedural problems that can arise. Most of them are essentially a matter of "routine"; but they can become problems if the routine is not thoroughly understood or if the project authorities do not give it careful attention. For instance, a simple routine like claiming reimbursements from the AID for approved imports under a loan programme can become an irritating problem if suppliers fail to submit all the documents which are required by the AID in terms of AID rules and regulations and AID loan conditions. The remarkable point to be noted is that in the context of existing procedures, with project implementation essentially a decentralised affair, and with diverse technical men responsible for "getting on with the job" having only a remote notion that the foreign exchange available for their projects is "tied" to certain conditions — which the lending agencies must impose by reason of their charter — there are yet few major delays.

Another fact which emerges is that physical progress of plan projects cannot, in the present circumstances, always be measured by the progress in utilisation of external finance. Indeed, where the "reimbursement" procedure is followed, the projects may well have progressed significantly without any, or any significant, drawal from aid funds, at the cost of a temporary outgo of foreign exchange, from India's external balances.

Conclusion

This article has been limited to an examination of some of the problems that arise in the utilisation of assistance made available by the major source of U S finance, the A I D. The problems indicated are essentially illustrative; not all problems arise in all cases, nor do the problems outlined exhaust the issues that arise from time to time. Inevitably, these problems sometimes lead to delays in the implementation of Plan projects. Such delays cannot be laid at the door either of the lending agencies — who set out the procedures clearly enough — nor necessarily at the door of the project authorities who, as indicated earlier, do not sometimes appreciate sufficiently the importance of these procedures and their implications. But if project implementation is to proceed smoothly and efficiently the conclusions to be drawn from this analysis are :

(a) Project authorities and agencies would be well advised to prepare, and to keep in readiness, the technical and financial data necessary for making as full a loan application as possible at the point of making out a loan application; and, as and when further facts come to light, or circumstances change, to give not only revised estimates but bring up all the other material, so as to explain and justify the revised estimates.

(b) Project authorities might — even though this may appear somewhat tedious and unnecessary — bestow careful attention on all the terms and conditions of the loan, such as are embodied not only in the formal loan agreements but also in various "Implementation Letters" issued from time to time. A good deal can be achieved by arranging, on all points of doubt, prompt consultation and informal advice. For this purpose, the central co-ordinating agency is the Department of Economic Affairs of the Ministry of Finance and project authorities have to ensure that regular and effective liaison is maintained with it on all these matters.

U K Assistance to India

(in £ million)

Grand total of disbursed and committed assistance during the Second and Third Plans to date	175.5
Second Plan	80.5
Third Plan	
Commitment to date	95
Loans Signed :	
Mixed project and development goods loan — May 1961	30
General balance of payments loan May 1961	10
General balance of payments loan — November 1961	5
General balance of payments loan May 1962	10
Durgapur Extension Loan — May 1962	22
Mixed project and development goods loan — September 1962	13
General balance of payments loan — September 1962	5
Total signed	95

Company Notes

Tata Chemicals

THE financial results of Tata Chemicals for the year ended June 30, 1961 fully vindicate the Chairman's statement that the Company's successful efforts to achieve greater efficiency and curtail costs, which were testified to by the Tariff Commission, have been thwarted by the simultaneous combination of an act of God and arbitrary fixation of soda ash price by the Government. The higher production is reflected in a rise of 27 per cent in sales from Rs 4.16 crores to a peak of Rs 5.31 crores during the year. But the manufacturing and other expenses have also gone up by Rs 1.17 crores to Rs 4.79 crores and interest charges by Rs 4.10 lakhs to Rs 23.79 lakhs, with the result that the gross profit has fallen from Rs 58.41 lakhs to Rs 52.69 lakhs, bringing down the ratio of profit to sales from 14 per cent to 9.9 per cent.

The rise in costs has to a large extent been due to the additional purchase of salt. This became necessary following the extensive damage to the company's salt pans by heavy rainfall, involving an extra expenditure of Rs 26.6 lakhs, the arbitrary cut of Rs 20 per tonne in the ex-works price of light soda ash recommended by the Tariff Commission and the further impost of Rs 19 per tonne in the form of unrecovered freight charges. These cost no less than Rs 17 lakhs to the company during the year. In other words, but for these adverse factors, the company's gross profit for the year would have been about Rs 43.6 lakhs more than what it actually was during the year.

The provision for depreciation has been raised from Rs 23 lakhs to Rs 35.75 lakhs, partly due to the dual rates of depreciation prescribed under the income-tax rules. The profit after providing for depreciation has halved itself from Rs 34 lakhs to Rs 16.94 lakhs. As there is no assessable profit, no statutory provision for development rebate reserve has been made, while last year a sum of Rs 17.40 lakhs was set aside for this purpose.

The company's production of soda ash rose by 28 per cent to 102,000 tonnes during the year and the current rate of production is substantially higer than last year's average. The output of sodium bicarbonate was higher by 11 per cent, and steps are being taken to increase production to 30 tonnes per day. The shortage of salt caused by frequent damage by monsoon will be overcome when the additional 700 acres of pans now being developed and the new salt works in the Okhamandal area reach full production. Along with the development of salt works, the company is concentrating on achieving production of soda ash and derivative chemicals at the full-rated capacity and the production of dense ash is being pressed forward. The manufacture of caustic soda by chemical process has been discontinued and efforts are being made to double the production by the electrolytic process. With this, the current programme of modernisation and expansion of the company will have been completed. With a modest amount of capital expenditure the company will gradually increase the production of soda ash by another 100 tonnes or so per day. When this is achieved, the Mithapur plant will have reached optimum potential having regard to local resources.

On towards progress . . .

India Steamship Co., Ltd., has a steady record of progress . . . Since Independence, its tonnage has increased from about 85,000 D.W. tons to over 200,000 D.W. tons—more tonnage being still on order.

Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in 1956 and later to Rumanian ports. In 1959 the Company forged still another link in the overseas with South America, and in 1960 it extended its service to Poland.

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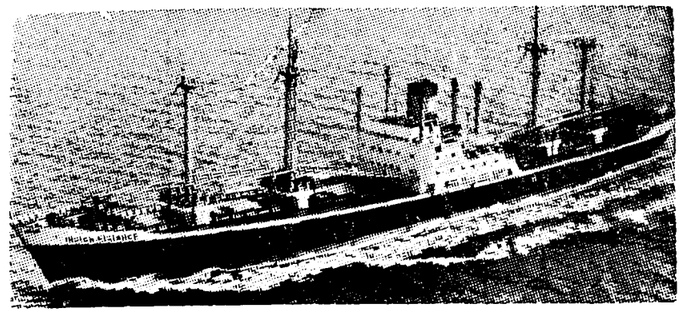

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CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Oct 19	Oct 12	Sep 21	Oct 20 '61
1 Note circulation	2047.88	2071.14	2019.79	1903.90
2 Rupee coin	123.38	122.10	124.63	125.94
3 *Deposits*				
(a) Central Govt	52.42	49.49	73.78	49.92
(b) Other Govts	15.27	21.20	15.71	28.60
(c) Banks	89.88	83.68	86.58	84.49
(d) Others	159.86	161.45	160.13	146.79
4 Foreign securities	88.08	88.08	88.34	116.86
5 Balance abroad	6.27	4.58	7.58	28.27
6 Rupee securities	1738.31	1763.31	1708.03	1558.86
7 Investments	140.06	115.94	173.31	201.08
8 Loans and advances to Govts	39.66	37.74	27.88	59.45
9 Other loans and advances	144.40	154.30	147.17	135.93
Scheduled Banks	**Oct 12**	**Oct 5**	**Sep 14**	**Oct 13 '61**
1 Aggregate deposits (net)	2048.04	2036.20	2029.28	1795.09
Demand (net)	808.18	796.53	796.85	719.63
Time (net)	1239.85	1239.67	1232.43	1075.46
2 Cash in hand	54.76	49.19	49.75	45.91
3 Balance with Reserve Bank	73.14	79.96	80.37	75.63
4 (2) + (3) as% of (1)	6.25	6.34	6.41	6.77
5 Borrowings from Reserve Bank	10.40	10.62	18.88	14.09
(a) Against usance bills and/or promissory notes	6.15	6.06	12.20	6.91
(b) Others	4.25	4.56	6.68	7.18
6 Advances	1183.69	1188.82	1204.38	1058.09
(a) State Bank	256.60	259.30	263.70	234.12
(b) Others	927.09	929.58	940.68	823.97
7 Bills discounted				
(a) Inland	157.68	152.32	147.77	130.18
(b) Foreign	50.58	49.97	48.19	46.47
(c) Total	208.26	202.29	195.96	176.65
(i) State Bank	12.34	11.53	13.64	10.70
(ii) Others	195.92	190.76	182.32	165.89
8 (6) + (7c) as% of (1)	67.97	68.32	69.01	68.78
9 Investment in Govt Securities	690.15	692.57	662.13	606.27
10 (9) as % of (1)	33.70	34.01	32.03	33.77
Cheque clearance	**170.49**	**235.23**	**233.04**	**212.88**

Bombay Money Rates

(Per cent per annum)

	Oct 12	Oct 5	Sep 14	Oct 13 '61
Call money from Banks	3.85	3.29	4.76	4.46
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Oct 25	Oct 18	Sep 27	Oct 26 '61
Gold (per 10 grams)				
Spot	118.25	120.15	120.85	124.75
Forward	119.10	119.70	120.25	124.95
Silver (per kilogram)				
Spot	223.05	222.70	221.05	203.70
Forward	224.05	221.20	220.05	207.85

INDEX NUMBER OF WHOLESALE PRICES

(Base Year ending March 1953 = 100)

Group and Sub-group	August 1961	July 1962	August 1962	% increase (+) or decrease (−) in Aug '62 compared to Aug '61
Food Articles	**124.3**	**128.6**	**131.5**	**+ 5.8**
Cereals	105.0	107.2	109.5	+ 4.3
Pulses	90.6	105.5	113.0	+24.7
Fruits & Vegetables	164.6	148.0	146.5	−21.0
Milk and Ghee	116.4	127.3	133.0	+14.5
Edible oils	159.0	155.3	159.4	+ 0.3
Fish, Eggs & Meat	141.6	144.7	149.1	+ 5.3
Sugar & Gur	124.6	152.1	151.2	+21.3
Others	183.4	170.8	171.0	— 6.8
Liquor & Tobacco	**99.9**	**98.5**	**99.2**	**— 0.7**
Tobacco	96.4	94.9	95.7	— 0.7
Fuel, Power, Light & Lubricants	**122.3**	**124.5**	**124.5**	**+ 1.8**
Industrial Raw Materials	**144.6**	**138.8**	**139.6**	**— 3.5**
Fibres	137.7	130.2	128.6	— 6.6
Oilseeds	162.7	156.3	160.4	— 1.4
Minerals	94.9	93.4	93.4	— 1.6
Others	126.9	125.3	124.7	— 1.7
Manufactures	**126.3**	**129.4**	**129.0**	**+ 2.1**
Intermediate Products	**140.9**	**142.6**	**143.1**	**+ 1.6**
Finished Products	**123.9**	**127.2**	**126.7**	**+ 2.3**
Textiles	124.8	126.5	125.3	+ 0.4
Cotton	127.5	129.4	129.3	+ 1.4
Jute	121.1	116.5	111.1	— 8.3
Woollen	123.1	141.3	141.3	+14.8
Silk & Rayon	118.0	129.7	131.3	+11.3
Metal Products	151.6	160.5	160.8	+ 6.1
Chemicals	111.6	115.3	115.0	+ 3.0
Oil Cakes	146.0	157.1	163.9	+12.3
Machinery & Transport Equipment	112.8	117.9	117.9	+ 4.5
Others	120.9	125.6	125.3	+ 3.6
All Commodities	**127.5**	**129.7**	**131.1**	**+ 2.8**

Electricity Generation and Distribution

(Million kW hours)

	May '62	April '62	May '61	1960-61	1959-60
Electricity generated	1790.7	1764.6	1612	7037.3	15029.2
Electricity sold	1488.3	1455.8	1329.1	3831.8	12130.8
Domestic consumption	144.1	139.2	127.1	1422.3	1311.3
Commercial light and small power	95.6	92.7	75.4	864.8	724.8
Industrial power	1059.7	1035.4	946.8	9643.2	8324.1
Public lighting	18.9	18.9	16.5	194.5	174.7
Irrigation	71.9	79.4	84.1	805.4	720.0
Miscellaneous	98.1	90.2	79.2	901.8	875.9

Source : Central Water and Power Commission.

Cotton Textile Industry

(Mill Sector)

(Calendar Months or Monthly Averages)

	Production		Stocks		Consumption of Raw Cotton by Textile Mills (1000 *bales of* 180 *Kgs. each*)*		
	Cloth (*Million Yards*)	Yarn (*Million lbs.*)	Cloth (*Yards*)	Yarn (*Lbs*)	Indian	Foreign	Total
1962							
April	413	154.6	280,932	17,637	3.85	0.73	4.58
March	381	159.7	286,984	17,147	3.90	0.80	4.70
February	396	150.7	300,668	16,354	3.70	0.79	4.49
January	436	166.1	310,367	17,555	4.01	0.90	4.91
1961							
December	437	169.6	318,779	16,387	399	96	495
November	415	158.9	322,093	15,035	378	93	471
October	426	163.6	341,712	17,826	384	96	480
September	424	163.0	332,332	16,795	384	94	478
August	441	165.5	310,599	16,750	393	89	482
July	445	165.8	275,720	17,304	395	87	482
June	435	159.8	242,250	16,396	378	85	463
May	430	152.1	227,112	17,255	361	83	444
April	421	150.6	223,148	18,342	364	82	446
March	422	151.3	226,272	19,871	369	81	450
February	408	145.6	252,032	18,740	345	74	419
January	436	155.1	295,705	19,326	364	86	450
1961	428	158.4	318,779	16,387	376	87	463
1960	421	144.8	340,261	32,222	343	82	425
1959	410	143.6	204,653	9,212	387	38	425
1958	411	140.4	479,695	25,440	370	44	414
1957	443	148.3	676,041	43,382	391	47	438
1956	442	139.3	406,642	NA	364	52	416
1951	340	108.7	NA	NA	228	92	320

* Figures for 1962 are in lakh bales.

Source : Textile Commissioner, Government of India, Bombay.

EMPLOYMENT EXCHANGES

*(In '000 *)*

	May 62	April 62	May 61	Average (1961)
No of employment exchanges	342	341	312	325
No of registrations	320.0	309.3	293.2	269.2
No of vacancies notified	75.7	69.9	72.1	59.0
No of applicants placed in employment	41.5	33.4	38.0	33.7
No of employers using exchanges	12.3	11.3	10.7	10.4
No of applicants on live registers ‡	75.7	69.9	72.1	59.0

* Except number of employment exchanges

‡ At the end of the period

Source : Ministry of Labour and Employment.

Working Class Cost of Living Index

(Base adjusted to 1949 = 100)

	Bombay	Delhi	Calcutta	Kanpur	Madras	All India (average)
1962 : Jul	146	132*	120	108	151	131*
Jun	146	130	119	106	150	130
May	144	128	119	103	150	129
Apr	143	127	117	102	149	128
1961 : Jul	142	127	116	101	148	127
1960	137	126	113	99	143	124
1959	134	125	110	98	133	121
1958	129	118	110	98	124	116
1957	120	112	105	94	116	111
1956	115	105	98	89	111	105
1955	110	92	92	78	99	96
1951	108	104	104	94	103	105

* Provisional

Source : Central Statistical Organisation, Cabinet Secretariat

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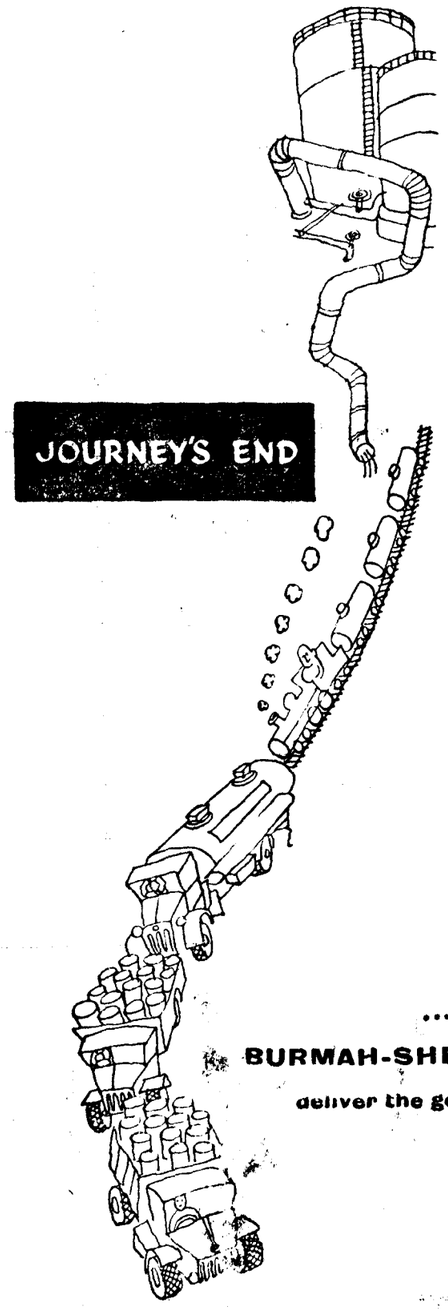

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Defence and Development

IN the face of the threat from China, to preserve our freedom and integrity has become the supreme objective of all national effort, including economic planning. A nation, which cannot defend its freedom, integrity and honour, can never realise its full potentialities for growth. The time has, therefore, come when the nation's energies have to be wholly and effectively mobilised for realising this supreme objective.

When the Third Plan was formulated, the actual and potential environment in which it was expected to be implemented was very much different. Now the situation has changed completely. The protestations of the Government notwithstanding, the Third Plan has not only to be reoriented, as the National Development Council has suggested, but it has to be substantially recast both with regard to its objectives and its priorities. Planning, more comprehensive and much more effective, is undoubtedly the need of the hour; but this planning effort has to take into account the overwhelming priority that defence has now assumed.

This is, by no means, to suggest that defence and development are contradictory objectives. For, obviously, development is just impossible in a country which has not the strength to preserve its independence. Besides, the climate created by sustained defence efforts is not uncongenial for development planning. The planning and implementation of heavy industries, needed for defence, cannot brook any delay at all. Similar is the case with the related developments in the fields of transport, power, fuel and communications.

The people have responded magnificently to the new challenge and the unity, vigour, determination and the willingness to work, save and make sacrifices that the entire nation has shown can be effectively harnessed for defence as well as development. Provided the necessary organisational set-up can be created, this national fervour can be channelised to achieve the full utilisation of all available man-power for the maximum production of the required goods and services. In an emergency the people's inventiveness is sharpened and their capacity to make the most of the available scarce and non-scarce resources is enhanced. What is required now is technical competence to formulate and implement a new internally consistent plan for defence and development and effective organisation to harness the united energies of people that the Chinese challenge has so abundantly released.

A new plan, perhaps for a longer term than five years, has now to be formulated with the following objectives : (a) to provide men and material for defence ; (b) to rapidly and consistently develop all sectors related to the defence effort ; (c) to ensure a certain minimum of civilian consumption ; (d) to provide a basic minimum of consumption, in the light of available and potential resources, to the weaker sections of the community ; and (e) to devise an effective organisation to utilise fully all available man-power and other non-scarce resources for essential production; to distribute economically and equitably goods for civilian consumption; to maintain law and order and to mobilise national energies fully and effectively for defence.

The creation of the necessary organisation is the most difficult, but also the most important, objective. To achieve this objective, all the political parties, and most of all the Congress, have to show their earnestness and determination as well as their ingenuity and skill. For this purpose, basic organisational units may be created in the villages and in the urban areas. The work of these basic units would have to be properly co-ordinated at the district, State and national levels.

The function of these basic units in the rural areas should be to formulate and implement local plans for increasing agricultural production and utilising all available resources for production of other essential goods. This apart, the basic units, both in the rural and urban areas, would be charged with maintaining law and order and suppressing anti-national elements; ensuring a basic minimum of consumption to all; devising economical and equitable schemes for distribution of essential civilian consumption goods and services; organising the supply of men and materials required for defence and maintaining the necessary organisation for civil defence.

With defence and development as the supreme objectives of planning, there can be no room for luxury consumption. Cloth production, for example, should be standardised to meet effectively the needs for civilian as well as military consumption; the available capacity in the mill industry need not then be increased. The handloom sector could be fully utilised to meet rural needs. Similarly, use of available transport capacity for meeting civilian needs should be sparing and economical and, wherever possible, local productive capacity should be utilised for meeting local needs. In the automobile industry, the capacity for making passenger cars should be converted to production of military and civilian goods and public passenger transport vehicles. Wherever possible, available productive capacity for producing luxury goods like air-conditioners and refrigerators should be switched over to meeting defence and development needs. Use of power and fuel for civilian consumption should similarly be most carefully economised.

To raise additional resources for development and defence as well as for restricting civilian consumption, the public and private sectors could pay 5 to 10 per cent of the salaries of all employees, drawing more than, say Rs 5,000 a year, in the form of defence bonds. Similarly, a part of the payment for all purchases by the Government from the private sector should be made in the form of defence bonds. Bonus payments to workers could be made in defence bonds. Further, as an emergency measure, a special progressive income-tax sur-charge could be levied both on individuals and companies. Of course, voluntary contributions in cash, gold and kind to the National Defence Fund should be encouraged in all possible ways. The objective should be to minimise the cost of raising financial resources for defence to the Government; this objective does not seem to have been kept in view in the various measures that have been taken recently.

Unfortunately, the National Development Council, in its recent meeting, failed to give the right lead in all these matters; it did reaffirm the national resolve to meet the new challenge but did not show how this national resolve could be effectively harnessed to achieve the national objectives.

New Fiscal Measures

TO meet the challenge facing the country, it is absolutely necessary to restrict civilian consumption to the minimum and to release the maximum possible resources for defence and related developmental effort. For this purpose, to begin with, the Government created the National Defence Fund and appealed to the people to contribute voluntarily in cash, gold and kind to this Fund. The public response to this appeal has been and continues to be magnificent.

One would have felt that at a time when the Defence Fund was attracting such a good response, it would be premature to announce fresh and costly measures of public borrowing; the time for such measures would have been when the response to the Fund began to taper off. If the people are willing to give free donations, it is hardly sound policy to ask them to make the same contribution at a price.

However, the government has announced, with unwise haste, a variety of public borrowing measures at a wrong time and, what is more, on terms which seem quite onerous, thus disregarding the first and elementary principle of minimising the cost of war-financing.

The setting up of the National Defence Fund was followed by the issue of Defence Bonds, new Savings Certificates and the Premium Prize Bonds. The Defence Bonds are to be issued at par in multiples of Rs. 100 with effect from November 10 and repaid at par after ten years. They would bear interest at 4.25 per cent, payable half-yearly. Since the interest would be taxable, no limit has been imposed on the amount that may be invested in this issue. Besides this, two types of saving certificates have also been announced. One of them is a 10-Year Defence Deposit Certificate to be issued in multiples of Rs. 50, carrying interest at Rs. 4.50 per cent. These certificates will supersede the existing 10-Year National Savings Deposit Certificates. The second type of saving certificates now issued is the 12-Year National Defence Certificates, which will be available from November 15, in different denominations ranging from Rs. 5 to Rs. 25,000. They will be repaid on maturity at a premium of 75 per cent, yielding a simple interest of 6.25 per cent per annum or a compound rate of 4.75 per cent. The Premium Bonds will be bearer bonds, in denominations of Rs. 5 and Rs. 100 and will be repaid five years after the date of sale at a premium of 10 per cent. Holders of the Bonds will thus be assured of a minimum return — 2 per cent simple — on their investment besides having the chance of winning a prize. There will be two draws, to be held in 1964, and for every Rs. 1 crore worth of bonds sold, the prize money offered at each draw will be Rs. 5 lakhs.

While the issue of the Savings Certificates and Premium Bonds referred to above are intended to mobilise domestic resources, that of Gold Bonds has the objective of tapping hoarded gold to pay for foreign exchange cost of the defence effort. This measure is introduced for the first time in India. The gold bonds would bear interest at the rate of 6.50 per cent over a period of 15 years and will be exempt from Wealth Tax and Capital Gains Tax. The gold accepted for investment in these bonds will be valued at the international price fixed by the International Monetary Fund, i.e. Rs. 62.50 per tola or Rs. 53.38 per 10 grammes. The relatively high interest rate is offered in order to compensate for the difference between the international price and the market price in India of gold.

Taking the Defence Bonds and the new series of Saving Certificates first, one is puzzled by the rate of return offered on them which is higher than that on the existing Savings Deposit Certificates. The reason for naming them Defence Bonds and Certificates, one would have thought, was to appeal to the patriotic sentiments of the people rather than their acquisitive instincts. If this be so, one is at a loss to understand the need for a higher rate of return on the new bonds Apart from diverting people's attention from the National Defence Fund, these new measures would also induce switch operations from the existing low yielding certificates to the Defence Bonds. Because of this possibility, it is indeed problematic whether the net receipts from the new saving certificates and bonds would be enough to warrant their issue.

If the timing and the terms of the new Defence Bonds and Certificates have been unwise, the Gold Bonds are not only untimely but also unattractive As it is, people are coming forth voluntarily to donate their gold and ornaments for the Defence Fund without expectation of return. It would not be surprising if this flow slackened immediately because of the announcement of the issue of gold bonds.

Then, again, the proposed gold bonds are not at all a sound economic proposition from the investors' point of view. The price at which the Government will value gold for investment in gold bonds is much below the ruling market price in the country. Even if the higher rate of interest offered on the bonds compensates for this difference over the period of the loan — it does not even do this, really — the purchaser of gold bonds would have to take into consideration the sharp discount on the principal value of his asset at the time of maturity, when he gets repaid. These points can be brought out with a hypothetical example. Let us assume the market price of gold stabilises at Rs. 123 per tola. A purchaser of gold bonds would then receive only Rs. 50 worth of bonds for every Rs. 100 worth of gold at the market price. On his investment of Rs. 100 he would receive an annual interest of only Rs. 3.25 for a period of 15 years. In addition, he would suffer a capital loss of Rs. 50 on maturity. Further, since gold is used as a hedge against inflation, its price might continue to rise, in which case, the loss involved in buying a gold bond might be even more.

Against this, the investor would have certain balancing advantages. The interest income on the gold bonds is subject to Income tax but the bonds are exempt from the Wealth and Capital Gains taxes. This would attract persons having substantial total assets. More important is the assurance that no questions would be asked regarding the origin of the gold offered for the gold bonds. Those with substantial amounts of concealed income could consider this as an opportunity to bring this money out into the open—at some loss though.

All said and done, however, investment in gold bonds will have to be motivated mainly by the desire to help the country's defence effort. But if the objective is to appeal to the patriotic sentiments of the people, there is already the National Defence Fund to which gold and gold ornaments can be donated. The proper time to introduce the gold bonds would have come when the public response to the Defence Fund started waning.

There is a grave risk in the issue of gold bonds at this stage. If for some reason, the response to the scheme is lukewarm it might damage permanently the chances of success of any future move to mop up gold bonds. But it is now too late for the authorities to retrace their steps. All that can be done is to wait and watch the public response to the bonds.

Government of India

4½ per cent National Defence Bonds, 1972.

Subscriptions to the Bonds will be received at the following places with effect from 10th November 1962:—

(a) Offices of the Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi.

(b) Branches of the Subsidiary Banks of the State Bank of India conducting Government Treasury work; and

(c) Branches of the State Bank of India at other places in India.

The subscription will be received for a period of 6 months but the sale of the Bonds may be stopped earlier, if so decided by the Government.

Subscriptions will be in multiples of Rs. 100/- and will be paid in the form of cash or cheque. All the Bonds, irrespective of the date of sale, will be repaid at par on 10th November 1972.

Interest on the Bonds will be paid at the rate of 4½ per cent per annum on 10th May and 10th November every year. On the Bonds sold after 10th November 1962, the first payment of interest will be for the broken period from the date of sale to the 9th May 1963 inclusive. The interest paid will be liable to tax but tax will not be deducted at source in the case of Bonds held by individuals.

Weekly Notes

Response to Crisis

IT is characteristic of the Prime Minister that in the challenge which China has confronted us with he should see also an opportunity for the country. Perhaps he alone among all our leaders realises fully the vast potential for good of the powerful forces released by the national emergency. He also realises that to harness these forces will need deliberate and sustained effort. The present crisis, he said in his address to the Lok Sabha, "is not a thing which we can deal with, with momentary enthusiasm or enthusiasm that lasts a month or two. It is a longer effort that is required". That precisely is the problem: How to make the enthusiasm last, making possible the prolonged and sustained effort that is so clearly needed ?

This has been the frequent tragedy of the Congress Government under Nehru. The Prime Minister has given the lead but there have been almost no attempts to follow it up. And the blame in this instance cannot be restricted to the Congress party alone since the opposition has also laid claim to participation in the national effort. Since the Chinese aggression, politicians belonging to all parties, the Congress and the opposition, have never economised on words — but to what effect? Mainly to advance petty feuds and prejudices. Now that one, perhaps the chief, object of their criticism has been removed they look, and sound, lost — the ground has been cut from under their feet.

The setting up last week of the National Defence Council may probably turn out to be another of those symbolic gestures which have often in the past satisfied the Government and pleased the opposition. With 31 people of diverse persuasions and pursuits it is not surprising that the functions of the Council could not be set down except in the vaguest terms. Even the selection of the members is not entirely understandable. For instance, how does one explain the exclusion of the Chief Minister of Assam? The size of the Council may be explained on the ground that the Government wanted it to be broad-based. But if the intention is to associate the people with the national effort the thing to do is not to set up one large council or committee in New Delhi with as many people in it as possible but to set up committees, less ostentatious but more effective, in every town, district and village.

The Prime Minister has also courageously affirmed that we will not compromise our basic policies of non-alignment and peaceful co-existence. This is indeed vital. But the preservation of these policies in the days and months ahead which will undoubtedly be full of stresses and strains will not result automatically. It will call for deliberate action. Much will depend on how effective is the use that we make of the military aid which our friends have so generously given us. For the more effective our use of this aid, the less would be the need for additional aid. Equally necessary is it to maintain our objectivity in our relations with all countries, neutral or belonging to the Soviet or Western blocs. We have in the past accepted large quantities of economic aid without compromising our basic policies. If we cannot maintain these policies now, Chinese aggression and acceptance of western aid not withstanding, the failing would be really our own.

Back to Three Tiers

COMING in the wake of the various financial measures introduced by the Government of India, the announcement by the Reserve Bank of the modification in its lending rates might appear to be something of an anti-climax, though its avowed objective, among other things, is to "ensure stable economic conditions for both development and defence effort". The four-tier system of lending rates is given up and the three-tier system brought back again. Under the new arrangement a bank will be able to borrow 25 per cent of its statutory reserves at 4 per cent, another 25 per cent at 5 per cent and the remaining portion of the statutory reserves at 6 per cent. The Reserve Bank will allow any borrowing beyond the limit of 100 per cent of the statutory reserves only in exceptional circumstances, and that too after making detailed scrutiny and at a penal rate. The existing concessions as regards lending to small scale industries and co-operatives will continue with minor modifications.

Frequent tinkering with the slab rates of lending to the commercial banks raises a very important question whether such an involved procedure with frequent changes in tiers is at all necessary. One of the justifications for such a system at the time it was first introduced was that an upward change in the bank rate might raise the cost of government borrowing. This argument is now no longer valid in view of the fact that the yield pattern on the gilt-edged and other government bonds has been already levelled up since August 1962. A straight increase in the bank rate with a ceiling on borrowing would have been a more appropriate policy, assuming that a rise in the cost of credit is all that is required to control expansion of bank credit.

The second point is whether these measures would help to "ensure stable economic conditions" at all. As the circular itself points out the rate of expansion of bank deposits is quite high and is likely to increase further in view of a likely rise in the magnitude of deficit financing. If that be so, then the banks would be able to expand credit without recourse to the Reserve Bank. Unless, therefore, the monetary authorities take additional steps like raising the reserve ratios, the change in the Reserve Bank's lending rates would not be very effective in achieving their objective.

A far more important issue is whether the new measures would help the defence effort. What is required is a rational allocation of bank funds to industries or firms which have a high priority in defence production, to ensure that bank credit flows only to essential sectors. For this, it is necessary to prepare a list of high priority industries and sectors in consultation with the industries Ministry, the Department of Defence Production and the Planning Commission and to ask the banks to accord them the first priority in the allocation of their funds. The Indian Banks Association, it is reported, has already suggested a plan on these lines. There is a "wind of change" in the attitude of Indian banks and there is no reason why the Reserve Bank should not utilise this opportunity to work out a plan for the distribution of bank credit to essential industries in consultation with banks. This would pave the way eventually for the establishment of an adequate machinery for effectively co-ordinating monetary policy with general economic policy.

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ENI without Mattei

IT was said that the only two living Italians who were internationally important were the Pope and Signor Enrico Mattei. Now there is only the Pope. Sr Mattei was killed in an air-crash on the outskirts of Milan on October 27.

To most people outside Italy Sr Mattei was the President of the Ente Nazionale Idrocarburi, "the Italian State-owned Oil Company". In fact, the E N I is much more than an oil company; it is a vast industrial complex — so vast and versatile (it owns Italy's second biggest daily newspaper, for instance) that immediately after the news of Sr Mattei's death became known, the Italian Conservative Liberal Party was clamouring for a break-up of the different interests which make up the E N I.

And Sr Mattei was the E N I. He was more. His relationship as President of a State-owned corporation vis-a-vis the Government would have horrified public sector enthusiasts in this country. Instead of the Italian Government controlling the activities of his corporation, it was truer to say that by virtue of his personality and political influence, he controlled the Government. His place in Italy's delicate political balance was so crucial that *The Financial Times*, London, did not rule out a Cabinet crisis following his sudden death. Sr Mattei's international importance was scarcely less. Recently President Kennedy personally despatched his Under-Secretary of State, Mr George Ball, to Rome to invite Sr Mattei to the U S.

It was not without significance that Sr Mattei began his public career after the War, as Vice-President of the State-controlled Agip Oil Company, by disregarding with impunity the Italian Government's order to hand over the company's prospecting rights in the Po Valley to an U S oil giant. This resolute action contained the seeds of two of Sr Mattei's three outstanding achievements — the building up of a flourishing Italian oil industry and successfully resisting the ambitions of the private oil monopolies. His third achievement — recognition of the commercial wisdom of buying cheap Russian crude — came afterwards.

The Po Valley which he salvaged for his company subsequently turned out to contain Europe's richest natural gas fields and in 1953 Sr Mattei piloted a bill through the Italian Parliament setting up the E N I, the National Hydrocarbon Agency. And in the space of less than a decade the fire-breathing brand image of the E N I has appeared in places and countries as removed from Italy as the U A R and India. Particularly, in the last few years Sr Mattei had concentrated his attention on the newly-independent countries of Asia and Africa. In many of these countries Sr Mattei and the organisation he presided over have become symbols of the passionate desire to break away from the stranglehold of the private oil monopolies and develop a national oil industry.

Sr Mattei was personally responsible for making Italy the largest importer of Russian crude in the non-Communist world. Last year he pressed the Italian Government to conclude a five-year trade agreement with the Soviet Union, under which Italy undertook to buy 14 per cent of her total petroleum requirements from the Soviet Union. Sr Mattei's growing imports of Russian crude oil had led his business and political opponents to mount a ridiculous campaign to brand him as a Communist stooge. Sr Mattei himself maintained that he bought Soviet oil because it was available on so much better terms — an indisputable fact.

After the long years of bitter struggle, there were hints, of late, that the major oil companies were preparing to come to terms with the *enfant terrible* of international oil. At the time of his death Sr Mattei was known to have been engaged in top secret negotiations with the Standard Oil Company of New Jersey. The 'global deal' between Esso and E N I, which was believed to be imminent, would not only have settled the long-standing disputes between the two companies but also have paved the way for close co-operation between them. The proposed agreement was to include long-term supplies of crude to E N I by Esso, supply of petroleum products to E N I's distributing company, A G I P, in countries, like the U K, where the E N I has no refining facilities and the purchase of large quantities of petroleum industry equipment from E N I's engineering company, Nuova Pignone. The 'deal' was apparently to be very much on Sr Mattei's terms, for immediately after his death, Esso has denied that there had been any talks leading to an agreement between the two companies. Any agreement with E N I minus Sr Mattei would obviously be on different terms.

While the private oil monopolies will naturally feel a heavy weight lifted off their chests, it is difficult to say what impact Sr Mattei's death would have on the E N I's activities in the developing countries, though here again the E N I would probably be less ready now to cross swords with the private monopolies. This could have the result of making the national oil industry in some of these countries more dependent than hitherto on assistance from the Communist countries. But the Soviet Union itself cannot but be seriously concerned over the consequence of Sr Mattei's sudden death. Italy is the Soviet Union's largest non-Communist market for oil. But there have been questions asked about

the wisdom of a NATO country depending on the Soviet Union for a substantial part of its petroleum requirements. True, last year's trade agreement ensures Soviet Union 14 per cent of the Italian petroleum market till 1965. But in recent years Italian imports of Soviet crude had been well above this minimum — last year, for instance, they were equivalent to 18 per cent. Pressures are now bound to grow on the E N I to reduce its dependence on Soviet oil and on the Italian Government to cut down oil imports from the Soviet Union to the minimum of 14 per cent to which Italy is committed. This is a prospect which the Soviet Union cannot view with equanimity for already Soviet exports of oil to non-Communist countries as a whole are showing signs of levelling off.

Much will, of course, depend on the men who have taken over in the E N I after Sr Mattei. The new Vice-President, Sr Eugenio Cefis, a close friend, and till a year ago an intimate collaborator, of Sr Mattei is known to share his views and policies — something which many do — and match his ability and drive — which very few do. But, all said and done, it will probably be proved true that the E N I "will never be the same without Sr Enrico Mattei".

Cuban Crisis and U K

Our London Correspondent writes :

THERE is no doubt at all that America's unilateral action in declaring a blockade of Cuba without consulting her NATO allies has caused a good deal of disquiet in Britain which has been voiced by Hugh Gaitskell, Harold Wilson and other members of the Labour Party. Bertrand Russell was shocked at the Prime Minister's servile pro-American statement. As he so succinctly put it: "It made me bristle". Lord Home's speech to the International Chamber of Commerce was worse.

However, one thing made clear by the speeches of Government spokesmen is the change in Britain's position as a world power. It was made quite clear that nothing the British Government did would have any influence on either of the two protagonists — America and Russia. Even as recently as the Korean crisis, it was still possible for a British Prime Minister, Attlee, to fly to Washington and insist that Truman put a stop to General MacArthur's madness in planning to atom bomb the Chinese. Ten years later, in this present crisis, the Americans have made it patently clear that they have no desire for Macmillan to act as an "honest broker" between Russia and America. In passing, one is bound to reflect that the pious hope — and indeed one of the arguments that have been put forward to support British membership of the Common Market — that the European Economic Community will act as a powerful third force between Russia and America has been exposed as hollow.

Nobody who has studied U S relations with Latin America and, particularly Cuba, can doubt at all that the Americans are determined to do all in their power to ensure a pro-American Government in the island of Cuba. Ever since Castro came to power, the Americans have regarded the regime with suspicion and this suspicion has multiplied as Cuba has grown nearer and nearer to the Russians. The banning of imports of Cuban sugar into America would have had a stunning impact on the economy of Cuba which relied on sugar exports to the U S for 90 per cent of its foreign exchange earnings, had not Russia stepped in and taken the Cuban sugar and thereby strengthened the bonds between Cuba and Russia.

There is little doubt that by acting as he did, Kennedy has pleased a section of the American electorate, and has probably ensured that some democratic senators and congressmen who would otherwise have been defeated will now go back to Washington. But in the long run is this enough to compensate for the doubt unmistakably raised in the minds of America's Western allies that in the interests of party politics the American President will not hesitate to take the world to the edge of war?

Prime Minister Khrushchev's motives in Cuba are difficult to assess. There is no doubt at all that the decision to establish missiles in Cuba was undertaken quite deliberately. The very fact that no attempt at all was made to camouflage these sites or aircraft on an airfield only 90 miles from Cape Canaveral, has given rise to the speculation that Khrushchev perhaps wanted the Americans to photograph and 'discover' these sites, to probe how far the Americans were prepared to go and make dramatically one or two points which have got bogged down in the general ineffectual discussions on disarmament. The prompt American reaction to missile sites on their borders has given dramatic point to Russian objection to similar bases in Turkey, Persia and Greece which, it must be remembered, the Americans claim are purely defensive in the same way as the Russians claim the Cuban bases are. The lesson that what is sauce for the goose is sauce for the gander has been rubbed in most effectively, and indeed in one of the earlier offers made by Khrushchev he proposed that the Cuban base should be traded for the Turkish base. Ultimately, Khrushchev withdrew this proposal and agreed to dismantle the Cuban bases under United Nations supervision thereby making another subtle point. He said that Kennedy's promise, in a letter, which had reached Moscow a few hours before he announced the Soviet decision, promising not to invade Cuba had removed the threat to the island and consequently also removed the need for Russia to have medium range missiles there, underlining the point that these bases were in fact only defensive and could be done away with once the threat of attack was removed.

On the other hand, there is a strong section of opinion in Russia itself which has always believed that Khrushchev is not tough enough with the West, and in their eyes at least, Khrushchev has been administered a slap in the face. However, as *The Times* pointed out, it would be unwise in the interests of world peace, for the West to crow too much. "Withdrawal and courtesy take the place of threats and deliberate running of risks. In a sense, it is Nikita Sergeyevich asserting himself against Mr Khrushchev, the prudent peasant against the bouncing leader; but there must be many among the hard school in Moscow who will point out that another venture has recoiled on him. Western people cannot afford such thoughts".

Capital View

Moment of Truth

Romesh Thapar

PARLIAMENT has yet to meet. A tarnished Congress Party is in the throes of a stormy eve-of-session meeting with a signature campaign mounted against the attempt to keep V K Krishna Menon associated with the Defence Ministry. Our communists are making history by their denunciation of China as an aggressor and their revolt against the earlier Soviet position on the border problem. Former critics of India and Indian policy are to the fore in offering military supplies. Trusted friends are silent or reluctant to take a position. The whole spectrum of political activity in the country is blurred, and changing from day to day. Stock markets, for no known reason, are on the brink. But, outwardly, life goes on much the same. The unreality is shot through with a multitude of realities.

So many are the ramifications of the situation now unfolding, and so conspiratorial the atmosphere which envelops the situation, that it is beyond the capacity of a single observer to view or analyse this monstrous confusion. Each considers that he has the facts and is the repository of truth. Each believes it his duty to enter the fray. And, in the confusion, a leaderless people do not quite know what is expected of them in the emergency. Only the armed forces, outnumbered and outgunned, go about the business of facing the challenge on the frontiers with unflinching discipline and with a courage that has yet to be fully acknowledged and recorded.

Collective Responsibility

As a starting point, let it be stated that in any other democratic or semi-democratic country a government presiding over or facing a crisis such as the one which surrounds us would have accepted collective responsibility and fallen. This could not be, for no alternative exists. But we should not forget that all the major political figureheads were involved in the crucial policy decision which refused to accept the possibility of a massive Chinese offensive along the entire length of the Himalayan front. This decision, repeatedly reaffirmed at Cabinet level, hamstrung defence policy and throttled the demand that the armed forces be expanded and equipped to meet a Chinese assault through the Himalayas. Professional opinion, too, made no impact on men obsessed with the logic of their own political pragmatism.

When the gulf between myth and reality was brought into sharp focus on the morning of October 20, a scapegoat had to be found. Scheming politicians, looking to the future, dared not question the Prime Minister. They turned on his lieutenant—and he provided the perfect target. As news poured in of the sorry supply position and the total failure of the intelligence services, it was clear that V K Krishna Menon's head was on the block. From all quarters the demand mounted that the Defence Minister must be removed. He was soon isolated, and made the symbol of India's shame. A revolt within the Rashtrapati Bhavan, the Cabinet and among the Chief Ministers forced the Prime Minister's hand. Once again, it was Nehru alone who could see the irony of it all. But the compromise he has offered is not the last word that he so fondly believes it to be—for, as one prominent critic put it, our army was defeated, not on the frontier, but in the ordnance factories. A simplification, yes — but a view widely held.

If we are to be rational in these emotion-charged days, we must go much deeper. The Defence Ministry is guilty of keeping us in the dark about our archaic ordnance factories and their incapacity to meet the needs of a modern army despite the strenuous efforts of the General Staff to change this state of affairs. The Finance Ministry is guilty of blocking even the few attempts that were made to get the funds to purchase equipment. The Home Ministry is guilty of maintaining a thoroughly inadequate, and presumably inefficient, intelligence service. And the members of the Defence Committee of the Cabinet are guilty of inactivity; apparently, no meetings were held. But rational thinking is at a discount, for even the national press, so vocal today, has no desire to recall its past apathy, its conspiracy of silence. Only V K Krishna Menon is seen as the guilty man. That he continues in the Cabinet despite what has happened is only another dimension to the unhealthy state of our polity. *

The immediate bye-product of this explosive political debate is the concerted assault now developing on the concept of non-alignment within the Congress Party and warmly supported by the theoreticians of the Swatantra Party, the Jan Sangh and the Praja Socialists. It would be a grave error to minimise this attack. Uninformed, hysterical people, who are attempting to take control of our thinking, seem convinced that the only possible way of meeting the Chinese challenge is to work out a military alliance with the USA. They are looking for someone to lead them. We need to inform people of the implications of such a policy change. Such an alliance would make a battleground of our country, a battleground which would be possessed by the opposed power blocs. The war would spread for certain, to the air. The latest weapons would be tested out. We would become a second Spain, although the parallel is not exact.

The Prime Minister is conscious of these grave implications but he has done nothing, in private or public, to counter the arguments of his opponents. He has merely asserted that the policy of non-align-

* Pandit Nehru told the meeting of the Congress Parliamentary Party on November 7 that he had decided to accept "with great reluctance and sorrow" Menon's offer to resign, made in a letter to him on October 30. — *Ed.*

ment must be preserved. His inhibitions arise probably from his desire to obtain a clearer idea of the extent of support that India enjoys among the nations of the world. He has also to draw a distinction between the support which he is getting 'spontaneously' from the 'committed' and the 'solidarity' being expressed by those States which are 'non-aligned' and have close links with China. To win support from the non-aligned nations is a major facet of the effort to isolate China and to compel the USSR to act for peace on the Himalayan front—for, as Peking's theoreticians see it, the destruction of non-alignment marks the destruction of Khrushchov.

Changing Soviet attitudes are a pointer to the struggle behind the scenes. The *Pravda* editorial of October 25 more or less abandoned support to India, accepted the Chinese position on the 'notorious' McMahon Line and even went to the extent of calling on 'progressive-minded people' not to succumb to nationalism. Officially, this provacative editorial was seen as something dictated by the Cuban events. Then came the disentanglement in the Caribbean. The world marvelled at the ability of Khrushchov to salvage a near victory from the jaws of defeat. Now, on November 5, another editorial appears in *Pravda* which repudiates the earlier support given to the Chinese aggressors.

Experts who unravel the meanings hidden in such communist documents claim that this editorial will spark anger in Peking. India is described as 'a great force in a large group of young sovereign States actively participating in the struggle against colonialism, for peace and international security'—literally, a slap in the face for Mao Tse-tung. The editorial goes on to state categorically that 'the desire for war is alien to the very nature of a Socialist State' and that the expansion of the scale of hostilities on the Indo-Chinese border can profit only the imperialist camp, the forces of world reaction which never miss a chance to set friendly peoples at loggerheads, to sow dissension in the ranks of the fighters for peace, democracy and progress, to contrapose the socialist countries to young sovereign states which have achieved national independence.' True, the call for a cease-fire and round table talks is absurd so long as the Chinese refuse to withdraw to their original lines; but if this Soviet initiative strengthens, this is precisely what might happen. Even the editorial takes a special note of the appeals to end hostilities by 'many outstanding political leaders of the Afro-Asian countries', appeals which broadly subscribe to India's standpoint.

Defeat for China Wing ?

The public repudiation of the earlier Soviet attitude soon after the Cuba disengagement suggests that the Chinese wing within the Soviet Government has again been defeated. One of the theories current is that this adventurist group forced Khrushchov to establish missile bases in Cuba and argued that the USA would accept the *fait accompli*. When the contrary happened, and a nuclear conflict was on the agenda, Khrushchov was again able to prove his point that Maoism means war. The correction of the Soviet position on the India-China border, it is argued, was a natural outcome of the defeat of the Chinese wing. There is more evidence to support this thesis. For example, Peking's attack on the 'betrayers' of Cuba and the ousting of the pro-Chinese Bulgarian government group. Several students of communist affairs are now pointing to the militaristic posturings of China's government elite and consider that this manifestation may well mark the final exposure of the real motivations of Maoism.

It would be disastrous for us to rely on the mercurial changes in the balance of power within the communist world, but at the same time we have to make intelligent use of every opportunity to isolate the adventurists who are parading as communists in Peking. The latest *Pravda* editorial will not only strengthen those Indian communists who have successfully fought the China wing within their own party, but will also provide second thoughts for foreign communists conditioned by long years of mechanical discipline to support a communist against a non-communist, right or wrong. The fatuous stand of the British communists looks even more ridiculous today. And, now, the sizeable French and Italian communist parties, whose influence is considerable in North Africa, can speak more independently. Ths is true also of Marshal Tito whose silence has disturbed many of his friends in India.

It is becoming increasingly clear, at least to knowledgeable circles in the Capital, that we will have to tread most carefully if we wish to avoid involvement in an armed conflict over which we have little control. The hysteria let loose by opportunist political elements, and which publicises itself as pure patriotism, is as dangerous as the stand of moronic communists who imagine that the Peking militarists are on some liberation mission. Sanity and rationality have to prevail — and they can only prevail if those who control opinion in this country emerge from their silence and start the painful process of reforging the shattered structure of our foreign and domestic policies.

In this connection, the Government of India has to learn that the emergency declared is designed to provide the powers for a rapid mobilisation of men and resources, to awaken the world to the threat facing us, to dissolve the barriers to unity in this hour of crisis. It is not a measure to make the bureaucrat more bureaucratic, the Congress more powerful, or to perpetuate the careers of men who should have been pensioned off long ago. This realisation obviously does not exist. The composition of the National Defence Council is not calculated to inspire; the inclusion of Asoka Mehta and a few retired civilians and generals in a Council consisting entirely of the old, decrepit establishment will be scoffed at throughout the country. In practical terms, the National Defence Council is not important, but as a symbol of national unity and resurgence it is. Presumably, the citizens' committee, to be headed by Indira Gandhi, will also smell of moth balls. What prevents the Prime Minister from acting boldly to associate more dynamic elements with these bodies? Is it the spectacle of the unseemly struggle of the fixers, confidence men and social climbers to get on to these committees or the fact that he knows no one else, can think of no one else? It is not an exaggeration to say that these committees are repeating like bad eggs !

Reappraisal, or Else . . .

Yet it is the Prime Minister who is urging that, in this new and critical situation, India must work out a viable independent ideology of non-alignment and socialism. This will be based on the building up of an economy which can sustain a regular army of at least a million men, an economy which can resist pressures from both power blocs, an economy which unites the nation today and in perspective. These fundamentals will remain even if the Chinese pull back to agreed lines. Too long have we allowed the dichotomy to exist between an independent foreign policy and a dependent economy. This is not exactly the ideal moment to rethink our policies, but there is no alternative except total commitment to one of the power blocs and all the disastrous consequences of such an involvement.

During these anxious days I had been too much in the company of men worried by Pakistani moves to profit from our embarrassments, of security men disturbed by the unnecessary publicity being given to the arrival of arms from the USA, of petty politicians turned headhunters, of demoralised bureaucrats who can only see a secure future for themselves in India becoming a 'glorified' Pakistan, of the hysterical, the apathetic, the cynical. I was myself beginning to submit to this mood. Then came the news of the recruitment drive in the north, long queues of men fighting to join the army. That is the spirit of the people at every level, but how long will this spirit last without bold leadership. Will it be possible for younger, responsible leaders to break the grip of a senile elite? The moment of truth has certainly arrived for one and all.

Early Indian Imprints

(From Our Calcutta Correspondent)

A TAMIL Bible, printed in Tranquebar in 1714; Halhed's "A Grammar of the Bengali Language", printed in Hooghly in 1774, from the first ever Bengali punches cut by Charles Wilkins; rare, fugitive volumes issued by the representative Indian presses during the days of the Honourable John Company; over 60 books in principal Indian and in foreign languages like Hebrew and Chinese, on a wide variety of subjects, from the Serampore Mission Press — these were among the 330 Indian imprints, issued up to the end of 1850, displayed at an exhibition recently in Serampore. They were selected from over 8,000 volumes in the William Carey Historical Library of the Serampore College.

The exhibition demonstrated, despite primitive equipment, what excellence was achieved in book production by men who worked with love and devotion, and whose knowledge was combined with taste. Almost all volumes, some involving extremely difficult problems, were well printed. Almost every volume had a quiet refinement, beauty and dignity that one associates with books. Some books were, of course, outstanding. A sumptuous Serampore Chinese Bible (1822) had a title page that would have done credit to the Foulis Brothers of Edinburgh or such great early 19th century printers as Pickering and Bulmer. There were quite a few more striking title pages that showed a consummate mastery in the choice of typefaces, spacing and in the judicious use of press rules and flowers. The stress on the title page is advised because in the majority of the books printed in India today there seems to be a complete lack of awareness about the functions and importance of the title page in the designing of a book.

Some Omissions

The printing and production of the books in Indian languages, on which the Serampore missionaries laid particular accent, were uniformly good. Space does not permit us to cite examples but we would like to mention one — Ram Comul Sen's "English to Bengali Dictionary", printed, in two portly volumes, at the Serampore Press in 1834. The vicissitudes that this book had to undergo in printing are perhaps unequalled in the history of Indian book production. The Bengali typeface used in these volumes was the handiwork of Panchanan Karmakar and his nephew Manohar and still remain unsurpassed for clean, sparkling beauty and superb legibility. Panchanan, incidentally, was taught his craft by Charles Wilkins. It is a pity that the exhibition did not contain any examples of books printed under the superintendence of Wilkins at Calcutta, e g a specimen like "A Narrative of the Insurrection which Happened in Benares, 1781", printed in Calcutta in 1782 — a tall quarto of uncommon beauty. Nor were there any books of lithographic plates such as Alex Hunter's "Indian Sketches", printed by P S D'Rozario in Calcutta in 1842 — an interesting though not a meritorious example. Were these lacunae due to the absence of such books from the Library from which the exhibits were selected?

Nevertheless, the books displayed covered a wide field: economics and education; history and politics; travel diaries and handbooks; linguistics and literature; science and religion; and a separate section devoted to Bibles in various languages including Hebrew and Chinese.

While the exhibition provided a microcosmic picture of Indian printers up to the year 1850, it was in particular a tribute to the great trio of missionaries — William Carey, Josuah Marshman and William Ward. In the early decades of the last century, at the quiet Danish settlement of Serampore, these good men, among their other activities, toiled ceaselessly, writing books, printing them often with the punches they cut and on the paper they themselves made, untill death removed them, one by one, from the scene. The contribution of these three men to the education and culture of Bengal is one that we can hardly over-emphasize.

The present exhibition, which recalled the one at the National Library, Calcutta, in 1955, was organised mainly through the efforts of Miss Katharine Smith Diehl, an American scholar, who is working on the cataloguing of all the early Indian printed books in The William Carey Historical Library, under a grant

from the Lilly Endowment, Indianapolis, U S A.

For reasons best known to themselves, the sponsors treated the exhibition as a 'family function'. Except for a solitary advance write-up in a single daily, the event received no notice in the press. Outside intruders like us were thus a handful. Which was a pity. The exhibition deserved to be seen by all book lovers and particularly by all those who are engaged in printing and publishing of books in India. Why cannot arrangements be made for holding the exhibition at Calcutta some time this winter?

Written in Hand

Another interesting exhibition recently held in Calcutta, under the auspices of the British Council, was devoted to the history and art of English handwriting. This is now being shown in schools and colleges in the city.

The exhibition, which consists largely of photographs, majority in facsimile sizes, shows the evolution of English handwriting from the Romano-British inscriptions to the present day. In the early days, people wrote by scratching letters roughly and imperfectly on a thin layer of wax laid on a flat surface of wood or bone. Then came formal writing with a reed or quill on parchment and vellum, from which the cursive or the running style of writing evolved. From a combination of cursive and formal writing, the minuscule came into existence. It is from this minuscule that the present English handwriting was eventually evolved. It is an evolution to which many influences have contributed, such as, the Greco-Roman sources, Irish monks, the great Italian writing masters of the 15th century — to name a few.

Interesting exhibits include fine examples of early Christian bookhands; pages from the celebrated Winchester Bible; ecclesiastical and lay hands from the 13th-15th centuries; a specimen of handwriting imputed to Shakespeare; handwritings of Elizabeth I, Oliver Cromwell, King James II, Dr Samuel Johnson, Robert Burns, Thomas Carlyle, William Morris and several others.

Very judiciously, the exhibition does not include illuminations for no ordinary mortal can aspire to write a "Book of Kells", that imperishable masterpiece of illumination (8th century). In our world, writing is becoming a lost faculty, not to mention a lost art. Those of us who are still forced to write, do so with varying degrees of illegibility. But, writing is not merely a means of record. It is the father of printing. Nicholas Jenson cut his unexcelled Roman types, it is said, from the writing of Petrarch. It is an art "which all literate persons unconsciously create for circulation, for good or bad".

The real import of the exhibition becomes clear when judged against this context. Fittingly enough, the latter part of the exhibition is devoted to the work of the great English calligrapher Edward Johnston and his disciples. From the beginning of this century, till his death in 1944, Johnston tried to revive popular interest in handwriting, and, today, his disciples are carrying on that work of restoring clarity and beauty to ordinary handwriting which he had begun.

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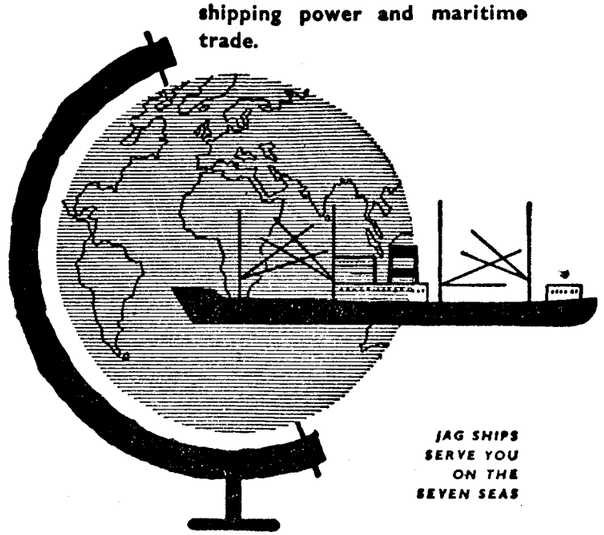

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Letter from South

The Image of India

THE South in these days of danger is decisively India. The emergency caused by Chinese aggression has gripped the deepest and most stable recesses of the Southern personality and placed it irrevocably in the integrated Indian context. There is poise and confidence, but equally a desire to assert the unity that was always there despite the more striking demands for regional or linguistic recognition.

Some cynics might say that the call from the capital and the declaration of emergency left no choice but for all to protest their patriotism and their Indianness. But this view is as superficial as it is spurious. There is, as a matter of fact, no choice about the sense of nationhood. But this is consequent not on external compulsion but rather as a welling-up, a feeling of release after a traumatic experience. The rally of the South is inescapable but it is witness to deep creative springs that pour forth and not the tepidity of a forced performance.

The elder and the middle generations, whether in Madras or Hyderabad or Trivandrum or Bangalore, reminiscence that there never was this tightening of emotion and this commitment since freedom dawned. And the young, who looked back in languor, have now their first proud glimpse of the image of India. Restlessness and a certain spare passion begins to replace triviality and boredom.

Regional Business Overdone

From the time one had begun to try to feel in the South one suspected that this regional business was being overdone. The grumbles, the conflicts and the responses were much of a muchness with what one had heard in Delhi or Calcutta or Chandigarh. And the colouration of the discontent depended here, as in the North or the East or the West, on the immediate split in the national movement, on the depth of the political impulse and the degree of radicalisation. If loyalties at times tended to be parochial or casteist or linguistic, these were here, as elsewhere, the product of a scarce economy on the move but at a pace and with a pattern that did not weld and that could not project the same compulsive image of a nation struggling for identity.

Moreover, the South itself was riddled. Mysore is still in search of its name since the Vokkaligas who were dominant in the old Mysore consider that the change of Karnataka would be yet another feather in the cap for the Lingayats. Osmania University in Hyderabad requires that a student should have been born in Telengana of Telengana parents if he is to be admitted — a device supposedly to ward off Andhra domination. Kerala is a cauldron of caste communalism while in Tamilnad the Thevars, the Nadars and the Brahmins have each their own cluster. And, if the national emergency had not supervened, there would have been a rare set-to over the recommendations of the Gulhati Commission. And, perhaps, an eruption of the border dispute between Kerala and Mysore over Kasargode.

A More Compelling Drive

As a matter of fact the serious limitations of attempting to group these four States as a macro-economic region were revealingly outlined by Professor Prakash Rao in a talk to the Indian Institute of Economics. The South is either confined to the Kaveri belt or extends beyond the Vindhyas and over the Western Ghats. At any rate these pseudo-controversies and ideals of misplaced concreteness recede with the resurrected larger coherence in the face of the threat to our borders.

It is significant that on his release, the first statement that Annadurai of D M K made was that Dravidanad would have to wait till the Chiness were pushed out of the NEFA region. Even if we interpret this, uncharitably, as a tactical gesture, the question remains — why is this good tactics if the burning urge of the Dravidians is to break off from Delhi's tutelage? There is, then, a larger and more compelling drive than the passions of Tamil chauvinism.

Another fact needs underlining. Kerala and Andhra represent the peak of communist achievement in India and supply close on a half of the all-India membership. And these units of the C P I are preponderantly peasant and village oriented. Both units were planning powerful satyagraha campaigns, together with other parties. Yet the response to the danger in the North was immediate. Not only were the satyagrahas called off but the denunciation of China was unequivocal and coupled with an unconditional offer of cooperation for public mobilisation. This means something, too, as the Government and the Congress well know.

The Swatantra, of course, has rubbed in the point that they had seen the Chinese perfidy long before the Government. But oddly enough it is they who still remain partisan — Menon must go and the alliance with America must come! And some of their top-notchers even feel that this emergency fever is being exaggerated. Withdrawal of the anti-land levy enhancement satyagraha in Andhra was delayed for a few days by the uncertainty attaching to their attitude and that of their ally, Tenneti Viswanatham. They have, however, fallen in line.

Resource Mobilisation : How ?

Now that the deepest stratum of the South Indian emotional structure has pulled to the surface there will be no difficulty about accepting the appeal for resource mobilisation and production jumps. But it is on this front that the Government and the ruling party are tending to lag. Nehru's surcharged broadcasts and the spectacular donations in the States' capitals are not enough. There must be united penetration at every level and the generation of social pressure that each contribute to his capacity. And capacity is known for most at the local level, where the effective resource mobilisation will have to operate.

Apart from those right at the pinnacle, resource mobilisation will have to take the form of inducing

savings more than donations. In the South there is an increasing tendency for a very appreciable section of the middle class to increase consumption and to save in the form of gold or plots of land. Here the impact of patriotism will be conditioned by the need for status and security. Consumption curbs will, to a large extent, be voluntarily applied if it is universalised. But for security there should be a substitute for the appreciating value of gold and land in the form of bonds with a fairly high rate of interest, if a staggering savings response is to be brought about.

After all, even in the heydays of the freedom struggle the future was a matter of concern for all but a very small minority. What patriotism can do is to channelise savings in the desired direction. It cannot, over a long period, entail the sacrifice of savings. The South has gold fairly widely dispersed but this can pour into the national treasury only if sacrifice is tempered with a large measure of security. Patriotism can break down the prejudices of assets preference of a particular type but it cannot lead to voluntary proletarianisation of the middle class or its acceptance of the fact of inflation.

Diplomatic Offensive

Further, to correct the impression that all national policies emanate from Delhi — that is, after all, only the point of focus and of proclamation — there exists considerable sentiment in this area that there is need not only to outfight the Chinese but to diplomatically outmanoeuvre them. It has been noted here that firm support to India has come only from the West and from those (apart from Pakistan) who lean that way. The neutrals remain neutral and the Soviet Union, despite its ideological tensions with China, inclines to the view of negotiations even prior to vacation of aggression. To counter the Chinese diplomatic offensive, why should India not suggest arbitration by a neutral nation like Yugoslavia, whose findings would have a moral compulsion? Or a committee of neutrals like the U A R, Ceylon and Yugoslavia? And why should not a team of Communist and markedly left Congressmen be sent to present India's case to the Soviet public? The whole point is to persuade our friends in these two sectors of the world that it is not a case of two Asian countries both equally in the right or wrong but of an unparalleled provocation and pressure on the part of China gone insanely adventurist.

In the international field, too, there is need to project the image of India as she now stands in the gaze of all who participated to make her sovereign and who are no less resolved to preserve her dignity and her role in the making of the world.

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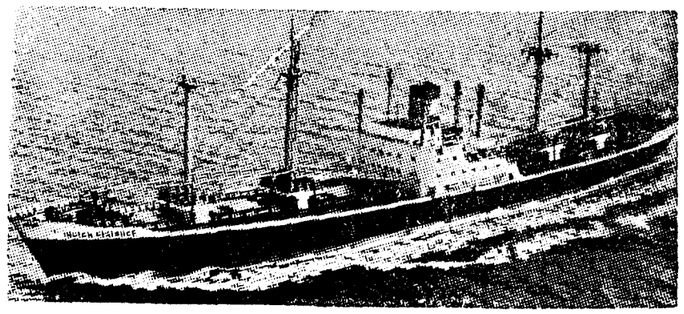

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Book Review

Historian's Philosophy of History

Mohit Sen

What Is History? by Edward Hallett Carr, Macmillan and Co, London, 1962. Pp 155; price 21s.

THIS slim volume will in time assume the dimensions of a classical work on historiography. The author is no mere theoretician of history. The many-volumed splendour of his definitive work on Soviet history entitles him, along with Needham, to the status of the most seminal historian writing in English. When such a man examines the approach that needs to be adopted if one is to be a fruitful historian, there is need for attention by all and even a certain attitude of reverence on the part of all who would aspire to be historians — or makers of history.

Mentioning the fact that his major work does not suffer from a paucity of documentation or footnotes, the author immediately launches a devastating and yet subtle offensive on what he calls, very appropriately, the fetishism of facts and of documents. "The belief in a hard core of historical facts existing objectively and independently of the interpretation of the historian is a preposterous fallacy, but one which it is very hard to eradicate" (p 6).

Clearly stating that 'history means interpretations', he analyses the social background to the Gradgrindian fondness for "facts" which suddenly seized the academic world in England. A social situation had arisen when the class from whom most of the historians came felt uncomfortable when they thought of history as a causal process and as a moving whole.

Drawing from his own experience he writes: "The historian and the facts of history are necessary to one another. The historian without his facts is rootless and futile; the facts without their historian are dead and meaningless. My first answer, therefore, to the question, 'What is History?' is that it is a continuous interaction between the historian and his facts, an unending dialogue between the present and the past" (p 24).

Not only is selectivity essential for the historian, it is also inevitable. "The historian, before he begins to write history, is the product of history" (p 34). And he justifies this aphorism with a brilliant analysis, more particularly, of the work of Grote and Lewis Namier. The approach to the past is conditioned by the historian's place in and attitude to the present and, therefore, as Croce said, all history is contemporary.

But this need not mean an inescapable personal and total relativism. Carr says "the historian who is most conscious of his own situation is also more capable of transcending it, and more capable of appreciating the essential nature of the differences between his own society and outlook and those of other periods and other countries, than the historian who loudly protests that he is an individual and not a social phenomenon" (p 38).

Role of the Individual

He adopts the same approach to the subject matter of history — which is the action of massive social change ("numbers count in history"). In this connection, he makes an illuminating examination of the favourite problem of the role of the individual in history. It is significant that the two greatest heroes in history that attract his attention are Cromwell and Lenin, than whom none was more conscious of the determined and destined nature of their actions.

With these basic tenets firmly enunciated Carr takes up a sustained polemic against the two most distinguished representatives of the so-called anti-historicist school — Ishiah Berlin and Karl Popper. The irony and the subtlety of the polemic, no less than its range, are admirable. The historian as a stylist and not a mere pedestrian fact factory comes through on every page.

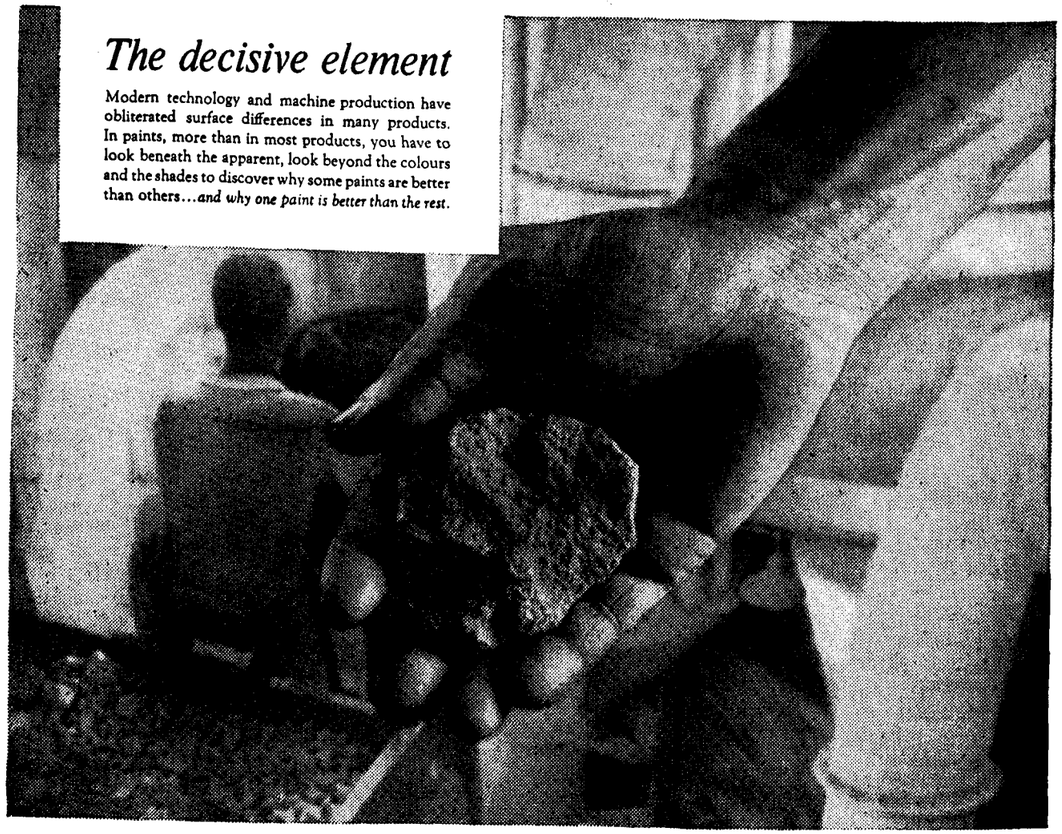
As far as causation in history goes he warns against acceptance either of the nineteenth century of causality ("iron laws") and also of the now fashionable playing up of "the unique nature" of each historical event and of its "essential accidentality".

Holding that the role of accident is "seriously exaggerated by those who are interested to stress its importance" — among whom he includes Trotsky (p 96) — he stresses the point that accidents themselves have a cause and the need to draw up a hierarchy of causes.

"We distinguish between rational and accidental causes. The former, since they are potentially applicable to other countries, other periods and other conditions, lead to fruitful generalisations and lessons can be learned from them; they serve the end of broadening and deepening our understanding. Accidental causes cannot be generalised and, since they are in the fullest sense unique, they teach no lessons and lead to no conclusions. But here I must make another point. It is precisely this notion of an end in view which provides the key to our treatment of causation in history; and this necessarily involves value judgments. Interpretation in history is . . . . always bound up with value judgments, and causality is bound up with interpretation" (p 101).

This leads on to a view of History as progress, which is defined as the "transmission of acquired skill from one generation to another" (p 108). And progress is infinite and irreversible (though there may be serious temporary reverses and also "delayed achievement"). As far as the content of progress is concerned, he says "Marx treats human labour as the foundation of the whole edifice; and this formula seems acceptable if a sufficiently broad sense is attached to 'labour'" (p 112).

Thus we have the dialectical relationship between a progressive science which, in its turn, has progress as its centre of study. All historians need a sense of direction since "historiography is a progressive science in the sense that it seeks to provide constantly expanding and deepening insights into a course of events which is itself progressive" (p 118).



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And with a robust optimism Carr concludes his study with a depiction of the expansion of reason (where Freud is mentioned along with Marx), the emergence of submerged classes and areas on to the arena of historical significance. Welcoming the contemporary period as the greatest era of revolutionary progress, he draws pointed attention to the insularity and the regress of the leading academic circles in West Europe.

It is not surprising, therefore, that the academicians in England have been outraged by this book. Trevor-Rope, appropriately enough in *Encounter*, has come out with a screaming diatribe against what he calls "Carr's success story". What is equally relevant, however, is that our academic historians, over-familiar with Popper, Berlin, Taylor and Fisher, have chosen to ignore this utterly outstanding book. It is not only in West Europe that the historians in the mass suffer from miasma and a lack of a sense of direction.

When so much has been given and with such felicity of expression, it might seem carping to criticise. Yet two tentative critical suggestions seem to be in order.

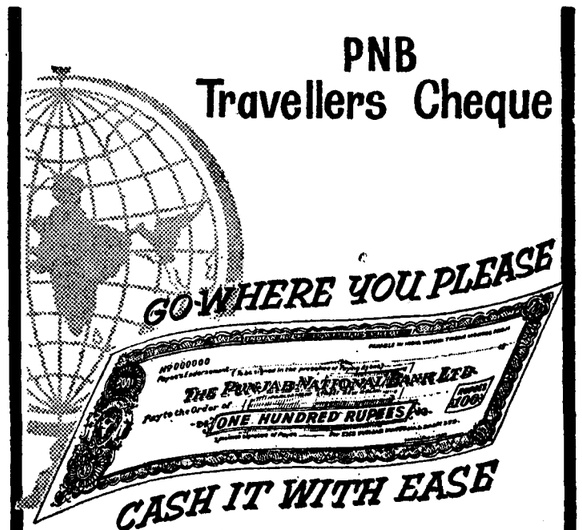
First, the concept of law in history. Carr does draw up a hierarchy of causes but the only distinction he seems to make is between "accidental" and "rational" causes. It would appear, however, that there is a hierarchy of rational causes (or necessity) as well. There are laws in history wide enough to cover its entire range — the productive forces-production relations confrontation. There are other laws specific for stages in history — e g, the differing modes of motion of specific socio-economic formations — which are less wide in range. And within these socio-economic formations there are laws still further restricted — e g, the differing paths of development of China and of India in our own epoch. It is only when the historian has attempted a study of these levels of laws that he can come to examine "accidental causes". In other words, one would like to emphasise more the range and impact of laws than Carr has done, perhaps, out of an unnecessarily uncritical adoption of what passes for the scientific theory of probability.

The second point of difference is with regard to the standards of progress and of significance in history. A careful reading of "What Is History?" leaves this reviewer, at any rate, with the uneasy feeling that Carr has come, in places, perilously close to what can be called the existentialist approach to history. The reference is to the concept of evolving ends to evaluate an evolving process. This is true enough but there is a pattern and a definite direction to this evolution which can also be made to yield significance in terms of definite standards.

Carr mentions Marx's concept of labour but he does not go further and tell us of the differing socio-economic formations built up on different patterns of organisation of labour with differing scales of productivity, understood in the widest sense. And yet Marx's mode of production with its corresponding superstructure gives us a criterion sufficiently rigorous and flexible with which to evolve both history and historians.

To put it rather exaggeratedly, the essence of history does not depend only on its manifested existence but its existence is also impelled by its essence. And the task of the historian is not to rest till he penetrates to this essence. Marx did this for capitalist society.

And it is the best tribute one can think of to say that Carr will be among the foremost of those who help us to do this for socialism. He belongs to the great tradition of those creative historians who heighten human self-consciousness, which is history.



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The Chinese Motive

Squadron Leader K V W Dharan, I A F (Retd)

To understand the Chinese motive in launching the massive border attack against India, one must try to think with the Chinese Communists and, for a starting point, one can do no better than begin with their major thesis: that a global war is inevitable.

A global war would be between communism and the "enemies" of communism and it would most certainly be a nuclear war. The Chinese realise that in the event of a nuclear war it would be futile to attempt to protect the entire country. Even with the best Early Warning systems and the most efficient network of radar stations, one cannot ensure one hundred per cent protection against sneak raids and unintercepted missiles.

The answer to this problem is "decentralisation" and the creation of "industrial islands". China is now engaged in creating such "industrial islands", first in Sinkiang and then in Tibet.

In this article the author, who is a student of geopolitics, suggests that the present Chinese aggression against India is dictated by their strategy to create in the Tibet region an industrial and military base from where they hope to hold out in the eventuality of a global war.

TO many of us the motive for the massive Chinese attack on India on October 20, remains something of a mystery although several explanations have been put forward in the course of the last fortnight. Some think that the Chinese are arrogant and stupid, and that this is an act of supreme folly on the part of Chinese leadership. Historians would have us believe that the Chinese, whether under capitalist or communist government, are in any case expansionist and would have attacked us, if not today, in the near future. Another explanation, this one from those who presume to understand the bye-ways of communist thinking, is that this is a strategy to polarise international communism, to separate the adherents to the Chinese brand of "revolutionary" communism from the Russian brand, dubbed variously by the Chinese as "revisionist", "deviationist" and so on. Other popular explanations are that the Chinese are jealous of our prosperity and want to dislodge us from our position of leadership in Asia; or that this is a ruse of the communist leaders to divert the attention of the Chinese masses from internal economic disillusionment; or, finally, that this is intended to call our "bluff" and show up our claim to be a neutral nation by throwing us into the arms of the Western powers, and so to turn Russia against us.

Quite possibly, in all these conjectures, for they seem to be nothing more, there may be an element of truth, but one might reasonably ask whether they explain the urgency inherent in the present Chinese action. One cannot doubt that the Chinese are in deadly earnest about acquiring, just now, parts of our border territories, otherwise they could not have massed their men and material in the fashion they have done, unless one wants to believe that, to a Chinese communist, a Chinaman is particularly expendable material. So for a reasonable explanation, assuming that the Chinese are not just a set of imbeciles, one has to look elsewhere. Geopolitics does furnish us with a lead.

Fear of Attack from Sea

To understand the Chinese motive, one must try to think with the Chinese Communists and, for a starting point, one can do no better than begin from their major thesis: that a global war is inevitable. To them this conclusion follows inevitably from the Marxist-Leninist interpretation of history. Therefore, they hold that there can be no slackening of the Communist revolutionary fervour. This, incidentally, largely explains their displeasure with the Russians, who appear to have arrived at a different conclusion from their study of Marxian dialectics as evident from their willingness to explore the possibilities of co-existence.

A global war would be, of course, between communists and the "enemies" of communism and it would most certainly be a nuclear war. In such a war, what are the Chinese chances of success? A study of a map of China makes it clear that, as things stand today, their chances of survival are not very bright. Though the Chinese have a vast population, it is very unevenly distributed, with the vast majority of the people concentrated along the Pacific littoral. China has an extensive coastline open to the Pacific and, as we have not heard of a Chinese navy, it is wide open to an attack from the sea, with scarcely a chance for reprisal. For instance, a squadron of nuclear powered submarines of the Polaris type, armed with ballistic missiles, concentrated off the China coast, could inflict crippling damage to the greater part of China. During the last decade or so, the Chinese communists did make several attempts to break out into the Pacific ocean, but without success. So they have set their face against the sea for the time being and have turned towards the interior, to those parts which could be considered safe from attacks from the sea.

In any case, the Chinese no doubt realise that, in the event of a nuclear war, it will be futile to attempt to protect an entire country. Even with the best Early Warning systems and the most efficient network of radar stations, one cannot ensure one hundred per cent protection aganist a sneak raid or an unintercepted missile. The answer to such a situation is "decentralisation" and the creation of "industrial islands". The inhabitants of densely populated areas must be dispersed and settled in outlying regions, a difficult process for historical reasons, although there have been considerable population upheavals in China in recent times. "Industrial islands" are isolated, well protected areas with a nucleus of essential industries, provided with all the necessary raw materials, that could function right through a war. These would be secret areas of industrial activity, well camouflaged, provided with shadow factories of all kinds so that when the regular industries are destroyed, these could continue to function, and so carry on the war. China, having turned towards the interior, is now engaged in creating just such "industrial islands", first in Sinkiang and now in Tibet.

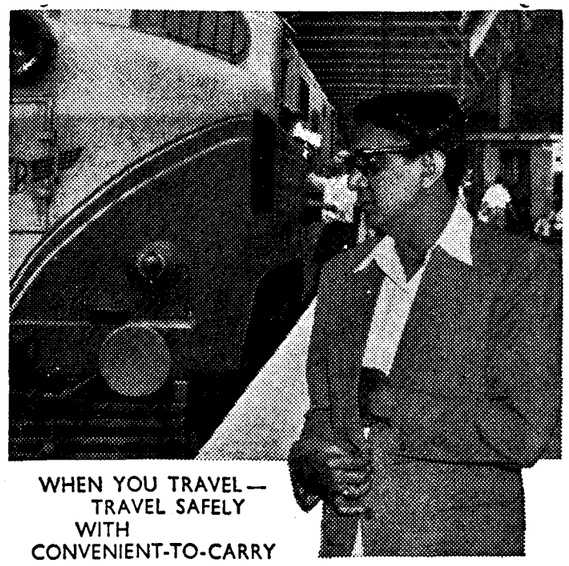
Industrial Complex in Sinkiang

Sinkiang, an area of inland drainage, drained by the Tarim river, lies, providentially for the Chinese, almost equidistant from the four great oceans, and so is safe from a sea "strike". It is known to be rich in thorium and coal is available in the adjoining Soviet district of Kirghz. Here, during the last decade or so, the Chinese have been extremely active, creating an industrial complex with a large number of factories, nearly 18,000 some say, taking big and small factories and people's co-operatives into account, and an excellent network of roads, railways and airways; and more are being built. A railway line of great interest to them, and to us too for that matter, is the one projected from Innings in the North of Sinkiang to Khotan in the south, for a road connects Khotan with the Aksai Chin Road in Ladakh. Considering the physiography of the region, this is the natural route the Chinese have to follow in building their future railway line into Western Tibet, cutting off in the process a triangle of Indian territory. This is the route they have been fighting for; it is their life-line into Tibet.

How else can they subdue and exploit Tibet? The Kun Lun mountain system, forming the northern boundary of Tibet, has always been an effective barrier against Chinese incursions, and the natural route for China into Tibet lies along Sinkiang through the Aksai Chin road. It should surprise no one if it comes to light that this is precisely the route through Indian territory which the Chinese followed in invading Tibet. When the railway line along Aksai Chin road is completed, the Chinese will have an excellent railway system connecting Western Tibet with Sinkiang and this with the Chinese railway network, which will eventually extend to Hanoi in North Viet Nam.

Though Sinkiang is equidistant from the great oceans, it suffers from one great disadvantage as far as the Chinese are concerned; it is too close to the U S S R. Hence China's great interest and activity in Tibet, which with its high altitude and mountain rims, is even more isolated than Sinkiang and is known to be rich in mineral deposits. It can be converted into an excellent base for the positioning of inter-continental missiles and intercontinental bombers. This is where the Chinese might hope to hold out in the eventuality of a global war.

In the light of this analysis, the Chinese objectives of this border war emerge in firmer outline. They appear to be, first, to protect the Aksai Chin Road and absorb the northern area of Ladakh; next to immobilise India's northern border and soften the border States; and, finally, to ensure an India sufficiently subservient to Chinese ambitions.



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Nepal's Economic Development

A Study in Planning Experience

Y P Pant

Nepal's Three-Year Plan began in July 1962, one year after the completion of the First Five-Year Plan. The Three-Year Plan is a larger development effort "properly co-ordinated and more relevant to the present needs of the country".

The First Five-Year Plan has blazed a new trail in Nepal's history. The economic structure has been touched and modified at quite a number of points, though the tangible results may not have fully reflected this. However, certain important questions do come up before us.

Did the First Plan really provide a short-cut to prosperity?

How far has its completion stepped up the tempo of economic development?

How far were the Plan targets achieved?

It is proposed in this article to answer, as far as possible, some of the above queries on the basis of the available statistics and make some suggestions for the future.

[The views expressed are those of the author and have nothing to do with his official position as Secretary in the Ministry of Finance, His Majesty's Government of Nepal.]

ANY enquiry into the achievements of the First Plan would first necessitate a consideration of the country's economy before 1956, or before the launching of the Plan. It was only after 1951 that any concerted attention was given to the country's economic development. In the absence of any mobilisation of economic resources and any policy for economic development, the country's economy had remained more or less stagnant for over a century. After February 1951, some steps were taken to foster the climate for national development; still, nothing could be done to step up the rate of economic development. All such efforts were general and did not properly take into account the basic difficulties of the country's economy. Even a few of the development projects undertaken before 1956 could not yield any significant results. There was some apparent increase in area under cultivation. The few large industries started during the Second World War, after showing some signs of prosperity, had started to languish. The monetary and foreign exchange position also was worsening and the exchange rate of the Nepalese rupee for the Indian rupee was becoming unfavourable and the price level was going up. The trade balance was becoming more and more unfavourable in the absence of an increase in exportable surplus.

The First Five-Year Plan was launched against the above background in September 1956. Any assessment of the Plan can be more appropriate by looking at its achievements, both financially and physically. Table 1 gives the pattern and magnitudes of investment in the public sector in the Plan. Sufficient information relating to the private sector is not available. Since the figures of total expenditure have been taken from the development budget, they include recurring annual expenditure and not merely expenditure for development. For the first three years of the Plan the annual rate of expenditure was 10 to 20 million rupees, while in the last two years it was 70 to 80 million rupees. The total expenditure of 204.07 million rupees is far below the original Plan estimate. The total of development budgets was 579 million rupees, while the actual expenditure was 204 million rupees. Thus only 35 per cent of the budgeted amount, on the whole, could be spent. There must have existed, it is explained, "various limitations in the socio-economic structure which severely constricted the absorptive capacity of the economy".

Achievements Not Impressive

Table 2 gives the progress of the Five-Year Plan in different sectors in physical terms. The achievement of the Plan, compared to the targets, do not seem very impressive. Though achievements in some spheres like village development, ports, education and health have been impressive, the overall results are far from satisfactory. The village development activities and the educational facilities may, of course, represent important gains from the long-term point of view.

Table 1 : Annual Development Expenditures by Major Sectors

First Plan Period

(*Millions of Rupees*)

	1956-57	1957-58	1958-59	1959-60	1960-61	Total
Education	1.98	2.16	2.50	6.91	5.54	19.09
Health	2.30	0.28	1.45	6.44	3.16	13.63
Power	0.04	0.25	0.05	3.21	9.35	13.35
Industry	1.52	1.53	2.45	3.73	5.67	14.09
Transportation & Communication	3.91	2.79	11.65	40.16	21.59	80.10
Agriculture	2.74	2.45	3.28	7.66	5.78	21.91
Village Development	1.47	1.67	5.90	6.02	7.39	22.63
Government Services	0.75	1.27	4.97	4.63	6.84	18.46
Total	14.71	12.04	32.07	78.94	65.32	204.07

Note : The year is from July to June.

But in these sectors the achievement measured just in terms of the number of schools, etc, cannot be regarded as a sufficient index of success.

Obviously, the progress of the economy has not been sufficient to make possible a real and substantial rise in the standards of living. There were a number of reasons for this slow progress. During the five years of planning there was no co-ordinated approach to the problems of development. Even the membership and functions of the central planning organisation were frequently changed after the adoption of the plan. Substantial aid was received from friendly countries in financing the plan, but nothing, or very little, was done to mobilise internal resources. The administrative structure was too antiquated for implementing the plan. Lastly, the organisation of planning was highly centralised. In a country with wide topographical variations, virtually lacking in transport and having inadequate knowledge of different regions even at the official level, this type of centralisation was obviously undesirable.

Administrative Shortcomings

In short, the reasons for the shortfall in Plan achievement were: lack of efficiency and promptness in the administrative machinery concerned with planning, shortage of skills and technical and trained personnel, over-emphasis on foreign aid, lack of proper publicity to generate public enthusiasm, and lack of basic information about the different sectors of the economy.

The policy statement on planning issued by His Majesty's Government in September 1961 summarising the achievements of the First Plan described them as inconsiderable since the development efforts were much too small as compared to our national needs; as inconsistent since much of the development activity undertaken was not relevant to present national priorities; and as financially insecure because development became more and more dependent upon foreign aid.

Absence of reliable statistics makes it almost impossible even to guess the total production of the country. However, judging from the fact that the value of the exports of surplus food from the tarai regions to India went up from 45 million rupees in 1957-58 to 96 million rupees in 1959-60 or by more than two times, production seems to have gone up quite considerably. (See my article, "Nepal-India Trade Relations", *The Economic Weekly*, February 24, 1962). It is said that only in 1957-58, as a result of the drought, did agricultural production decline in the country. To what extent agricultural production went up — whether the increase was sufficient to offset the rate of population growth — it is difficult to guess.

For industrial production, certain generalisations can be made on the basis of certain preliminary figures. for some large industrial units. Table 3 shows that with certain drops occasionally with regard to some commodities, the rate of production has been almost consistent and there has been a slight increase in production in recent times. Even in the context of the uneconomic operation of a number of large industries, it is encouraging that industrial production has been able to maintain some amount of consistency. In 1960-61 Nepal exported 10,000 maunds of jute, mainly to West Germany, Britain and Italy and, in fact, for the first time, jute production brought in significant earnings of foreign exchange.

Prices and Exchange Rate

In recent years there has been a general belief that prices of goods have been rising in the country both as a result of deficit financing as well as the general scarcity of consumer goods. There is some truth in this since Government budgets till 1957-58 were more or less inflationary. However, the emphasis on avoiding deficit financing since 1958-59 has discouraged this trend. Though the indices of prices of even selected commodities throughout the country are not available, collected data on some selected commodities in Kathmandu show that there has been no appreciable rise in prices.

Table 2 : Progress of the First Five-Year Plan

Sector (1)	Unit (2)	Target (3)	Achievement (4)	(4) as per cent of (3)
Village development centres	Number	48	55	114.58
Food grains centres	"	18	10	55.55
Livestock development centres	"	7	4	57.14
Dairy centres	"	0	5	—
Cottage industry centres	"	5	21	—
Industrial estates	"	0	2	—
Irrigation	Acres	2,75,000	65,200	23.73
Electricity	kWs	20,000	750	3.75
Roads	Miles	900	500	55.55
Ports	Number	100	298	298
Airports	"	0	7	—
Telephone	Lines	700	150	21.04
Primary schools	Number	630	2,000	317.46
Middle & high schools	"	136	165	163.00
Colleges	"	0	65	—
University	"	1	1	100.00
Additional beds in hospitals	"	423	105	24.82
Health centres	"	54	94	174.00
Ayurvedic Ausadhalaya	"	43	34	79.00
Co-operative societies	"	0	378	—

Table 3 : Production of Selected Factories

Commodities	Unit	1956-57	1957-58	1958-59	1959-60	1960-61
Morang Sugar Mills	Maunds	—	30.9	58.2	65.7	68.0
Raghupati Jute Mills	Tons	1.5	2.5	2.9	2.6	3.6
Biratnagar Jute Mills	Tons	12.2	10.5	11.8	12.04	1.08*
Juddha Match Factory, Biratnagar	Gross	62.5	—	136.8	147.2	168.6
Birganj Match Factory	Gross	—	—	—	78.3	98.7

* January–April 1961.

It would appear from Table 4 that prices of selected commodities remained roughly constant. Of course, in some cases they have risen a little, and in case of potato there has been an almost 300 per cent increase between 1956 and 1961. Some prices, affected by the price increase in the originating country (for example, those of cloth and yarn in India), have gone up. Similarly, the fall in price of petrol, kerosene oil, newsprint, etc in the Indian market has also been reflected in Kathmandu. On balance there has been, of late, a slight upward trend in prices of imported goods. But on the whole, the price trend is not discouraging even in view of the moderate investment of just 204 million rupees during the First Plan.

In view of the dual currency system (since Indian rupees circulate freely in tarai regions) the trends in the exchange rate between Nepalese and Indian rupees are also connected with the trends in price. There has existed an inverse relationship between fresh creation of money and the movement of the exchange rate. The Government exchange rate was raised in August 1958 from 128 Nepalese rupees for 100 Indian rupees to 150 Nepalese rupees for 100 Indian rupees. In this connection, it should be noted that the official rate was just limited to only certain commodities and for all practical purposes the guiding rate was the non-official rate of the open market. This rate used to fluctuate quite widely even over hours. Consequently, people were losing confidence in their own national currency, and circulation of the Nepalese rupees was narrowing down. Under such circumstances (when the rate was about 164 : 100) in April 1960 His Majesty's Government offered the unlimited convertibility of the Nepalese rupee at the rate of 160 Nepalese rupees to 100 Indian rupees and declared that the Government revenues and other dues (except certain contract items) were to be paid compulsorily henceforward in Nepalese currency.

Since then a stable exchange rate (with the liquidation of the indigenous money changers or 'sarafies') between the Nepalese and Indian rupees has been increasingly maintained. There has been a significant widening of the area in which the Nepalese rupee is used as a medium of exchange. This is also evident from the fact that during the first 15 months of the convertibility of Nepalese rupees (ending in July 1961) the volume of the Nepalese rupees in circulation increased from 57 million rupees to 117 million rupees. Part of the increase represents the net replacements of Indian rupees by Nepalese rupees.

Development *vs* Population Growth

Comparing the rate of investment with the rate of growth of population, investment appears to have been just sufficient to feed the population growth, with both rates at a little more than 1.6 per cent per annum. There has not occurred, therefore, any economic stagnation. But this does not mean that we have any reason for satisfaction. Our population had been increasing at the rate of 1.6 per cent per annum in 1959. The provisional figures of the 1961 census put the growth rate at about 1.66 per annum. But according to one projection, by 1966 Nepal's population would have increased at the rate of almost 2 per cent; the total population will then be more than 10 million. Hence the time has come to speed up our rate of economic development.

In any country internal resources for development come mainly from the excess of Governmental revenue over expenditure. In the existing conditions in Nepal budgetary resources are meagre. From Table 6 it will be seen that there has been a small rise in the revenues of the Government in recent years, but with the completion of more and more developmental projects and the expansion of the Governmental establishment, which is a normal phenomenon, the increase in expenditure on the regular budget is likely to be proportionately more than the increase in revenues. Therefore, even with the effort to economise upon the regular expenses of the Government and to mobilise domestic resources for development, for some years to come it would not be possible for the country to finance rapid economic development from its own resources.

Growing Reliance on Aid

The experience of similarly placed countries has shown that in the initial stages of development they have depended heavily upon foreign aid. Therefore, in the context of limited resources, it will be necessary, of course, for Nepal to depend on foreign aid for years, with simultaneous efforts to raise internal revenue. Thus it is seen that during the past few years dependence on foreign aid has been increasing almost every year. For example, the percentage of foreign aid in the development budget was 71 per cent in 1958-59, 80 per cent in 1959-60, 88 per cent in 1960-61 and 94 per cent in 1961-62.

Foreign aid affects a country's economy in various ways. It may reduce the volume of trade through normal channels and may also affect the direction of trade. This may, however, be true only of some commodities, since many commodities, mainly heavy machinery and equipment, would not have been imported in the absence of aid. In the case of Nepal, however, there are some commodities, especially those received as part of US assistance, which supplant commodities which would otherwise have been imported. Secondly, foreign aid has pumped money in the economy which is reflected in increased imports. This will be seen from Table 7. However, even with the utmost help from external sources the problem of Nepal's development will not

Table 5 : Exchange Rate : Nepalese Rupees for 100 Indian Rupees

Year	Quarterly Exchange Rate I	II	III	IV
1954	160	161	170	167
1955	173	183	179	173
1956	154	156	150	148
1957	136	135	136	145
1958	155	153	161	169
1959	165	161	165	165

Table 4 : Indices of Prices of Selected Commodities (*Base* 1954 = 100)

Commodities	1955	1956	1957	1958	1959	1960	1961
Rice	122	124	127	124	124	126	130
Pulse (Mas)	132	150	100	121	139	80	101
Maize	144	152	120	112	116	75	85
Ghee	111	116	113	113	108	120	114
Mustard oil	91	117	111	109	108	96	102
Potato	87	200	117	144	167	174	271

even begin to be solved unless the country dedicates its own resources, human, physical and financial, to a sound and persistent attack on those basic internal causes of mass poverty. This realisation fortunately has been increasing with experience in recent years.

Along with foreign aid at the Governmental level, private foreign investment can also accelerate the pace of economic development in a developing country. Besides giving general concessions, while considering whether a particular foreign investment should be allowed or not, broadly speaking, the Government should consider the following fac-

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tors: (i) Is there a really workable programme of development? (ii) Is the investment proposed, technically speaking, in a field where domestic investment is either not adequate or the requisite technical knowledge is not available inside the country? (iii) Will the proposed investment result in the saving of foreign exchange? (iv) Will the proposed project lead to over-all increased productivity rapidly?

Only a Partial Plan

The First Five-Year Plan was a partial plan in the sense that it did not take any approach towards over-all planning, but was more or less a collection of public projects in different fields with estimates, in some cases very rough, of their costs. An estimate of investment funds available was made from time to time and, accordingly, some adjustments were made in the plan. Though the plan was realistic in some aspects, there were certain gaps in its formulation. It was just a five year programme in which different departmental projects were tied together. Without any co-ordinated approach to problems of development, the plan described various programmes in a sketchy way.

The emphasis on financial target was to prove illusory more than once. In planning, a balance between physical resources and financial allocations in different sectors of the economy is always necessary. In case such balance is not struck, lags in planned expenditure are bound to occur. In the First Plan there was no attempt to balance financial outlays and physical resources. In other words, the possible repercussions of a given expenditure on factor allocations and output were not analysed at all. This, as the working of the Plan showed, led to the expenditure targets being attained in some programmes though the physical targets in most cases remained beyond immediate grasp. When quick results in terms of expenditure are demanded, the emphasis is not on how well money is spent, but rather on how much is spent. Consequently, even the evaluation of the few projects undertaken was done mainly on an expenditure basis and the tempo of achievements was measured simply by the tempo of expenditure.

Model for Second Plan

The framers of the First Five Year Plan had not followed any systematic planning technique. The framers had of course to work under certain handicaps. The administration was quite new to planning. The system of Government budgeting had just started. The statistical information was very scanty. Even so, we feel that it was a good experiment in collective thinking and action, and though it started in a haphazard and half-hearted way it certainly gave the necessary experience and the self-confidence born of experience to our planners. With the experience and statistical information gathered since 1956, when the First Plan was drawn up, it was thought possible to use better techniques for framing the draft of the Second Plan.

In consideration of both the long-term and short-term problems, His Majesty's Government released in June 1960 a model to provide a basis for the formulation of the draft of the Second Five Year Plan. It was thought that the model would help to provide the framework of a sound and logical arrangement of selected important variables. The objectives of the model as decided by the Government was to achieve an increase of 30 per cent in the national income during the Second Plan period. The total investment required for this increase was estimated at 1960 million rupees. Agricultural production would increase by 16 per cent, while non-agricultural production would rise by 130 per cent at the end of the Plan period. The rise of 16 per cent in agricultural production would be achieved both by introducing intensive techniques of production and bringing more cultivable land under cultivation. The model proposed to keep the number of working people in agriculture constant. It was calculated to increase the real per capita income of farmers by making agriculture more productive. The total outlay in the agricultural sector was estimated at 450 million rupees.

Together with the development of agriculture the model gave due attention to the development of the non-agricultural sector. During the plan period sufficient funds would be provided for setting up a few large industries in the public sector. At the same time the development of cottage and small scale industries both in rural and urban areas was to get priority. A few basic industries and a few hydro-electric plants would be set up in the public sector. In this way a start was proposed to be made during the Second Five Year Plan towards the industrialization of the country.

High Priority for Overheads

The development of economic and social overheads was also to get a very high priority in the Second Plan. The main objective of the Second and even the Third Five Year Plans was proposed to be to prepare the economy for the take-off and, ultimately, for sustained growth. Thus the basic foundation for the accelerated economic development in the years to come was supposed to be laid in the Second and Third Plans. Provision for economic and social overheads, in the absence of which a high rate of economic growth is not possible, should naturally get very high priority in the Plan. The

Table 6 : Balance of Revenue and Expenditure in Regular Budget
(Millions of Rupees)

	1956-57 (Estimated)	1957-58 (Estimated)	1958-59	1959-1960	1960-61
Revenue	42.90	57.60	73.30	76.76	110.09
Expenditure	48.10	65.70	66.69	72.60	97.40
Surplus (+) or Deficit (—)	— 5.20	— 12.10	+ 6.61	+ 4.16	+ 12.09

Table 7 : Value of Imports under U S and Indian Aid
(Millions of Rupees)

	1956 57	1957 58	1958-59	1959-60	1960-61
India	14.6	9.5	16.9	18.4	23.2
U S A	9.9	12.3	48.4	17.7	56.1

total investment required to achieve 130 per cent rise in non-agricultural production was estimated at 1510 million rupees.

The Plan model also proposed to bring about shifts in the distribution of the working population by creating half a million new jobs outside agriculture during the Plan period to absorb the increase in the working force. In the beginning of 1961-62 about 6 per cent of the total working population was estimated to be employed in non-agricultural occupations. The Plan model proposed to increase this percentage to 14.25 per cent at the end of the Plan. On the other hand, the percentage of working population in agriculture would be reduced from 94 per cent in 1961-62 to 85.75 per cent in the beginning of 1966-67. In this way the model attempted to achieve the balanced growth of the economy, by trying to keep the rates of growth of different sectors in proper relationship to each other.

In case the model was followed in formulating the Second Plan, and if the underlying assumptions of the model were proved to be correct, the national income of the country was calculated to increase from 3200 million rupees at the end of 1960-61 to 4160 million rupees at the end of 1965-66, and the average per capita income would rise from 344 rupees to 407 rupees during the same period. In that way, other things remaining the same, the total production of the country was estimated almost to double in the initial years of the Fourth Five Year Plan.

Following the basic approach presented in the model it was proposed that a 'Plan-frame', which would set out the major economic aggregates of relevance to the Plan, would be ready for discussion by the end of September 1960. In the budget speech for the fiscal year 1960-61 on July 6, 1960 the Finance Minister informed the Parliament that the draft of the Second Five Year Plan would be submitted to the Parliament within a period of six months. The objectives of the Second Plan, in broad terms, were to increase national income by 30 per cent, to develop agriculture through the application of improved techniques, to build up the infra-structure for economic development, to industrialize gradually, to provide social services and to reduce the inequality in incomes.

New Approach

However, after the dissolution of the elected Government, the approach to planning also underwent considerable change. While referring to the problems of economic development, not properly envisaged by the Congress Government, His Majesty the King, in the Royal Message on January 5, 1961 emphasized: "There was no overall planning outlook; no regard was shown to existing conditions, necessary resources, technical personnel and practicability nor were schemes properly formulated. Individual and uncoordinated projects were taken up in haste. The result was that on the one hand the targets could not be achieved and on the other the limited resources of the nation were wasted. The present Government will bear this defect in mind and prepare a plan that will be practical and successful in bringing about the all round development of the country". Later on, while making the policy statement of the Government on planning, the Vice-chairman of the National Planning Council explained: "Shortly after the present Government assumed office the underlying assumptions behind the early preparations of the Second Plan were re-examined. A new and different approach to planning was required and in recent months we have been at work setting up both a new approach and establishing new development objectives, and priorities more consistent with the recent needs of the country."

Accordingly, recognising that a general plan for development over a period of years would require larger internal resources of money and organisational and technical skill than are available at present, His Majesty's Government proposed over the next three years to devise and implement a programme of specific projects with the objects of providing at the end of the period the basic infrastructure which will then support a wider and more comprehensive plan for the development of Nepal's economy and thereby accelerating, more rapidly than hitherto, the rise in the standards of living of the people.

In formulating the Three Year Plan special regard was given to the following longer-range policy objectives :

(i) the development of agriculture in view of our increasing population and the need to augment incomes in the rural sector;

(ii) the expansion of industrial activity in sectors where this would be beneficial, in order to achieve a better balanced national economy;

(iii) the improvement and extension of social services; and

(iv) the gradual reduction in social and economic inequalities which are presently responsible for retarding economic growth.

Corrective Measures

However, the Second Plan was not launched immediately after the completion of the First Plan. In fact, the interim period of one year (July 1961-June 1962) between the completion of the First Plan and the initiation of the Second, was devoted to corrective action including collecting statistical data and other information and preparing the Second Plan. The work on the Second Plan proceeded on a 'three point programme'. It consisted of a review of developmental projects and programmes already under way, a review and reappraisal of possible development projects and programmes not yet started, and a study of practical longer range priority development projects and programmes based on above objectives, administrative and technical manpower requirements and domestic and external financial resources. Under the general guidance and direction of the National Planning Council, the plan documents were prepared. It was announced that the first draft of the Three Year Plan would be released in March 1962 for public comment and suggestions (see Appendix) before its implementation. In July 1962 it was proposed to start the Plan which will be a larger development effort than the First Plan properly co-ordinated and more relevant to the present needs of the country.

Like any other under-developed country, Nepal has its own specific problems of creating among the masses of the people a powerful incentive for increasing production, accelerating considerably the rate of capital formation and using modern technology and scientific methods of expanding output. In the march towards progress it is appropriate that the experiences of other countries be utilised. Firstly, it should be emphasised that planning should be flexible and should always keep the time horizon in view. Detailed annual plans on the basis of the periodic Plan will have to be prepared and in the light of new experiences necessary adjustments will have to be made at shorter intervals. Secondly, the basic minimum for the growing population (rising by about 2 per cent per annum during the Second Plan period) should be provided in the shortest possible time. Thirdly, in a country like Nepal, basic economic overheads should get greater priority than social overheads with a view to achieving the desired rate of growth in future.

Second Plan: More Realistic

While the basic postulates of the Second Plan are probably more realistic to-day because of the prevailing economic and political philosophy and the availability of more reliable statistics it should be emphasised that, while executing any realistic Plan, certain aspects of a long term character will have to be seriously considered right from now. The problems of an undeveloped country like Nepal are too complicated to be solved either within one or two years or all at once. They demand co-ordinated, consistent and sustained efforts.

Firstly, almost 75 per cent of the plan-work lies in the fulfilment of the Plan or the practical implementation of the individual projects in the Plan. This basically depends on administrative organisation. In many under-developed countries the problem of economic development is more 'organisational' than anything else. In the way of mobilising resources — both domestically and internationally — framing and implementing various schemes, organisation may prove a bottleneck. For instance, utilisation of funds, in spite of availability, may be slow, and the targets may not be attained. Therefore, it would be very necessary to have this aspect under constant watch. The Government has accepted that energetic and proper execution, phase-by-phase, of long-term plans is not possible unless the organization is powerful and supreme. This aspect needs more serious study and appropriate action.

Secondly, the schemes in the Plan should be scientifically framed and need to be continuously reviewed in the light of practical experience. Some of the defects seen in the early stages could thus be overcome gradually. It would be necessary to co-ordinate different programmes not only to avoid duplication and overlapping, but to remove the bottlenecks in the process of implementation of the Plan.

Importance of Price Policy

Thirdly, in any developing economy there is pressure on the general level of prices. In the initial stages of economic growth in a country like Nepal priority has always to be given to the development of socio-economic overheads and the time-lag between the investment period and the production period is always considerable. The importance and urgency of adopting a sound price policy and defining the ends of such a policy should, therefore, receive proper recognition. The Government has started state trading in iron and steel imported from India. Some sort of price control has also been introduced on goods imported from countries other than India.

Of course, with the process of growth inflationary pressures will continue to beset our economy for several years, since it is an inevitable accompaniment of the process of rapid advancement. We will have to accept this fact. Even during the First Plan period prices in 1961 are estimated to be just over 13 per cent higher than those in 1957. A careful watch should be kept on all the factors that affect the country's economy during the implementation of the Plan. Some of the important factors are public and private expenditure, the general level of prices, the cost of living, savings, credit creation, deficit financing and so on. It will be necessary from time to time to take steps to curb inflationary spirals resulting from economic development.

Lastly, since the statistical data available for the purpose of planning are quite inadequate and other basic conditions are not favourable to planning either, the approach to planning should be thoroughgoing. Industrialisation and technical research should be accepted as the basis for successful planning. It might be fruitful to rely more on the project approach. Planning

Table 8

Foreign Aid Available During First Five Year Plan *

(In thousand rupees)

Country or Organisation	1956-57	1957-58	1958-59	1959-60	1960-61	Total
USA	1,27,53	4,84,73	1,79,51	5,62,25	8.69,97	22,23.89
India	1,45,70	96,05	1,71,02	1.84,50	2,23,55	8,30,82
Russia	—	—	—	—	84.56	84,56
China	—	—	—	3,21.35	—	3,21,35
UK	—	—	—	6,73	30,47	37,20
New Zealand	—	—	—	11,30	10 00	21,30
Australia	—	—	—	—	8.49	8.49
Canada	—	—	—	11,25	—	11,25
Switzerland	—	—	—	19,72	4,09	23,81
Ford Foundation	—	—	—	—	1.06.55	1.06,55
UN	—	—	—	1,36,30	33,31	1,69,61

Notes : The figures include financial and technical assistance and, therefore, exceed the total amount actually spent during the plan period. The figures for 1960-61 are estimates.

* Prior to the commencement of the First Five Year Plan, under American and Indian aid (financial and technical) the following amounts were estimated to have been spent :

USA Rs 2 49.51 000
India Rs 7,00,18,000

These figures are, of course, not included in the above table.

could be much more successful if it (instead of the macro-approach as being usually practised) were based on individual projects within the frame-work of given directives.

Appendix

On March 5, 1962 His Majesty's Government released an outline of the Three-Year Plan for public comment and for suggestions to be included in the first draft of the Plan to be issued later on, before the beginning of the next financial year. The outline plan-frame contained observations on policy and objectives, financial resources, and their allocation, programmes for the different sectors, and so on.

The objectives of the Plan in general terms remained almost the same as mentioned above, with a little more emphasis on encouraging private enterprise, improving the administrative machinery and adopting necessary measures to maintain economic stability.

In keeping with the priorities, the financial resources were allocated as shown in Table 9.

In the context of the increasing dependence on foreign assistance (94 per cent for the fiscal year 1961-62) for planning, the outline emphasized the importance of mobilising domestic savings "for the effective utilization of foreign assistance." However, it pointed out that certain loans (like the Chinese and the Russian) were tied to particular projects. The amount of foreign aid likely to be available during the plan period was estimated at 360 million rupees, leaving a gap of 100 million rupees. The foreign aid tied to specific projects amounted to 120 million rupees and so a sum of 460 million rupees would be the total financial requirements of the Plan. The outline proposed to mobilise domestic savings to the extent of half of the deficit (i e 50 million rupees, or 9 per cent of the total financial outlay). Suggested measures to raise this amount were: increasing the rate of land revenue, increasing customs revenue through effective control over customs posts, betterment levy and irrigation charges, mobilising profits from public enterprises and raising internal loans. It also assumed that the regular budget will be balanced, and that the additional amount available from internal resources will be used for development works. The sources of finance of the Plan are indicated in Table 10.

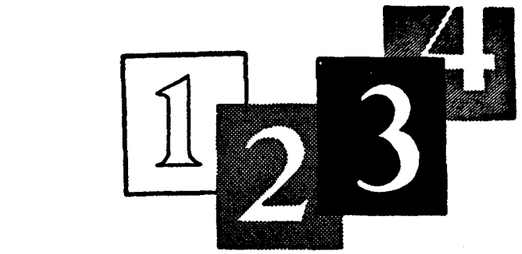
Table 9
Allocation of Financial Resources

	Amount allocated (Million Rupees)	Loan (Million Rupees)
Transport and Communications and Power	223.0	10.0
Industry	105.0	50.0
Social Services	103.5	
Agriculture	82.0	10.0
Organisation, management survey, statistics, publicity and training	72.5	
Total	586.0	70.0

Table 10
Sources of Finance
(In million of rupees)

Foreign aid		480
Committed funds	120 *	
Others	360	
His Majesty's Government's Contribution		50
Land Revenue	35.0	
Customs	5.0	
Forests	5.0	
Others	5.0	
Deficit		56.0
Loans		70
Nepal Bank	10	
Foreign Countries	50	
Internal Loan	10	

* Excluding Trisoli Project and the Kathmandu-Tibet Road.



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The Optimum Firm and the Optimum Farm

A Comment

C H Hanumantha Rao

In his article, "The Optimum Firm and the Optimum Farm" (The Economic Weekly, October 6 and 13, 1962) Dr Raj Krishna raised certain important questions regarding the measurement of size and efficiency of farms and firms.

The purpose of this note is to examine some of his arguments and suggestions in so far as they relate to the agricultural sector.

IT is argued by Dr Raj Krishna that the usual method of measuring farm-size on the basis of a single input, i e, the surface area of land, is not satisfactory. But, unlike in manufacturing industry, land as a factor of production occupies a unique position in agriculture, its role being more important relative to other factors wherever the production technique is relatively backward. Its role in Indian agriculture is all the more significant owing to the predominance of crop-production, as the input of land required per unit value of crop-production is generally higher than for, say, vegetable cultivation, fruit-gardening or dairy-farming. Table 1 gives the percentage distribution of the value of fixed capital, item-wise, including land, for seven regions where Farm Management Surveys have been conducted. These figures bring out the predominance of land in the total fixed capital as it accounts for 71 per cent to 90 per cent of the value of total fixed farm capital.

As is well known, most farmers rear some of the live-stock — an important capital item next only to land — on their own farms. Family labour and land, particularly pastures, constitute an important element in their cost, so that the significance of land can be regarded as being much higher than is indicated by the figures in Table 1.

Land Size : Useful Criteria

The size-efficiency analyses in agriculture are usually concerned with the study of economies arising from the level of utilisation of indivisible inputs, such as bullock-power and the degree of managerial efficiency. Under the existing production technique and institutional framework, the size of land influences, in a large measure, the basic operational character of the farm, viz, the employment pattern of bullock-power, the relative importance of family and hired labour employed on farm and the degree of managerial efficiency. Also, since Agrarian Reform measures are concerned mainly with the ownership and utilization of land, the analysis of farm efficiency wih reference to land size helps an understanding of the economic implications of the prevailing tenurial relations and institutional framework.

This is not to imply, that this method of measuring farm-size is useful under all circumstances. As the technique of production improves and cultivation becomes more intensive and diversified entailing an increased application of other inputs per unit of land, the utility of measuring size in terms of land input would diminish and a more comprehensive norm will have to be adopted. One is, therefore, inclined to agree with Dr Raj Krishna that the classification of farms according to the size of output and in terms of the major inputs other than land should also be given.

Even where land input is chosen as a measure of farm-size, the classifications must be given in terms of standardized land units after making corrections for soil heterogeneity by some appropriate index of fertility. The prevailing measures of farm-size in several studies including Farm Management Surveys are given in terms of heterogeneous surface area of land. Dr Raj Krishna has not made any reference to this very significant drawback in the existing method of measuring farm-size. While one can agree with him on the strength of an *a priori* reasoning that the size distributions of farms arrived at on the basis of different inputs would be different, it is difficult to agree with the procedure followed for testing his hypothesis. In his illustrations (figures 1 and 3) land input represents the heterogeneous surface area and it is very likely that the results would be substantially different if land input is standardized and one wonders whether in such a case the divergence between the size distributions in terms of land and output would not be narrowed down.

As regards the measurement of efficiency, Dr Raj Krishna contends

Table 1 : Percentage Distribution of Fixed Capital, Item-wise

		Land	Farm-buildings	Implements and machinery	Live-stock	Others	Total
		(1)	(2)	(3)	(4)	(5)	(6)
1	Uttar Pradesh	80.8	6.5	2.7	10.0	—	100.0
2	Punjab	79.0	4.4	3.2	9.0	4.4	100.0
3	West Bengal	71.0	5.0	1.3	8.3	14.4	100.0
4	Andhra	90.5	3.6	1.8	3.5	1.6	100.0
5	Madhya Pradesh	81.3	—	6.0	10.5	2.2	100.0
6	Madras	70.0	7.0	1.0	7.0	15.0	100.0
7	Bombay	83.7	1.4	5.2	9.7	—	100.0

Sources: Farm Management Reports: U P 1954-55, p 137; Punjab, 1955-56, p 30; West Bengal, 1954-55, Appendix tables, p 44; Andhra, 1957-58, p 92; Madhya Pradesh, 1955-56, p 40; Madras, 1954-55, p 43; and Bombay, 1954-55, p 44.
In the case of West Bengal and Punjab slight adjustments in the data have been made so as to e xclude the figures of investments on residential buildings.

that "the economist and the policy maker are and ought to be concerned with minimising the cost of inputs *as a whole* per unit of output" and observes that "if we apply the principle that the criterion of optimality is least average cost and not the maximum output per unit of any single input, the land yield criterion has to be rejected." It is difficult to reconcile the above assertions with Dr Raj Krishna's observations which sound highly practical and are much more convincing, viz, that "we must recognize that all empirical cost studies necessarily study only a part of the total average cost. What part of this total we choose to study depends on our purpose, what part we are able to study depends on accounting practices . . . . There is no such thing as *the cost*. We can think of and estimate several cost curves according to different definitions of cost and decide which cost it is best to minimize."

Nor is it easy for the reader to reconcile his emphatic rejection of land yield criterion as a measure

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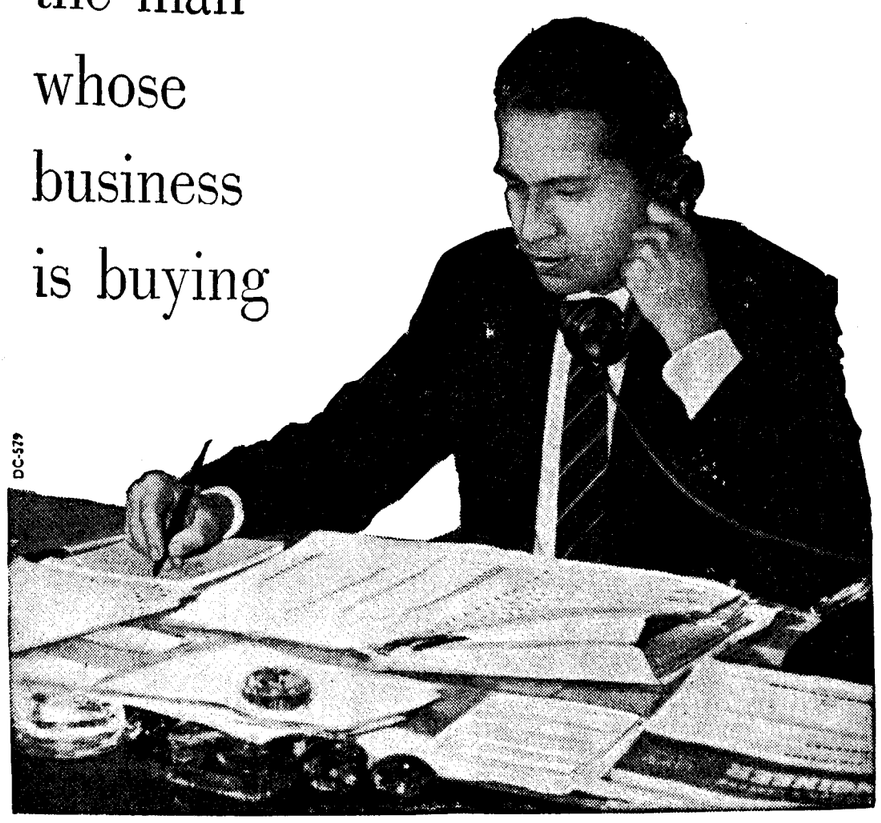

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of efficiency with his implicit preference for small holdings for reasons of their relatively higher yields per acre, as according to him "it is the generalization, very well supported by the recent Farm Management Studies that output per acre diminishes as the farm area increases that has substantially weakened the general case for the enlargement of holdings." Again, it must be noted that yield per acre in these Studies refers to the "surface area" of land and one does not quite know what would be the tendency in the yield per acre as the farm area increases if land area is expressed in terms of standard units. Similarly this fact has to be borne in mind in reading the asymmetry revealed by the different tests of efficiency as shown in Table 5. Here again it may be easier for the reader to convince himself of the asymmetry on an *a priori* basis rather than on the strength of these "empirical verifications".

Cost Functions Distorted

In his alternative scheme for measuring efficiency, the author classifies the agricultural sector into two sub-sectors, viz, family farms and commercial farms, the former being those in which family labour forms a major part of the total labour input and the latter those in which it forms a minor part. The terms 'major' and 'minor' are left undefined. Whatever be the definitions, it is obvious that even within each sector the relative proportions of family and hired labour inputs would be different at different ranges of farm size, because the seasonal nature of agricultural operations necessarily entails the hiring of some labour even for the small family farms and members of the household working as permanent farm labour is quite common even among big farms. It follows, therefore, that in a system of farming such as ours which is largely labour-intensive, any "cost" which includes hired but excludes family labour would considerably distort the cost functions. This difficulty can be minimized if the term "major proportion" is defined as constituting more than 80 or 90 per cent of the total labour input. But in such a case a large number of farms which do not belong to these two extremes will be left out from the efficiency studies.

Raj Krishna's scheme is rendered more complicated by the introduction of another sub-sector which cuts across both the family and commercial farms. These are the farms "where a part of the operated area is leased in." Since this "part" can constitute anything between a very minor and major proportion of the cultivated holding, a "cost" that includes the rent paid on land leased in but excludes the rental value of owned land would likewise give a distorted picture of cost as between different farms. The rental value of land is not only the single biggest item in total costs in many regions but accounts for a substantial proportion of the total costs (see Table 2). In fact, in the case of partially rented holdings this distortion in the cost functions would be a super-imposition over and above the element of distortion due to inter-farm disparities in the relative proportions of family and hired labour inputs.

Minimisation of Which Cost?

For the family farm sector Raj Krishna suggests the minimisation of 'cost A' per unit of output as the indicator of efficiency. According to him this cost consists of "paid for inputs" which the farmer "actually incurs" and which "the farmer himself should be trying to minimise." It must be pointed out, however, that not all the inputs constituting cost A are "paid for". Bullock labour is generally the biggest item in cost A and a significant proportion of costs on this item consists of the imputed value of family labour spent on the upkeep of bullocks. Nor are all the bullocks purchased. As already mentioned, some of them are invariably farm-bred whose imputed values are included in cost A. Since cost A consists also of inputs which are not "paid for", it is difficult to maintain that it is this cost which the farmer should be trying to minimise.

In the case of "commercial farms", Raj Krishna suggests that "it is meaningful to compute and try to minimise 'cost C', which includes also the rental value of land whether owned or leased in". Whereas, in the case of cost A (relevant to 'family farms') Raj Krishna assumes that "the true social price of family land and family labour is zero", in the case of "commercial farms" he assumes that the "market rent of land and the market wages of labour are true social prices." In so far as family land like family labour is a fixed factor in the sense that "its quantity is fixed and is not easily transferable to other uses", there is no reason why the true social prices of land should be considered to be different for different farms according as they are operated mainly with family or hired labour.

Efficiency Norms for Farms

The heart of the problem, however, is whether the norms of efficiency applicable to "business units" are equally relevant for a family-based and semi-commercial sector like the present-day Indian agriculture. Most farm-firms in this sector do not buy a consider-

Table 2: Percentages of Costs on Different Inputs in the Total Cost "C"

		Rental Value of land (1)	Labour: Family (2)	Labour: Hired (3)	Bullocks (4)	Seeds (5)	Manures (6)	Others (7)	Total (8)
1	Punjab	35.8	17.2	8.9	22.4	5.0	1.8	8.9	100.0
2	Andhra	45.5	4.5	17.7	8.8	5.2	7.1	11.2	100.0
3	Madhya Pradesh	33.0	8.0	25.0	20.0	4.7	3.3	6.0	100.0
4	Madras	30.6	15.5	9.5	15.8	7.3	12.7	8.6	100.0
5	Bombay	15.5	27.6	9.0	28.6	6.4	4.2	8.7	100.0

Sources: Farm Management Reports: Punjab, 1955-56, p 94; Andhra, 1957-58, p 212; Madhya Pradesh, 1955-56, p 158; Madras, 1954-55, p 63; and Bombay, 1954-55, p 218.
The Uttar Pradesh and West Bengal Studies do not seem to have included the imputed rental value of own land in Cost C.

able part of their inputs (which are more or less fixed in varying proportions for different farms) and produce outputs not exclusively for making "profit", but, to a considerable extent, for *meeting* their own household requirements. Where a large proportion of inputs are *not actually* "paid for", the study of cost functions for measuring farm efficiency based on any single and limited concept of cost loses much of its utility as an efficiency guide for policy purposes. For, such a cost would leave out of account a considerable part of inputs which might socially be regarded as scarce and the maximisation of returns to which may be considered essential. Most family farms are known to fall under the category of "small-size" and commercial farms under "big size". The stratification of all farms into these two distinct size-groups would in itself considerably reduce the usefulness of the study of size-efficiency. For, the interest of the policy maker may lie very often in the study of efficiency over the whole range of farm sizes from the smallest to the biggest. Hence the necessity of efficiency norms which are applicable to the whole range of farms.

The main objective of agricultural policy in India at present is to increase agricultural production by maximising output per acre. Since, of the two major resources in our agriculture, viz, land and labour, the former is very much scarce relative to the latter, output per acre (expressed in terms of standard units) could still serve as a good measure of farm efficiency for the purposes of economic policy. As Table 2 indicates, although land as an input does not constitute a predominant proportion of cost C (total cost), it nevertheless is the biggest single item in several regions. Besides, the costs on certain other inputs like farm-bred bullocks and farm-yard manure are ultimately traceable, in a large measure, to land input. Also, since the community is interested in maximising net-income or net-value added from agriculture consisting of the returns to land, labour and capital, it might be useful to know the level of efficiency at which farms of different sizes realise net-income or net value added per unit of cost, which is cost A minus labour cost (both hired and imputed value of family labour) and interest payments. Other cost concepts which include wages to hired labour, rental value of land leased in, and interest payments would be more helpful for knowing the distributional pattern of net-income in agriculture between farm business income, wages, rents and interest.

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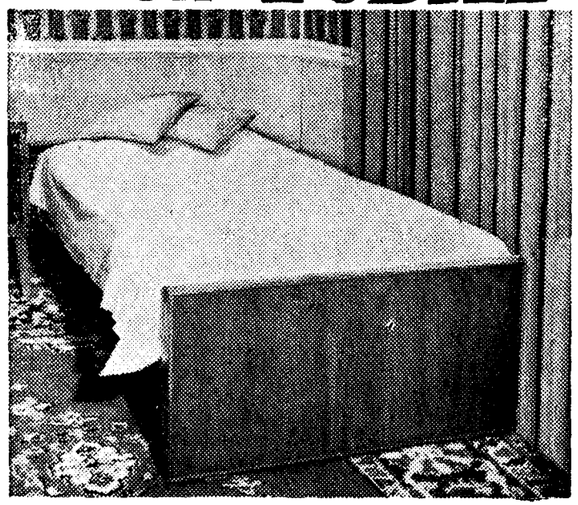

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Around Bombay Markets

Slump in Equities Creates an Emergency

Thursday, Morning

WALL STREET had its Blue Monday on 28th May when the Dow-Jones industrial average dropped 34.95 points from 611.88 to 576.93 — the deepest one-day plunge since the black year of 1929. Dalal Street had its Blue Monday last week on 5th November when the crash in share prices obliged the Stock Exchange President to invoke the emergency powers to suspend trading until further notice within 45 minutes of the official session. Bombay's lead was immediately followed up by Ahmedabad which also took an identical step of closing the market. Delhi and Madras were content with fixing minimum prices for cleared as well as non-cleared securities — a measure which had been adopted by Calcutta a few days earlier. The sudden collapse in equity prices on Monday was not due to any bear raid as is generally believed; it was essentially a case of hasty nervous bull liquidation in a market completely bereft of fresh support because of the highly uncertain border situation. The fixing of minimum prices by the Calcutta Stock Exchange had also probably diverted infructuous selling from Clive Street to Dalal Street.

Solvency Maintained

The slump in equities has evoked considerable comment. The stock exchange authorities have been blamed for not taking timely and effective measures to stem the decline which has led to the crisis of confidence. The Stock Exchange Directorate of the Ministry of Finance has been criticised for its failure to deal with the crisis in time through well-coordinated regulatory measures on an all-India basis. But the critics seem to forget that notwithstanding the heavy slump, the market has not been faced with any serious payments difficulty which clearly indicates that the various measures taken by the authorities, namely, margins, special deposit making-up prices and restrictions on short selling have been quite effective in ensuring the solvency of the market. There have, no doubt, been reports of some stockbrokers experiencing considerable difficulties in respect of their clients but for this the brokers are themselves to blame for entertaining business beyond their own resources.

This is not to suggest that the situation calls for no further action on the part of the authorities. Far from it. The utility of a speculative market in a period of national emergency can be seriously questioned. And that is precisely the situation obtaining in the country at present. The Chinese aggression has created an unprecedented situation in the country calling for the utmost effort and sacrifices for mobilising the nation's resources for the defence of the country. Economic activity has to be given a new direction involving important changes in the Plan priorities, with defence claiming foremost attention. The Government is fully seized of the situation and steps are being taken to place the economy on a war footing. In the circumstances, the stock market's reaction to the sudden flare up on the Indo-China border cannot be dismissed as impulsive. The course of equity prices could scarcely have been different.

Last week's crash in equity prices has also attracted Government's attention and the Finance Ministry has issued a press note to allay public suspicions and to assure the investing public that there is no cause for panic. Few will dispute the official view that despite certain readjustments of production lines necessitated by the Chinese aggression, the tempo of industrial and economic activity in the country will, on the whole, increase very rapidly. And the stock market has every reason to feel happy over the official assurance — quite vague though — that it would be unrealistic to harbour the fear that, while industry increases its production, the remuneration for its genuine efforts will be unreasonably low. The Government expects industrialists and investors to take a calm and optimistic view of the share markets. The official note adds that "while individual speculators, eager to cash in on a temporarily falling market, may come to grief (it is not clear whether the reference is to bulls or bears) in the present situation, the genuine investor who is interested in the yield of his shares has nothing to be afraid of". The Finance Ministry thinks that "there is no doubt whatever that the markets will steady themselves and normalcy will be restored very soon."

Not many will share official view on the outlook for equities. An increase in the tempo of economic and industrial activity does not necessarily imply a rising trend in equities because a great deal depends on how the resources are mobilised for bringing about the increased tempo of activity. It is true that investors do not have to bother much about the short-term swings in prices but who could say that the current decline will prove to be a temporary phase. It might

Important Movements In Equity Prices

	1961 Lows	1962 Highs	October 20 Closings	Last Week's Lows
Bombay Dyeing	58.50	72.20	63.70	57.50
Century	446.00	682.50	598 00	545 00
Kohinoor	259.50	327.50	290.00	265.00
Standard	955.00	1220.00	875.00	725 00
Indian Iron	23.00	27.35	25.15	21.72
Tata Steel	139.50	153.25	136.75	117 50
Telco	278 00	382.50	290.25	250 00
Voltas	247.00	315.00	249.50	223 00
Indian Dyestuff	437.50	578.75	455.00	390.00
Bombay Burmah Old	539.50	708.00	641 00	575 00
Hindustan Motors	17.68	21.48	18.44	14.72
National Rayon	460.50	584.00	452.00	406 00
Premier Construction	176.00	202.00	132.00	105.00

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The Five Year Plans are a challenge: existing industries must expand, new industries open up, per capita income increase. India needs more goods and services than ever before. Bird-Heilgers is alive to the problems of a growing economy. The group deploys the full potential of a century's resources, technical knowledge and executive skill to increase and broaden its activities...provide employment for many more thousands...join the national drive to economic independence.

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be interesting to recall what Walter W. Heller, chairman of President Kennedy's three-man Council of Economic Advisers has stated while commenting on the Wall Street's crash on 28th May. "Given the great potential of this economy", he said, "and given the determination of the Kennedy Administration to pursue policies that not only realise but expand the potential, I would say that the basic outlook for the economy flatly contradicts the disturbing developments on the stock market." Subsequent developments, however, proved him to be in the wrong and Wall Street did not take long to break through its Blue Monday's low.

Bullion

Sharp Break In Gold

GOLD Magsar delivery which had been quoted around Rs 120.75 per 10 grams in the official session on 3rd November was marked down to Rs 110 in kerb dealings the same evening and it moved further down to Rs 104.50 on 7th November The decline was even more pronounced in spot gold which fell from Rs 121.50 to Rs 102.50 during the same period. The panicky selling which produced this precipitous decline followed New Delhi's announcement on the issue of special gold bonds on 3rd November. But it was not the issue of gold bonds which had really unnerved the market; nor was it the Finance Minister's impassioned appeal to the people to refrain from buying gold in a period of national emergency. The market seemed to have been scared by reports suggesting that with a view to check smuggling, the Government was contemplating measures which would make it difficult to sell smuggled gold. Reports suggesting that people might be compelled to declare their stocks of gold and that restrictions might be imposed on individual's gold holding added to the panic. It is not unlikely that a good deal of selling in futures and in the spot market last week was by way of disposal of smuggled gold. The sharp break in the price of gold in face of the grave political situation as a result of the Chinese aggression seems rather intriguing because the bullion market is known to respond quickly to war scare by a spurt in prices. Apparently, bullion speculators are inclined to the view that the Government is now determined to mobilise the nation's gold hoards and that it will not hesitate to resort to other measure if the special gold bonds that are now being issued fail to evoke good response.

Gold Bond — A Misnomer

As a purely investment proposition, the issue does not seem to hold out the promise of a big response. The biggest attraction of the issue is that those who subscribe to the bonds will not have to explain the origin of their gold. Besides, the bonds will be exempt from wealth tax as well as the capital gains tax. These concessions are aimed at unearthing 'black' money lying in the form of gold. The bonds carry interest at the rate of 6.5 per cent (taxable) but for purposes of investment in bonds, gold will be valued at the international price of Rs 53.58 per 10 grams. This is about half the current market price. The interest over a period of 15 years will just enable the subscriber to gold bonds to make good the initial loss resulting from the valuation of gold at the international price. There is no hedge against the likely decline in the value of money over the 15-year period because the bonds will be repaid at par. Since the bonds holders will be paid back in cash and not in gold, it is a misnomer to call these bonds as gold bonds. Shorn of all technicalities, in purely monetary terms, subscribers to gold bonds will, in effect, be lending their money in the form of gold for 15 years without any interest because what they will receive after 15 years will be just equal to the principal plus interest. In return, they will have the benefit of 'black' money being turned into white at the end of 15 years. But surely this is not the time for calculating personal gains. No sacrifice is too great for meeting the challenge posed by the Chinese aggression. Patriotism demands full support to the Government in its task of mobilising the nation's huge gold hoards — estimated around 225 million tolas — for the defence of the country.

Oilseeds

Prices Drift Lower

THE oilseeds market which had been holding remarkably firm for a long while showed some signs of easiness last week. The stock market slump and the sharp break in gold touched off a wave of panicky selling in oilseeds futures, particularly in groundnut which continue to monopolise specualtors' attention, and prices suffered quite a sizable setback on 6th November. Within two days, groundnut January contract came down from Rs 231 to Rs 223.75 (per 250 kgs) and castor March eased from Rs 171 to Rs 166.75. Linseed March fell from Rs 40 to Rs 38.62 (per 50 kgs). Short covering and some replacement buying produced a small rally on Wednesday.

Apart from discouraging reports from outside markets, sentiment in oilseeds was also affected by the steady increase in the flow of groundnut arrivals and by anxiety about export business in groundnut extractions with Communist countries following the uncertain situation created by the Chinese aggression. The Communist countries have figured as prominent buyers of groundnut extractions and fairly large business has been negotiated with them over the past month or two. This helped groundnut extraction prices to hold firm in the local market which in turn imparted strength to groundnut prices. Exporters are now inclined to be very cautious in putting through fresh business. The other overseas buyers of Indian extractions have been trying to hold off the market in anticipation of lower prices as a result of increased supplies in due course of time. The supply position will, no doubt, improve as the groundnut crop movement gathers momentum and solvent extraction plants are able to secure easily all their requirements of expeller cake.

Exports

While increased offerings are likely to have a depressing effect on prices, most shippers take a reasonably optimistic view of the export prospects. Exports of groundnut extractions are expected to set a new all-time record this

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year. In view of the encouraging flow of business, the recent decision of the Karmahom Conference to withdraw the 10 shillings increase in freight to the U.K. and Continental ports, which had been introduced in October despite strong protests from the trade, will be widely welcomed. The need for a helpful freight policy for export promotion cannot be over-emphasised.

While the export performance of oilcakes holds out the promise of the 1962-63 target of Rs 18 crores being achieved, the chances of exporting vegetable oils to reach the target of Rs 10.2 crores are far from encouraging. The export performance of castor oil leaves much to be desired and the only other oil that is now being exported is groundnut oil, which, of course, involves a huge loss. Easy availability of groundnut oil is the only argument for exporting it at a loss which far exceeds the amount that would be required to push the sale of other less important edible oils.

Cotton

Prices Recede

THE cotton futures market which had been holding remarkably firm for some weeks because of the continued strength in the spot material also came under pressure near the week-end. And the selling which brought down the quotation for the March contract from Rs 747.50 on 3rd November to Rs 733.50 on 7th November was inspired mainly by the slump in bullion and stock markets. Short covering produced a small rally to Rs 738 but the contract drifted lower again to Rs 734 on Wednesday for want of follow-up support on the rise. Neither bulls nor bears are inclined to enter into large fresh commitments because of the uncertain political situation and there is not much in the overall supply position of cotton to enthuse either side. The volume of business in cotton futures continues to be on the rather low side and fluctuations are confined to a narrow range.

The spot cotton market also has been passing through a dull period. It is now a little over a fortnight that the Textile Commissioner released the first instalment of quotas for new crop Indian cotton — 20 per cent of 1960-61 consumption for mills in Maharashtra, Gujarat and the South and 30 per cent for mills in other areas. But mills have not shown any keen anxiety to make purchases. Many mills are already carrying stocks equivalent to their three months' consumption and they cannot make any additions to their holding. Some are very cautious in effecting purchases because of the discouraging reports from the cotton piece-goods market. Uncertainty about defence orders which might necessitate some changes in the production pattern has also been restraining mills to buy more than their minimum requirements. There is also a tendency to keep off the market in anticipation of lower prices when the crop movement gathers momentum. Besides, mills have little reason to rush with their purchases when all the available varieties of new cotton are quoted at or above the statutory ceiling rates. The recent decline of Rs 50 to Rs 60 in the price of Khandesh 197/3 and of about Rs 100 in Nagar C02 has only brought these varieties close to the ceilings. With prices still at or above the ceiling, the Textile Commissioner has sealed certain areas in the Khandesh tract. Movement of cotton — loose or fully-pressed - from these specified areas has been prohibited. Bengal Deshi prices remain subdued due to poor overseas inquiry. Hardly a few thousand bales are reported to have been sold from the Deshi cotton export quota released early in September.

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	Rs.
(a) For an individual	25,000
(b) For an individual jointly with another	50,000
(c) For an association or institution donations to which are exempt from payment of income-tax under Section 88 of the Income-tax Act, 1961 (43 of 1961), and a local authority	1,00,000
(d) For institutions and associations other than Provident Funds and those covered by item (c) above	50,000
(e) For Provident Funds	No limit.

Deposits (in multiples of Rs. 50) in cash/cheque or in matured 3½ per cent. Treasury Savings Deposit Certificates will be received from 10th November 1962 until further notice. Such deposits will be refundable at any time after the expiry of one year from the date of deposit at a certain discount.

Applications will be received at the offices of the Reserve Bank of India, Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi, branches of the State Bank of India and its Subsidiary Banks conducting Government treasury business and treasuries and sub-treasuries in India at places where there is no such office or branch of the aforesaid banks.

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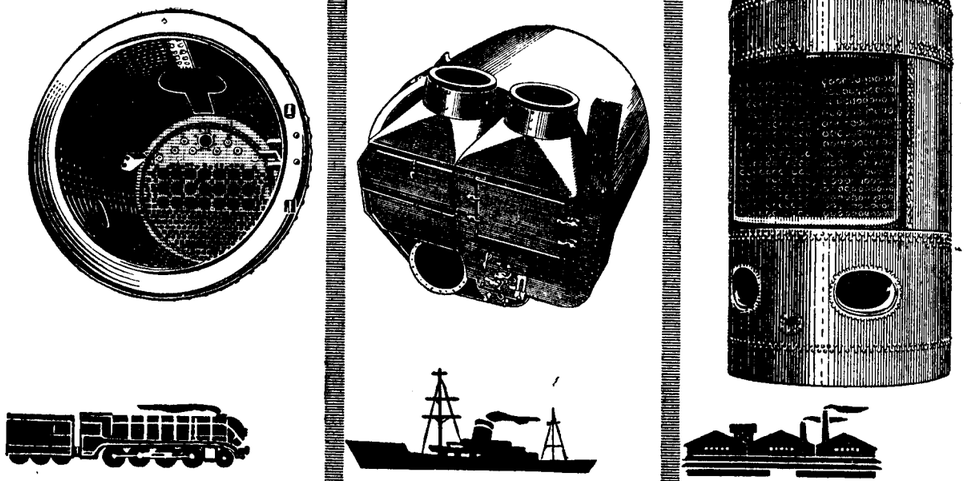

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Company Notes

Hindustan Oxygen

IT is in the fitness of things that corporate enterprises should follow a policy of keeping their shareholders informed periodically about their progress. The proposal of Hindustan Oxygen Gas, Ahemedabad, to send periodical progress reports to its Members is, therefore, to be welcomed. In its first report dated October 1, 1962, which, however, covers a period of over a year, it is stated that the Company has purchased a site in Naroda industrial area and that the construction of the factory buildings which is rapidly progressing is likely to be completed by December this year. The oxygen and acetylene plants as well as acetylene cylinders have been ordered from the U S A while oxygen cylinders will be imported from Poland. The U S suppliers of plant and machinery have agreed to undertake the work of erection and commissioning the plant and supplying the necessary know-how, for which the company has already entered into a technical collaboration contract. All shipments are expected to be received before the end of the year and the company's products are expected to enter the market during the first quarter of 1963. The report further states that the Company will not be affected by the foreign exchange stringency as the plant and machinery, including spare parts, to meet the requirements for a period of five years have already been ordered.

Incorporated in May 1961, the Company completed in January 1962 its public issue of 30,000 equity shares of Rs 100 each of which Rs 50 per share has been paid-up so far; two further calls of Rs 25 each are now made on the shareholders payable before November 15, 1962 and February 28, 1963 respectively. The first year's accounts of the Company made up to June 30, 1962 are just now out and disclose an income of Rs 13,434 by way of interest on deposits and sundry items and an expenditure of Rs 15,705 (excluding an amount of Rs 84,359 transferred to "Expenditure during Construction Account") including a provision of Rs 6,750 for taxation, resulting in a loss of Rs 2,229.

Kirloskar Electric

KIRLOSKAR Electric Co has shown an impressive improvement in its working during the year ended June 30, 1962. Sales have increased from Rs 277.83 lacs to Rs 349.29 lacs, with the gross profit rising similarly from Rs 40.49 lacs to Rs 57.13 lacs. The net profit after taxation has amounted to Rs 18.86 lacs as against Rs 16.88 lacs in the previous year. The increased provisions for taxation and depreciation mainly account for a relatively lower net profit. The allocations made are: Development rebate reserve Rs 3.50 lacs (Rs 2.51 lacs); General Reserve Rs 6.87 lacs (Rs 5.47 lacs); Loan redemption reserve Rs 1 lac (Rs 1 lac); Dividend equalisation reserve Rs 1 lac (Rs 2.10 lacs); Deferred taxation reserve Rs 50,000 (Rs 50,000;) Reserve for rehabilitation and modernisation Rs 1.25 lacs (Rs 50,000); Provision for taxation Rs 24 lacs Rs 12.88 lacs); Depreciation Rs 9.43 lacs (Rs 7.37 lacs); Managing Agents' remuneration Rs 4.84 lacs (Rs 3.37 lacs).

The dividend has been raised from 11 per cent to 12 per cent which will absorb Rs 5.25 lacs as against Rs 4.81 lacs. The higher dividend is, however, subject to the approval of the Industrial Finance Corporation of India. The Directors have also announced, subject to the sanction of the Controller of Capital Issues, a bonus issue of two shares for every five shares which will be made by capitalising a sum of Rs 17.49 lacs out of the total reserve and surplus of Rs 54.98 lacs as at June 30, 1962, which will put up the paid-up capital to Rs 61.23 lacs.

Bharat Minings

THE operations of Bharat Mining Corporation, Calcutta, for the year ended March 31, 1962 have shown improvement over the previous year. The Company's entire profit is from its colliery unit which has shown a gross profit of Rs 7,35,414 (Rs 4,28,228). Raisings and despatches were 2.80 lacs tonnes and 2.46 lacs tonnes as against 2.27 lacs tonnes and 2.00 lacs tonnes in the preceding year. The other units, namely the Kharkharee Firebricks and Limestone units, have shown losses of Rs 12,429 (Rs 12,257) and Rs 16,290 (profit Rs 3,295) respectively. Adding the brought forward amount of Rs 25,254, the net available surplus of Rs 7,31,948 has been allocated as under: Remuneration of Managing Agents Rs 70,174 (Rs 43,076); Provision for taxation Rs. 3,31,000 (Rs 1,71,000); General Reserve Rs 1,00,000 (Rs 75,000); Dividends Rs 1,95,965 (Rs 1,17,398); Carried forward Rs 34,809 (Rs 25,254).

The new plant of Kharkharee unit has started working recently and when it goes fully into production, the Directors feel, there are chances of reasonable profits. As regards the limestone unit, it is stated that since the railway line laid around the limestone quarries has now been opened for traffic and since special arrangements will be made to transport the lime-stone, which is quite suitable to the steel industry, from the quarry to the railway siding, this also will begin to earn profits henceforth.

The dividends proposed are 7.8 per cent on preference shares, 10 per cent on ordinary shares and 10 per cent on deferred shares. The Company's ordinary share capital was increased during the year from Rs 14,60,040 to Rs 24,60,000 by the issue of ordinary shares of Rs 10 each fully paid-up.

To finance expansion plans, the exact nature of which has not been indicated in the Annual Report, the Company intends to issue further ordinary capital of Rs 19,56,350 in 1,95,635 shares of Rs 10 each. So that the shares of the Company may be held by as many persons as possible, the company does not desire to restrict the issue to the existing shareholders. To enable this, the Company has convened an Extraordinary General Meeting to be held on the November 15, 1962

and will sponsor the necessary Resolution.

Morarjee Mills

ONE scrip that not only resisted a decline but scaled up in the midst of a continually falling market is the ordinary share of the Morarjee Goculdas Spg and Wvg Co, Bombay. The main reasons for this creditable performance are the improved working results of the Company for the year ended June 30, 1962 and the decision of the Board of Directors to issue bonus shares in the ratio of one share for every three shares held by capitalising a sum of Rs 17.25 lacs out of the General Reserve.

The gross profit during the year has amounted to Rs 73.42 lacs as against Rs 61.34 lacs in the previous year. Following are the allocations made: Agents' Commission Rs 5.49 lacs (Rs 4.38 lacs) Depreciation Rs 17.25 lacs (Rs 15.91 lacs); Taxation Rs 26 lacs (Rs 16.50 lacs); Development Rebate Reserve Rs 3.35 lacs (Rs 4.50 lacs); Amount transferred to General Reserve Rs 8.25 lacs (Rs 5.50 lacs). The Preference dividend at Rs 6.43 per share (Rs 5.85 per share) will absorb Rs 1.10 lacs. The ordinary dividend is maintained at Rs 24 per share subject to tax and will absorb Rs 12.42 lacs, same as in the previous year. A sum of Rs 1.09 lacs (Rs 1.54 lacs) is being carried forward.

After the proposed bonus issue is made, the Company intends to raise further capital by issuing rights shares in the ratio of one share for every two shares held at par or at such premium as may be sanctioned by the Controller of Capital Issues.

It may be recalled that the Company took over the B R Cotton Mills in October last. With this addition, the Mills' capacity has now increased to 1,56,000 spindles and 3,000 looms. It is expected that the Company's expansion and modernisation programme involving a capital outlay of Rs 1.50 lacs will be completed by June 1964.

Hindustan Lever

HINDUSTAN Lever has a number of expansion plans involving an investment of a few crores of rupees and was long expected to come out with a rights issue. It was not, however, expected that the terms of the issue would be so stiff as have been announced recently. The proposal is to issue 8,42,725 shares in the proportion of 25 new shares for every 37 shares held, at Rs 35 per share ie at a premium of Rs 25 per share of Rs 10. The high premium has greatly surprised market circles and evoked some press comments also. Such a high premium is rather unusual and unjustified in the present condition of the market, and it is surprising that this was agreed to by the Controller of Capital Issues.

Ninety per cent of the capital of Hindustan Lever is held by Unilever UK, which will be entitled to take up 7,58,452 shares out of the new issue. It however, appears that unilever will take up only 2,85,725 new shares and leave the rest to be offered to shareholders in India, as a result of which the Indian shareholdings will be raised from 84,273 to 5,57,000 shares. This would mean that the Indian participation in the share capital of Hindustan Lever will increase from 10 per cent to 15 per cent while Unilever's share will decrease from 90 per cent to 85 per cent.

Hindusthan-Pilkington

HINDUSTHAN Pilkington Glass Works is proposing to set up a new plant for the manufacture of plate glass which will be the first of its kind in India. Plate glass is at present wholly imported to the tune of about Rs 2 crores a year. The plant will be set up at Asansol near the Company's existing sheet glass works, involving a capital outlay of Rs 4 crores, half of which will be met by the Company's technical and financial collaborators, Pilkington Bros, UK. The plate glass unit will employ a specially patented process invented by Pilkington Bros which is very economical in respect of capital and production costs. The manufacture of plate glass is expected to meet the needs of motor cars, trucks, buses, railways and other industries. The target of production is initially put at 2,750 tons per month, part of which will be earmarked for export. Arrangements for raising the Indian share of the capital are yet to be completed. In this connection the possibility of a rights issue of one share for one share is reported to have been indicated by the Company's Managing Director.

Indian Aluminium

THE Indian Aluminium Co has decided to issue 801,276 rights equity shares of Rs 10 each at a premium of Rs 15.50 to the holders of existing equity shares whose names appear on the Register on November 15, 1962 at the rate of one share for every five shares held. Even this premium is considered high in the light of the ruling market quotations of the shares, but nevertheless distinctly more favourable than the terms of the rights issue by Hindustan Lever.

The proceeds of the rights issue will be utilised for expanding the capacity of the smelter at Alupuram from 5,120 tons to 10,850 tons per annum and for setting up an aluminium foil rolling mill with a productive capacity of 2,500 tons per annum at Kalva, near Bombay.

Sen Raleigh

SEN-RALEIGH Industries have convened a general meeting on November 19, 1962 to approve the issue of 650,000 rights ordinary shares. Of these Raleigh Industries of England will subscribe for about Rs 3.34 lacs ordinary shares of Rs. 10 each at a premium of Rs 4 per share and the remaining 3.16 lacs ordinary shares will be offered to the existing shareholders at a premium of Rs 4 per share in the proportion of 3.16 shares for every 7 shares held. The rights issue will finance expansion of production by 50 per cent through installation of new plant and equipment. The amount subscribed to by Raleigh Industries of England will help to secure the foreign exchange for the expansion programme. The 'balancing equipment' to be imported under the expansion scheme will considerably step up bicycle production. Other plants to be imported will technologically improve the processes and cut down considerably the present wastage of materials, besides ultimately saving an appreciable amount of foreign exchange.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Nov 2	Oct 26	Oct 5	Nov 3 '61
1 Note circulation	2063.79	2049.22	2054.34	1904.26
2 Rupee coin	121.14	122.82	123.04	124.65
3 Deposits				
(a) Central Govt	49.95	51.01	60.87	62.86
(b) Other Govts	10.08	9.85	17.95	17.66
(c) Banks	74.13	80.70	85.82	74.17
(d) Others	160.15	161.05	160.08	146.42
4 Foreign securities	88.08	88.08	88.33	116.86
5 Balance abroad	5.54	4.49	5.64	20.53
6 Rupee securities	1758.29	1738.29	1743.05	1558.86
7 Investments	159.80	143.25	136.64	200.84
8 Loans and advances to Govts	40.53	43.59	35.44	63.97
9 Other loans and advances	151.90	153.59	144.59	141.82
Scheduled Banks	**Oct 26**	**Oct 19**	**Sep 28**	**Oct 27 '61**
1 Aggregate deposits (net)	2046.94	2057.38	2035.27	1810.76
Demand (net)	801.94	814.00	799.46	732.49
Time (net)	1245.00	1243.39	1235.80	1078.27
2 Cash in hand	49.94	52.69	47.38	49.97
3 Balance with Reserve Bank	77.76	84.53	79.05	81.65
4 (2) + (3) as % of (1)	6.24	6.67	6.21	7.27
5 Borrowings from Reserve Bank	9.08	1.76	4.51	6.49
(a) Against usance bills and/or promissory notes	7.39	0.90	2.31	2.51
(b) Others	1.69	0.86	2.20	3.98
6 Advances	1174.27	1169.14	1180.24	1039.46
(a) State Bank	254.12	251.66	256.00	226.52
(b) Others	920.15	917.48	924.24	813.94
7 Bills discounted				
(a) Inland	159.11	157.17	149.61	138.32
(b) Foreign	51.38	49.40	48.53	46.24
(c) Total	210.49	206.57	198.14	184.56
(i) State Bank	14.51	12.81	12.02	12.32
(ii) Others	195.98	193.76	186.12	172.24
8 (6) + (7c) as % of (1)	67.65	66.87	67.72	67.60
8 Investment in Govt Securities	711.16	697.13	689.93	625.57
10 (9) as % of (1)	34.74	33.88	33.90	34.55
Cheque clearance	**240.20**	**227.23**	**216.46**	**199.99**

Bombay Money Rates

(Per cent per annum)

	Oct 26	Oct 19	Sep 28	Oct 27 '61
Call money from Banks	2.00	2.94	2.62	4.54
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Nov 8	Nov 1	Oct 3	Nov 10 '61
Gold (per 10 grams)				
Spot	108.75	120.00	118.55	124.35
Forward	109.00	120.25	119.35	124.60
Silver (per kilogram)				
Spot	217.45	224.50	217.80	207.10
Forward	218.20	225.50	218.80	208.10

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

	WEEK ENDED			
Group and Sub-Group	13.10.62	6.10.62	15.9.62	14.10.61
Food Articles	**128.5**	**128.6**	**130.8**	**121.1**
Cereals	108.4	108.5	109.4	103.0
Pulses	114.2	112.7	110.7	90.0
Fruits & Vegetables	124.0	127.4	129.3	143.1
Milk & Ghee	123.4	124.5	130.0	121.2
Edible Oils	158.0	155.8	153.1	146.0
Fish, Eggs & Meat	151.4	151.9	157.9	135.6
Sugar & Gur	155.6	156.6	153.4	115.9
Others	167.0	166.7	175.6	182.9
Liquor & Tobacco	**100.0**	**100.0**	**99.9**	**99.5**
Tobacco	96.5	96.5	96.3	96.0
Fuel, Power, Light & Lubricants	**124.7**	**124.7**	**124.8**	**121.8**
Industrial Raw Materials	**138.6**	**138.9**	**139.4**	**137.0**
Fibres	129.1	129.4	129.7	129.0
Oilseeds	157.1	157.7	158.9	150.9
Minerals	93.4	93.4	93.4	94.8
Others	125.0	124.6	124.2	128.7
Manufactures	**129.4**	**128.9**	**129.7**	**126.6**
Intermediate Products	**143.5**	**142.9**	**143.0**	**140.3**
Finished Products	**127.1**	**216.6**	**127.5**	**124.4**
Textiles	125.6	124.8	126.5	125.0
Cotton	129.7	128.9	129.4	128.2
Jute	110.0	109.4	114.9	120.1
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	134.9	133.4	133.4	118.6
Metal Products	161.0	161.0	161.0	151.6
Chemicals	116.5	116.5	116.2	111.5
Oil Cakes	167.4	165.3	163.2	144.0
Machinery & Transport Equipment	117.7	117.7	117.7	116.2
Others	125.1	125.1	125.3	121.3
All Commodities	**129.6**	**129.6**	**131.0**	**124.7**

Jute

Production, Stocks and Despatches of Gunnies

('000 Metric Tons)

Production	July '62	June '62	May '62	July '61—June '62
Hessian	41.2	37.6	37.3	414.3
Sacking	47.7	46.0	47.0	508.5
Others	14.6	14.2	15.4	146.2
Total	103.5	97.8	99.7	1069.0
	(64.4)	(67.3)	(79.6)	(1022.5)
Equivalent consumption in lakh bales	5.88	5.41	5.68	60.41
Stocks				
Hessian	26.1	24.8	27.1	—
Sacking	45.7	39.1	37.3	—
Others	14.1	16.4	19.7	—
Total	85.9	80.3	84.1	—
	(71.2)	(77.6)	(93.5)	—
Despatches ‡				
Hessian	40.0	40.2	33.5	419.8
Sacking	40.7	43.7	42.8	505.9
Others	16.0	17.0	13.7	133.7
Total	96.7	100.9	90.0	1059.4

IJMA Purchases of Raw Jute

('000 bales)

From India	332	441	405	7593
	(269)	(162)	(222)	(4362)
From Pakistan	24	8	6	348
	(35)	(—17)	(3)	(297)

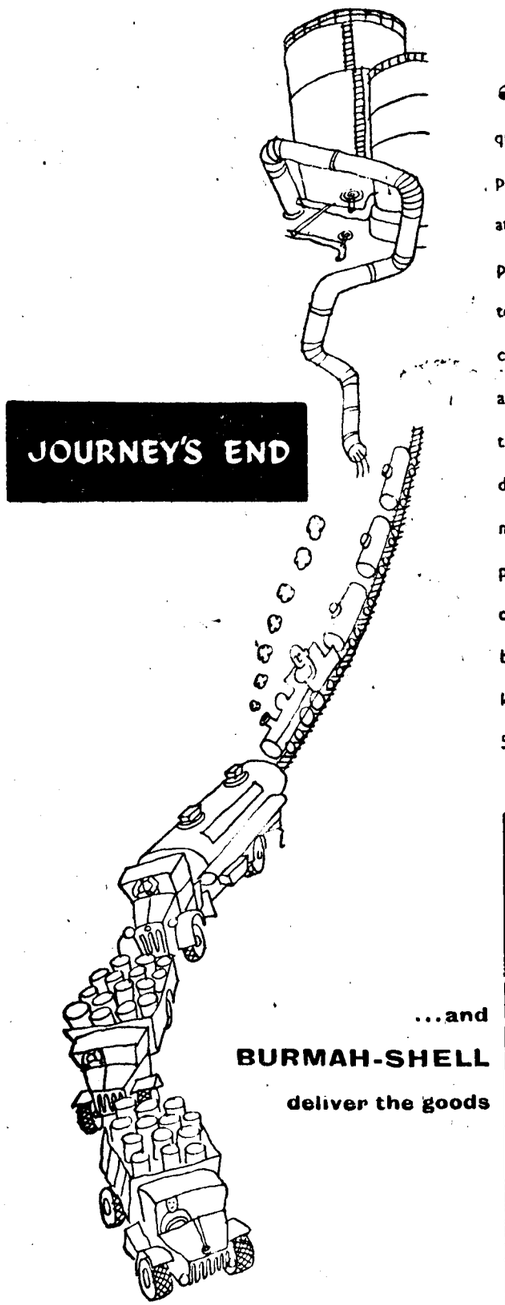
Note: Figures in brackets are those for the corresponding month of the previous year or the total for the previous season.

‡ Includes despatches for exports and internal consumption.

Source: Indian Jute Mills Association, Calcutta.

THE ECONOMIC WEEKLY

Regd. No. B [illegible]



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Magnificent Response

IN the last fortnight the atmosphere has cleared up a great deal and a much more objective and rational appraisal of the situation facing the country has been possible. What has come out most prominently out of it is the magnificent response of the Indian people to the challenge facing the country and the enormous emotional upheaval of the people in the face of the Chinese invasion. Not only have the people responded magnificently, they had the further assurance that India is not without friends, and the enormous goodwill towards India has been expressed in the most effective manner by the immediate supply of the essential arms both by Britain and the United States with an alacrity and readiness which has vindicated once again the correctness of India's foreign policy of neutrality and non-alignment.

Earlier, Pandit Nehru had confessed that we were living in a world of unreality. But China has not only knocked some sense into us, she has done more. One is inclined to agree with Pandit Nehru when he says that the Chinese Government should be thanked for having taken some action against us which has suddenly lifted the veil from the face of India. "We have had a glimpse of the serene face of India, strong and yet calm and determined". One can share this vision of India with Nehru, share in that emotion and in that experience, if one shuts one's eyes firmly to the disgraceful witch-hunt among the politicians and the grotesque exhibitionism on the part of some of his Ministers. It is, indeed, a high privilege to share in that emotion and in that experience. What stands out from it is that the Indian people will never submit to Chinese aggression, they can never be suppressed.

Along with the Indian people, in the last few days, even Pandit Nehru has gone up in stature, if that were possible. In his magnificent reply to the six-day debate in Lok Sabha on the Emergency and the Chinese aggression, he stoutly turned his face against a campaign of hatred against the Chinese people, as no leader of a country had ever done which was faced with aggression. While the Indian people could not be suppressed, neither could the people of China; he did not foresee an end of the present hostilities by the surrender of either party. "We are two great countries and neither will surrender. Therefore, some way has to be found to finish the war on terms honourable to us. We will finish the war when we liberate our territories in their possession". There was no question of carrying the war into the enemy's camp. Panditji particularly rejected the idea of our liberating Tibet — it was manifestly absurd to talk about it. And while applauding the resolve and spirit of dedication of the nation to repel the aggressor, however long it may take and whatever be the consequences, Nehru held the door open to negotiation and peaceful settlement. He reiterated India's offer of a cease-fire — withdrawal by the Chinese behind the September 8 line.

For this just and righteous struggle, the united strength of the nation has to strengthen Pandit Nehru's hands and give him unqualified and unconditional support. Under his leadership, the nation is wedded to freedom, peace, social justice and development for India, and to world

peace. These are our objectives and the nation can ill-afford to lose sight of them whether there is peace or war. So if we have to fight, we have to fight for these ideals. And since we are wedded to peace and peaceful methods, we have to do so with a stout heart and mind, unclouded by the fever generated by fear and undistracted by passions other than the basic passion for freedom and peace. So if there is an opportunity for peaceful negotiated settlement with China, consistent with our freedom and honour, we should seize such an opportunity. This is, in fact, our basic policy of Panchsheel and Peace and Non-Alignment. Hence we should fight for peace and freedom, but without allowing any sort of fever to affect us and cloud our mind.

How much was the Defence Minister responsible for the defence policy? To what extent is the defence policy independent of the foreign policy of a country? Or, for that matter, of its economic policy? There are two questions involved here — one is of political judgment for which the responsibility obviously belongs to the entire Cabinet. And the other is the question of the efficiency of the Defence Minister in conducting the affairs of his Ministry. The campaign of hate and propaganda of lies had so fouled the atmosphere that the Defence Minister was even accused of deliberately neglecting defence production. At least, this lie could have been nailed in time by the Prime Minister himself, as he did two days after Menon's resignation was accepted when he took the country into confidence about the progress made in the manufacture of automatic weapons. One of the pointed charges against the Ministry had been that our troops in the NEFA front were out-weaponed because they had not been supp'ied — deliberately and by design, that was the insinuation — with automatic weapons. Pandit Nehru assured Parliament that they had machine-guns and sub-machine-guns and that automatic rifles would be flowing in a few weeks from the production lines. Surely, this miracle could not have been achieved overnight even by three-shift working in the ordnance factories. If one compares the record of defence production in the regime of the previous Defence Ministers, one can very well see that it was only after Menon took over, that defence production was stepped up. The progress made in the last years has been something amazing. This is borne out even by the statistics of the supplies from the ordnance factories year by year which were quoted by Pandit Nehru on the floor of the House.

Behind the attack against Krishna Menon, the most powerful motivation was not the reversal of India's defence policy but of her foreign policy of non-alignment. The ready response that India has received to her appeal for arms has exposed the deliberately propagated fiction that India cannot get arms to defend herself without aligning herself to one of the cold-war camps, the obvious preference, not unstated, being for the Anglo-American camp. Much learned expertise has been wasted on establishing the obvious that there is not much difference between economic aid and arms aid to the extent that these are substitutable. It has now been clearly established that non-alignment does not stand in the way of India getting arms assistance for the legitimate defensive purposes and that the criterion for non-alignment is not the economic terms on which arms are obtained but the political commitments, if any, that go with it. To the extent that India remains out of any military commitments, acceptance of arms on however favourable terms, does not affect her position in this respect. India is lucky in having Professor Galbraith as the American Ambassador to point this out at the right time.

The atmosphere has cleared up a great deal after Nehru's last speech in Parliament. But why was it necessary to wait anxiously for more than a fortnight even for an intelligible account of the equipment of our forces, of their arms, of the magnitude of our losses and the actual number of cases of frost-bite? What was the Information Ministry doing all this time? Widely exaggerated reports were circulating all around, reports coloured by the melo-dramatic reportage of Korean fighting, of suicide squads and of human waves breaking through mountain-passes, through which men can move even today only in single files. If the country is not to be fed on lies and nurtured on a hymn of hate, and the great emotional upsurge is not to be dissipated, is not the dissemination of correct information just as important as mobilisation for keeping up the morale of the people?

Of the harnessing of the emotional urge of the people and their magnificent response to the challenge facing the country to some effective purpose, there is still very little evidence. Even at the top, things have not been put shipshape. The new Defence Minister has to realise that the defence policy of a country stems from its foreign policy. From his first speech after the announcement of his appointment, one gets the uncomfortable feeling that his past ideological affiliations and his narrow experience in State politics have not specially equipped him for facing wider problems of a country's foreign relations with which its defence policy is inextricably mixed up.

On the purely operational plane, unstated 'political difficulties' still stand in the way of streamlining the organisation of production and rearrangement of planning priorities. From the present allocation of its functions, it seems that the newly-created Ministry of Economic and Defence Co-ordination will function in a partial vacuum, being divested of the portfolios of Planning and of Industry, the two key elements in any rational organisation of supply and defence production. A Ministry of Supply with which is combined the Development Wing of the Industries Ministry, with vague overriding powers over the other Ministries dealing with vital elements of defence and supply, can at best be ineffective and can conceivably give rise to frictions. It will in no way help the smooth flow of defence equipment and supply. The emotions of the people have been worked up or rather people have responded spontaneously; it is for the Government now to give it a purposive direction and surely a beginning could be made with an appropriate re-organisation of the Cabinet for the purpose.

The Political Economy of Defence

Pragmatist

The latest phase of Chinese aggression pinpoints the urgency of combining defence with development. We are taking the liberty of reproducing below this editorial from our 1960 Annual Number which may be found relevant to the present situation.

The problem of defence has to be considered from two different but inter-related standpoints.

The first is the short-term one of building up a strong enough force which can be immediately brought into action in the case of an emergency. This is for meeting a sudden attack in force.

The second is that of building up the defence potential of the country. This becomes imperative when the country has to prepare for a long drawn war as the Chinese aggression threatens to be.

THERE is no end to speculation on the motive behind Chinese violation of our borders. One of the earliest was that the ulterior object of the Chinese was not really to have a scrap with India, but to queer the pitch for the Khrushchev-Eisenhower talks. The relaxation of the cold war, that was the speculation, would not be in China's interest, that the cold war should continue or else China would not continue to get the same military and economic aid from Russia. But why pick on India, if the intention was to throw a spanner in the move for rapproachement between Russia and America? There is a growing feeling that India herself may be the target, the object being to weaken India's political influence in border areas, to slow down her progress in democratic planning by forcing her to divert her resources to defence and to wrest from her the leadership of South East Asia. China cannot afford, we are told, to see India develop into a really strong political and economic rival. The long term objective is apprehended to be even deeper, namely, to get a strategic foothold on the southern slopes of the Himalayas so that in the event of political instability in India, China can play the same role that Stalinist Russia was able to play in Czechoslovakia a decade earlier, thanks to the presence of the Red Army on the border. Han expansionism being so well-known as a fact of history, no speculation on possible motives is really necessary—whatever may be Chinese motive or motives India cannot neglect her Himalayan frontiers.

Developments within China also confirm the need for caution. After Liu Shao Chi succeeded Mao Tse Tung as the President of China, it has been obvious, that Stalinists have gained ascendancy over Khrushchev group within the Chinese Communist Party. What will be the long-term effect of these developments is anybody's guess. One can only hope that things will not take a turn for the worse and that the next decade will not be one of prolonged conflict between China and India. But one thing is clear. The friendship that existed between China and India during the last few years has now definitely come to an end. Liu Shao Chi may not think any better of the armed forces of India than Stalin did of those of the Vatican. But what he has squandered away may in the long run cost many billions of yuans and many divisions of troops to China. Nothing can bring back the trust which existed between the two countries until Liu Shao Chi came to power and China decided to end the buffer state status of Tibet. While we may continue to pray that good counsel will prevail in both the countries and that things will not take a turn for the worse, no one in India can now take peace with China for granted. We must continue to strive for peace but keep our powder dry.

India today has no doubt the good fortune to enjoy political stability. This is mainly due to the unique position that Pandit Nehru holds in Indian Politics. But Pandit Nehru is getting on in years, and is a fast depreciating asset. On the other hand, it is no secret that our defence forces are not adequately equipped to withstand for long a full scale attack by a country as strong and as well armed as China. The Chinese army is five times as large as ours and is well-equipped with the latest arms and ammunitions from other countries in the communist bloc. If we wish to build up a defence force strong enough to withstand a large scale attack from the Chinese army, we shall not only have to expand our armed forces, but also enter into agreements with other countries for securing the latest models of arms and ammunition. The dangers of this course are obvious. On the political front, in may pave the way for a military dictatorship; on the diplomatic front, it will put an end to our policy of non-alignment; and on the economic front, it may divert so much of our resources from development to defence that the economic progress of the country will be hopelessly retarded.

Yet the course of events has been such that we cannot afford to take risks with our defence any longer. The point for consideration is how best we can strengthen our defence forces and yet maintain the rate of economic progress that we are aiming at.

The problem of defence has to be considered from two different but inter-related standpoints. The first is the short term one of building up a strong enough force which can be immediately brought into action in case of an emergency. This is particularly important for withstanding a blitzkrieg by a potential enemy. The second is that of building up the long-term defence potential of the country. This becomes important when an attempted blitzkrieg gets bogged down to a war of attrition. Both are eually important and we cannot really afford to neglect either. Even if we are able to build up a very powerful defence potential in the shape of a

strong enough industrial base, if the enemy is able to overwhelm our standing army through a blitzkrieg as the Germans did in France, it will be of no avail to us. The industrial potential that we may build up will fall as a prize to the aggressor. On the other hand, if we build up a defence force which is only able to withstand the blitzkrieg, but our industrial base continues to be weak and economic difficulties accentuate class conflict, we cannot successfully fight a long-term war unless we become heavily dependent on supplies and support from other countries. Apart from the difficulties of transport during war, this will mean a heavy drain on our foreign exchange resurces and also the degradation of our status to that of a political satellite of some foreign power.

Against possible aggression from China, the nature of the battles will depend on whether our frontier continues to be along the Himalayan watershed, or whether the Chinese army is able to gain a foot-hold on the southern foothills of the Himalayas. In the former case, it is light infantry armed with small weapons, mountain guns and missiles and supported by fighter-bombers and helicopters that will be most useful in the mountain passes and jungle tracks. In the latter case, the main battles will have to be fought on the Gangetic and Brahmaputra plains with tanks, heavy artillery and large scale air support. In both cases, it may be necessary to supplement our ground action in the immediate vicinity by deterrent bombing from the air against enemy bases in the interior through long range bombers or guided missiles. The organisation of our armed forces as also of our industries have to be examined very carefully from this point of view. Since our resources are limited, those items of defence expenditure which are not essential for these specific and limited objectives have to be drastically cut down.

So long as there is reasonable chance of keeping Chinese armies on the northern side of the border, we should concentrate on building up our mountain warfare units, equip them adequately with such arms as are most effective in mountainous terrain and also create a strong force of helicopters and fighter-bomber aircraft. In fact, this should be the first priority in our defence planning for the next year or two. We should, however, follow it up as early as possible by building up a strong enough artillery and tank corps which can successfully fight highly mobile battles in the Indo-Gangetic plain and Brahmaputra valley so that we can provide effective defence in depth, in case the Chinese army is able to break through our mountain defences or in case a future adventurist regime in Pakistan tries, in alliance with the Chinese, to create trouble on our eastern and western borders.

If for this purpose it is necessary to economise on naval forces or on other defence programmes which do not have any close bearing on the type of warfare mentioned above, we should be prepared to do so without the slightest hesitation. The important thing is to build up during the next two or four years a strong enough force which will be able to resist successfully any blitzkrieg across our Himalayan borders. Generally speaking, it will be advisable for us to concentrate on light but highly mobile types of equipment and economise on heavier and more costly types. In the type of battles that we may have to engage, light arms should be more useful. It would be also helpful for counteracting any fifth columnist activity within the country.

Our next priority should, no doubt, be to provide adequate industrial support to our defence forces by creating a long-term defence potential. The manufacture of arms and ammunition, machine building, and automobile and aircraft production are the primary requisites for strengthening our defence potential. But here the needs of defence do not conflict with that of the economic development. With proper planning from the beginning, civilian industries can be developed in such a way that they may be converted into defence industries at a very short notice. In any case, machine building, automobile and aircraft industriese will be needed both for the economic develoment of the country and for defence. By planning these industries properly, it should not be difficult to correlate the needs of defence with those of development.

It will not do, however, to go all out to develop a defence potential in the long run and neglect to equip our forces adequately for possible contingencies in the immediate future. Defence potential is important, but it is not identical with the effective defence strength required, here and now, to withstand a blitzkrieg. The latter must, therefore, have immediate priority, although our long term objective must remain the adeuate development of our defence potential. While it is right and proper—and unfortunately absolutely imperative—that we do all these things, it would be silly to be thrown off our feet and be panicked into taking short-term measures which will only weaken our economy in the long run. Our failure on the economic front will be just as disastrous as our failure in defence, for by aggravating political discontent within the country, it will only tempt potential aggressors to cross the borders.

True, nothing would have been better for the long term interests of all concerned than the preservation of perpetual peace with all our neighbours. We could then safely convert all our swords into ploughshares. But unfortunately it is not given to us to choose. After what China has done in Tibet and on our borders, we have to divert a substantial part of our scarce resources to defence. However, the resulting economic loss can be minimised, if we can take advantage of this rude shock to the nation to mobilise our manpower to the full. The time has come for introducing compulsory military service in all our schools and colleges and for organising labour corps in different areas in such a way that besides military training they can also work on development projects. Along with the mobilisation of manpower, efforts should be intensified to improve the productivity in all our industries and to organise them on modern scientific lines. It will also be necessary to rationalise and re-organise our industries, keeping in view the twin needs of defence and economic development.

Weekly Notes

More Funds for Defence

THE economic implications of the defence programme have still to be worked out. That will understandably take some time. The supplementary demand of Rs. 95 crores for defence presented by the Finance Minister to the Lok Sabha covers only the remainder of the financial year 1962-63. The additional annual demand on this account may well be in the neighbourhood of Rs. 150 crores, which adds up to roughly Rs 550 crores for the remaining period of the Third Plan or about 4.5 per cent of total Third Plan outlay. The foreign exchange component of this additional expenditure is highly uncertain. A large part of it may be covered by gifts or lend-lease and similar other forms of military aid but such aid cannot possibly cover all the wide variety of equipment and stores required for the defence effort. We may get aircraft and arms and ammunition without incurring any payment liability, at least in the near future, but that is not all. We need considerable quantities of raw materials, semi-processed goods and spare parts for defence production. Larger output of uniforms and allied kit alone, for instance, requires higher imports of cotton, wool, and dyestuffs. Besides, we need more non-ferrous metals, special steels and explosives for stepping up the production of armaments. These will require, if not additional aid, diversion and re-allocation of aid funds from the USA, UK and West Germany. Efforts to increase the non-projert component of aid from countries other than the U K have not been very successful in the past. They might, it is possible, meet with better response now, but the danger in this, of course, is that aid for certain crucial industrial projects may be slashed, unless we are able to convince the lenders that the projects concerned are directly or indirectly essential for the defence effort!

A clearer picture of adaptation of domestic production can emerge only when the physical quantities of materials required are known. Thanks to the traditional secrecy which envelops the defence budget, it is impossible for an outsider to assess even the broad magnitudes of expenditure under various specific heads, leave alone the physical quantities involved. The terrain on which the military operations have to be conducted is so different from that during the Second World War that even past experience is not a reliable guide. We need, for instance, far more woollens, road and air transport equipment, timber, parachutes, automatic weapons, and more small arms and ammunition to face the Chinese methods of attack and relatively less of tanks and armoured cars. The automobile industry will have to produce more petrol trucks after being geared for so many years mainly to diesel trucks. The steel plants designed mainly for structurals will have to shift to armament steel.

It is only when the physical implications of the defence programme are known that Government can get down to re-allocation of Plan expenditure and to devising a rational tax policy. The present emergency offers a useful opportunity for enforcing strict priorities in the expansion of industrial capacity and production. There are indications that the opportunity is being utilised, judging from reports that the Government is working out new procedures for licensing and a fresh priority list of industries. The requirements are so urgent and the room for manoeuvring within available resources so small that no risks can be taken with the issue of licences. For instance, no longer can we afford the luxury of issuing licenses to applicants who do not have either the means or the competence to use the licenses.

Trading in Gold

WITH a view to discouraging gold smuggling—which, it is estimated, goes on at the rate of Rs. 30-40 crores per year at present—by reducing the internal price of gold, the Government has banned all forward transactions in gold in the bullion markets with effect from November 13. This step, together with the issue of gold bonds, probably forms part of a series of measures, which had been already thought out, judging from the Finance Minister's earlier statements, even before the present emergency began.

The question, however, is whether a ban on forward transactions is really enough to reduce the internal price of gold or even to put an end to future transactions. As long as there is a market for gold and as long as people find it profitable, for one reason or another, to buy gold, it is likely that forward transactions—outside the market, legally speaking—will continue. And the black-market forward price of gold may even rise because of the additional risk involved.

Black-market transactions at a higher price would be facilitated as long as there is a regular spot market in gold. Logically the next step, then, should be to ban the spot market also, at the same time compelling the traders with floating stocks to invest all their gold in gold bonds. It may become necessary to make it illegal for anybody to buy or sell gold. And this is a psychologically opportune moment for doing this, as in an emergency like this, people can be more easily persuaded not to buy gold even for ceremonial purposes. People's attitudes do change under the stress of circumstances and in India, this is probably the right time for weaning people away from investment in gold for whatever purpose.

It would, of course, be necessary to devise some machinery for supplying gold to industrial users. For this purpose, industrial users should be licensed and their quota for gold should be fixed in the light of plan priorities and the quantity of gold that the Government proposes to sell annually.

Even if these steps are taken, the black-market in gold will probably continue, but the volume and value of black-market transactions in gold are not likely to be very significant. As a consequence,

gold smuggling may not take place on the present large scale. If this results in a net saving of foreign exchange of Rs. 20 crores per year, it would be an important gain.

How far the ban on forward transactions in gold would help the gold bonds scheme is not immediately clear. People may not like to give up the gold that they already have, particularly if they are not in a position to replenish their stocks in future. On the other hand, if by this and possibly other curbs on the marketability of gold, the Government succeeds in changing people's attitude to holding gold and in progressively reducing the present large difference between the internal and the international prices of gold, the effect on the response to the gold bonds cannot but be salutary.

Power Programme

IF a powerful defence effort by the country is not to be hampered by bottlenecks, already present in the economy, special attention will have to be paid to removing them in the coming months. Not the least important of these bottlenecks is power supply. The proposals for augumenting power supply in order to meet defence requirements put forward by the Union Minister for Irrigation and Power, Hafiz Mohammed Ibrahim, should, therefore, attract special attention. The Minister has suggested that small generating units, which were not being used hitherto because they were not economical, should be pressed into service. He has also urged that steps should be taken to expedite work on plants under construction so that they might be commissioned at an early date. Finally, he has pointed out the need for careful operation and maintenance of plants and for meeting their requirements of essential raw materials and spare parts so that power generation can be maintained at peak level without breakdowns.

These suggestions can in fact be applied to a much wider field. Expediting work on plants under construction should be made the general rule for all projects, particularly those of an essential nature. Too little attention has hitherto been paid to the importance of carrying out construction work at a rapid pace, though it should not be difficult to show that a quickening of the pace of construction could make a significant contribution to increasing the rate of growth of the economy even in normal times. Everything should be done, therefore, to accelerate construction work on all projects in hand as a part of the effort to ensure that a diversion of resources to the defence programme does not slow down the rate of growth of the economy.

The same is true of the suggestion that greater care should be devoted to the operation and maintenance of plant and to the provision of essential raw materials and spare parts. Materials management is a science which has not hitherto been given the place it deserves in the management of the country's economy. It is now urgently necessary for all those concerned with industrial and other enterprises in the country to realise the need for following the Irrigation and Power Minister's advice, though it was formally meant only for the power industry.

The Minister's suggestion that small generating units, lying idle on grounds of economy, should be brought into use will be a little more difficult to implement. From the viewpoint of the economy as a whole, the fact that the operation of these units would not be economic, is no doubt not strictly relevant. If power is urgently needed for prosecuting the defence effort, it must be produced no matter what the cost. From the viewpoint of the individual power generating enterprise, however, this is not true. Some arrangement would therefore, have to be worked out under which the enterprise would be compensated for the contribution it would make to the national defence by bringing such units into production. This would be necessary particularly in those cases in which the enterprise as a whole is not in a position to bear this special burden. An appeal from the Minister on this question is not, therefore, enough. Concrete measures to make it possible to bring these small units into production will be necessary. The Ministry for Irrigation and Power should devote its attention to devising such measures for implementing the Minister's proposals.

In the meantime, vigorous efforts should be made to proceed with the implementation of various power projects now in hand. The U S loans totalling Rs 11.6 crores which have been recently made available for power development are timely. Every effort should be made to establish and implement a tight schedule for the particular projects that are to be financed by these loans. One of the loans is for purchasing three 60,000 kW turbine generators and other equipment for the Delhi Power Station. The other is for installing one 60 mW turbo-generator for the Ramagundam power station. The Ramagundam power station is in the heart of the coal mining area in the South and is inter-connected with the northern Andhra Pradesh grid, while the Delhi power station is inter-connected with the Punjab grid. Accelerating the implementation of these particular projects will, therefore, contribute significantly to the promotion of the defence effort.

Concept of Bonus

A STANDARD dictionary defines bonus as something given in addition to what is ordinarily received by or is strictly due to the recipient, which would make it a gratuitous payment, dependent on the goodwill of the donor. Consequently, it cannot be demanded as a matter of right or enforced in a court of law. And it was in this sense that bonus was regarded in this country until recently. Since Independence, however, industrial labour has come to consider profit bonus (as different from a production, contract or festival bonus) not as an *ex-gratia* payment, but as something that is its due. Various judicial decisions and tribunal awards have also clarified the position and upheld the right of labour to a share in the profits made in a particular period.

Besides clarifying the concept of bonus, the various awards and judgments have also dealt with the basis of determining bonus, the method of computing the surplus, the eligibility of different types of labour and the question of distribution. Despite all this, however, industrial strife centering around the bonus issue has not ceased. Hence it is that the Government of India has set up the Bonus Commission which is apparently making

a fresh start and considering the whole question all over again.

Both the All-India Manufacturers' Organisation and the Council of Indian Employers, in their replies to the Commission's questionnaires, have denounced the profit bonus for the reason that, despite a long trial, it has not brought about industrial peace. They feel that it ought to be replaced by a system of bonus related to productivity and efficiency. The basis of such a scheme, however, is not described. The Manufacturers' Organisation, for instance, merely suggests that the Commission should work out a "scientific" payments-by-results formula, but admits that as this would take time, the present practice would have to continue as an interim measure. The All-India Trade Union Congress, on the other hand, in its reply to the questionnaire, has come forth with a forceful justification for Labour's share in profits.

In the meanwhile, for one industry at least, a new pronouncement has been made. The Tribunal set up to adjudicate on the disputes between banks and their workmen has also considered the dispute over bonus and given a separate award on it. The award has stated clearly that profit bonus is neither an *ex-gratia* payment nor a deferred wage; that workmen have a right to it so long as profits are made; and that bonus should be determined not industry-wise or industry-cum-region-wise but unit-wise. It has also specified the method of computing the surplus and indicated the prior charges permissible.

A certain amount of controversy is inevitable over a question like bonus, which involves rival claims to a common product. To say that because profit bonus has not put an end to industrial strife, it is not admissible, is to avoid the issue. No alternate formula, based though it may be on a more scientific appraisal of productivity, is likely to prove more acceptable. Several considerations have to be taken into account; out of profits have to come not only bonus to labour and dividends to shareholders but also accretion to reserves for the strengthening and expansion of the unit and the industry through the "plough-back" process. The proper balance of these rival claims constitutes the core of the bonus question.

In and Around Lok Sabha

Yesterday's Defence Minister

IF the Prime Minister had been younger and stronger; if the Chinese had not attacked; if our armies had not suffered large casualties; if, in fact, all these factors had not combined, Krishna Menon would have continued as the Defence Minister. All his alleged "failures" and all his over-publicised arrogance could not have got him out of the Cabinet. Perhaps the ex-Defence Minister did little to endear himself to anyone but the chosen few who were his friends; to these he gave unstinted loyalty and affection. Today he is a lonely, unwanted man. His quick brain and his remarkable capacity for work could have contributed much to the development of our country, if only he had also been gifted with an aptitude for team-work, which is so essential for successful administration. Unfortunately, he is too much of an individualist to work in a team.

On the afternoon of November 7, the day before the opening of Parliament, members of the Congress Parliamentary Party met in the historic Central Hall, the place where the Indian Constitution was framed. The entire hall was packed to capacity. Such attendance at Party meetings is unheard of, but this was the day for "Operation Menon". All kinds of wild charges were pressed. He was a "fellow traveller". He was responsible for the military debacle in the NEFA.

Done Out of Publicity

The end came painlessly and unexpectedly. The Prime Minister, after a long speech lasting an hour and a half, announced that Krishna Menon had sent in his resignation a week earlier, on October 30, and that he had decided to accept it. Some Congress Members who had come spoiling for a fight, were disappointed at being done out of their share of publicity for dislodging this controversial but brilliant figure who had moved in their midst with an air of aloofness and an unconcealed attitude of superiority.

The defence policy of a country is inevitably tied up with the general overall policy. Therefore, to allege that our unpreparedness to meet the Chinese aggression was the fault solely of the Defence Minister is both unjust and untrue. Our failure to stem the Chinese advance is the collective responsibility of several men in positions of authority in the Government and the culmination of our previous attitudes and policies. There is, particularly, the Defence Committee of the Cabinet which reviews all important decisions relating to the defence of the country.

Lackadaisical M Ps

The opening day of Parliament had long queues of visitors and crowds of people outside the red stone archway that leads to Parliament House. People expected a stormy debate on the aggression by China. But the Krisnna Menon drama being over, members had settled back into their normal lackadaisical tempo. The debate was opened by the Prime Minister with a long statement, a considerable part of which was read out and so lacked the usual spontaneity and naturalness of his speeches. It should have been a stirring speech — a speech which called the nation to action. It was instead a bare statement of facts and policies and had little to inspire the members. The debate has gone on for four days during which the House has sat each day till dinner-time to allow the maximum number of members to speak. All opposition parties have given their support to the Government on the resolution. The only dissenters, who pressed their amendments to vote, were Shri Ram Sewak Yadav of the Socialist Party and Shri N G Ranga, the Swatantra leader.

The Defence Council which has become so large that it will be impossible for it to function effectively, has assumed the shape and characteristics of most central committees. Nobody is sure who its architect is; nobody is clear what its functions are. Yet everybody who is anybody wants to be on it. Similarly, other high-powered committees are being formed. They are without office space; without proper staff; without any immediate plan of action.

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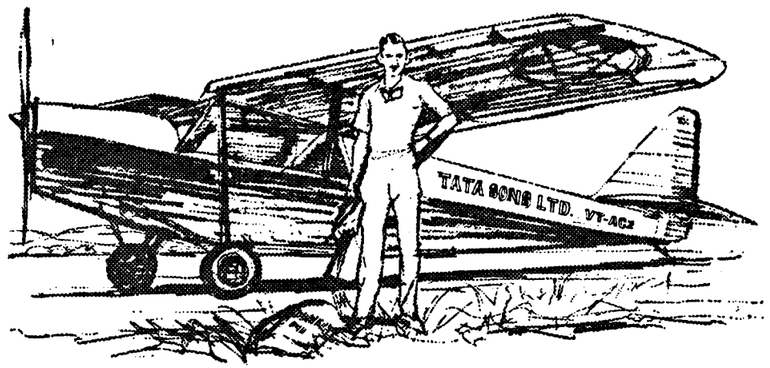
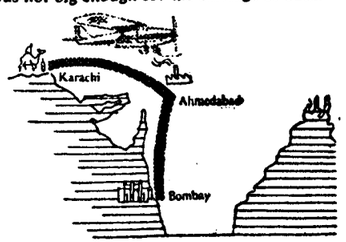


30 YEARS AGO...

On the 15th day of October 1932, 30 years ago, a Puss Moth took off from Karachi on its flight to Bombay via Ahmedabad. The Pilot of that plane was a man by the name of J.R.D. Tata.

He landed on a grass strip at Juhu and Indian Air Transport was born. This was the first scheduled air service in our country.

He carried no passengers, because the mails had priority, and because his little aeroplane was not big enough for the carriage of both.



Life was simple then. There were no runways, no radio facilities in the aircraft or on the ground. There were no pretty hostesses, no aerodrome officers, no airport buildings.

The Puss Moth that made history 30 years ago, lies buried with the old stalwarts of the air, and the good earth lies warm on its noble fabric and wood.

The fabric and wood are no more. Beautiful metal has taken their place. And seventy thousand pounds of thrust have replaced the gentle power of a hundred and thirty horses. Space has been annihilated, the heavens shattered by the roar of the deep throated jets that have taken possession of the earth and the skies. The Puss Moth is now a giant Boeing.

But the man with the flying goggles is still here. And he who flew that aeroplane 30 years ago, has flown his company ever since, in the cockpit, at the controls. For he is the Chairman of his Corporation. And the Aviation Department of Tata Sons is now Air-India, with 77 offices throughout the world, with 5,800 faithful men and women of 40 nationalities, who help to fly the flag of India from Moscow to Sydney, from Tokyo to New York.

And as the 30 candles flicker on our cake, we express our gratitude to those who have dedicated their lives to the cause of Indian Aviation.

And to you dear passenger, to you our agent friends, and to you our well-wishers, we say, thank you for everything—for our 30 years are your 30 years.

From the London End

Maudling's "Little Budget"

WITH the Common Market schedule now completely upset and local elections ahead, the Conservatives felt that some gesture would have to be made to revive both the flagging economy and the lack of support for the Government among the general run of people emphasized by growing unemployment which is now higher than it has been for some considerable time. Hence, Mr Maudling's bunch of offerings on Guy Fawks day which is just a little better than a damp squib. Indeed, though not described as a "little budget" in view of Selwyn Lloyd's disastrous July measures, quite a significant amount of purchasing power has now been injected into the UK economy. Although to the more sceptical this has the flavour of the old "stop-go" measures of the past, the new Chancellor of the Exchequer has gone out of his way to emphasize the fact that he is proceeding carefully and still has many cards up his sleeve.

How far will the British economy be actually stimulated by the measures introduced by Mr Maudling, first after his speech at the Mansion House on October 4 and later in his statement on November 5?

The latest measures announced by Mr Maudling involve a cut in purchase tax on cars — from 45 to 25 per cent — and important increases in investment and depreciation allowances to industry. The question that naturally arises is whether the Chancellor has gone far enough. Apart from the new incentives for investment, the Chancellor has relied entirely on his cut in purchase tax on cars to give an immediate boost to the economy. This industry has been chosen because it has "a marked effect on the whole level of business activity" through its wide net work of supply industries. There is, of course, at present a substantial margin of unused capacity in the motor industry, and, ironically enough, reversing the arguments that have been so popular in the past, the Chancellor has now come round to the view that the only way to stimulate motor car exports is to build up a thriving domestic demand.

Not Enough

Of course, the major question that is bound to be asked is whether, in view both of the world situation (there have been repeated warnings about the possibility of deflationary trends) and the situation in Britain, these measures will provide sufficient stimulus to demand. So far, the purchase tax on no other important consumer item has been cut, income tax has not been cut, and nothing has been done to increase pensions or unemployment benefits from their existing low levels. On the face of it, none of the measures so far announced by Mr Maudling offer any real hope that unemployment, already over the half million mark and rising, will be checked and reduced. Again, since the Chancellor has relied entirely on one industry, it is always possible that as a result of the big boost which has now been given to home sales, cars may well be diverted from the already slack export market. There could also well be a sharp rise in imports as demand re-expands since stocks of imported raw materials are currently low and this again could lead to the familiar balance of payments problem.

Again, it is a little naive, in the present economic situation, to expect that the increases in investment allowances will do anything to dispel the general gloom in business circles. Although it is perfectly possible that the Chancellor will be in a position to take further remedial measures after the important Paris meeting of the Organisation for European Economic Co-operation and Development at the end of this month when the problem of a world recession and the need for each country to stimulate internal demand will be debated. But even this cannot quite cover the fact that the measures introduced by Mr Maudling are quite insufficient to meet the problems that the UK is at present facing.

The fact that there has been a crying need for some measure of stimulation to the British economy has been brought up both in the latest review of the National Institute of Economic and Social Research and the Treasury *Bulletin for Industry*. The National Economic Review has this to say:

> "The Government has taken various expansionary measures in the course of the year, but their effect has not been and is not likely to be, very great. In the absence of further measures we should expect national output to rise by about 3% between the second quarter of 1962 and the second quarter of 1963. An increase in output of this order is unlikely to do much to reduce unemployment below its present level".

It is true, that this report was published before the latest concessions were announced by Mr Maudling, and the National Institute says that these new measures are likely to add a further quarter or half per cent to their estimate, but it still leaves the figure below the level which has been set as a target by the National Economic Development Council.

Unemployment Growing

Throughout 1962, there has been only a moderate increase in output. Industrial production showed some rise during the first few months but was subsequently static from June to August. One of the most serious problems to-day is unemployment which has risen steadily while there has been a decline in unfilled vacancies. There is, therefore, judging by employment and productivity figures, a good deal of slack in the economy with many potential workers not in jobs and those with work probably under-employed.

Unemployment in October rose at twice the rate normal for the time of year. The regional pattern of unemployment also continues to be disturbing. Even Mr Maudling was forced to admit that "the Government or anyone else must feel concerned at the present levels of unemployment in the UK". Yet it appears that the measures chosen by Mr Maudling will make little serious impact on the problem.

Many of the areas of high unemployment suffer from deep-seated structural weaknesses. The industries in these areas are not the growth industries of the 20th century and due to the lack of technical skill, new industries are not being developed in these areas. The hope that the motor industry, which has major investments in several areas of high unemployment, will help solve the problem, must not be pitched very high.

While little has been heard lately of "Neddy", there has been a certain amount of publicity for the Government-appointed National Incomes Commission. The implications of forging a national incomes policy has been examined as a special study by the National Institute. Its report suggests that there is nothing inherent in the past relationship between wage rates and earnings which dooms an incomes policy to failure.

When the Government published the White Paper last week setting out the terms of reference for the National Incomes Commission, it pointed out that the Commission would have power not only to investigate wage claims, but to call for the brake to be applied to any undue growth in profits arising from restraint in earned income.

Although the Government is doing all it can to push this new body, the response from the Trade Unions is still far from favourable. The Government case was put by Mr Enoch Powell recently when he said that the role of the National Incomes Commission was "crucial". "Instead of different sectors and claims being considered in isolation without regard to the national interest or the economy as a whole, they can now be seen and — what matters supremely — presented to public judgment in their widest bearing". But despite these brave words, there is still a long way to go.

Capital View

Facts are Stubborn

Romesh Thapar

THE inexplicable 'lull' on the Himalayan frontier is being variously interpreted. Know-alls in the city will tell you that the 'lulls' were also characteristic of the Korean War, while others who are more ideology-orientated explain that Soviet pressures are having some effect on the Chinese. However, those who master-minded the downfall of V K Krishna Menon refuse to waste their time on what they consider idle speculation. They are convinced that the Chinese second offensive will be mounted any day and will shatter the hopes still held in official quarters that the Soviet Union will discipline the Peking adventurers. Then, the stage will be set for the pillorying of the USSR, the Communist Party, the Congress Left and, perhaps, Nehru himself. A step-by-step 'takeover' is planned. And why not? The first moves have been strikingly successful even though they were initially sparked by a handful of editors and MPs speaking in the name of the Indian people!

The reported 'arrival' of Bombay's Chief Minister, Chavan, in the Union Cabinet — a decision dictated by the need to bring younger, dynamic men to the fore and reflecting the new role of central authority in the years to come — is welcomed not because it strengthens Prime Minister Nehru but because it clips his omnipotent power. The argument runs somewhat like this: Support the inclusion of men like Chavan in the Union Cabinet so that the demand or the retirement of Nehru does not create fear in the minds of the people. Nehru's public speeches, in which he is reiterating his government's resolve to strengthen and consolidate the policies of non-alignment and socialism, have persuaded certain sections of the Swatantra and Praja-Socialist groups to support the subtle Jan Sangh agitation for his removal.

In a sense, Nehru is himself to blame. Although he is urging the Congress organisation to fight back the ideological offensive launched against its policies, he fails to give a clear lead as to how this is to be done. His own interventions are rather rambling and general in character; he talks to Parliament in terms similar to those he uses in the public park and the result is that the opinion-formers are none the wiser about the actual implications of current developments. The uncomfortable feeling persists that in this kind of vacuum any effectively organised pressurising can cause heads to fall. An unhealthy state, to say the least — and the first casualty is rational thinking.

Let me try and elaborate this point within the limits imposed by the emergency regulations. There has been a sustained stressing of equipment shortage as the root cause of our reverses along the Himalayan frontier. But this is not so. We lack in numbers, too. Our army is nowhere near the strength of the Chinese hordes facing us along some 2,500 miles. The border with Pakistan has also to be heavily defended, for an enemy adventure in this sector could have disastrous internal repercussions. Actually, the most conservative estimate of the minimum force required to hold both China and Pakistan suggests that we have to maintain a permanent army of a million men at a cost of some Rs 1,000 crores annually. This need will remain whether the Chinese withdraw or are repelled, for the threat will now always be present in the mind of a rudely awakened India. And the thought should be sobering for all our politicians — on the Right, Left and Centre — who in the past, at every debate on the Defence Budget, worked actively to prevent an expansion of the armed forces.

These estimates do not take into account the cost of the expansion of the air force. Not only has a protective umbrella for our cities to be built, but we have also to design a striking force to give support to our troops. Estimates of Chinese air power vary, but it is almost certain that they have a front line force of some 2,500 planes with an equal number in

reserve. The impact of such calculations on the future of the navy cannot as yet be estimated; much will depend on the alignment of world forces in the coming months. Facts are stubborn things, and the sooner we stop chattering like school children and begin to face them the better. Judging from the climate in the Capital, we do not seem to be anywhere near this point.

Take, for example, the extraordinary debate that has been joined in the daily press and in Parliament about the relative competence of our serving generals and those who are on the retired list. The mere suggestion that certain generals, now retired, indulged in a public demonstration of their animosity to the former Defence Minister or have political loyalties of an anti-Nehru character is made the argument for their superior generalship — and, this, at a time when it is not generalship that is going to save us, but equipment and reserves of trained manpower. Journalists, commentators, MPs and politicians, now moving to get a grip on the levers of power, aided and abetted by a motley crew of foreign adventurers in the Capital, are attempting to give a patriotic flavour to the criticism which casts aspersions on the ability of the present General Staff. Some have even gone to the extent of making allegations of cowardice. Presumably, we are expected to believe that this is part of the war effort!

Extraordinary, too, is the zeal with which certain retired generals are girding their aged loins to ride the wave — addressing public meetings, sending appeals to all and sundry, contacting politicians, projecting themselves into the picture. The question naturally forms: why shouldn't retired generals behave like politicians trying to stage a come-back? Well, if we want to run army affairs like an election campaign, then there is no argument against such behaviour. But any one who has any knowledge of the sensitivity of an army to these manipulations can only come to one conclusion: that the unity of the armed forces is gravely endangered. The time has come for the Prime Minister to refute this inspired propaganda or to accept it as valid. There can be no "adjustments" which compromise the central control of an army. And, what's more, there can be no dilly-dallying in ruthlessly stamping out this kind of politicking.

After the Donation What?

One cannot help contrasting the sober, dedicated mood of the ordinary people of our country with the hysterical, panicky posturings of a section of the political leadership. Our forward posts were overwhelmed by a sudden and massive assault — an action which startled the most intelligent observers of Chinese policy throughout the world. The Indian army staged a fighting withdrawal, reformed rapidly, and is in position to meet the next assault. Outnumbered, outgunned, it may yet have to give up more territory. What is so shocking about this? It is part of the story of war wherever it has been fought. If every withdrawal is going to release a demand for the heads of our leaders and generals, then we had better start building sizeable reserves!

The uninformed, and often illiterate, debate on the war crisis finds a perfect reflection in the way in which a galvanised, roused people anxious to find some way of defending the country are being neglected. While politicians of many hues manoeuvre for positions and power, the people are being asked to donate their blood, their work and their gold. This is all very well, but once the act of donating is over, what then? There is no one to give the lead, to sketch the tasks before the nation in a clear-cut, comprehensive manner. This paralysis in thinking is best seen at official levels. While we scour the world for supplies and equipment, we fail to act on supplies already available with private firms in the country. The rigmarole of rules and regulations continues to haunt the Secretariat, as when alcohol supplies had to be rushed to the front and there was endless discussion on whether excise duty was to be charged!

There seems to be a deep reluctance to upset peacetime patterns. The National Defence Council, which was expected to become the weapon of the Emergency, is so cumbersome that it is unlikely to make an impact in its present form. As for the Citizens Committee, the less said the better — even one of our retired generals has refused to join it! Now, clearly, the sad fact has to be recognised that those who control productive capacity will have to get together, sector-wise, and draw up schemes for government to act upon. The muddled bureaucracy cannot be stirred any other way.

The impatience over the slow pace of governmental moves to face the crisis is only natural. There can be no "ideological clarifications" about non-alignment and socialism until this essential reorganisation of government has been carried and the "needs-resources" position is fully assessed. That we are yet to begin a thorough assessment can be seen from the content of the debate on the Emergency in Parliament; members seem to be more concerned with expressing their support to the war effort and seeking out political scapegoats than with the job of working out programmes and tasks which will mobilise a nation. At the other end, the bureaucracy is getting into that quixotic mood which encourages the axing of all activities which have no direct bearing on the war effort, activities like education and research. Indeed, the strong feeling persists that a large section of the leadership which has dominated the political stage for the past fifteen years is incapable of facing the new challenges and will have to be replaced speedily.

Meanwhile, despite reports to the contrary, the non-aligned world is rallying to India's support, even though the silence of President Soekarno of Indonesia, for whom India has done so much in the past, is such that it can almost be heard. The initiatives of President Nasser are having an impact. The Soviet Union, too, is bringing tremendous pressure to bear on the Chinese militarists. The solid support of the Commonwealth and the U S A is at the same time helping to correct the balance of power on our far-flung war front. Once we are able firmly to organise our own efforts, to give ourselves the perspectives to defend and enrich the policies which preserve our freedom even as we mobilise to defend it, then the present confusion will dissolve.

Letter from Japan

A Socialist Vision in Japan

Shigeto Tsuru

A CONTROVERSY flared up anew on the political front in Japan recently around a series of statements made by Mr Saburo Eda, secretary of the Japan Socialist Party, on what he termed "the new vision of socialism". He began his campaign immediately after the July election of the House of Councillors (the Upper House) and continued to speak and write in public for his version of "the new vision". No doubt, debate is hotly pursued within the Party itself; but the journalistic world is also taking it up and it is now clear that the Party is dangerously divided on the issue.

Once before in 1959 the right wing of the Party, led by Mr Nishio, split from the Party and formed the Democratic Socialist Party of Japan with the party platform closely akin to those of west European socialist parties. At least in terms of the election records, Nishio's venture has not been a success; and there has even been talk of substantial re-absorption back into the Japan Socialist Party. Eda's campaign for "the new vision", which is being criticized for its revisionist contents, may well have been motivated by the desire to exploit this situation for the purpose of expanding the Party's scope of influence and appeal to a wider group of non-committed individuals.

Radical Following Static

The radical wing of Japan's political spectrum has constituted a solid one-third during the past decade; but it has not been able to make a break-through beyond this one-third wall. As can be seen from the statistics in Table 1, the conservative wing has maintained the one-half line and, if anything, has even increased its relative strength in the latest election, while the radicals have been stagnant around the one-third level. A slightly more favourable picture would emerge if we took the local constituency figures or the Lower House election figures. But in any case the trend away from the present political map is not yet discernible. True, the radicals can comfort themselves by pointing to the fact that in most of the predominantly urban prefectures they fared better, in the latest Upper House election, than conservatives by such margins as 136 per cent (Kanagawa), 107 per cent (Nagano), 61 per cent (Kyoto), 29 per cent (Osaka), 15 per cent (Fukuoka) and 11 per cent (Tokyo). If the representation ratio is revised for the coming Lower House election on the basis of the latest census population figures, there is no doubt that urban areas, which are now under-represented, will succeed in sending a larger number of radicals to the Lower House. But even then, it is highly questionable if they will be able to make a close contest for the majority against the conservatives. In other words, the reign of conservatives in Japan is likely to continue yet for another decade or more.

It is against this background that the Japan Socialist Party is undergoing a soul-searching reappraisal of their basic orientation. Until quite recently, the Party was led, both ideologically and practically, by what might be called "the first generation" of Japanese socialists, those who are now in their sixties or older and were active leaders of the severely suppressed labour or peasant movements in the prewar years. Even now, the chairman of the Party, Mr Kawakami, is 73 years old. But the sign of transition is unmistakable. For one thing, the erstwhile Marxist orthodoxy of the Party leadership is slowly yielding its place to a more flexible approach of "structural reforms"; and a new generation of young socialists who have no experience of prewar suppression is fast rising to maturity. Eda's proposal to create a new vision of socialism for Japan is undoubtedly an attempt to capture the mood of the coming generation.

But the way Eda presented "a new vision" has caused much misunderstanding, for instead of first putting his ideas through the mill of party organizations he chose to take a number of public occasions to do so almost in the manner of sending up trial baloons. Essentially, "a new vision" consisted of (1) a high standard of living generally attained in the United States, (2) a thorough-going system of social security as in existence in the Soviet Union, (3) a parliamentary democracy best exemplified by Great Britain, and (4) constitutional stipulation for the renunciation of war* which Japan already has. Eda argued that since socialism is a dynamic ideology aiming at the flowering of man's potentiality in the future the first thing we must do is to make a catalogue of things which mankind has already proved its capacity to accomplish. The four things he enumerated constitute such a catalogue; and it must be said that Japan is still a long way from attaining those ideals, including the last which as yet exists only in letter and not in practice. These are attainable ideals, he went on to say, and are worthy of being put up as "a new vision" for Japanese socialists. Once we set our targets clear, we inevitably become aware, in the course of struggle for attaining them, of the obstacles which stand in the way of progress; and we can all the more effectively fight against them either piecemeal or jointly. The Party now has a membership only of 50,000; but twelve million people voted for the Party in the latest Upper House election. The Party must strive to make the vision of socialism stick with these twelve million and expand this dimension of support. "A new vision" serves such a purpose.

Table 1: Percentage of Votes in Past Elections

	1956	1959	1962
Liberal Democratic Party	39.7	41.2	46.4
Doshi-kai	10.1	8.1	4.7
(Sub-total)	(49.8)	(49.3)	(51.1)
Japan Socialist Party	30.5	26.5	24.2
Democratic Socialist Party			5.3
Communist Party	2.1	1.9	3.1
(Sub-total)	(32.6)	(28.4)	(32.6)
Others	17.6	22.3	16.3

Note: Tabulation is for the national constituency part of the House of Councillor elections only.

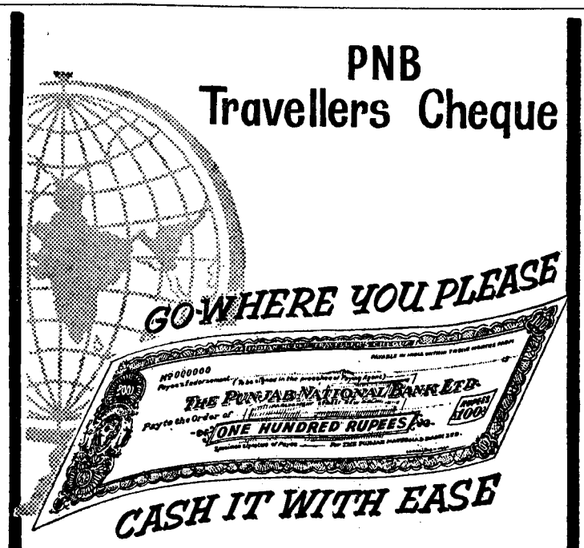
* Article IX of the Constitution of Japan, which was promulgated in May 1947, stipulates:

"Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

"In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized."

Eda is not a rank and file member, but, as secretary, is second in command in the Party after Kawakami. Thus not only the contents but also the way in which he made his ideas public came under strong fire from various quarters within and around the party. Above all, the debate has revolved around the question of the class character of socialist struggles. It was argued by Eda's opponents that the four pillars in his "new vision" smack very much like the platform of the Democratic Socialist Party which in spite of its intention of becoming a party for people in all the walks of life has been dwindling in its influence. The reason for this failure, it was argued, can be traced precisely to its woolly attitude on the importance of class struggle — the same woolliness which now seems to be seizing the mind of Mr Eda. In particular, to make "a high standard of living generally attained in the United States" one of the four pillars of "the new vision" is to confuse the mind of the Japanese working class because, granted that the United States people on average enjoy the highest living standard now in the world, it is also true that the class distribution of income is highly skewed there and, even aside from this point, Eda's emphasis would mislead one to feel that capitalism is perfectly capable of producing a high standard of living. Furthermore, it is also arguable if the U S type of "high standard of living" is what we really want as socialists or not; the very strength of socialism's appeal should lie in its capacity to make use of the productive powers of men in such a way to free them from being alienated captives of the material conditions of production into becoming free masters of their own fate. A citizen in an affluent capitalist society whose income may be 10,000 dollars a year but who spends 1,000 dollars, for example, as fee to psychiatrists to relieve himself of the man-made tension of the society is no object of envy for a citizen in a less affluent socialist society whose money income may be far less but who is motivated and given opportunity to value things which cannot be expressed in money terms.

These and other issues are now brought into the open. Behind the debate lies that perennial question of the class character of capitalism and of how far capitalism is capable of reforming itself to solve such problems as unemployment, economic crises and imperialistic propensities. The Japan Socialist Party, with its somewhat rigid Marxist orientation in the past, has not been too successful in explaining the extent of evolution which many of the capitalist countries underwent in the postwar period. In this sense, one could say that Marxism as a social science is itself now on trial. The debate touched off by Eda's "vision campaign" will undoubtedly evoke heated discussions within the Socialist Party and outside. Although personalities are involved in the debate inasmuch as Eda appears to be ambitious to become the next Chairman after Kawakami and he has a formidable opposition within the Party, the debate itself is a healthy thing which may lead to imaginative re-thinking on the application of Marxist methodology to the present-day problems of Japan.



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Book Review

Indian Economic Development

The Development of the Indian Economy by W B Reddaway, Allen and Unwin Ltd, London. 1962. Pp 216, Price 30s.

REDDAWAY was in India under the auspices of the M I T Centre for International Studies while the Third Plan was being formulated. He was in constant touch with the Planning Commission Secretariat as well as the Indian Statistical Institute and tried to be helpful to them in the planning process. As a part of his work, he constructed, in collaboration with the Delhi branch of the Indian Statistical Institute, a fairly elaborate statistical picture of the way in which India might develop during the Third Plan period. His idea was to write a paper, giving an account of this research and its results. However, once he started on the job, the proposed paper actually turned out to be the best book so far published on Indian planning.

The first few chapters of this book deal with the various aspects of the structure of the Indian economy, an understanding of which is crucial for appreciating the basic strategy of development. The chapter on the broad strategy of development, which follows, shows, with admirable clarity and lucidity, how the balance of payments constraint governs the main elements of the strategy of development; in fact, this, the major premise of Indian planning, has not been so far presented so explicitly as Reddaway has done. Even Mahalanobis, in his Second Plan Frame, failed to provide the logical basis for the strategy of Indian planning, which he was the first to visualise. However, Reddaway's exposition misses one important element which makes the pursuit of this strategy possible in India. Ceylon's development, for example, is also governed by the balance of payments constraint; but it is not possible for her to follow the Indian pattern of development. And the main reason for this is the pattern of natural resources with which each of these two countries is endowed. With the world's largest high-grade iron-ore resources and ample coal reserves, India would have probably followed the same strategy, though not with a similar compulsion, even if the balance of payments constraint had not been as severe.

Operational Technique

Given the objective of attaining a viable payments position in about ten to fifteen years' time together with a sustained rise in per capita living standards, how should the five year plans be formulated? Reddaway's basic contribution in this book is to provide an appropriate operational technique of planning for a country with inadequate basic statistics. He emphasises the importance of taking a long view of the development process; since development is a continuous process and since significant time-lags are a part of this process, it is not possible to frame a five year plan without having a concrete idea about the desired position at the end of ten to fifteen years. Reddaway was the first to emphasise the importance of the time factor in the Indian setting in an article. "Importance of Time Lags for Economic Planning" (*The Economic Weekly*, Annual Number, January 1960), which is reprinted in the appendix of this book. In this perspective, Reddaway provides a systematic conceptual framework for integrated operational planning.

In the process, he gives a constructive critique of the Indian planning process. The long-term objectives to be attained in 1970 or 1975 are specified in terms of certain broad aggregates, but their implications for various output targets are not worked out in detail; as a result, the Third Five Year Plan, for example, is not integrally and organically linked with the longer term objectives. Instead of an integrated approach proceeding from the final objectives, the Indian planners deal with the investment requirements, sector by sector; this partial approach doubtless has some justification in the Indian setting, as industry by industry targets, though set in an isolated fashion, are governed by the basic payments constraint. However, for operational planning, it is necessary to take an integrated approach.

Third Plan : Internally Consistent

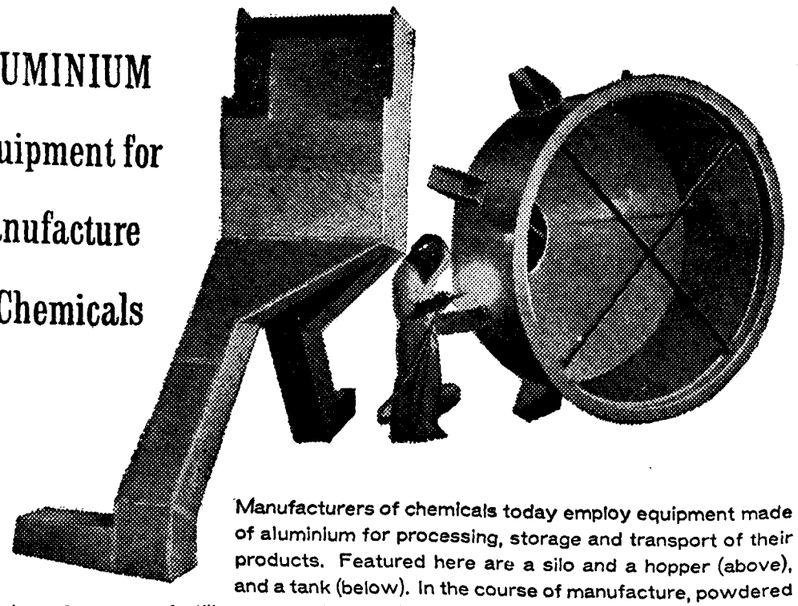
The author illustrates such an approach by testing the internal consistency of the Third Plan targets with the help of his basic tables, which he has constructed with the help of the Indian Statistical Institute and in which, in fact, lies the origin of this book. On the basis of assumptions, which are more or less the same as made for the Third Plan, and the fixed investment targets, he derives the input requirements of various sectors and their supplies. From the methodological point of view, this part of the book is of great significance for the planning process in India and other countries which have embarked on similar planned development. Doubtless, the author's conceptual framework is of the input-output variety; however, the significance of this conceptual framework lies in its application to a concrete problem. This shows the type of economic and statistical problems that are likely to arise in operational planning and how they can be tackled.

The broad conclusion of this exercise is that the Third Plan targets are internally consistent and that the required effort is possible to make. Of course, this conclusion is based on three basic assumptions regarding (a) timely availability of required external assistance; (b) realisation of the agricultural output target; and (c) timely execution of industrial investment projects. All the three assumptions are crucial and most of the difficulties which India is facing now have arisen as these assumptions have not been fully realised so far.

The author has discussed with his characteristic clarity and thoroughness several other basic

INDAL KNOW-HOW HELPS INDUSTRY

ALUMINIUM Equipment for Manufacture of Chemicals



Manufacturers of chemicals today employ equipment made of aluminium for processing, storage and transport of their products. Featured here are a silo and a hopper (above), and a tank (below). In the course of manufacture, powdered particles of urea—a fertilizer—are diverted into the silo which functions as a receptacle, and urea is sent through the hopper for bagging and storage. The tank stores distilled water used in the manufacturing process. These are some of the equipment made of **INDAL** aluminium, fabricated in Calcutta by Corporated Engineers (India) Private Limited for a manufacturer in Neyveli in South India.

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PIONEER IN THE FIELD The use of aluminium in equipment for the manufacture of chemicals and other large-scale industrial purposes was developed and promoted in India by INDAL. Since its formation in 1938, INDAL has constantly striven to introduce aluminium in diverse spheres—agriculture, building, packaging and transport. With its vast experience, backed by the know-how of its foreign associates, INDAL is equipping itself to meet the increasing demand for aluminium in various forms.

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aspects of planning, like the phasing of a plan. Appendix B on "Phasing a Development Plan" originally appeared in *The Economic Weekly*, Special Number, June 1960. One is much more enlightened about the structure of the Indian economy, and the basic elements of this structure which determine the development strategy, by Reddaway's basic tables than one would be by reading a number of descriptive books on the Indian economy. This is doubtless a very valuable addition to the literature not only on Indian development but also on operational planning techniques.

Mao Tse-tung's Thoughts on War and Peace

Points from a Lecture during Resistance to Japan

(By a Military Correspondent)

In "The Art of War", a classic, Sun Tzu laid down: "Know your enemy and know yourself; and you can fight a hundred battles without disaster". Mao Tse-tung quoted this in a series of lectures in May-June, 1938, ten months after the Japanese had attacked China. Mao's thinking on war may not have changed much in the years since.

"On the protracted War", the title under which the lectures were issued by the Foreign Language Press, Peking, in 1954, gives illuminating indications of the way Chinese attitudes to war and peace took shape in those difficult years of fighting the Japanese and the Kuomintang at the same time; and Mao Tse-tung not only led the campaigns from the late thirties to the Communists' coming to power in 1949 but is also Chairman of the Communist party right now when the Chinese are engaged in aggression against India, presumably with his knowledge and under his general direction. What he said 24 years ago on war and peace and the role of China in either may have general application in the context of the attack on India; and there may be a lesson or two to learn from his concept of the protracted war — its motivations and aims.

IN the lectures there are not many references to India; one casually mentions "the subjugation of India by Great Britain to prove that a small but strong capitalist country can vanquish a big and backward country", and another ominously prophesies: "This war (against Japan) will not only affect China and Japan, greatly impelling both to advance, but also affect the world, impelling all nations, first of all the oppressed nations like India, to march forward."

There has indeed been some marching forward lately by the Chinese. The differences may yet be more obvious than significant. In 1938 Mao was fighting a defensive war; secondly, the war was all in his own country against an invader. Now he is fighting an offensive war and in territory not his. From Mao's point of view, however, this may seem mere sophistry, for he can have but little doubt in his own mind that, again, he is fighting a defensive war and in his own territory. It would seem, therefore, that the views so vigorously expressed in 1938 may still have some relevance to the current conflict; and his general formulations on war and its methods are, of course, of permanent validity — so far as he and his men are concerned. First his general observations.

"Just" Wars

"Wars in history", Mao said, "can be divided into two kinds, just and unjust. All progressive wars are just and all wars impeding progress are unjust. We Communists are opposed to all unjust wars, but we are not opposed to progressive, just wars. As for wars of the latter kind, Communists not only do not oppose them, but will participate actively in them". It is hardly necessary to point out that he arrogates to himself the exclusive right of defining "just", "unjust", "progressive" and "progress", terms which have baffled the wisest of men since the beginning of time but which arouse not the slightest doubt in a Marxist mind. It is, therefore, to be taken for granted that, in Peking's view, the war against India is a just and progressive one. The fanatical zeal this generates is an objective quantity in political and military terms; and the nightly and loud righteousness of Peking Radio is not something synthetic.

How is a "just" war to be prosecuted? One of the most endearing things about Mao Tse-tung as a writer is his love of old Chinese literature and history coupled with a fondness for telling epigrams. Quite blandly he says, "... politics are bloodless war while war is politics of bloodshed". Clausewitz could hardly have improved upon this; but on the ethics of war Mao is even more explicit. "War abhors no deception", he quotes approvingly. On such methods he says:

> The mobilized people will definitely play a great role in the application of our tactic of defeating the enemy by creating illusions for him and springing on him surprise attacks. We are not Duke Hsiang of Sung and have no use for his stupid scruples about benevolence, righteousness and morality in war.

An obliging footnote elucidates the allusion for the ignorant:

> Hsiang Kung was the Duke of Sung who reigned in the seventh century B C in the Era of Spring and Autumn. In 638 B C Sung fought with the powerful state of Ch'u. Having deployed his forces, the Duke saw that the Ch'u troops were just crossing the river. One of his officers suggested that, as the Ch'u troops were numerically stronger, this was the moment for an attack. But the Duke said: "No, a gentleman should never attack people in a scrape" ... The Duke ordered the attack only after the Ch'u troops were fully prepared. As a result, the Sung troops met with a

disastrous defeat and the Duke himself was wounded".

The Duke was obviously gaga; but Mao Tse-tung's contempt for him brings out his total lack of patience with anything smacking of sentimentality. He is convinced that his cause is just; and, to achieve his objective, nothing is too low. Recent pathetic recitals of what India has done for Communist China for so many years at the U N and elsewhere and what China has done in return may well have given Mao a good laugh. This does not invalidate India's policies; and noble intentions are to be respected even when they appear to have been defeated by unscrupulous adversaries. What needs to be recognized is that almost everything China has done to this country in recent years is, as dramatic critics put it, "in character". There has been grave inconsistency between China's professions and practice towards India; there is none between its past practice and present.

Civilized Aversion

Pandit Nehru has rightly emphasized time and again that the struggle on the border is going to be a long, long one; that India must be prepared for it. The warning needs to be repeated, for it is clear that Nehru and the country have been drawn into this conflict against themselves, with the most extreme reluctance that may have in the past taken something away from the thoroughness and single-mindedness required to erect timely and adequate defences. Readiness to negotiate if the Chinese will withdraw to their positions of September 8 reflects the same civilized aversion to an avoidably long war. Quite contrary is Mao's attitude to a long war. He almost likes it for its own sake. Not only is his book called "On the Protracted War"; he makes almost a fetish of the war's desirable duration. Here are a few of Mao's observations on a long war:

> We must recognize that this armed resistance is going to be a bitter, protracted war... The fact that she (China) is a big country enables her to keep up a protracted war... We point out that the only way to win ultimate victory lies in a strategically protracted war ... The protracted-ness of the war is predetermined ... Our strategic directive for the Anti-Japanese War is for a protracted war...

Some of this insistence on a protracted war was, of course, dictated by circumstances. China was a vast country; Japan small. China had an "enormous population": Japan's was small. The Japanese army was efficient; the Chinese strength lay in numbers, territory and growing patriotism which, Mao worked out, would wear the Japanese out. Japan wanted a quick decision; China knew there could be no quick victory for her. In positional warfare the Chinese were sure to be beaten: hence the formulation of mobile and guerrilla war, which always needed greater numbers. Territory and numbers were, therefore, to be bartered for time.

Mao's calculation of other favourable possibilities included a social revolution within Japan, greater international support for the Chinese cause because of the impending assault of Fascism on the capitalist West and the collapse of the national bourgeoisie of China in the process which would leave the Communists supreme. Considering the date of the prophecy, the forecast was not bad at all: many of these things did come about, although it is to be doubted that the end of Japan came more from Chinese resistance than from the atom bomb or that the Nationalists came to grief less for their own corrupt rottenness than for Communist strategy.

New Dictum

But beyond and above all this there is a higher philosophy of protracted war — self-proven, self-contained, self-justified, axiomatic and totally independent of objective circumstances or requirements of particular situations. Why? A clue may be found in the following dictum by Mao Tse-tung:

> It is therefore proper for us to regard the War of Resistance and national reconstruction as interconnected.

China affects to believe that India demands Chinese territory and, so, Peking has to fight. Can it be that, even if China's so far unstated territorial rights as she conceives them were conceded, there would still remain her need for *national reconstruction* through "the war of resistance"? The cost of this reconstruction may seem inhumanly high. Mao Tse-tung only refers to China's vast population and quotes an old proverb: "As long as the green mountains are there, one shouldn't worry about firewood".

India-China Border

"THE boundary between India and China extends over 2,200 miles. The boundary of Bhutan with Tibet extends over 300 miles. The entire length of this border has been either defined by treaty or recognised by custom or by both. It follows the geographical principle of the watershed which is in most places the crest of the Himalayan mountains. This long boundary could be divided into three sectors — the eastern, the middle and the western.

In the eastern sector, the traditional boundary was settled at a tripartite conference of representatives of the Government of India, Tibet and China held in Simla in 1913-1914. The boundary line as agreed upon — and reaffirmed formally by the Indian and Tibetan representatives — was incorporated in a map attached to a draft convention, and signed by the Chinese representative.

East of Bhutan this line is called the McMahon Line (after McMahon, the British official who participated in the conference). But the McMahon Line merely confirmed the natural, traditional and administrative boundary in the area.

We now come to the western sector. Jammu and Kashmir has a boundary with Sinkiang and Tibet that is about 1,100 miles in length, two-thirds of it in the Ladakh district. Well known and long sanctified by custom, this boundary was reaffirmed by the Treaty of 1842 signed by the representatives of Kashmir on the one side and the Dalai Lama and the Emperor of China on the other. The area was later surveyed by Indian officials, and Indian maps began to show the boundary with precision. Even official Chinese maps of 1893, 1917 and 1919 showed the boundary in this area exactly as depicted in official Indian maps today."— Extract from "Menace to India's Freedom", published by the Publications Division, Government of India.

Sino-Indian Crisis and United Nations

Basanti Mitra

It has often been said that the Chinese aggression against India could have been more effectively countered and China made to conform to the U N Charter had People's China been a member of the United Nations. It needs to be emphasised, however, that as far as threat to peace or the use of force is concerned, the U N Charter imposes certain obligations on non-Member States as well.

Thus Article 2, paragraph 6, of the Charter reads: "The Organisation shall ensure that States which are not members of the United Nations act in accordance with these principles so far as may be necessary for the maintenance of international peace and security."

It needs to be seriously considered, therefore, whether India should not press for collective measures against the Chinese aggressor through the United Nations. Such a move would be perfectly consistent with our policy of non-alignment which we are determined to preserve.

INDIA'S policy of non-alignment faces in this hour of crisis its gravest challenge. An important aim of India's foreign policy, based on legal and ethical principles, has been the reconciliation of Communist China with the United Nations. In 1950, during the Korean war, it was repeatedly stated that the war could have been avoided if the representatives of Communist China had held their rightful place in the Security Council. The significance of the Korean war and the application of collective measures were not fully realized in India at the time. Consequently, India took up a neutral position when the Uniting for Peace resolution (1950) authorized the General Assembly to recommend collective measures should the Security Council fail, as a result of the Soviet veto, to assume its functions for the maintenance of international peace and security.

Since then both the Soviet Union and India have modified their position and India sent contingents for the United Nations Emergency Force set up at the initiative of the General Assembly to safeguard peace after the Suez crisis of 1956. It was realised that in order to render the United Nations effective, in times of crisis, a flexibility in procedures was called for, and even international lawyers have argued generally for both a political and legal interpretation of the Charter. The upshot of India's experience with the United Nations has been an attitude reflecting change in the use of force by the organization, and India readily supported the resolution, in February of 1961, calling for use of force by the Security Council, in the Congo, to stop civil war in the newly independent state. And now in the face of continuing and intensified hostilities by China, and when time is of the essence, Krishna Menon's recent statement[1] justifying India's support for representation of Communist China in the United Nations, based on certain principles, calls for comment and a certain measure of elucidation. For, if India is to meet her present crisis with a firm belief in non-alignment, her only way may be through the United Nations, strengthening the organization in the process.

Chinese Response

If the pivotal place in India's policy in regard to China has been to effect reconciliation with the United Nations, with the belief that all other disputes and conflicts would subside with the resolution of this issue, the People's Republic has not given it the consideration it deserves. India was the second state after Burma to accord recognition to the Communist regime, and has consistently advocated representation in the United Nations. Yet, the People's Republic of China which claims to fight imperialism, but still countenances the British colony of Hongkong, chooses to use force against India with whom she had worked out the principles of peaceful co-existence. Apparently there is no place in the policies of mainland China for such statements by the Indian Prime Minister: "I have no doubt that if there is in the world a value of ideas — as there is, of course — the right ideas will prevail in the end. They would prevail far less by fear of armaments because that produces a new context of things." (1954).

The alternatives before non-aligned India are either to go it alone, or seek co-operation through the United Nations. The latter policy has certain decided advantages. An all-out effort should first be made to mobilize public opinion in other countries through the United Nations. India has so far done precious little to utilize her presence in the United Nations, while Communist China is out. India has not only abstained during the Assembly resolutions on Tibet, but in early years, in 1950, she prevented a discussion lest it offend the People's Republic of China. It may be explained that by following a policy of non-interference we are trying to avoid open conflict with China. This explanation is no longer valid.

U N Can Act against Non-Member

Popular opinion may also point to the fact that the present hostilities would not have occurred, or that Communist China could have been made to conform to Charter principles if she had been included in the United Nations. As far as a threat to peace, or, the use of force is concerned, it should be emphasized that the Charter of the United Nations imposes certain obligations on non-Member states. Thus Article 2, paragraph 6 reads: "The Organization shall ensure that states which are not Members of the United Nations act in accordance with these Principles so far as may be necessary for the maintenance of international peace and security." Included in the principles of the Charter, is the idea that Members shall refrain from the threat or use of force

[1] "Even today in the U N when the issue of Chinese representation is brought forward, we have not changed our position in spite of the fact that China is waging a ruthless war on us. Our position is based on certain principles." (*The Statesman*, October 25).

against the territorial integrity or political independence of any state. The United Nations has taken action against non-Member states, notably political action in the early years against the Franco government in Spain, and in 1950, collective measures against North Korea, likewise a non-Member state. India need not, therefore, wait for People's China to be seated in the U N. In the present circumstances of armed aggression by China and consistent with her policy of non-alignment, India should press for collective measures through the United Nations.

There are legal arguments to be considered. In the long run and in normal circumstances, the objective rather than the subjective test should apply in a case of representation. Recognition, should be distinguished from representation, for the former is both a political and legal act within the prerogative of a sovereign independent state. The United Nations Secretariat in a Memorandum (1950), going into the legal aspects of the problem of representation in the United Nations, was at pains to point out that a Member could vote to accept a representative of a government it did not recognize, and that such a vote did not imply recognition, or a willingness to assume diplomatic relations.

Recognition and Representation

A leading case on the status of a revolutionary government, in which no less a person than Chief Justice Taft of the United States Supreme Court acted as sole arbitrator, was the 'Tinoco Claims Arbitration' in 1923, between Great Britain and Costa Rica. Before an international tribunal the principles to be applied were that of international law and not the policy laid down by the executive of a sovereign power, which the municipal courts were bound to follow. In the course of his award, the arbitrator made an interesting observation on the status of a revolutionary government which had established effective authority during a period of time in Costa Rica, and whose legal validity was later denied by the Costa Rican Government itself. "To hold that a government which establishes itself and maintains a peaceful administration, with the acquiescence of the people for a substantial period of time, does not become a *de facto* government unless it conforms to a previous constitution would be to hold that within the rules of international law a revolution contrary to the fundamental law of the existing government cannot establish a new government. This cannot be, and is not, true."

Subjective Test and Representation

Thus effective authority, embodying sovereign power and governmental control, were assumed to be the proper test of the existence and legality of a government before an international tribunal. The subjective tests are usually applied by a sovereign when he chooses for political reasons not to recognize an existing fact, and such moral or policy tests may comprise of failure to assume international obligations, or inadequate respect for human rights and fundamental freedoms. While subjective tests may be important in questions of admission of new Members, they are not equally pertinent in that of representation, for China is already a Member of the United Nations Security Council, and the question is which of the two rival claimants be deemed to represent China.

The validity of these arguments in normal conditions notwithstanding, the advantage India may gain by collective measures through the United Nations still remains substantial, and, in turn, throws a certain amount of light on the issue of representation. The United Nations before it applies sanctions which may be political, economic or military in nature, may determine whether there has been a threat to the peace, breach of the peace or act of aggression. Such a resolution was passed, in this instance after action in Korea, in February 1951, by the General Assembly branding Communist China as an aggressor state. A legal authority upholding the objective test, in the case of Chinese representation, nevertheless observed: "As long as the Chinese Communist government remains in aggression against United Nations forces, it would seem politically and morally impossible to prefer its claim to representation in United Nations organs over the intrinsically weak claim of the Chinese Nationalist government to represent China.[2]

[2] Herbert Briggs, "Chinese Representation in the United Nations", *International Organization*, May 1952.

Clarification of Soviet Stand

Another advantage of discussion in the United Nations would be clarification of the Soviet attitude. The Soviet delegate, Mr Zorin, strikes a mechanical note in his recent speech to the General Assembly on inclusion of Communist China in the United Nations. If the issue were pressed further and India assured of support, in the General Assembly, for her stand on aggression by Communist China, would the Soviet Union on a vital question of India's national safety bow to the will of the majority in the United Nations, or support a Communist country against India? If the Soviet Union adopts an intransigent attitude, it may wipe out the goodwill created in India by her support for India over Kashmir and Goa. Apart from this, the Soviet Union has made known her views that the question of revision of the Charter can be raised only after settlement of the Chinese representation question. Will the Soviet Union continue to offend Afro-Asian sentiment in the United Nations which is demanding increased representation in an enlarged Security Council by opposing every move to develop the United Nations till Communist China is reconciled with the organization? Every autumn during the annual session of the General Assembly the Chinese representation question assumes greater importance. Time is now opportune to discuss its implications fully whilst the General Assembly is in regular session.

Within the institutional framework of the United Nations, there is ample room for individual initiative, and the manner in which the United Nations Emergency Force came into being is, in this regard, one of the illuminating chapters of United Nations history. A recent writer has characterised the UNEF as "an expression of a positive and responsible neutralism." Will India sit still when she has the opportunity not only to mobilize the United Nations in her favour, but also help in the evolution of a truly international force? A combined and co-ordinated pressure imposing political and military sanctions and an economic embargo against mainland China will enable the General Assembly to come into its own, acting no longer for the Western alliance, but in the name of the world community.

Tea Target in Third Five Year Plan

G S Raychaudhuri
V N Balasubramanyam

National Planning is a composite of different individual commodity and service programming. The extent to which macro-economic forces can be accommodated in fixing the individual commodity targets, poses itself as the major problem in such planning.

In the changing structure of a developing economy the importance or the weight of a commodity, is also a changing one. It is this understanding of the changing importance of a commodity in the growing structure of an economy that enables one to view growth in proper perspective.

In this paper we propose to study the production target set for tea in the Third Plan, as a case in the consistency of target fixing. The tea industry holds a place of importance in the country's economic structure, in view of the foreign exchange it earns, the tax revenue it contributes to the exchequer, and the employment it provides.

[The authors wish to express their indebtedness to Dr B N Ganguli for his kind encouragement in writing this paper.]

THE Third Five Year Plan envisages a production target of 900 million lbs and an export target of 550 million lbs for tea to be attained by the end of 1965-66. Consequently, the balance of 350 million lbs and the opening stock of the year 1966 would constitute the total domestic retention. It is proposed to evaluate, on the basis of the prevailing market trends, the validity of the above targets, and derive policy conclusions therefrom.

The total supply of tea in any one year would be the production plus the opening stock of the year. On the other hand the components of total demand would be the exports of that year plus the consumption and the closing stocks at the end of the year. Considering the demand side of the picture the export target of 550 million lbs to be attained at the end of 1966 is questionable. In projecting the export possibilities of Indian tea in the year 1966 the following procedures have been considered by us: (a) calculating the average annual change in exports over the last 20 years or more and projecting the rate to 1966; or (b) calculating exports by assuming that India's average relative share of 15 per cent in world tea trade remains constant over the period.

Exports : Two Estimates

Taking India's export figure of 336 million lbs in 1938 as equivalent to 100, we arrive at an index 134 for the year 1961, for which year actual exports are 450 million lbs. This would give an annual rate of increase of 1.5 per cent over the period 1938-61. Projecting the same rate of increase to the year 1966, the exports to be expected in that year would be higher by 7.5 per cent over the exports of 1961. The expected exports would thus be 484 million lbs by the end of 1966 (See Appendix 1). We arrive at an export figure of 527 million lbs by the end of 1966 by adopting the second method of calculation mentioned above. (Based on the FAO estimate of 11.72 million lbs. average world trade for the year 1964-66. *Tea Trends and Prospects*, FAO, 1960.) In view of India's dwindling competitive strength in the international tea market one can legitimately question whether she would be able to hold on to her present 45 per cent share of world trade in 1966. In a recent study it has been pointed out that during the years 1949-59 India's competitive power has fallen from 1.01 to 0.86 in the U K market and from .91 to .71 in other markets.[1] In view of the increasing competition from other exporters like East Africa, Ceylon, China and Indonesia it would be immensely difficult for India to attain the export objective of 550 million lbs by the end of 1966. We estimate that at best India would be able to export only 500 million lbs of tea by 1966.

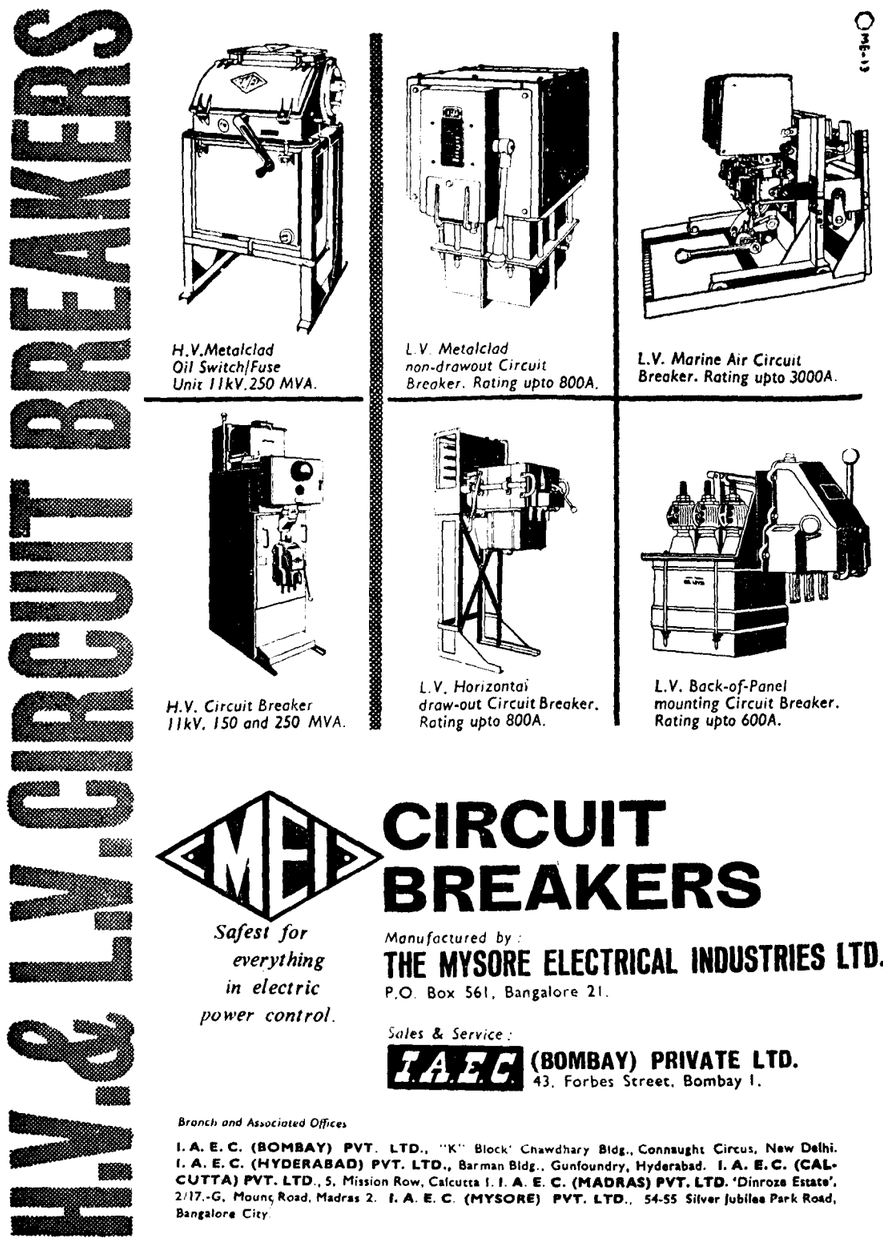
The prospect of internal demand is also none too encouraging. Paucity of reliable domestic-consumption data regarding exportable goods in India is a major difficulty encountered in such commodity studies. In all such studies consumption data has to be estimated on the basis of production, export and import figures. Moreover, in the absence of reliable stock data the resultant domestic consumption figures are questionable. These estimated consumption figures are to be treated more as the domestically retained part of the supply of the commodity in question, rather than as the actual consumption. The shortcomings stated above are as much true with regard to tea as with any other exportable agricultural commodity.

Internal Consumption

We present three sets of figures relating to internal consumption of tea, estimated by the Tea Board, the International Tea committee, and the Ministry of Food and Agriculture of the Government of India[2]. All three estimates suffer from a lack of consistency and are based on non-comparable sets of variables. As can be seen from Appendix 2 not much difference can be discerned between the three estimates. The Tea Board arrives at its consumption figures by taking the calendar year, production, plus opening stocks as on 1st April as the available supply and by deducting the financial year exports plus closing stocks at the end of financial year, from the supply figure. The procedure of arriving at the consumption figures by deducting the financial-year exports and stocks from the calendar year production is open to question. We present in the Table a set of

figures estimated on the basis of calendar year production. exports and stock figures. At least the consistency with regard to the period choosen for the three variables would render the estimates a little more reliable.

The stock data relates to the month of December in each year. The closing stock of the first year is taken to be the opening stock of the succeeding year. The two year moving average eliminates the large year-to-year fluctuations in consumption and shows the trend. The year-to-year fluctuations in exports are to be accounted for by the vagaries of the International Markets, and the competitive strength of Indian tea vis-a-vis other tea exporting countries. But the large fluctuations



from year to year in internal consumption of a commodity like tea reputed to have a low income and price elasticity of demand[3] is to be investigated. It is also to be seen that there is a close inverse correlation which has been estimated to be as high as 0.7, between exports and internal consumption of tea. Export quantity should be regarded as an independent variable over which no significant degree of direct control can be exercised. The entire efforts of the government and the industry being directed at augmenting the exports, internal consumption should necessarily be regarded as dependent on exports. The degree of flexibility in the internal market which adjusts itself to changes in the export market, though welcome as a cushioning factor seems to be a little incongrucus. It is therefore, to be deduced that the unexported tea is not to be classified as internally consumed *in toto*, but as partly domestically retained. The Tea Board must either correctly assess the internal consumption of tea in India, or at least account for the large year to year fluctuations in the consumption. How is the unexported and unconsumed part of tea to be accounted for? It could not be held as stocks in view of the fact that the trade cannot hold more than three months stocks on an average at a point of time.

Growth of Consumption

Any projections as to the domestic consumption of tea in India in the years ahead, on the basis of such questionable data, would be questionable.[4] However, in the absence of actual consumption figures, projection of future consumption has to be made on the available data. We estimate the possible consumption in the year 1966, the last year of the Third Plan, on the basis of three factors:

(1) Increase in consumption due to increase in population;

(2) Changes in consumption due to increase in income; and

(3) Increase in consumption due to changes in habit.

As the price of tea is governed more by international market forces, no estimate is ventured here about the prices that may prevail in 1966. On the basis of 0.64 lbs[5] per capita consumption prevailing in 1961, the additional consumption of tea due to increase in population by 1966 would be around 35 million lbs. Assuming the income elasticity of demand for tea to be around .25 the increase in the consumption of tea on account of increase in disposable income by the end of 1966 would be around 20 million lbs.[6] Making an allowance of 5 million lbs of additional consumption as a result of the spread of tea drinking habit, the total increase in consumption by the end of 1966 would be around 60 million lbs. Adding this increase to the 1961 consumption-estimate of 282.4 million lbs. the estimated consumption figure for 1966 would be 342.4 million lbs.[7] Even this figure of 342.4 million lbs may be a little high due to the absence of any estimate of the cross elasticities of demand. With increasing income and growing urbanisation a shift of consumption in favour of coffee may well be expected.

Production Target Too High

Having surveyed the absorption possibilities of tea by the end of 1966 we now turn to production. The production of tea in India shows an increasing trend, at an annual average rate of increase of 2 per cent over the last decade. The planning commission, however, envisages a 24 per cent increase by 1966 over 1961, i e at the annual average rate of 5 per cent approximately.[8] Granting this possibility we would have a total production of 900 million lbs at the end of 1966. Adding to it an annual average opening stock of 100 million lbs[9] the total supply in 1966 would be of the order of 1,000 million lbs.

To match this total supply of 1,000 million lbs we have a total demand figure of 842 million lbs. comprising of 500 million lbs of export and 342 million lbs of internal consumption. This would leave a balance of 158 millions lbs as closing stock, which is normally sufficient for six months. The consequences of having such a huge stock are obvious. In case of tea the optimum level of stock should not be more than two months' consumption. Anything more than this with the dim prospect of exports, is bound to bring heavy pressure on prices. Further the strain on warehousing and credit facilities will also work to dampen the prices and profits. One may of course hazard the idea of instituting a buffer stock scheme, or more intensive propaganda by the tea board to raise the internal consumption, to save the situation. But this would only add to the existing high price of tea or involve giving a huge subsidy to this mature industry.

In the absence of any conscious drive at increased production, the industry in the normal course of events would produce around 800 million lbs of tea by the end of 1966.[10] Adding an average annual stock of 100 million lbs over the Third Plan period the total supply would be around 900 million lbs. Deducting the consumption and exports of 842 million lbs, a total stock of 58 million lbs would be left at the end of 1966. This amount of stock the trade would bear without any strain. However, if a 158 million lbs stock is allowed, it would have a disastrous effect on the price and profit structure of the industry.

It is not our purpose here to present a wholly pessimistic picture for the industry as such. The situation could well be saved, by realising the futility of increasing the production of tea, without taking cognizance of the export and inter-

Table

Year	Production	Opening stock	Exports	Closing Stock	Internal Consumption	2 Yr moving average of 6
1	2	3	4	5	6	7
1949	584.6	35.3	488.5	43.0	88.4	
1950	613.4	43.0	403.1	64.1	189.2	138.8
1951	629.2	64.1	454.0	63.8	175.5	182.3
1952	614.4	63.8	414.7	69.8	193.7	184.6
1953	614.6	69.8	500.6	69.4	114.4	154.0
1954	651.5	69.4	443.8	68.6	198.5	156.4
1955	678.3	68.6	367.5	110.1	269.3	233.9
1956	680.6	110.1	527.9	82.0	180.8	225.0
1957	685.2	82.0	442.7	94.2	230.3	205.5
1958	717.0	94.2	506.0	93.7	24.5	220.9
1959	718.6	93.7	471.0	82.7	258.6	235.0
1960	706.4	82.7	425.7	65.7	297.7	278.1
1961	776.7	65.7	450.0	125.2	267.2	282.4

Source: I T C Bulletin, June 1961.

nal consumption possibilities. The government should, at best, allow the industry to develop at the normal rate at which it is progressing. Any efforts that might be made should be in the direction of augmenting our exports. The seriousness of the present situation itself calls for an all out drive at improving the quality of Indian tea. The Tea Board should direct itself to the task of replanting old bushes, encouraging finer plucking, and intensifying our tea propoganda abroad. The Indian tea industry can hope to stand on its own legs only by boosting exports in an increasingly competitive international market.

Appendix 1
Export Projection, 1966

India's export in 1938	= 335.8 m lbs
India's export in 1961	= 450.0 m lbs
Assuming 1938 exports	= 100
We get 1961 exports	= 134

This gives a 34 per cent increase in 23 years. Average annual rate of increase would thus be 1.5 per cent over the Five Year Period 1961-66, the additional increase would be 7.5 per cent of 1961 exports.

1966 exports = 450.0 m lbs + 33.7 m lbs = 483.7 m lbs.

Appendix 2
Internal Consumption estimates of Tea Board, International Tea Committee and Ministry of Food and Agriculture

(Million lbs)

Year	Tea Board Estimates	International Tea Committee	Ministry of F & A	Our Estimates
1949		152,000	141,000	88.4
1950		162,600	170.000	189.2
1951		180.600	201 000	175.5
1952		234,700	187,000	193.7
1953	182,253	183,240	182,000	114.4
1954	174.628	174.690	175,000	198.5
1955	220,953	221,690	221,000	269.3
1956	192,790	193.470	193,000	180.8
1957	247,958	248.790	258,000	230.3
1958	242,984	240.290		211.5
1959	253,484	254.700		258.6
1960		274 370		297.7
1961		305,000		282.4

Note: The I T C Estimates and Tea Board Estimates show a close correspondence. The source for I T C estimate might be the Tea Board.

Sources: "Tea Statistics", Tea Board, 1960. "Tea in India", Ministry of Food & Agriculture, 1957-58. "International Tea Committee Bulletin of Statistics", June, 1961.

Appendix 3
Internal Consumption Projection 1966

(i) *Increase in consumption due to increase in disposable income*:

$Y = (X_2)^E$

$Y = (X_1)$

National income in 1961 = 14500 Crores
Savings at 8.5% = 1232.5 Crs Rs
X_1 = 13268 Crs Rs
National income 1966 = 19000 Crs Rs
Savings at 11.5% = 2185 Crs Rs
X_2 = 16815 Crs Rs

$Y_2 = Y_1 \frac{(X_1)}{(X_2)}$

$Y_{66} = 282.4 \frac{(16000)^{-25}}{(13200)}$

= 282.4 4/1.3

$Y_{66} = 282.4 (1.07)$

$Y_{66} - Y_1 = 302.2 - 282.4$

= 19.8 m lbs

Y_1 = Tea consumption in 1961
Y_2 = Tea consumption in 1966
X_1 = Disposable National Income in 1961
X_2 = Disposable National Income in 1962
E = Income Elasticity of Tea consumption — 0.25

(ii) *Increase in consumption due to increase in population*

Population in 1961 = 438 million
Population in 1966 = 492 million
Increase = 54 million
Per capita consumption in 1961 = 0.64 lbs
Additional consumption in 1966 due to population increase = 54 × .64 = 34.6 million lbs

(iii) Additional allowance made for the growth in tea drinking habit = 5.6 million lbs

Appendix 4
Estimate of Production of Tea by 1966

Rate at which production has been increasing over the last decade = 2% per annum
Additional production by the end of 1966 = 10% of 1961 production
Third Plan estimated production for 1961 = 725 million lbs
10% of 725 million lbs = 72.5 million lbs
Total production by 1966 = 797.5 *million* lbs, say, 800 *million* lbs
Average annual stock = 100
Total supply by 1966 = 900
Less domestic consumption and exports = 842
Opening stock by 1967 = 58 million lbs.

1 K S Rao: "Operational dimensions of *India's Agricultural Exports*", *Agricultural Situation in India*

2 All three estimates are arrived at by deducting Calendar Year production figures from financial year exports and stocks. Appendix 2.

3 According to "Economic Development and Exports" (Bhabatosh Datta & Others) Price Elasticity = 0.27 Income Elasticity = 0.26

4 The N C A E R's projections ("Looking Ahead", NCAER, 1962, Pp 66) *regarding Indian tea consumption* is an example of such misguided projections. For the year 1961 the Council had estimated internal consumption demand at 511 million lbs. *nearly 240 million lbs in excess of* the estimates presented. In their utopian world of 1930-81 the Council expects Indian people to drink 6270 million lbs of tea. If such *astronomical calculations were to be* realised it would solve all problems for the tea industry.

5 *The figures are arrived at by taking* a 2 year moving average of our consumption estimates.

6 *On the basis of Datta's calculation* in "Economic Development and Exports".

7 Third Plan, Pp 77

8 See *Appendix 3*.

9 *Annual average stock over 1961-66* or calculated on the basis of present stock trend.

10 *This figure is arrived at by projecting* an annual rate of increase of 2% over the estimated figure of 725 million lbs at the end of 1961 by the Planning Commission. Refer Appendix 1

The United Commercial Bank Ltd

Head Office : Calcutta

G D Birla
Chairman

Capital Subscribed :	**Rs. 4,00,00,000**
„ Paid-up :	**„ 2,00,00,000**
Reserve Fund :	**„ 2,35,00,000**

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts at 3% interest. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers Cheques sold and encashed. And other Banking facilities.

S T Sadasivan
General Manager

From The Chair

The Delhi Cloth & General Mills Co., Ltd.

Speech Of the Chairman, Lala Bharat Ram

THE following is the speech delivered by the Chairman Lala Bharat Ram at the Annual General Meeting of the shareholders of the Company held on 9th November, 1962 in their office at Bara Hindu Rao, Delhi.

Ladies & Gentlemen.

I welcome you to this 74th Meeting of the General Body of the Shareholders of the Delhi Cloth & General Mills Co., Ltd.

We are meeting today under the deep shadows of a national crisis. I do not think that in our living memory anyone of us can recall that the country has ever had to face such a grave peril inflicted upon us, without the slightest provocation, by a neighbouring country which professed friendship, but has paid goodness by evil. We now face a situation which has taken us almost by surprise, and to face which every fibre of the Nation will have to be flaeed and no sacrifice will be too great to render at the altar of the freedom, integrity and honour of the country. It is necessary, therefore, that wherever we are and in whichever station of life, we reflect on the responsibilities and duties which have fallen upon all of us. It is gratifying to note that already a great deal of spontaneous enthusiasm has already been generated in the people. In fact, there is an upsurge of purposive emotion and indignation, the like of which never took place in recent history. This enthusiasm and emotional outburst has to be channelled and harnessed to the best advantage of the country and not to be frittered away in petty directions. What is more, this has to be maintained because the war is bound to be a long drawn out affair, and it will be fatal if we allow ourselves to be lulled as a result of some gains here and there into a sense of complacency. The misfortune of the country has been that we had become complacent, and, may I say, even soft? The present crisis has shaken us off this complacency. It is now for the leaders of the country and Government to let the people know clearly and in concrete terms as to what is expected of them, in what manner austerity, if necessary, has to be observed, what the industry and workers have to produce, and how exactly the energy of the scores of voluntary organisations has to be channelised to meet the one objective that we have before us. It is also up to our leaders to inculcate a sense of pride in austere living, which can only be done by example and precept rather than by preaching.

Good Responsibilities

Industrialists and businessmen have a great responsibility towards the country today. I am glad that responsible organisations of industry and trade from all the nooks and corners of the country are sending their messages of support to our Prime Minister and Government. However, much more has to be done, and on various fronts. Many leading Business Houses have donated large sums of money to the National Defence Fund. Your Company will also make for the time being, a donation of rupees ten lakhs. It is a matter of great pride that the workers of the Delhi Cloth Mills and Swatantra Bharat Mills took a lead in working on a Diwali holiday on the 29th October voluntarily and donated the wages for that day. All the staff of D.C.M., S.B.M., H.O. and C.M.O. have also donated a day's salary. The Company also donated the profits of that day. The Managing Agents have also given their commission for that day. The total of these amounted to Re 1,18,789. In fact, the workers are keen to work on other holidays and donate the wages to the National Defence Fund, and it is expected that the Delhi Cloth Mills will work on the 11th of this month which was to be a holiday.

While it is good that business people and others are donating large amounts to the National Defence Fund, we must not lose sight of the increasing need for earning more foreign exchange by exports. This need is even greater today than before as the country would have to import large quantities of defence equipment and various types of raw materials in larger quantities to increase production in the country. I would, therefore, urge the industrial and business community that they make every effort to increase the exports even at a sacrifice and consider this sacrifice as their additional contribution to the defence effort.

Community on Trial

In this hour of National crisis, the business community, as in fact the entire Nation, will be on trial, and it would be judged by the manner in which it meets the essential civilian and Defence requirements at reasonable prices. We have therefore to see that no hoarding or profiteering takes place. This can be done by the producers making arrangements to distribute the products in such a way that they reach the ultimate consumer at prices which they are expected to pay. The wholesalers have similarly to play their part. Such of the commodities which can be price-marked should be stamped with retail prices as is being done in the case of cloth. In respect of other items, large-scale advertisement of price should be resorted to. The retailers, especially in large towns should display prices in prominent places in their shops so that the consumer knows, even before he buys, as to what he is expected to pay. All these measures will not only help in creating confidence in the minds of the people, but also to put a curb on those who may be tempted to make easy money in the difficult times that lie ahead.

On behalf of the Delhi Cloth & General Mills, I assure the Prime Minister and the Government that we are fully behind them and we will spare no effort to contribute our mite to the cause in every possible direction.

To the consumers also I would like to say a word. Although there is no shortage of cloth at the mo-

ment and I am sure that its production will be maintained at levels which will meet the full requirements of the people, even so it is necessary for them to exercise some self-restraint on consumption. In respect of some other items also, it is imperative to apply restraint; for example, all leather goods, particularly shoes and woollen material. Apart from other Defence requirements, these are the two commodities which by consuming less the consumer can directly contribute to the war effort. Even from the point of view of making our contribution to creating the proper psychological atmosphere in the country, some self-restraint on consumption of several commodities has to be imposed.

Army Equipment

One more word, and I would have done as far as this subject is concerned. Our industries will have to produce more. They will also have to turn out equipment which is required by the army. In order that we do not place an undue strain on our foreign exchange resources, all of us should be prepared to use whatever substitutes are indigenously available and try to make good with whatever is available. Although quality should be our end, in times of emergency it behoves us that we make good with these provided that it can be used without detriment to the overall effort.

Coming back now to the Company's affairs, the Balance Sheet, Profit & Loss Account and the Report of the Board of Directors for 1961-62 have been in your hands and with your permission, I will take them as read.

The net profits of the Company have been marginally lower than last year. These have been due to higher provisions for depreciation and taxation.

We have been continuously renovating and modernising our textile mills. The old Waste Plant in the D.C.M. will be replaced by a modern Waste Plant during the next few months. The spinning capacity at Hissar is being expanded by the addition of another 23,000 spindles. It is expected that the installation of these additional spindles will start soon. Your Company has been a pioneer in the distribution of cloth directly to consumers. This policy has resulted in supplies to consumers at controlled prices by the Mills. This service has been appreciated in ample measure by the public at large at all times and particularly in times of shortages. Today the Company has over 500 retail shops scattered all over the country and the Company will continue to increase its retail shops as and when necessary.

Export of Textiles

Your Company has not only been maintaining its exports of textiles but expects to increase its exports in the current calendar year. This is in spite of the fact that until June this year the exports of textiles have been declining. In the face of this declining trend of textiles, the textile industry undertook to export 12-½% of each Mill's production voluntarily and it is gratifying to note that in the past few months the exports of textiles from India have increased.

Our plan for the expansion of crushing capacity at Mawana is in progress, and we hope that in 1963-64 we will have increased our crushing capacity from 1500 tons per day to 3000 tons per day. During the last season, the quality of cane in our area was extremely poor and the recoveries consequently suffered. The new system of linking the cane prices to sugar content, for which the industry has been pressing for many years, was at long last finalised by the Government and will take effect this year. This will not only help the industry but it will gradually persuade the cultivator to concentrate on high sugar yielding varieties of cane.

A recent activity that your Company has undertaken is the designing, construction and erection of Chemical Plants. We have already designed, manufactured, supplied and erected two Sulphuric Acid Plants. Two more Sulphuric Acid Plants ordered by various parties are nearing completion. Gradually, we hope to extend the activities of this Section to cover other types of Chemical Plants also.

New Projects Make Headway

In my speech last year, I had made a reference to two new Projects which we had taken in hand. You will be glad to learn that these Projects have made good progress. Most of the machinery for the P.V.C. project has been received at site and erection work is in progress. The Caustic Soda Plant, which is part of the project, will soon be in production. The final product, namely P.V.C., would be on the market some time in the latter part of 1963.

Our negotiations with the U.S.A. Agency for International Development for a dollar loan to meet the foreign exchange requirements of the Rayon Tyre-Cord Project have been successful. The agreements have been signed and orders will be placed soon. It is expected that this factory will be in production by the end of 1963 or early 1964.

Before concluding, I would like to place on record our sincere appreciation of the good work of all our workers and staff whose efforts have enabled us to achieve satisfactory results during the year.

Earlier, Lala Bharat Ram recalled gratefully the devoted services of Mr Ahmed Islam Khan, the Managing Agents' working member in Pakistan who passed away in October.

Note : This does not purport to be a record of the proceedings of the Annual General Meeting.

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New Central Jute Mills Co. Ltd.

Speech of the Chairman, Shri A K Jain

THE following is the Speech of Shri A K Jain, Chairman, New Central Jute Mills Company Ltd. at the Annual General Meeting held on 31st October 1962 at 11, Clive Row, Calcutta:

I welcome you all to this Annual General Meeting of the shareholders of the Company.

We are meeting in the wake of a national emergency caused by the naked and unashamed aggression committed by the treacherous Chinese. The aggression has aroused the entire nation as one man. We have been found lacking in adequate preparations to meet the aggression. Our friends, the U. S. A. and Great Britain in particular, have offered us in this crisis, speedy and magnanimous help and more is coming and we are extremely grateful to them. The initial setbacks have only served to forge an indomitable spirit throughout the nation and there is no doubt in our ultimate victory.

Our Prime Minister has given a call to make all sacrifices to strengthen the defence forces and increase production in fields and factories. Your Directors have decided to contribute a sum of Rs. 1,00,000/- to the Prime Minister's National Defence Fund. Your company's employees have also shown their readiness to contribute a part of their earnings to the Defence Fund. They in large numbers have offered to donate blood. We are all standing at the call of the Government for undertaking any task or responsibility that may be entrusted to us. I am sure this will have your whole-hearted support.

The need of the country to earn larger foreign exchange was already acute. Its importance has been further enhanced by the aggression committed by the Chinese. Your company is making all possible efforts to increase both production and earnings of foreign exchange and are confident to achieve the same in an appreciable measure.

Difficult Year

The report year has been one of the most difficult in the history of jute industry and your company has shared in the misfortunes of the industry last year. According to the practice followed by your company, stock of raw jute is valued at market rate, whereas most of the jute mills follow the mode of valuation at cost or the lower of cost or market rate. In view of high prices of jute fibre prevailing as on 31st March 1961, the valuation of the year's opening stock of raw jute in case of your company was higher compared to most of the other jute mill companies. This further affected the financial results of your company. Your Directors regret that they have been unable to recommend any dividend for the report year on ordinary shares. Your Directors were very unhappy that the record of continuous payment of handsome dividend of over a decade during which the company has been under the present management had to be broken. The working of the current year is encouraging and your Directors have just decided payment of an interim dividend for the current year at 50 nP. per ordinary share, subject to tax, payable to the Registered Shareholders as on 30th November, 1962.

Although the production in Sahu Chemicals & Fertilizers has not increased as fast as was expected, the plant is running in a more balanced and stable manner. On the advice of the technical collaborators several modifications have already been made in the plant and the full effects of these modifications already made should be available during the coming winter season. After a full study of the results obtained further steps for improvement and/or expansion will be considered. The rigid price structure and other handicaps under which this plant is operating, are already known to you.

Your company has been making rapid progress in the installation of wide-looms. During the report year 42 broad-looms were added raising the complement from 110 to 152 at the end of March 1962. Since then 45 broad-looms have been further installed raising the total complement to 197. Installation of further looms and spinning and ancillary machinery and construction of buildings is proceeding satisfactorily.

Substantial Exports

Your company during the last five years has built up a substantial portfolio of direct exports primarily of Jute carpet backing. Export of Rs. 41 lakhs in 1957 rose to Rs. 293 lakhs during 1960-61. Due to decline in the price the value of direct exports in 61-62 amounted to Rs. 266 lakhs. The company's export performance during the current year is expected to be substantially better. You would thus be happy to note that your company is playing its proper role in the export efforts of the nation as a whole. The capacity of your company to produce more specialities and earn foreign exchange would have been greater if they had received prompt permission to import essential spares and machinery which are not locally available. It is heartening to note that Shri Manubhai Shah, our Minister of International Trade has acknowledged the importance and needs of the jute industry, and its requirements are receiving quicker attention of the Government.

It is not clear whether the profitability in the jute industry will be maintained at the present levels in the coming months. The competitive strength of Pakistan is increasing and their exports are showing increasing trend. The sacking stocks in India are gradually mounting up and the jute goods market had shown some signs of weakness. Your company has, however, sold substantial proportion of its production for the first quarter of 1963 and has thus booked profits for the current financial year.

In view of the said position and present trends in the jute industry,

the working of your company should show substantially better results in the current financial year.

I take this opportunity to thank all members of the staff and workmen.

N.B.: This does not purport to be a record of the proceedings of the Annual General Meeting.

The Indian Iron & Steel Company Limited

Statement by the Chairman, Sir Biren Mookerjee

THE following statement by Sir Biren Mookerjee, Chairman of the Indian Iron & Steel Company Ltd., dealing with the Company's working for the year ended 31st March 1962, has been issued to shareholders. The Annual General Meeting of the Company will be held on Tuesday, the 11th December, 1962, at 3 p.m. at the Royal Exchange Hall of the Bengal Chamber of Commerce & Industry, 6, Netaji Subhas Road, Calcutta-1.

The production of iron for the year at 1,187,397 tonnes and of steel ingots at 934,498 tonnes shows a small increase over the previous year. Yet in fact the rate of production remained more or less the same in the two years.

This apparent anomaly is due to the fact that there was a railway strike last year during which period there was a stoppage of all raw material coming into the works. As stocks of coal had run down to only four days' requirements, it left no alternative other than to carefully damp down all the four blast furnaces one by one as well as to reduce the input of coal into the coke ovens just to maintain sufficient heat to prevent damage to those plants. This calculated shut down last year, carried out under careful scientific observations by Works' executive experts, resulted in a computed total loss in production of some 27,000 tonnes of ingot steel. It will be seen, therefore, that while this year's production shows an increase over last year of 20,339 tonnes, it is in fact on the basis of actual rate of production less by some 6,000 tonnes.

In this connection I would like to emphasise, that ever since the new blast furnace and melting shop expansions were completed some time round about the middle of 1959, every effort has been made to go all out to reach the rated capacity of iron and steel production. But we failed each year to achieve this owing to the poor quality of raw material and particularly in the case of coal, a quality almost unusable. Added to these difficulties there was the ever persistent irregularity of transport. How then in the face of these insurmountable difficulties can Government insist that 100 per cent production is to be maintained? They have merely to look at the production of their own steel plants, where in the case of one plant the quality of raw material can be termed excellent compared to ours, with little or no transport difficulties. In the case of the other two Government plants, raw material and transport problems do arise, but it is nothing compared to that of your Company. Steel qua steel may be made at the cost of quality. Is that then what the Government desire, a sacrince in quality and a mass rolling of unrequired sections of steel for the sake of production records? I shall refer to this and many other points later on in my statement.

Accounts

In my statement last year I made reference to the Tariff Commission's enquiry in connection with the fixation of the retention price of steel effective from 1st of April 1960. After conducting the usual careful investigations, visits to the works and discussions with the representatives of the Steel Companies, the Tariff Commission submitted its report to the Government in April 1962, having made such deductions and adjustments in costs as it thought fit. It was not until the 7th September 1962, that Government's decision on this important matter was announced in Parliament according to which steel retention prices were increased by Rs. 10.50 per tonne on an assumed product mix basis commencing from the 1st of April 1960, as against the Tariff Commission's recommendations of an increase of Rs. 38 per tonne over the provisional increase announced by Government in February 1961, a reference to which was made in my statement to you last year.

Curiously enough Government apparently did not consider the retention prices of individual categories of steel as important, as these details were only made available on the 12th October 1962. This delay in announcement on Government's part of the category-wise retention prices of steel prevented the Company from closing its annual accounts and presenting them to you along with the auditors' report within the prescribed period; hence two appeals had to be made to the Company Law authorities to extend the permissible date of the annual general meeting to the maximum limit of 3 months, namely, the 31st December 1962.

The most surprising part of Government's decision was the drastic and unconventional manner in which the Tariff Commission's carefully considered recommendation and mature judgment were turned down flatly in respect of the normal retention prices for the past two years, ending on 31st March 1962, as well as a special element that should have been allowed in the retention price in addition, for payment by the Tata Iron & Steel Company and your Company, of interest on and towards repayment of special advance of Rs. 10 Crores each made to these Companies by Government. I will deal with this in greater detail later on.

The salient points of the accounts for the year have been fully dealt with in the report of the Board of Directors, but there is one point, a very important point indeed, on which I would like to make some observations.

On the recommendation of the Tariff Commission in 1959, the Government of India in terms of their Resolution No. PS45(112)/57 dated the 25th November 1959 decided that the interest on the Special Advance should be charged to the Company as from 1st July 1958 at 5 per cent per annum and the calculation of a special element in the normal retention price for steel for meeting this interest charge was postponed until after 31st March 1960, when it was necessary to work out the fair retention price of steel produced by the main producers. As the interest accrued from the

1st of July 1958, your Company had to, under the Indian Companies Act, make provision for this accrued liability in the past years' accounts and as in terms of an Agreement with the Government of India dated the 15th July 1953, it was expected that in fixing the retention prices of steel for the two years ended 31st March 1962, a special element should be included in such prices to fully cover interest upto the end of this period, a corresponding amount was included in Sales Retention Prices in those years as the anticipated earnings from such special element. This expectation has, however, been belied. Although a special element to cover Interest and Repayment of Special Advance was recommended by the Tariff Commission, the Government of India has, in reversal of their earlier decision, rejected this recommendation. This has put your Company in a very awkward situation. The Interest on Special Advance charged in the previous two years' Accounts has to remain as such but the anticipated compensatory element in steel retention prices amounting to Rs. 1,40,01,141 included in the Accounts of those two years had to be written back from the current year's "Sales"; besides, whether interest is actually paid in cash or not, your Company has to go on charging such accrued Interest from year to year without a corresponding compensating element in "Sales". Repeated representations have been made to the Government, but it does not seem to realise this difficulty of your Company; it appears to be under the impression that so long as the Company has not to make actual cash payment to Government, it is immaterial whether any special element is included in the prices or not. Government just cannot realise that your Company does not keep its Accounts, as Government departments do, on a Cash basis but on the normal Commercial basis where any liability accrued, whether paid or not has to be duly provided in the Accounts.

Tariff Commission's Recommendations and Government's Decision

At long last, that is, after two and a half years, Retention Prices of steel were announced by Government on the 7th of September 1962 on an estimated product mix basis on which, as I have already stated, your Company's accounts could not be closed. Apart from the fact of Government's rejection of the Tariff Commission's deliberations and conclusions it has come to an ad hoc decision totally divorced from the conditions specially laid down in 1953 for the calculation of retention prices of steel, after taking into consideration repayment of loans to Government and World Bank (International Bank for Reconstruction and Development), maintenance of regular dividend and putting into reserve statutorily or otherwise sufficient sums in order to enable the Company to remain healthy and to continue to increase production and achieve expansion out of its own resources as and when the country needed extra steel. It now appears from Government's latest announcement in the papers that the Tariff Commission's aims are that it arrived at its conclusions according to these formulae and conditions laid down by Government earlier and according to which your Board of Directors agreed to accept loans on your behalf for the expansion schemes. If now these conditions and formulae for calculating retention prices are changed for the worse, as has been announced recently, there is little or no hope of further expansions to your plant.

Government's decision regarding cutting down the retention prices recommended by the Tariff Commission has, as announced on 7th September 1962, been arrived at by:

(a) Reducing the value of the block considered fair, after careful study by the Tariff Commission, from Rs. 1300 to Rs. 1176 per tonne.

(b) Reducing the working capital provision to 4 months' cost of production as against 8 months' claimed by us in our representation and 6 months allowed by the Tariff Commission.

(c) Disallowing the inclusion of Rs. 8 per tonne as recommended by the Tariff Commission towards interest on Special Advance and its repayment.

The reasons stated for making a reduction in block are:

(1) The operational efficiency of the plant should be taken at 100 per cent as against 90 per cent optimum considered by the Tariff Commission.

(2) The capital block of Rs. 16 Crores received as Special Advance from the Government should be excluded.

Apart from reduction of Rs. 8 per tonne on account of the Special Element towards payment of interest and repayment of Special Advance, the total reduction effected by Government per tonne of steel from what was recommended by the Tariff Commission comes to Rs. 19.50 per tonne as shown below:—

	per tonne Rs.
(1) Reduction in capital block due to deduction of special advance.	10.30
(2) Reduction of block by taking operational efficiency at 100 per cent.	6.20
(3) Reduction in working capital.	3.00
Total ..	19.50

As a result of this, your Company has been deprived of approximately Rs. 2.8 Crores on despatches of 1.4 million tonnes of saleable steel during the 2 years and will also suffer in future as, we fear, this will also apply to the provisional price to be fixed from 1st April 1962 onwards.

But the story is actually different. The new prices fixed by Government for individual categories of steel will only enable the Company to earn an increase of Rs. 8.53 per tonne as against Rs. 10.50 per tonne announced by Government on the despatch of steel made during the last two years.

The target of operational efficiency as contemplated by Government recently should have been based on an approach inspired by lessons of realism and past experience rather than dogmas. Nowhere in the world have steel plants been rated to operate at 100 per cent of their rated capacities. It can only be expected over short spells. The Tariff Commission very rightly adopted 90 per cent efficiency as a factor of normal operation. I quote below some interesting figures of capacity utilisation as published by the U. K. Iron & Steel Board (vide para 65—Annual Report—1961):—

Year	% Capacity utilisation assumed by the Board	Actual operation
1954	90	98.0
1955	90	98.0
1956	90	97.0
1957	90	96.4
1958	90	87.1
1959	90	78.9
1960	90	93.9
1961	90	88.5
Average over 8 years		92.2

Although the average of actual operation works out to 92.2% the Board for calculation purposes maintains 90% as the target of capacity utilisation.

It may not be difficult to attain 100 per cent efficiency occasionally, but provision must be made for bad weather and unfavourable circumstances which do arise more often than not and over which no management control can be exercised; in our case the transport and raw material difficulties are well-known. The fixation of block value at 100 per cent utilisation of capacity in the steel industry is unrealistic and I am afraid, will be of no help to the industry. It is my sincere suggestion that the matter should be reconsidered and given a second thought by Government. It must also be remembered that when vital issues of this nature are referred by Government to an independent semi-judicial and expert body like the Tariff Commission, its recommendations should not be flouted in the manner in which it has been done in this case, as it is bound to undermine confidence in the private sector and definitely make foreign aid participation very doubtful.

As regards the disallowance of the Special Advance of Rs. 10 crores from the block a great deal has been said, both in Parliament and outside it, about this interest-free loan to your Company by the Government. I have so far refrained from answering queries from stock holders, financial journals and papers, as I thought it to be Government's duty to explain the reasons and motive behind such a loan first to Parliament. Since 1958 Government's ideas on the repayment of the interest-free loan have been undergoing many changes, some even contradictory. It is only fair to stock-holders that I should now take them into confidence and explain how this interest-free loan of Rs. 10 crores came into being.

At the request of the Government of India, Mr. Eugene R. Black, the World Bank President, paid a visit to India in February 1952 to acquaint himself of the broad aspects of the country's development programme in the light of the Five-Year Plan. On the 17th February he, accompanied by Mrs. Black, Messrs. Joseph Rucinski, Chief Economist of the Loan Department, Leonard B. Rist, Director of Economic Department and Harold N. Graves, Director of Public Relations, arrived at Burnpur on a two-day visit to have a first-hand study of your Company's expansion programme.

Being satisfied with the merit of your expansion scheme, he was kind enough to send to India in June 1952, a Fact Finding and Feasibility Probing Mission of four members headed by Mr. George D. Woods, one of India's best friends outside the World Bank and the President of the First Boston Corporation of New York. The Commission consisted of Mr. Woods, Mr. Maccurda, his personal adviser, Mr. Joseph Rucinski of the World Bank and Mr. Carl Fiesher, Technical Consultant to the Bank. They visited your Works and went into the details of the First Expansion Scheme with the Company's Consulting Engineers and the Works' senior executives. On being satisfied with our scheme generally in every respect, discussions with Government were started in Delhi directly afterwards. At these discussions, the then Finance and Commerce & Industries Ministers were present along with their respective secretaries and advisers. You were represented by my colleague, Mr. F. G. Liversedge and myself. At the conclusion of these discussions, the World Bank's representatives agreed to put the matter up to the World Bank Directors, subject to a detailed scheme of the plant proposed, its costs broken up into foreign exchange and local currency, the legal aspects of mortgage of all lands and property of the Company etc., considered. The foreign exchange requirement to be met by the World Bank was approximately estimated to be Rupees 15 Crores or 31½ million dollars. Government's loan to the Company on the same terms and conditions, but ranking second to the World Bank and the then debenture holders, was set up approximately to be Rs. 7.9 Crores. The Company was to find an equal amount, namely Rs. 7.9 crores from its own resources. It was then found, a further Rs. 10 crores was needed for financing the entire scheme, as well as to meet the working expenses. The question then arose how to bridge this gulf. The Woods Commission came to the conclusion that the then Tariff Board's function as directed by Government in the case of the steel industry, was not so much as to find ways and means of protecting the indigenous industry from foreign invasion, but to prevent it from claiming a higher world price for its commodities, obviously for Government's own benefit; Government, therefore, in all fairness could hardly refuse to find for the industry the needed amount, and they said, if I remember correctly, "Whose money are you giving away and to whom; in the case of jute, tea, sugar, copper and other such commodities, the industries are allowed to claim or sell at the highest prices the World market was willing to pay, but in the case of steel, the industry was beaten down by the Tariff Board on a framed up formula fixed by Government. All Government has to do is to remove it and the steel industry would no longer need financial aid from Government, other than a guarantee of the repayment of foreign exchange loan". After a couple of days' thinking Government agreed to find the money as a loan which the World Bank's representatives thought should be "rent free", meaning interest free. The Ministers agreed to the loan to be termed as a Special Advance and interest free, but thought in order to avoid questions being asked in Parliament, the whole or part of the corpus should be repaid sometime, i.e., when the Company was opulent enough to do so

and no further expansions were contemplated. The World Bank representatives were of the opinion that so long as it was agreed that the amount would only be paid, both interest, if any, and the corpus out of a special element to be included over and above the normal retention price, they would have no objection. The Government agreed to it, but later thought they should also include the clause wherein they would reserve the right to ask the Company to raise additional share capital for the repayment of whole or part of the corpus as and when the Company was in a position to do so. The World Bank's representatives were of the opinion that this should only be done subject to mutual agreement between the Government and the Company.

The World Bank's representatives then went on to explain that the primary function of the I.B.R.D., whose capital was subscribed by a number of nations, was to rehabilitate and/or expand industry in the private sector only and in doing so to enable such industry to remain in a healthy financial position in order that it could expand on its own, and further, the Tariff Board must be instructed by Government that it must not, as in the past, take away incentives from the Company in the way of any operational efficiency or savings in the cost of production or by increased production, and a normal depreciation and a reasonable return on capital etc., should be maintained. Both Government and your Company agreed to these principles and Government issued new directions to the Tariff Board which later on was converted into the Tariff Commission with statutory powers. It appears Government now wishes to resile from its previous commitments and undertakings it had then made.

The recommendation by the Tariff Commission of Rs. 8/- per tonne relating to the repayment of Special Advance and interest thereon has not been accepted by Government. The reason, in their own words, being "Finally, in revision of their earlier decision taken in 1959, Government now consider that it is not necessary to provide an element in the retention price for the payment of interest on and repayment of special advance. The agreement with the Companies provided for an alternative method of repayment of a part of the Special Advance with interest, namely, issue of share capital by the Companies at such time or times as the Government of India may, in agreement with the Companies, decide."

For the benefit of the stock-holders I give below the relevant extract from the agreement between the President of India and your Company dated the 15th of July, 1953:—

Clause 1 (iv)(c):

"The Government of India shall decide, on the advice of the Tariff Commission, whether after the 30th June 1958 (or such later date as aforesaid), the Company should be charged any interest on the said advance and at what rate the Company should repay the advance. PROVIDED that the interest and repayment of the advance shall to the extent to which the same is not paid out of the share capital to be raised by the Company in accordance with Clause 3(c) be payable by the Company out of its earnings arising from a special element in the prices of iron and/or steel over and above the normal retention prices, after deducting from earnings all taxes payable by the Company to the Government of India on such earnings at the rate or rates applicable to the Company's total income during the period ending the 31st March 1969."

It is further amplified later in Clause 3(c) which reads as follows:—

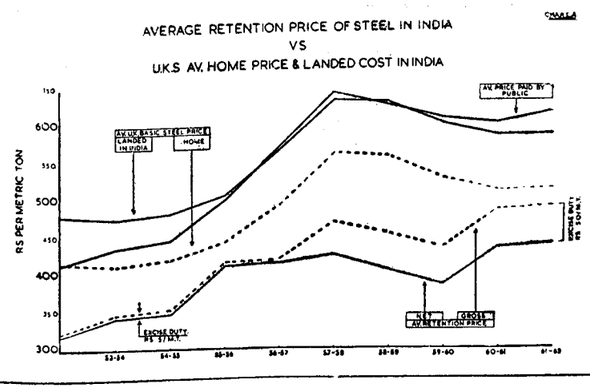
"Notwithstanding the provisions in paragraphs (c) and (d) of Sub-clause (iv) of Clause 1 laying down the manner of payment of special advance to make an issue of share capital at such time or times as the Government of India may call upon the Company to do and to repay out of the proceeds of such issue a portion of the special advance. The proposals for any such issue (including the timing, the amount of the share capital to be so raised and the portion of the special advance to be repaid out of the proceeds of the issue of shares and other particulars relating thereto) shall be as may be agreed between the Government and the Company."

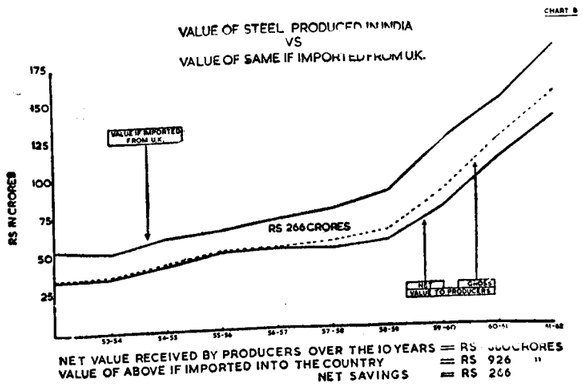
It will be seen, therefore, the intention of Government in 1953 in regard to expansion of the steel industry in the Private Sector has undergone a very great change, for if your Company has to raise capital to repay the advance of Rs. 10 crores, and this contention is upheld by Government, it virtually means saying good-bye to any future expansion, even if it be for merely balancing of your plant and thereby effecting a fully economic unit.

Apart from all that I have said in this connection I utterly fail to see any logic or justification in the Government's action in deducting the corpus of the Special Advance of Rs. 10 crores to arrive at the standard block on which overheads are to be allowed. If Government has now changed its mind and treats this money as a free gift, i.e. neither interest nor repayment of the corpus being required, then there may be something in the Government's contention. But in its recent statement made on the 19th September, Government has reiterated its stand regarding the repayment of the advance and indicated that it could ask the Company to repay this Special advance out of an issue of fresh capital. Therefore, it is not a gift and if that be so, then on what ground can Government take this totally unreasonable and unrealistic stand?

It can be safely vouched and nobody will deny the special position and importance of the steel industry in our country, particularly in an era of expanding economy based on rapid industrialisation. Contribution made by this Industry in the past, specially in the field of saving foreign exchange is very considerable, and this is explained clearly in the appended two charts (A & B) showing—

A. The net price per tonne of steel given to the producers, the price paid by the public and what it would have cost the country if imported from overseas.





B. Saving of foreign exchange effected due to indigenous production over the past ten years, in other words, the cost of a new one million ton capacity integrated steel plant.

That then has virtually been the contribution of the two steel plants in the Private Sector. Does it therefore behove Government to accord to this industry the perfunctory and niggardly manner of treatment it has been subjected to? Is it not a matter of elementary economics that the benefit of maximum possible incentive should be extended to the industry to allow it not only to exist, but to function and produce on as high and efficient a level as is possible? Why then this ire as if the industry has done something terrible, and deny it a healthy climate all round to earn a reasonable return on the capital employed, which is largely being ploughed back from profits and maintain an increasing output, thereby enhancing the growth of national wealth?

When Government's decision on the retention price of steel was released there was widespread criticism and Government made a statement on the 19th of September 1962 in an attempt to justify its official action for reducing substantially the prices recommended by the Tariff Commission. I will now deal with the arguments advanced by Government item by item and prove to you how futile these are.

It was stated that Government had accepted the Works costs as calculated by the Tariff Commission and this constituted 70 per cent of the total retention prices. This statement seems to imply that a great favour has been done to the steel industry by Government, by its acceptance of this major element of the retention price. This is no favour at all. Government could not help but accept as correct, calculations of Works costs by the Tariff Commission, as these were not estimates of future Works costs, but facts based on historical costs on the actual performances of the producers during the period of price fixation, namely from 1st of April 1960 to 31st of March 1962.

In regard to reduction by Government of the working capital of your Company to 4 months' cost of production as against 8 months' claimed by the Company in its representation and 6 months' allowed by the Tariff Commission, the reasons given by Government to justify its stand are based on two grounds:—

(a) That every indentor of steel has to pay in advance 25 per cent of the total value of his order in cash to the steel producer before it can be booked, and therefore, the Companies invariably had a fairly large sum of money at their disposal.

(b) That at any given time the Companies had large sums of money belonging to the Government in their possession and these were not actually paid into Government account.

In regard to (a) the statement made by Government that every indentor had to pay 25 per cent security deposit against order is absolutely baseless. This could easily have been verified from any Government Account Officer and it would have been found that no Government department gives any security deposit whatsoever, whereas on the other hand Government takes months to pay your bills. It is a fact that producers dare not ask for any security deposit from Government, including the Railways, and large well-established customers which constitute more than 80 per cent of their sales. It is only in the case of small bazaar parties that the producers take a security deposit and this too with the Iron and Steel Controller's acquiescence, as no order can be booked without his approval. Some years ago it was found that some of these small bazaar parties having booked orders (for reasons best known to them) were found to be nonexistent, or refused to accept bills when the railway wagons arrived at the destination. What then could your Sales Organisation do other than to run to the Iron and Steel Controller for his approval to divert the railway wagons to some other party—in the meantime demurrage accrued

as well as the extra freight for diverting the wagons. Who then was responsible for the extra cost of freight and demurrage as your sales organisation was in no way responsible for the order? The then Iron and Steel Controller thereupon decided that for these unknown and unreliable parties the producers were entitled to demand 25 per cent with the order, in order to reimburse them in such cases of default. These advances are mostly in G. P. Notes and fixed deposits in banks. The interest accruing is payable to the customers and the Company has no access whatsoever to these funds. To make my point clear, I append below a statement for the 3 years, 1959-60, 60-61 and 61-62 showing the gross steel sales from Burnpur and the security deposits and advance payments in cash received by your Company:—

	1959|60 Rs.	1960|61 Rs.	1961|62 Rs.
Gross Steel sales	39 crores	46 crores	50 crores
Security deposit and advance payments in cash	26 lakhs	30 lakhs	29 lakhs
Percentage	0.67	0.65	0.58

In view of these actual figures from the Company's audited accounts the statement made by Government seems to be most irresponsible, as during the three years under reference the maximum amount lying with the Company was between 0.67% to 0.58% which is nowhere near 25% stated by Government.

In regard to (b) the statement that at any time the producers owe large sums of money to Government is again just a myth. Both Mr. Bhoothalingam and Mr. N. N. Wanchoo, Secretaries to the Ministry of Iron & Steel have written to me complaining about the large outstandings from the Company to Government and every time we have written back in reply to prove that Government's statements were incorrect. Moreover, Government seems conveniently to forget that it is your Company that do it a favour by collecting surcharge moneys on its behalf and further all collection expenses including cash discount allowed by us on the amount of the surcharge are being borne by the Company. Besides, whether the Company receives payment of a bill or not, it is required to pay the surcharge portion of the bill immediately to the Iron & Steel Controller. How can Government then quibble over a few lakhs of rupees worth of surcharge money that necessarily must remain outstanding at any time with the Company as claims cannot be finalised within the period.

On the other side of the picture, apart from outstanding bills for materials supplied by the Company, it has to wait years to get reimbursement from the Equalisation Fund in respect of any increases in the retention prices. These increases are due to the Company as costs and overheads have gone up in the meantime and which are beyond the control of the Company. Although it has already been out of pocket to these extents it cannot claim any reimbursement from Government unless Government so deigns, at its leisurely pace to decide on the revised retention price. As an example, in the case of the recent increase in steel prices which are really due from the 1st of April, 1960, the notification by Government of such increase in the retention prices is dated 7th of September 1962, and the category-wise retention prices were made available to the Company only on the 12th of October 1962, i.e., a time lag of about two and half years. This, in other words, means that crores of rupees due to your Company has been lying with the Equalisation Fund for this period, whilst your Company had to borrow money from banks and pay interest on it to meet its day to day obligations.

For the reduction in the return on capital it has been stated by Government that your Company, like Tata Iron & Steel Company, had no more than one-fourth of the total capital of the Company in the form of equity capital and that this ratio may have still fallen further. The Government's contention is that the rest of the capital has been borrowed and therefore should be treated differently as it was not the stock-holders' money. For your information I append below a statement showing that during the 10 years, i.e. from the date of the Expansion Scheme until 31st of March this year your Company has contributed out of its own resources —and which really is your money— to the extent of Rs. 34.69 crores, a sum which cannot be sneered at on any account:—

Capital Expenditure and Sources of Funds during the ten years 1952/53 to 1961/62.

	Rs Crores	Rs Crores	Rs Crores
Expenditure on Extensions:			
Burnpur—			
1950 Extensions	4.97		
1953 ,,	37.64		
1955 ,,	18.46		
General	5.97	67.04	
Kulti		3.76	70.80
Less: Outside Sources of Funds for Extensions:			
World Bank Loans	21.28		
Government of India Loans	7.35		
Special Advance	10.00		
New Shares Issued	7.00	45.63	
Extensions financed out of own Resources			25.17

Capital Expenditure financed out of own Resources upto 31-3-62

	Crores Rs.
For Extension as above	25.17
World Bank Loans Repayment	5.80
Govt. of India Loan Repayment	2.13
Sterling Debenture Repayment	1.59
	34.69

This, in other words, means that in addition to a sum of Rs. 7 Crores contributed by you as a rights issue in July 1957 a sum of Rs. 34.69 Crores has already been ploughed back from your profits during these years, making a total contribution from you of Rs. 41.69 Crores, and this process will continue until all loans, past and future, are repaid.

In my previous statements to you as well as in the Annual General Meetings in the past, I have made it known that these large sums of money, which you are investing in the Company from year to year will one day be partly converted into equities. But your Board of Directors were precluded even from thinking about it owing to the penal tax of 30 per cent, now reduced to 12½ per cent levied by Government on bonus issue. From these figures it will be seen that your Company has made contributions towards the expansion scheme in no mean measure. No integrated modern steel plant, no matter what part of the free world it is situated in, can be expanded or modernised with stock-holders' money only. It has to take recourse to borrowing funds from banks and the most enterprising and sensible Governments come forward to give them such help as needed in order to reap the benefit of extra production of iron and steel, thereby creating extra expansion in the country's heavy industries etc., as well as finding an outlet for foreign exchange by exporting goods.

Government also seems to argue that if a part of the gross block is financed by loan capital the structure of the Company's finance should be different and the return on such capital should accordingly be calculated on different lines. To say the least, this is a strange way of thinking on the principles of economics, as it is both unorthodox and unheard of. If Government had these ideas in mind it should have, in all fairness and to all concerned, declared them in unequivocal terms when these very loans were being negotiated. It would then have been for the Board of Directors and the stock-holders either to accept or reject the terms and conditions at the time and not to have a surprise suddenly sprung on them as at present.

As already stated, Government's latest contention has been that on account of the special capital structure of the company and on account of not achieving 100 per cent production, the return on capital should be correspondingly reduced, and for this purpose Government has decided to cut a slice into the block which is standing up proudly at your Works. But as depreciation is calculated on block, this has also resulted in a reduction in the total quantum of depreciation allowed by the Tariff Commission. Are we not justified in enquiring, why this unwarrantable reduction in depreciation? I can only term this action as adding insult to injury.

It has also been openly said in Parliament the other day that your Company has earned huge profits during the year under review. I do not know, in the case of a Company like yours, what the yard-stick for this "hugeness" is. All I can say is that your Company has earned only a reasonable profit, commensurate with its requirements and obligations. Besides, uniform retention prices were fixed for all Producers, and if any one Company has earned a little extra due to efficient working, that I should have said, would have been a matter for congratulation and not resentment. I am sure it is not Government's desire to discard all cardinal principles of economic aid to penalise efficiency.

Production Difficulties

The quality of raw material, if anything, has deteriorated from what it was last year, and added to this, irregularity of transport as well as wrong type of wagons for transporting the materials do not help to make the Works Executive's life a happy one.

I append a few charts (No. 1 to No. 6) which will show the difficulties that have to be surmounted in order to utilise the raw materials. The object is to bring out some of the obstacles which prevent the

CHART No. 1

DAILY RECEIPT OF BOBS WAGONS (QUICK SIDE DISCHARGE TYPE WAGONS) DURING AUGUST '62

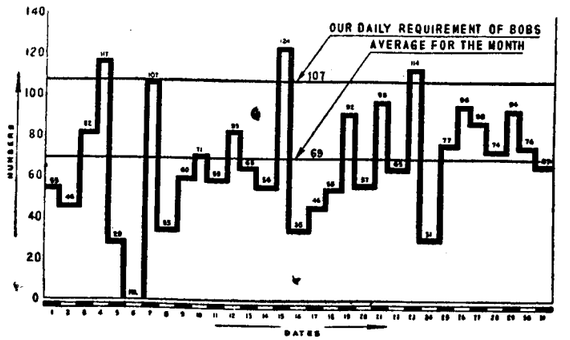
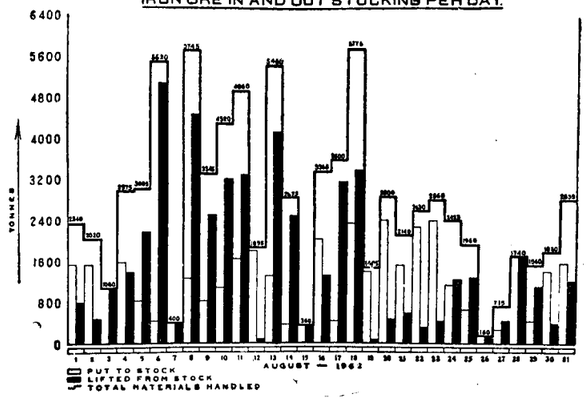


CHART No.2

MANUAL HANDLING
IRON ORE IN AND OUT STOCKING PER DAY.



STATEMENT SHOWING THE IRON ORE PROGRAMME & RECEIPT POSITION AGAINST THE PRODUCTION OF IRON OF VARIOUS STEEL PLANTS.

CHART - 3

Month	BURNPUR					BHILAI					DURGAPUR					ROURKELA				
	Iron Production	Programme by Steel Controller Average/day		Receipts Average/day		Iron Production	Programme by Steel Controller Average/day		Receipts Average/day		Iron Production	Programme by Steel Controller Average/day		Receipts Average/day		Iron Production	Programme by Steel Controller Average/day		Receipts Average/day	
		BOBS	BOX*	BOBS	BOX		BOBS	BOX	BOBS	BOX		BOBS	BOX	BOBS	BOX		BOBS	BOX	BOBS	BOX
	M.T.	Nos.	Nos.	Nos.	Nos.	M.T.	Nos.	Nos.	Nos.	Nos.	M.T.	Nos.	Nos.	Nos.	Nos.	M.T.	Nos.	Nos.	Nos.	Nos.
JAN'62	86,700	104	24	80	8	92,000	120	Nil	87	Nil	63,000	38	Nil	35	8	44,000	69	Nil	36	20
FEB'62	79,300	104	24	81	15	84,000	120	Nil	91	Nil	59,000	38	Nil	24	9	36,000	69	Nil	42	19
MAR'62	113,200	104	24	80	8	94,000	120	Nil	97	Nil	66,000	38	Nil	40	18	42,000	69	Nil2	41	13
APR'62	109,700	114	27	96	1	94,000	120	Nil	96	Nil	69,000	35	40	41	18	20,000	65	20	38	4
MAY'62	112,300	114	27	80	9	100,000	120	Nil	93	Nil	67,000	35	40	63	11	46,000	65	20	36	8
JUN'62	87,600	114	27	97	12	95,000	120	Nil	95	Nil	63,000	35	40	38	17	50,000	66	20	35	8
JUL'62	96,100	81	61	89	8	101,000	120	Nil	107	Nil	78,000	35	40	40	20	47,000	46	20	47	8
AUG'62	105,300	81	61	69	20	102,000	120	Nil	108	Nil	90,000	35	40	39	18	56,000	46	20	50	18

* The Company has always objected to being forced to accept B.O.X. wagons in lieu of B.O.Bs wagons as with the full knowledge and approval of the Railway Board our mechanical off-loading equipment was designed and installed to handle only B.O.Bs wagons.

Company from achieving a production rating of 100% of its installed capacity. Apart from these obstacles, there is also the question of the quality of the raw materials, particularly Coking Coal. The average ash content of our Coke has now reached 24% but the average figure does not indicate the true picture, as the quality of the Coal fluctuates widely, and the manner in which the Railway authorities deliver the Coal prohibits blending which would neutralise to some extent the wide fluctuations.

CHART NO. 1 showing daily receipts of BOBS Wagons (Specially designed side discharge for handling ore and limestone) during August 1962 :

It will be observed that against the normal daily requirements of 107 BOBS Wagons, the number fell very much below this figure on most days. The Railway authorities substituted BOX type wagons in place of BOBS wagons in spite of the fact that the Works are unable to off-load BOX wagons except by manual means.

CHART NO. 2 showing Manual Handling of Iron Ore — In and Out Stocking per day during August 1962 :

Here it will be observed that apart from ore handling in our normal mechanical stock handling Ore Gantry, we had to handle in and out of stock as much as 5,775 tonnes in one day.

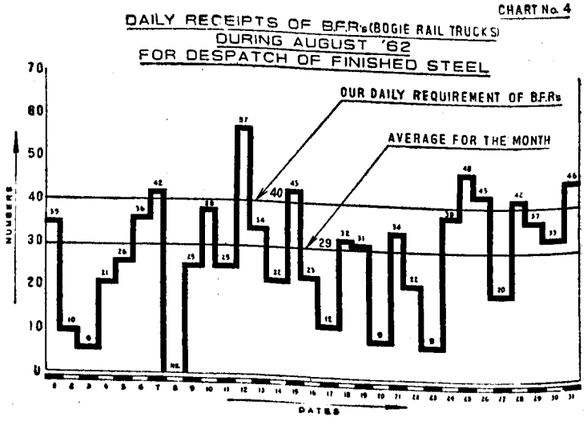
CHART NO. 3 showing the Iron Ore Programme & Receipt Position against the production of Iron of various Steel Plants :

This Chart brings out clearly that whereas Durgapur Steel plant was never intended to be supplied with BOBS wagons but rather BOX wagons, it is, in fact, now being given BOBS wagons at the expense of your Works and that your Works are being forced to accept a greater and greater number of BOX wagons in consequence. It will also be observed from this Chart that Bhilai remains unaffected as far as BOBS wagons are concerned.

The Company has always objected to being forced to accept BOX wagons in lieu of BOBS wagons as with the full knowledge and approval of the Railway Board our mechanical off-loading equipment was designed and installed to handle only BOBS wagons.

CHART NO. 4 showing Daily Receipts BFRs (Bogie Flat Rail Trucks) during August 1962:

CHART No. 4



Burnpur Works require an average of 40 BFRs per day but, as can be seen from the Chart, this figure is rarely supplied.

CHART NO. 5 showing Eastern Railway Destinations & Route Restriction Details :

CHART NO. 6 showing South Eastern Railway Destinations & Route Restriction Details:

Charts Nos. 5 and 6 have been prepared to show that practically every day the Railway authorities impose restrictions on the despatch of finished materials on numerous routes and to numerous destinations. The practical result of this is that wagons already loaded with materials are not accepted by the Railway authorities at the last moment, thus causing detention and demurrage liabilities, and also in many cases, your Works are unable to load wagons because they have no material available for the destinations which are free of restrictions. Again, there is wagons detention and demurrage liability.

In effect, the Railway authorities supply wagons for despatch of finished material and at the same time dictate to us where these materials shall be sent and in many cases against the Iron & Steel Controller's orders. This is an absurd situation and would require a considerable tonnage of finished goods to be held in stock to cover such a wide field of variation of free destinations.

Colliery Expansion Scheme

The object of our Colliery Expansion Scheme is to provide the bulk, if not the entire needs of our Coking Coal, approximately 85% of which will be crushed, washed and blended to produce a consistent grade of Coking Coal of approximately 17.5% Ash.

The major development will take place at your Chasnalla Colliery where the Coal will be extracted:—

(1) from Open Cast Quarries,
(2) Underground Mines.

The run-of-mine Coal will be crushed and washed in a Coal Preparation Plant and the resultant blend product transported to the Burnpur Works by two Aerial Ropeways costing approximately Rs. 4.5 Crores over a distance of approximately 32 miles. This development will take place over a period of approximately five years, the production progressively increasing to the target of 4,200 tonnes of washed Coal per working day.

The Coal reserves in your Jitpur Colliery at the present working levels are almost exhausted making it necessary to sink the existing shafts to proven lower levels and also to make provision for Sand Stowing to permit maximum extraction. The production will thus be raised from the present 800 tonnes per day to 1,500 tonnes per working day over a period of five years. This Coal will be conveyed by Aerial Ropeway about six miles to the Chasnalla Coal Preparation Plant for blending and washing, yielding approximately 1,200 tonnes of washed Coal per working day.

The Company's Ramnagore Colliery is being modernised to increase the production of Coal from the present 400 tonnes per day to 1,000 tonnes per working day. The modernising includes the new Sand Gathering Plant and a Sand Trans-

EASTERN RAILWAY DESTINATIONS AND ROUTE RESTRICTION DETAILS. CHART - 5

AUGUST, 1962.

DESTINATIONS.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
To Sasaram							R	R	R	R	R	R	R																		
To and Beyond Katihar									R	R	R																				
Asst. cum Private Sdg. Samaria									R	R	R																				
Delhi Goods Shed									R	R	R	R																			
To Patratu																	R	R													
To Dalmianagar Siding Dehri-on-Sone																	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
To Patna Jn. Local																	R	R													
To Dhanbad Jn.	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	R	R									
To Kohima & Imphal (O/A)																				R	R	R	R	R							
To Dum Dum Cant.							R	R	R	R	R	R	R	R	R	R	R	R													R
To Dehri-on-Sone																						R	R	R	R	R	R				R
To Aligarh																						R	R	R	R	R	R	R	R	R	R
To Sirpur Khaghaznagar																							R	R	R	R	R	R			
To Stn. Fakiragram beyond NF Rly.																											R	R	R		
To Lucknow Goods Shed																											R	R	R		
To Jaunpur																									R	R	R	R	R		
Stn. between Savan & Gorakhpur																									R	R	R	R	R	R	R
Shibporechar a/c Plot holders Nathmal Dewarkadas & T.D. Kumar & Bros.																											R	R	R	R	
Shibporechar a/c S.K. Mallick, H.K. Deyasi & Surajmal Baijnath																												R	R	R	
Chunar to Robertsganj	R	R	R	R	R	R	R	R	R	R	R	R	R																		
Robertsganj																									R	R	R	R	R	R	
Jadavpur	R	R	R	R	R																										
Samastipur Dist.																															
ROUTE (VIA.)																															
Farakka			R	R	R																										
Khandwa							R	R	R	R	R	R	R	R	R																
Bhagalpur (Crane)																			R	R											
Dhanbad																			R	R	R	R	R								
Gauhati (Shillong O/A)																						R	R	R	R						
Banaras Cant. (Crane)								R	R	R	R	R	R	R	R	R	R	R	R	R								R	R	R	
Dehri-on-Sone to Stn. D.R.L. Rly.																												R	R	R	
Bareilly																										R	R	R	R		
New Jalpaiguri																									R	R	R		R	R	
Sasaram																															

R - DENOTES RESTRICTIONS.

portation System. A new Ventilation Shaft and a ventilating fan nave aireday been installed. Ramnagore Coal will be transported by Rail Car to Burnpur via the Company's own Kulti|Burnpur track. This Coal does not need to be washed as it will readily blend with the Chasnalla|Jitpur blend.

Experiments carried out at your Works over a period have shown that if we are to achieve greater productivity from our blast furnaces, our Iron Ore must be subjected to treatment to obtain a smaller and more uniform size and to remove the deleterious gangue. The smaller fractions of our Ores cannot be used without further processing. This problem is being closely studied and practical tests made in order to obtain sufficient basic information to enable us to select the most suitable process of agglomeration. In the meantime, it is proposed to instal the appropriate plant at your Gua Ore Mines to enable us to wash the Ore and screen to the desired size fractions.

Increase of Steel production under the Fourth Five-Year Plan

The assessment of the future demand for steel in India is a futile exercise of mind and brain as the quantum is so large as to outstrip the ability to achieve it by any specified period of time.

The maximum achievement can only be accomplished by first concentrating on making available predetermined and realistic quantities of the necessary raw materials, its transport and the power required by predetermined dates and planning the simultaneous completion of matching Steel capacity.

To erect Iron & Steel Plants first, with the pious hope that the raw materials, power and transport will 'turn-up' is the mistake of the past and would be criminal waste of money and energy if blindly followed in future.

Although the type of product required in the future has to be estimated, the estimate must be subjected to continual review as the pattern of product will inevitably change as time goes on. In adopting long-term planning for the development of new capacity, the development potential of the existing capacity must not be lost sight of as it is cheaper and quicker to achieve this than putting down a new plant of the same capacity. Development of capacity should be a continual process and to obtain maximum production with utmost efficiency from existing units, it is imperative that they be kept up-to-date technologically. In these days of advancement in new steelmaking, long before the building of a new Steel Plant is complete, it is more often than not out of date, making it necessary to adopt newer techniques and equipment to maintain an efficient economic and technological balance.

The location of new Steel Plants is of vital importance, the principal influencing factors in the past have been the proximity of raw materials, power, water and adequate rail transport. It is thus very tempting to proceed to locate new Steel Plants along the traditional Iron Ore|Coal rail route. Unfortunately, in our country this route is grossly overloaded now, and in the absence of large scale railroad development and modern techniques of handling it, the addition of one or more Steel Plants is bound to have a detrimental effect on the units already in existence. Throughout the world the trend is for bigger and bigger Steel Plant capacity until new plants of 3|5 million tonnes are not uncommon. Therefore, any designing of plants should take into account the probable ultimate size. If the intention is to develop larger plants for export purpose, then the ideal place for them is on a navigable river or sea-board.

SOUTH EASTERN RAILWAY DESTINATIONS AND ROUTE RESTRICTION DETAILS. **CHART - 6**

AUGUST, 1962.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	25	24	25	26	27	28	29	30	31
DESTINATIONS.																															
To Arkonam	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R														
To Bhubaneswar														R	R	R	R	R	R	R	R	R	R	R	R	R	R				
To Khargpur																						R	R	R							
To Dandeli	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R									R	R	R	R	R	R	R	R
To Coimbatore																								R	R	R	R	R	R		
To Kristna Canal Cement Sdg.																								R	R	R					
Macherla	R	R	R	R	R	R																									
Madras (Salt Coutaurs) Crane				R	R	R	R	R	R	R	R	R	R	R	R	R															
-do- General Goods																	R	R	R	R	R	R	R	R							
Rayapuram (Crane)				R	R	R	R	R	R	R	R	R	R	R	R																
-do- General Goods																	R	R	R	R	R	R	R	R							
Bangalore City																								R	R	R	R	R	R	R	R
Bangalore Cantonment																								R	R	R	R	R	R	R	R

ROUTE (VIA.)																															
Arkonam (Crane)	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R																
Trichinopoly Goods	R	R	R	R																											
Bangalore City (Crane)	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R									R	R	R	R	R	R	R	R
Jalarpet towards Cia Vakkot	R	R	R	R	R																										
Ulavapadu	R	R	R	R	R	R		R	R	R																					
Tadepalli Tranship (Crane)	R	R	R	R	R	R		R	R	R	R	R		R	R	R	R	R	R	R	R	R	R	R	R						
-do- (Non-Crane)	R	R	R	R	R	R											R	R	R	R	R	R									
Salem Market (Crane)	R	R	R	R	R	R	R	R	R	R	R	R	R																		
Guntakal							R	R	R	R																					
Ghorpuri											R	R	R	R	R	R	R	R													
Raichur																						R	R	R	R						
Katpadi (Crane)	R	R	R	R	R	R	R	R	R	R	R	R																			

R - DENOTES RESTRICTIONS.

The reserves of the basic Iron & Steelmaking raw materials in India have been variously quoted, some of the figures are such that if accepted, would discourage long-term planning of Steelmaking capacity. One such item is limestone, but it is difficult to believe that a country the size of India is relatively short of good quality limestone. To establish the truth of the matter large-scale prospecting must be carried out, uninhibited by thoughts of distance from the consumer. Transport facilities must be developed to match the sources of supply and this would be a much better proposition than spending large sums of money beneficiating local inferior limestones and run into the vexed transport problem.

It has to be accepted that the quality of Coking Coal in India has never been and never will be 'good' and that it is worse today than ever before. Here again the calculated reserves are based on inadequate knowledge of the possible existence of coal lying below the normal working depth of Indian Coal Mines. It has not been conclusively proved that Coking Coal does not exist as valuable reserves below a depth of 2,000 ft. In the meantime, the existing Coking Coal quality must be improved by washing to produce a product of consistent ash level even if the ash is still not as low as desirable. Conservation of the existing reserves is imperative even to the extent of prohibiting the use of any Grade or Metallurgical Coal for purposes other than Metallurgical. Every effort has to be made to reduce the consumption of Coke per tonne of Pig Iron by resorting to modern Technology in regard to preparation of Blast Furnace Raw Materials and the use of fuel injection coupled with refractory materials to withstand the maximum blast heat attainable.

Of all the raw materials, Iron Ore is the most plentiful in India and is of high Fe content. Unfortunately, most, if not all, of the ores also contain a high Al_2O_3 content a factor which contributes to a greater Coke consumption (an expensive item) than would otherwise be the case, particularly where Pig Iron is manufactured specifically for Steelmaking.

The beneficiation of ore in the form of uniform and smaller sizing together with washing should greatly improve Blast Furnace operation and the quality of Pig Iron obtained.

The measures taken to obtain a smaller and regular Ore size will result in a substantial quantity of under-size Ore at the Mines. Many processes have been developed to agglomerate under-size ore for use in Blast Furnaces, each of them having their own merit for a particular set of conditions. None of them has universal application which makes the selection of one or the other a matter of the greatest importance. It is suggested that in view of the vast Iron Ore reserves in this country compared with the reserves of the other raw materials there is plenty of time to study all methods of agglomeration in an effort to find the best possible solution to India's particular problem; which may or may not be the popular method of Sintering.

The washing of Coking Coal will simultaneously produce a discard fraction of middlings, the disposal of which will not be a problem if used for the generation of electrical power. Here is opportunity to alleviate the chronic shortage of electric power. Such Power Generating Stations should be erected in conjunction with or adjacent to several Coal Preparation Plants.

Due to the rapid industrial development of India there is a great dearth of experienced technicians. Training programmes have been organised to create an army of trained personnel required to man the new Steel Plants. This is a gigantic task in itself, unfortunately it cannot be said to have been wisely handled. Far too many trainees without previous Works experience have been sent abroad for a training of doubtful value when instead they should have been employed in the construction of the plant they would eventually have to operate. Thus a valuable opportunity was lost in which a large number of selected men destined to be Supervisors or Managers would have matured with the experience of working with their own hands. It is suggested that in future, training programmes should be designed in such a manner that all trainees, irrespective of their ultimate destiny, are required to 'work on the job' for an extended period of time before final selection. Training abroad should be limited to those who are already mature to some extent and who can profit most from specialised training. General overseas training is useless. Until such time, and in my humble opinion of some thirtytwo years' experience, the country has to bring out highly experienced overseas staff to train our men to man our plants—a matter of ten to twelve years.

Ujjain Project

At the last Anuual General Meeting I mentioned to members present that your Company in conjunction with our old friends, Stanton & Stavely Ltd. were contemplating on starting a new Works as subsidiary of this Company at some suitable place in Madhya Pradesh which would be convenient from its transport point of view to cover Kashmir, Punjab, Rajasthan, Delhi Himachal Pradesh, parts of Uttar Pradesh, Gujarat and Maharashtra, etc., in other words, areas where freight costs made sale of your Spun Iron Pipe products from your Kulti Works unremunerative. I am happy to report to you that an Agreement has been concluded with Stanton & Stavely Ltd. of U. K. whereby they will contribute towards all plant and spares which cannot be made in India, this being about 1|3rd of the actual cost of the project, the other 2|3rds of the cost to

be met by your Company; this agreement has had Government's blessing and the necessary licences etc. have already been issued. The position of the new Works will be situated about 5 miles west of Ujjain, a city famous from the time of the epic of the Ramayana and of Meghaduta, where all necessary requirements such as land, power, water and transport, both broad and metre gauge railway, plus roads are available. All work in this connection is proceeding satisfactorily except that of the railway siding into the Works, which, although it is almost alongside the main track, is taking a little time—a matter that must be expedited without delay as otherwise nothing can be installed at the site. The range of products will be Spun Iron Pipes—the same as that produced at your Kulti Works No. 1 Pipe Foundry since 1942, viz. from 3" to 12" dia. and 18ft. in length and for the necessary specials and bends, etc. for which there will be a Specials Foundary. The approximate total cost of the completed plant will be about Rs. 3 crores. In view of the tremendous demands for these pipes to complete some of the Second and all of the Third Five Year Plans set up by Government and the Private Sector, one would have thought the Railways would have made a special attempt to put in hand and make available these sidings, a mater of a few hundred yards only.

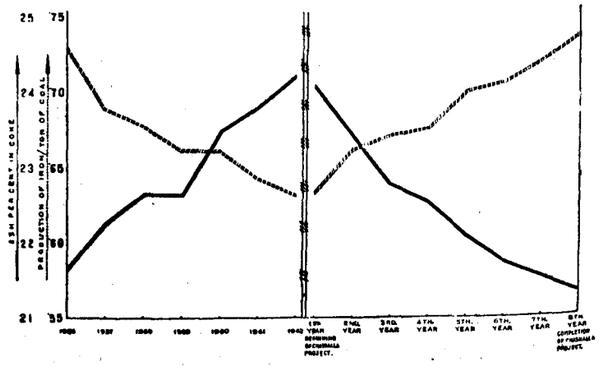
The total producion of pipes and specials will be in the neighbourhood of some 65,000 tonnes per annum and the plant is capable of being double without much trouble, should demand for its products remain. The quantities of special grade iron and coke will be met from your Burnpur Works. Stockholders would be invited to subscribe towards building of this plant in the way of a Rights Issue, and the nomenclature and time will be notified in due course after consulting the Capital Issue Department of the Government.

Future Expansion

Another matter, which I am sure, will be or greatest interest to you is the balancing of the Burnpur Plant and its future expansion to make it an economic unit. This came up for discussion at Washington while my advisers and I were engaged in concluding our loan arrangement of $19.5 millions with the World Bank for the Colliery Expansion scheme. A day before we left for Washington, Mr. E. De'alba of the World Bank requested us to make a chart on the historical performances of the blast furnaces as from the time the quality of coal started deteriorating upto the present, and projecting the same to show the effective improvement in iron production as a result of the use of increased quantities of washed coal from the Colliery Expansion Scheme. When this chart arrived at Washington it was found from historical past records of your Blast Furnace practice that performance and production once we reverted back to the 1955 quality of coal, when free purchases of coal in regard to quality and price was permitted, your Blast Furnaces would produce more iron than they are doing at present, and what is more the right quality of iron suitable for steel making. It will be seen from Chart No. 7 that as we proceed with the Colliery Expansion Schemes, the quality of coal after washing will improve yearly till work is completed, when it will be better than what we had in 1955. It was then confirmed by our Consulting Engineers that with the right quality of steel making iron being available, the present steel melting capacity could, with inclusion of a few ancillary plants of the latest technique, be almost doubled. This was indeed an intriguing situation ! What then were the missing links? Your Consulting Engineers were of the opinion that with the help of oil injection in Blast Furnaces and oxygen injection in the Steel Furnaces coupled with continuous casting, electric furnaces, a rolling mill and and an additional Blast Furnace to take care of the Foundry, requirements of your Kulti and Ujjain plants could be installed at a figure not exceeding 10th or 11th of the cost of a new integrated steel plant of a million ton capacity installed in a new place. All these figures were, of course, approximate and needed further careful looking into. The World Bank authorities were, however, appreciative of these findings and expressed a genuine desire to help the Company with the necessary foreign exchange requirements (for the fourth time) subject to Government's blessings and agreement to guarantee the repayment of the foreign exchange. On the 17th of January this year the matter was discussed with Government when it was explained to them that apart from the increased production, the beauty of the scheme was not only the low cost and the quickness with which the plant could be installed, but also that no further coal would be required other than what we shall mine ourselves and transport by our own ropeway system, thereby relieving the Railways of their responsibility of transporting some 6400 tonnes of coal a day, a not too insignificant problem and headache, effecting at the same time a considerable financial saving to Government.

CHART No. 7

CHASNALLA PROJECT:
ASH CONTENT OF COKE RELATED TO PIG IRON PRODUCTION.



Government at first was not responsive, but later suggested that the scheme be phased out into two parts, the first phase merely to embrace the balancing of the existing plant due to improvement of coal and the second to cover the full scheme. The Company submitted to Government the two phases of the Scheme on 9th June this year and stated that Phase I would cost the Company Rs. 12.2 Crores, increasing the ingot production by approximately 3,10,000 tonnes and finished steel by 2,48,000 tonnes, and further suggested that final details regarding Phase II would be submitted at a later date about the time when Phase I would be nearing completion, depending on the then market demand of the type and quality of steel to be made, as well as incorporating the latest improvement in plant design. In this connection your Board of Directors have invariably accepted your Managing Agents' advice on the principle of consolidation and experience gained thereby first before further expansions are undertaken, ever since 1950, 1953, 1955 and the present 1961 colliery expansions were taken on hand as well as this latest one now under consideration of Government.

Phase I would increase steel production in terms of ingots or its equivalent by about 3,10,000 tonnes and finished steel by about 2,48,000 tonnes.

Phase II may bring the total production of your Company to anything up to a total 2 million tonnes of ingot equivalent and 1.6 million tonnes of finished steel. My personal views are, however, that we must not rush where angels fear to tread. By that I mean, whilst the transport and raw material situation is as it is, it would be foolhardy on our part to even think of a larger expansion at Burnpur than 2 million or thereabout tonnes of equivalent ingot steel. I have been dealing with your Company's affairs in one way or another for 32 years as Managing Agents' representative, Director and Chairman. I can assure you that our conservative views have so far paid you well. Your new plants have been brought into commission well ahead of the scheduled time and as for results, you are the best judge.

Appearance of War Clouds

The Steel Corporation of Bengal tapped its first cast of steel ingot on the 10th November 1939 when the Second World War had just started. I distinctly remember, that at the request of the then Munitions Board and the Roger Mission, which had come out to investigate the possibilities of manufacturing in India the latest types of ballistic missiles and other requirements, as well as augmenting the production of the existing Ordnance Factories, this infant was called upon from that early stage to produce special quality steel. As the War proceeded, more and more such steel was produced and at times almost at a moment's notice.

The Steel Corporation of Bengal was amalgamated with your Company by an Ordinance promulgated by the Government of India on the 29th October 1952 to make it effective from the 1st January 1953. Since then your Company has been making both, different qualities as well as categories of steel to suit the country's requirements, and I am sure, the country can rely on your Company to bring forth its best efforts to meet all emergency requirements needed by the Defence Ministry and thereby help to enable them to throw out this naked aggression committed on a peace-loving nation like ours by the barbarous communist-minded Chinese.

Acknowledgments

I would again this year express on behalf of your Directors our appreciation of the services rendered by your General Manager, Mr. J. McCracken, and his able team of executives at the Burnpur and Kulti Works, as well as at the Ore Mines & Collieries. Production has been achieved in the face of constant operational difficulties and I would like to make special mention of the Blast Furnace and the Steel Melting Shop Supervisory staff who have so ably faced upto the ever changing problems with which they have been, and continue to be, confronted in the maintenance of production under existing conditions. I should also mention about the Supervisory staff at your Kulti Works, due to whose untiring efforts the Kulti Foundries have once again created a record by achieving a production of 2,30,423 tonnes.

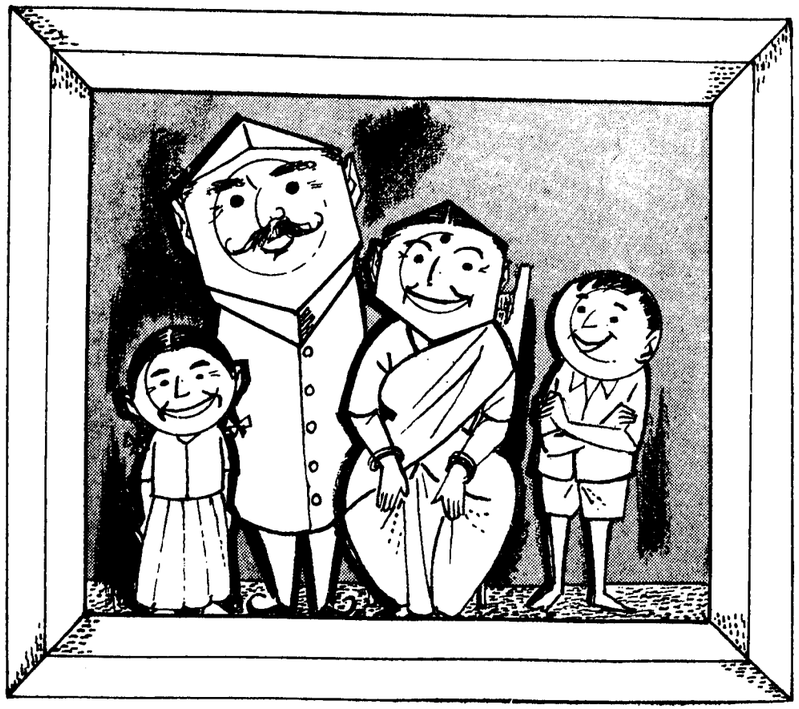
In concluding my statement to you I would add that I have not had any difficulty in endeavouring to state facts and include figures and charts as they stand, as I have not indulged in the luxury of painting a picture by letting my imagination run riot, nor in one of the modern trends of impressionism, thereby obscuring matters. I have given a photostat of facts and figures as they exist so that you may view them in their true perspective with the vision God has given you. May He bless us all!

Note : The above statement is not a document purporting to be a report of the proceedings of the Annual General Meeting.

Foreign Exchange for Third Plan

THE amount of foreign exchange so far made available or promised as external assistance for Third Plan projects and programme is Rs 1,880 crores. Unutilised foreign exchange in the shape of external assistance made available for the Second Plan is Rs 375 crores. Of the total amount of Rs 375 crores which remained untilised the bulk (Rs 345 crores) relates to assistance tied to projects. Since the projects themselves were scheduled to be completed only after the end of the Second Plan, the credits tied to these projects naturally remained unutilised.

Besides, a majority of the credits can, under the terms under which they were given, be utilised only for purchases within the countries extending the credits. Having regard to the limitation and Government's policy of utilising credits only for projects and schemes of high priority, the selection of such projects, invitation of tenders, settlement of prices, and placing of orders to the full value of the credits necessarily take time.



A matter of
FAMILY PRIDE

Metric weights are a well-knit family,
of which the KILO is the head.
Don't equate or compare them to another
family, especially the old seer and viss.
Recognize their intrinsic merit and
employ them as they are; otherwise
the Kilo family get sulky and cause
delay. Naturally, each family has its pride!

FOR QUICK SERVICE AND FAIR DEALING

USE METRIC UNITS
IN ROUND FIGURES

DA 62/545

Around Bombay Markets

Gold Futures Banned

Thursday, Morning

THE Government of India has at long last decided to ban forward trading in gold throughout the country. All outstanding deals have been compulsorily closed at the rates ruling in the markets at the close of business of November 13. Only those who live on speculation or smuggling will feel sorry because of the closure of the futures market. With imports banned since September 1939 — except for a brief period during the latter half of 1946 and two months of 1947 — and domestic output very limited (annual production since 1955 has averaged around 5.3 million grams), there never existed any basis for allowing forward trading in gold. And the position in respect of silver has been even worse. In its report, submitted in 1957, on the recognition of associations in respect of forward contracts in gold and silver, the Forward Markets Commission had, however, made out a case for a futures market in bullion on the argument that it is not the volume of internal production which is really important but the volume of marketable stocks of the commodity and that in the case of bullion appreciable stocks of gold and silver appeared to be available in the country despite the small volume of production. Marketable stocks in respect of silver have never been really large — 5,000 to 6,500 bars of 2800 tolas each. And if the position is a little better in regard to gold it has been due entirely to large-scale smuggling. The supply of smuggled gold is varyingly estimated between Rs 25 crores and Rs 50 crores a year.

The bullion market has always been functioning under abnormal — artificial might be a more appropriate word—conditions and its record has been far from creditable. If the Bombay market has been able to function without any payments difficulty in the recent past it is not due to the Forward Markets Commission's vigilance or a better sense of discipline among the members and the speculating community, but is is due mainly to the very peculiar structure of the hedge contract and a fairly large supply of smuggled gold. For too long has the Government tolerated forward trading in gold (the case against silver is equally strong) — a facility which has been availed by the trade more for smuggling activity than for purposes of genuine business. To the extent to which the futures market has been facilitating the disposal of smuggled gold, this activity will receive a welcome setback but it would be foolish to think that the ban on forward trading will put an end to smuggling. Smuggling of gold will continue as long as the business continues to be very profitable — domestic price is still double the international price — and the Government does not strictly control spot dealings. Spot transactions in gold should be controlled by licensing gold dealers and by obtaining systematic returns of their purchases, sales and stocks. Difficulties in enforcing such a control on a country-wide basis are many but they have got to be surmounted.

Further Checks Needed

Other things remaining the same, a decline in the supply of smuggled gold will push up its price which will make it all the more difficult to attract unproductive hoards of gold through the gold bonds at the international price, the tax concessions notwithstanding. Subscrptions to gold bonds are likely to remain poor so long as the domestic price of gold keeps around the present level. If the huge gold hoards are to be mobilised for the country's economic development, it would be necessary to put some kind of restrictions on individual holdings of gold. The national emergency created by the Chinese aggression calls for drastic measures for mobilising gold hoards which are estimated around Rs 1800 crores at the international price of Rs 53.58 per 10 grams. In most countries, the use of gold is confined to monetary purposes and private transactions are permitted only to licensed holders or to specialised agencies which need the metal for industrial purposes. In the national emergency that exists today, any measure taken by the Government to mobilise the country's gold hoards is likely to receive good support from the nation. The Government should also consider the issue of silver bonds which are likely to present a lesser difficulty because of the smaller difference in the domestic and international prices of the metal. And stocks of silver in the country are not small.

The ban on forward trading in gold has not caused any flutter in the market. All outstanding positions have been compulsorily closed at the closing rates on Tuesday — 13th November. The price of spot gold has eased from Rs 106.50 to Rs 104.25 on fears of some kind of control being imposed on spot transactions. With forward market in gold banned, speculators have naturally turned their attention to silver. The quotation for silver Magsar delivery which had been marked down earlier in the week from Rs 219.75 to Rs 213.50 firmed up to Rs 217.50 at the week-end. Spot silver which had quoted at Rs 211.85 on Tuesday evening was marked up to Rs 214.50 the next day.

Stock Exchange

Squaring up Business

THE small improvement in Vyapar's equity share index for Bombay from its 5th November panicky low of 117.29 to 122.94 on 14th November does not mark the end of the market's difficulties. The settlement has passed off smoothly because of the timely action taken by the market authorities under emergency rules. The market was re-opened on 12th November after a lapse of about a week but only for adjustment of outstanding business and that also under severe restrictions. Minimum prices have been fixed for all cleared and non-cleared securities at the closing levels on 3rd November — the day preceding 'Blue Monday' when trading was ordered to be suspended because of panicky state of affairs.

Since only squaring-up business is permitted, turnover is naturally restricted. Not many shares are quoted above the minimum prices. Stock-brokers are trying hard to persuade their clients to square-up their busi-

ness but they are having no easy time. Official statement on the basic outlook for equities, selective support by the Life Insurance Corporation and restrictions on fresh selling have imparted a measure of steadiness to the market, but there are yet no indications of a revival of confidence. Encouraged by the steadier tone of the market, the authorities have relaxed restrictions on squaring-up of outstanding business.

Encouraging corporate news has helped certain shares like Bombay Burma and Morarjee Mills to record appreciable gains in an otherwise depressed market. Bombay Burmah have responded well to the announcement of bonus issue on a one-for-one basis which is to be followed by the splitting of shares into shares of Rs 25 each. The emergence of a few bright spots has not had any noticeable effect on the general trading sentiment. The preliminary results of the Tata Steel Company had failed to impress the market and the chairman's annual statement contains little that could cheer the investors. It is difficult to say how long the market's present mood of despondency will last because it all depends on the political situation. Investors' confidence is unlikely to revive unless peace returns to the northern borders. The stock market will find it difficult to hold the present minimum prices if the border situation deteriorates further.

Cotton

Prices Ease Further

COTTON prices last week suffered a further setback and the decline was more pronounced in the spot material than in futures which recovered near the week-end nearly half of the earlier losses. Jarilla March which had eased from Rs 747.50 to Rs 734 in the preceding week was marked down to Rs 719.50 on anxious bull liquidation and some bear pressure induced mainly by ideas about the Government's firm attitude in dealing with prices of essential commodities. The subsequent rally which took the quotation to Rs 729.75 on Wednesday — the closing was lower at Rs 727.75 — was caused mainly by short covering based on technical consideration though sentiment was also helped by reports of record consumption of cotton in September. While prices keep moving up and down, the volume of business has continued to be moderate because speculators are reluctant to enter into large commitments in face of political uncertainty.

Spot cotton prices have come down quite substantially from their recent high levels. But in most cases this only means the disappearance of the unofficial premiums on the revised ceiling prices. Few varieties are available at below the ceiling. The crop is good, around 53/54 lakh bales, and the import outlook is not unpromising. Only the very needy mills are making their purchases now and they too are in no mood to pay prices higher than the ceiling rates. The Textile Commissioner seems quite serious about his job of ensuring supplies of cotton at the ceiling prices. With a view to achieving this end he has imposed restrictions on the movement of cotton, wherever considered necessary. The freezing of certain zones upcountry has been followed up with the ban on the movement of cotton from godowns and jaithas situated in Bombay, belong to the Bombay Port Trust. But all these restrictions are likely to become unnecessary when the crop movement gets into full swing after about the middle of December.

The current tightness seems to be a temporary phase, resulting from the late movement of the crop and a very poor carryover. While there is every likelihood of cotton prices keeping within the ceilings, no serious decline can be expected if the industry is to produce the additional 250 million to 300 million yards of coarse and medium cloth for the defence requirements. With the overall supply position much better than in the previous season, the trade is critical of the supervisory scheme. The Tirupur Cotton Merchants Association has protested to the Union Minister for Industry and Commerce against the scheme. There is considerable dissatisfaction among the trade in regard to the choice of supervisors. Overseas demand for Bengal Deshi has been picking up since recently.

Oil Seeds

Groundnut Extractions Firm

AFTER keeping distinctly subdued most of the time, the oilseeds market developed a steadier tendency at the week-end under the lead of groundnuts which continue to monopolise speculators' attention. Groundnut January which had been moving up and down irregularly between Rs 227.37 and Rs 224.37 during the major part of the week firmed up to Rs. 228.87 on Wednesday and the closing was only slightly lower at Rs 228.37. Castor March eased from Rs 167.50 to Rs 164.75 but were up again at Rs 167.75 at the week-end. Linseed March which had been marked down from Rs 39.25 to Rs 38.37 recovered to Rs 39.12. Cottonseed futures moved narrowly between Rs 105 and Rs 102.50.

The subdued tendency earlier in the week seemed to reflect market's anxiety in regard to possible Government action for holding the price line of essential commodities. But groundnut futures firmed up near the week-end despite the satisfactory flow of arrivals because of the excellent overseas demand for groundnut extractions. The U K was reported to have purchased 10,000 to 15,000 tons and it paid up to £38-5 per ton for November shipment — the highest price for nearly 3 years. December shipment was quoted around £37-10 and January position was mentioned around £36-15. Though Communist countries are keeping quiet for some time, exporters seem fairly optimistic about an early revival of buying from these countries. Outstanding export sales are so heavy that most factories have sold their entire output for November and December when the solvent extractions plants would be working to their capacity because of the improved supply of expeller cake. Groundnut arrivals are gathering momentum and the crop this year is almost as good as last season. Groundnut extraction is about the only item that is finding a ready market abroad and the prices realised are also very attractive. Export activity in oils, including castor oil, is virtually at a standstill. Fresh export business put through last week in linseed cake and cottonseed cake was limited.

Company Notes

Tube Investments

THE operating results of Tube Investments, Madras, who manufacture Hercules and Philips cycles, components, fittings tubes, etc, for the year ended July 31, 1962 reveal that the company's net profit is lower at Rs 36.87 lakhs after providing Rs 40.60 lakhs for taxation and Rs 20.76 lakhs for development rebate reserve, as compared with the previous year's profit of Rs 55.24 lakhs after providing Rs 48 lakhs for taxation and Rs 9.46 lakhs for development rebate reserve. The General Reserve gets an allocation of Rs 15 lakhs (Rs 17 lakhs) while to the dividend equalisation reserve is added Rs 2 lakhs (Rs 3 lakhs). The dividend for the year is maintained at 10 per cent subject to tax.

The Directors' Report discloses a series of difficulties that confronted the working of the Company during the year. As for the working of T I Cycles of India, power cut was an impediment but the production of cycles was kept up. Production of components and spare parts however, suffered a setback owing to shortage of raw materials. Export fell short of expectations despite all possible efforts.

Improved techniques and new equipment enabled Tube Products of India to diversify production, demand on all sections of the plant also increased. But the power cut disrupted production here. Besides, strips were in short supply. On account of these difficulties, the transformer, boiler and cycle industries were affected.

The subsidiary T I Diamond Chain has commenced production of bicycle chains. T I Miller, another subsidiary, is going ahead with the construction of the lamp factory. It is now revealed that the Company is proposing to form a new subsidiary company to undertake the manufacture of push rods and copper coated tubing, in partnership with Bundy Tubing Company of U S A. Push rods are used by the automobile industry and copper coated tubings will be absorbed by the automobile and refrigeration industries.

The Company has an equity capital of Rs 250 lakhs (of which Rs 150 lakhs are held by Tube Investments, Barmingnam). Reserves and Surpluses stand at Rs 201 lakhs.

Delhi Cloth Mills

THE operating results of the Delhi Cloth and General Mills for the year ending June 30, 1962 has shown a lower gross profit of Rs 428.38 lakhs (Rs 434.55 lakhs) despite an increased turnover of Rs 38,52.02 lakhs (Rs 35,88.76 lakhs). The net profits are also lower at Rs 139.40 lakhs (Rs 149.38 lakhs). Higher provisions for depreciation of Rs 90.85 lakhs (Rs 77.80 lakhs) and for taxation of Rs 174 lakhs (Rs 171 lakhs) have accounted for a lower net profit compared to the previous year. Other important charges and appropriations are: Development rebate Rs 9.60 lakhs (Rs 15 lakhs); Managing Agency commission Rs 19.52 lakhs (Rs 21.37 lakhs); Development reserve Rs 40 lakhs (Rs 50 lakhs); Reserve for fall in prices Rs 40 lakhs (Rs 50 lakhs); General reserve Rs 5.70 lakhs (nil). Balance carried forward Rs 4.03 lakhs (Rs 3.72 lakhs).

The textile unit, it is stated, has been able to maintain its position in the export market despite the general adverse conditions and the downward trend in textile exports. The company has set up a nucleus of a chemical plant manufacturing section which is undertaking fabrication and supply of equipment against outside orders, and in this connection, has already designed, fabricated and delivered two sulphuric acid plants of the capacity of 50 tons each. The textile and other units of the company are being renovated and modernised. A modern plant will replace the old waste plant within the next few months. A spinning unit of 23,000 spindles will be added to the spinning capacity at Hissar and the new plant is expected to start production early next year. The P V C project at Kota is progressing according to plan for which the bulk of the machinery has already arrived at site. The caustic soda plant will go into production shortly and the company's P V C products will be on the market during 1963. The company has obtained a loan of 9.8 million dollars (Rs 4.68 crores) from the U S Agency for International Development for meeting the foreign exchange requirements of the Rayon Tyre Cord Project. The Chairman has further stated in his address to the shareholders that the plan for expanding the cane crushing capacity at Mawana is progressing and that in the 1963-64 season, the company will have a crushing capacity of 3,000 tons per day against the present crushing capacity of 1,500 tons per day.

Indian Hume Pipe

THE shareholders of Indian Hume Pipe will feel gratified at the performance of the company during the year ended June 30, 1962, showing a higher gross profit of Rs 66.56 lakhs (Rs 57.12 lakhs in the previous year) with an increase in gross sales to Rs 293.97 lakhs (Rs 259.99 lakhs). Following are the main allocations: Taxation Rs 28.75 lakhs (Rs 21.75 lakhs); Depreciation Rs 11.93 lakhs (Rs 13.95 lakhs); Development rebate reserve Rs 2.05 lakhs (Rs 2.33 lakhs); Managing Agents' commission Rs 4.18 lakhs (Rs 3.85 lakhs); Rehabilitation reserve Rs 8 lakhs (nil) Reserve for contingencies Rs 1 lakh (nil). The dividend has been stepped up to Rs 14 per share (Rs 13 per share) subject to tax. The proposed dividends on ordinary and preference shares will absorb Rs 10.90 lakhs (Rs 10.30 lakhs).

The prestressed pipe factory of the Company at Patancheru has recently started production with availability of power and raw materials. The company has applied to the Government for permission to expand the capacity of its Hadapsar factory from 3,000 to 7,000 tons a year. The capacity of the welding flux of the Company will be expanded from 30 to 300 tons a year for which the company has already secured a licence. The Company's factory at Pophali is now closed. The company has now 59 factories including 2 in Ceylon.

The company proposes to extend the life of the existing 5½ per cent debentures (Rs 29.18 lakhs) by 15 years at an increased rate of 7 per cent and to issue new debentures of the value of Rs 20.82 lakhs. The existing shareholders and debenture holders are likely to be given preference in allotment.

Hicks Thermometers

THE first annual report of the Directors of Hicks Thermometers, Aligarh, for the 15 months ending August 31, 1962 discloses some details about the progress made by the company. A substantial part of the machinery for the manufacture of clinical thermometers, though somewhat delayed, has now arrived from UK and efforts are being made to get the balance shipped by the collaborators immediately. The company has acquired an estate in Mussoorie consisting of land and buildings suitable to house the thermometer factory. Electric power is being arranged for. The company has already arranged for adequate import of raw materials such as capillary glass tubings, mercury, etc., and does not foresee any difficulty in working the factory at full capacity. The Chairman of the Company, Mr E C de Freyne, who is a Director of Heath. Hicks & Perken (Thermometers), London, will be coming to India shortly to supervise the erection of machinery and start production. In the meantime, the company's technicians are undergoing training at the works of Heath, Hicks & Perken.

Negotiations for the manufacture of pressure gauges are in the final stage and for this, the Company will have collaboration arrangement with a well-known firm in England.

Stanes Amalgamated

THE working results of Stanes Amalgamated Estates (a tea-cum-coffee company) for the year ended June 30, 1962 have shown a marked improvement over the previous year justifying the stepping up of the dividend from 10 per cent to 15 per cent. The tea crop harvested during the year amounted to 4,10,516 (3,42,839) kgs. The average sale price was Rs 4.44 (Rs 4.43) per kgm. The coffee crop harvested during the year amounted to 88 tonnes which was valued at Rs 2.20 per point. The net profits after providing for depreciation, bonus to staff, Managing Agency commission, but before providing for taxation, was Rs 4,72,840 (Rs 2,33,053). After adding Rs 4,140 and Rs 32,042 being the balance brought forward from the previous year and the provision for taxation in previous years not required any longer, the following allocations and appropriations have been made: Provision for taxation Rs 246,000 (Rs 128,000); Additional wealth-tax for the years 1957-58, 1958-59 and 1959-60 Rs 6,373; Development rebate reserve Rs 1,000; Debenture redemption reserve Rs 20,000 (Rs 11,423); General reserve Rs 70,000 (Rs 10,000) Pension and Gratuity Reserve Rs 10,000.

The Indian Iron and Steel Company Limited

NOTICE

Notice is hereby given that the Annual General Meeting (being the Forty-Fifth Ordinary General Meeting) of the Company will be held at the Royal Exchange Hall of the Bengal Chamber of Commerce & Industry, Calcutta-1, at 3 p.m. on Tuesday, the 11th December, 1962, for the following purposes :

1. To receive and adopt the Audited Accounts for the year ended 31st March, 1962, and the Directors' and Auditors' Reports thereon.
2. To declare a final dividend for the year ended 31st March, 1962, on the Ordinary Share Capital. The dividend if sanctioned will be paid on or after the 12th December, 1962.
3. To appoint a Director in place of Mr. Gokul Chand Bangur, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. Sachindra Chaudhuri who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. H. A. Fowler who retires by rotation and is eligible for re-appointment.
6. To appoint Auditors and fix their remuneration.

Special Business

7. To appoint a Director in the vacancy caused by the death of the Maharajadhiraja Sir Kameshwara Singh of Darbhanga and to consider, and if thought fit, to pass the following resolution as a Special Resolution, of which a Special Notice, as required by Sections 190 and 261 of the Companies Act, 1956, has been received by the Company.

Resolved: "That pursuant to the provisions of Sections 261 and 314 and other relevant provisions of the Companies Act, 1956, Mr. John McCracken, General Manager of the Company's Works, be and he is hereby appointed a Director of the Company in the vacancy caused by the death of the Maharajadhiraja Sir Kameshwara Singh of Darbhanga and that consent be and is hereby accorded to his continuing to hold an office of profit as General Manager of the Company's Works."

The reasons which make the above Resolution necessary are that although according to the Articles of Association of the Company and Section 262 of the Companies Act 1956, the Directors have power to fill any casual vacancy among themselves, they cannot appoint Mr. McCracken as a director in the casual vacancy because he holds an office and place of profit under the Company and because Martin Burn Limited, the Managing Agents of the Company, have power under the Articles to appoint two directors to the Board. The appointment of Mr. McCracken in the vacancy can only be made by a Special Resolution.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and a proxy need not be a member.

Registered Office,

12, *Mission Row,*

CALCUTTA-1

12*th November*, 1962

By Order of the Board,
MARTIN BURN LIMITED
S. Gupta
Managing Director
Managing Agents

Note : An Explanatory Statement is annexed to the convening notice issued to Members of the Company.

CURRENT STATISTICS

Production of Petroleum and Petroleum Products

(MONTHLY AVERAGES OR CALENDAR MONTHS)
Metric Tons

		Crude Petroleum	Light Distillates	Kerosenes	Diesels	Lubricants	Bitumens	Heavy Ends	Other Products	Total of Petroleum Products
1962 :	Jun	41,293	92,697	91,888	145,888	2,875	25,193	142,625	10,772	511,938
	May	37,623	106,619	92,503	146,786	1,798	31,466	150,809	8,761	538,742
	Apr	36,494	84,249	82,512	132,604	886	33,179	136,763	9,039	479,232
	Mar	42,139	84,634	93,490	144,210	2,307	30,352	119,930	9,602	484,525
	Feb	37,763	77,666	79,769	122,142	1,908	32,664	149,581	7,747	471,477
	Jan	34,757	93,528	84,350	129,973	2,460	37,032	146,015	7,851	501,209
1961 :	Dec	39,894	83,672	81,903	140,158	2,411	39,400	120,919	7,949	476,412
	Nov	38,216	77,720	83,921	133,688	2,623	25,497	128,773	8,258	460,480
	Oct	38,568	94,253	92,263	146,573	1,500	38,453	162,935	7,227	543,204
	Sep	34,371	92,822	86,800	126,652	2,457	34,202	152,260	5,396	500,589
	Aug	32,315	96,692	82,697	157,975	2,412	37,037	144,033	4,913	525,759
	Jul	40,036	100,160	95,857	156,188	2,425	30,517	166,298	5,123	562,568
	Jun	38,620	97,223	89,192	159,839	2,095	41,911	160,869	5,095	556,224
	May	39,360	102,360	93,267	148,722	2,100	44,070	174,368	5,823	570,710
	Apr	29,949	83,779	94,024	141,196	1,312	28,816	177,119	4,400	530,646
1962		38,345	89,899	87,419	136,934	2,039	31,648	140,954	8,962	497,854
1961		36,844	89,066	84,783	139,050	2,107	36,530	150,940	5,895	508,370
1960		37,445	87260	77,605	133,300	1,799	33,135	141,066	5,468	479,813
1959		36,768	79,248	61,330	118,264	1,794	24,201	140,218	4,303	429,358
1958		35,477	82,215	53,598	99,319	1,524	18,882	137,421	4,741	397,699
1957		35,731	86,788	51,480	77,220	1,439	14,733	133,272	5,757	370,689
1956		32,006	80,353	45,468	59,270	1,439	13,716	118,031	5,927	324,204
1955		27,941	66,467	37,424	49,363	1,355	7,112	83,994	5,266	251,980
1951		22,014	4,234	4,318	3,641	1,947	339	1,439	4,826	20,744

Source : Ministry of Mines and Fuel, Government of India

Industrial Production

(Monthly Averages or Calendar Months)

Unit		1962 Jan-Mar	1961 Oct-Dec	1961 Jul-Sep	1961 Apr-Jun	1961 Jan-Mar	1960 Oct-Dec	1960 Jul-Sep	1960 Apr-Jun	1960 Jan-Mar	1961	1956
Consumer Goods												
Cotton Textiles	Lakh yards	418.7	387.0	405.2	392.2	422.2	430.0	430.3	413.1	410.3	401.7	442.2
Vegetable Oil Products	'00 tonnes	34.5	26.7	24.1	25.2	33.7	25.8	24.9	28.9	32.4	27.4	21.3
Sugar	'000 tonnes	526.0	194.9	13.3	222.8	516.2	254.9	12.5	114.9	471.9	236.8	167.3
Sewing Machines	'000 units	26.2	25.0	29.6	25.0	26.2	26.1	23.6	24.7	24.0	36.5	10.9
Electric Fans	'000 units	94.1	75.2	92.1	95.1	92.4	91.1	81.3	81.8	76.1	88.7	28.2
Raw Materials and Intermediate Goods												
Cement	'000 tonnes	709.0	713.1	659.4	678.6	695.4	688.7	613.3	643.8	645.1	186.9	410.7
Chemicals												
Sulphuric Acid	'000 tonnes	36.7	35.5	37.6	34.9	31.5	27.5	30.0	29.4	31.0	34.9	13.8
Caustic Soda	'000 tonnes	10.3	10.8	10.3	9.6	9.1	8.3	8.0	8.2	8.5	10.0	3.3
Soda Ash	'000 tonnes	15.4	16.5	13.7	14.9	13.7	13.4	12.2	11.2	11.5	14.7	7.0
Coal	'000 tonnes	5004	4591.3	4264	4440	5295	4892	4158	4292	4259	4647.6	3286
Cotton yarn	Lakh lbs *	953.53	744.0	747.4	699.6	1506	1505	1481	1060	1409	1513	1392
Jute Manufactures	'000 tonnes	96.7	89.1	72.9	75.8	85.0	88.4	91.5	92.0	89.4	80.7	91.1
Non-ferrous metals												
Copper	Tonnes	728.3	749.0	780.0	817.0	563.0	753.0	759.0	729.0	728.5	727.3	635.7
Aluminium	Tonnes	1971.1	1695.8	1507.4	1428.7	1470.4	1505.7	1562.2	1539.9	1478.6	1525.6	541.7
Lead	Tonnes	179.6	268.8	356.0	254.7	342.1	375.2	259.3	295.0	317.8	305.4	208.1
Paints and Varnishes	'000 Kgs	5447.3	5126.7	5175	4827	4417	4322	4150	4289	4148	4846.4	3467
Iron and Steel												
Pig Iron	'000 tonnes	420.6	431.1	417.3	404.2	404.9	385.4	323.8	314.4	343.7	414.4	150.6
Steel Ingots and Castings	'000 tonnes	417.8	375.0	337.9	310.8	325.3	314.7	265.5	244.0	259.1	337.2	144.8
Semi-finished Steel	'000 tonnes	87.9	98.9	94.0	98.7	110.5	338.9	265.6	265.8	271.1	100.5	123.7
Finished Steel	'000 tonnes	272.3	254.4	245.8	213.4	241.4	206.4	183.1	166.5	171.6	238.8	111.5
Capital Goods												
Machine Tools	Value '000 Rs	8778.5	7389.9	6593.0	4728.8	6628.8	6034.9	4919.7	3199.6	5879.6	6335.1	1001.9
Diesel Engines	Units	4244	4027.7	3442	3609	3732	3722	3892	3329	2957	3702.7	1001
Electric Motors	'000 H P	78.1	71.2	74.4	67.5	62.8	65.2	61.2	52.5	48.0	69.0	29.9
Power Transformers	'000 K V A	211.3	169.5	158.1	138.2	128.7	133.5	102.5	93.2	89.9	148.6	76.0

* Figures from April–June 1961 are in Lakh Kgs.
Source : Central Statistical Organisation, Government of India, Calcutta.

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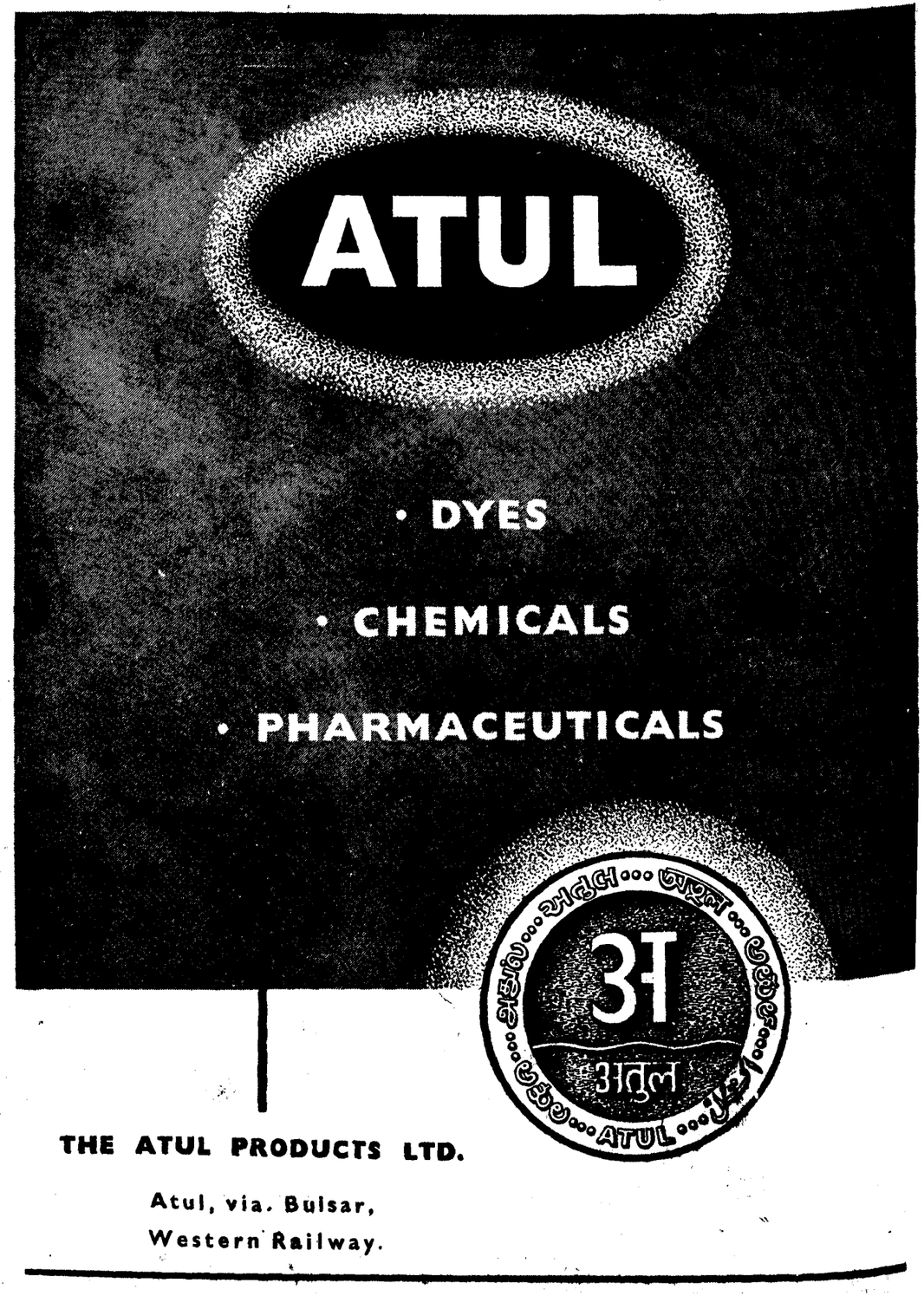

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Not New Proposals

BY the dramatic announcement of a voluntary cease-fire and a prospective "unilateral" withdrawal by Chinese troops from their present advanced positions on Indian territory, the Chinese proposals of November 21 have received far greater publicity than they merit, considering the content of the proposals. For, substantially the proposals are the same as those made by the Chinese Government on October 24 — the so-called three-point plan — which India had earlier rejected. Indeed, the Chinese Government's statement of November 21 reiterates that the three proposals put forward earlier "are most fair and reasonable", that they are "the only proposals capable of averting border clashes, ensuring border tranquility and bringing about a peaceful settlement of the Sino-Indian boundary question" and, finally, that "the Chinese Government perseveres in these three proposals". By announcing a voluntary cease-fire and declaring that they would withdraw "unilaterally" from their present positions, what the Chinese Government is doing is "to take initiative measures in order to promote the realisation of these three proposals".

While the Chinese ceased fire all along the border according to their statement of November 21, their proposed withdrawal which is to commence from December 1 is, really speaking, "unilateral" only in name. For, the Chinese have reserved to themselves the right to "strike back in self-defence" should Indian troops advance to the McMahon Line in the eastern sector and/or refuse to withdraw but remain on the line of actual control in the middle and western sectors.

In effect, what this means is that after the Chinese withdraw, the Indian troops must remain 12½ miles south of the McMahon Line and must not reoccupy the Kechilang river area which is really south of the McMahon Line but which the Chinese claim is north of the Line as defined by them. More important, in the Ladakh area India must not set up again the 40-odd check-posts in the Chip Chap river valley, the Galwan river valley, the Pangong lake area and the Demchok area which were overrun by the Chinese after October 20. Not only that, in the middle and western sectors, India must presumably withdraw 12½ miles from the line of actual control. If this line is taken to mean the position on November 7, 1959, this would mean that India would have to abandon vital positions like Chushul, etc. This is, of course, totally unacceptable to us. Even otherwise, withdrawal on the lines suggested in the Chinese proposals would create demilitarised zones in both Ladakh and NEFA. India cannot accept this position unless it can satisfy itself that any attempt by the Chinese troops to advance and reoccupy the demilitarised areas can be detected in time and effectively thwarted. The Chinese proposals contain no safeguards in this respect.

Consistent with India's rejection of her proposals of October 24, China cannot expect her latest offer to secure a reversal of the processes set in motion by her military invasion of Indian territory. That nevertheless the Government of India is, according to Pandit Nehru's statement in Parliament, studying it carefully is indicative of its sincere desire to strive for a negotiated settlement of the border problem, in spite

of China's unabashed aggression. While any excessive optimism would be clearly unjustified, it is to be hoped that in the period before the Chinese withdrawal on December 1, through contacts between the Indian and Chinese Governments and through the mediation of friendly governments the Chinese can be persuaded to adopt a stand which will meet our basic requirements which have been repeatedly spelt out by Pandit Nehru. Such a possibility, though admittedly remote, cannot be entirely ruled out, since with the onset of winter the Chinese are bound to find it increasingly difficult, if not impossible, to maintain their advanced positions, since their lines of supply, running over high mountain ranges and greatly elongated by their deep penetrations into Indian territory, would be snowed under and become difficult to keep alive.

Jute Mills and Jute Price

THE Government's decision to ask the State Trading Corporation to purchase raw jute with a view to supporting the market may be taken as proof of the ineffectualness of the much-publicised Jute Buffer Stock Agency set up early this year. The Government fixed the minimum price for the new jute crop at Rs 30 per maund, Assam bottoms basis, in September. The J B S A was presumably charged with the responsibility of maintaining prices at this minimum level. It has, however, failed to do this and even though since the beginning of the new crop year there has been a significant improvement in the offtake of jute manufactures, the raw jute market has continued to be weak, prices being generally below the minimum fixed by the Government. Currently, the raw jute market is described as "quiet" with very little business passing. Mills are showing little interest while sellers are reported to be keen to dispose of their stocks "even at cut prices". As a consequence, the price of Assam bottoms is around Rs 28 per maund.

The Government had expressed its dissatisfaction with the functioning of the J B S A on more than one occasion in the past. As far back as in August, Shri Shriman Narayan, Member, Planning Commission, had roundly criticised the buffer stock agency for its "halfhearted and rather halting policy". Though the Indian Jute Mills Association had argued that lack of finance and storage facilities stood in the way of the J B S A expanding its operations, what was really responsible for its reluctance to go into full operation was the disagreement between the I J M A and the Government over the minimum price which the buffer stock agency was to try to maintain. The I J M A made no secret that it considered the price of Rs 30 per maund as too high. And the J B S A, though constituted under pressure from the Government, is, in essence, owned and controlled by the jute mill interests. The Association is registered under the Trade Unions Act which means that in the ultimate analysis it is to safeguard the interests of the jute mills which control its operations. The Chairman of the I J M A is also President of the buffer stock agency. So from every standpoint the J B S A was ill-suited to be the agency to maintain a minimum price of jute in the interests of the grower. It had no statutory responsibility nor was it committed to maintaining raw jute prices at any particular level.

So when the Government fixed the floor price for the new jute crop at Rs 30 it was clear that the J B S A was not the agency to be depended upon to maintain this price. An attempt was made at the beginning of the season to prevail upon the I J M A to revive the system of fixing minimum quotas for purchase of raw jute by mills affiliated to it. The attempt was given up within two or three weeks. Thereupon the Jute Commissioner, using his statutory powers under the Jute (Licensing and Control) Order, issued orders to jute mills to purchase certain minimum quantities of jute in November and December. These purchase quotas were so fixed as to ensure that, after taking into account the arrivals against forward contracts entered into earlier, every mill would be left with stocks adequate for not less than 14 weeks' consumption at the end of November and 16 weeks' consumption at the end of December. The mills protested against the Jute Commissioner's order on the ground that they already held very large stocks and that any additional purchases would create insurmountable problems of storage. The Government rejected this plea after a review of the godown space available with the mills and the current stocks held by them.

Against this background, the report that the S T C will enter the raw jute market to build up a buffer stock raises the question whether the S T C's purchases will be in addition to the minimum purchases which the mills have been ordered to make or whether they have become necessary because the Government despairs of executing the Jute Commissioner's order on minimum purchase quotas. There is also the question of the role of the S T C vis-a-vis the J B S A.

If the S T C's purchases are to become the chief prop of raw jute price, then clearly their scale has to be very much larger than envisaged at present. The S T C will also have to act promptly since it is estimated that more than 90 per cent of the jute crop is sold by the cultivators before the end of January. Purchases after that date will mainly help the trader. This is what happened last season when the I J M A's jute buffer stock agency could not get going till as late as April. Finally, if buffer stock purchases are restricted to the wholesale market it is doubtful whether the benefits will be actually derived by the grower. Co-operative societies have been making purchases from the grower but so far their operation has been mainly symbolical.

The entry of the S T C into the raw jute market will not, therefore, automatically solve the difficult problem of ensuring that the jute grower receives an economic price; it is, nevertheless, a hopeful portent that the Government is beginning to recognise that protection of the interests of the jute grower cannot be left solely to the jute mills.

Credit Policy : Another Change

THE Reserve Bank has modified its lending policy again within less than 10 days of the re-introduction of the three-tier system of lending rates. Under the revised scheme, the fourth "tier" which was dropped earlier has been reintroduced. Whereas any borrowing by banks in excess of 100 per cent of their statutory reserves was virtually prohibited, now every bank is allowed to borrow from the Bank at 6½ per cent, apart from its basic quota, an additional quota, which "together with the basic quota would be equal to the maximum of its actual borrowing from the Reserve Bank during the last busy season". Initially, the additional quota would be for a period of six weeks, though after that period the Reserve Bank would, after discussion with the banks, be willing to consider any request for additional borrowing, if it is convinced that it is intended for financing essential economic activity.

The unnecessary, frequent tinkering with the lending rates and the introduction of the "tiers" system have already been commented on in these columns (November 10, 1962). That our criticism was well-founded is now proved by the action of the Bank itself. The credit needs of the economy to increase defence production are large and the banking system would have to meet them. It is difficult to state, without any idea of the pattern and magnitude of defence production, any fixed limits for credit expansion in the next few months. All that can be said is that the requirements will be undoubtedly large. The Reserve Bank's latest action proves that it is aware of this. Should not the Reserve Bank then have removed this whole scaffolding of lending rates and liberalized its terms for lending to banks, particularly for meeting the credit needs of industries important from the point of view of defence? What is necessary at this stage is not to raise the cost of credit but to make it available to the vital sectors in sufficient amounts.

The latest measure has been introduced on the specious ground of "flexibility". But, surely, the need for flexibility was no less when the Reserve Bank decided to drop the fourth tier and return to the three-tier system earlier this month? Nothing of significance has happened between then and the announcement of the latest modification. The frequent changes in credit policy have begun to look puzzling and inexplicable.

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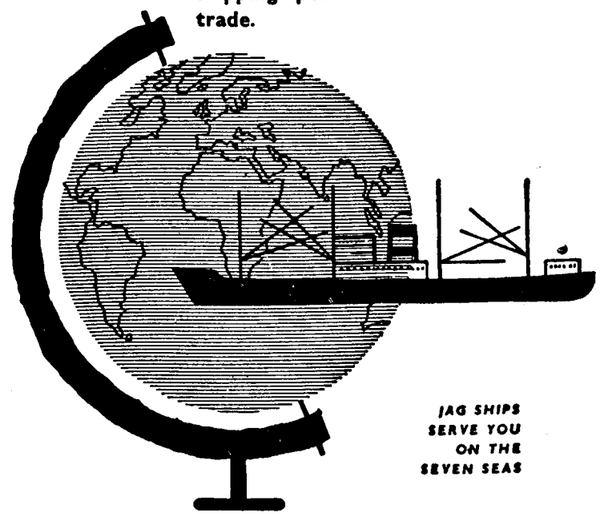

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Weekly Notes

Patil on Food

WITH news generally grim, the optimism of the Union Minister for Food and Agriculture has been quite refreshing. In his Broadcast to the Nation last week, Shri S K Patil said that in respect of food "we are placed in a situation in which apprehension or anxiety is a thing of the past". His subsequent assessments have been equally comforting. But if one were to assume from this that there has been any significant improvement in the agricultural situation in India, one is in for a disappointment. About domestic production all that Shri Patil said was that the present harvest was "not unduly discouraging and the next one promising". It is the prospects of supplies from abroad that are rosy. Out of the 17 million tonnes of foodgrains due under the P L 480 agreements, we have so far drawn only 5.8 million tonnes. Further for meeting the emergency, the U S Government has agreed to give us an additional 50,000 tonnes of wheat per month until next June. And the far-seeing Shri Patil has also pointed out that with the U S Government's decision to increase the acreage under rice by 10 per cent, it might be possible to get more rice from the U S. Deals are also to be negotiated with Burma and the U A R.

It would seem from all this that while much has been said about the Government's determination to see the Plan through, at least one of its objectives is being deferred, if not dropped altogether. The Third Plan laid down as one of its principal aims: achievement of self-sufficiency in foodgrains.

There is also another aspect of the food problem which Shri Patil generally chooses to dismiss with a shrug. Quite some time ago, weeks before the emergency in fact, he expressed the opinion, in open opposition of a Cabinet colleague, that it was neither necessary nor desirable to impose controls on food and other essential commodities. Since then what with his abiding faith in the businessman's sense of national duty, Shri Patil does not seem to see any need to revise his opinion. In his talks with the top officials of the States in the Western region, the Food Minister has suggested — perhaps as a small concession — the establishment of Commodity Boards for wheat, rice and sugar. These Boards are to function "on the lines of similar technical bodies in foreign countries" and deal with licensing of wholesale dealers, regulation of marketing practices, etc. But he still sees no need for rationing or "any kind of control".

This is indeed comforting. But it will not do to ignore the inflationary forces, already present in the economy, which are bound to assert themselves with increase in public spending.

Trends in Foreign Investment

THE Government's policy in regard to foreign capital has undergone a very marked change in the last few years and from time to time various concessions have been granted to attract the foreign investor. The extent to which these measures have borne fruit can be assessed from the statistics of the inflow of foreign investment. Such data are published annually by the Reserve Bank. Data for 1960 appear in the October issue of the Reserve Bank *Bulletin*. The survey highlights a very large net inflow of foreign investment of Rs 78.4 crores in 1960. This is probably the record since 1954 and more than double the inflow in 1959.

The importance of the capital inflow in 1960 is not limited only to its magnitude. Disaggregation of the figure of foreign capital inflow brings out more clearly some significant aspects. As much as about Rs 53.3 crores was accounted for by capital from private sources, whereas the net inflow from official sources was only Rs 25.1 crores and showed a decline over the preceding year. Even within the net inflow from private sources, there were important changes in 1960. Thus, the net inflow was mostly accounted for by fresh inflow of capital (Rs 48 crores) while retained earnings as well as outflow of capital declined compared to the previous year.

Too much should not, however, be read into the increased inflow of private foreign capital in 1960. A break-down by industry of this inflow shows in bold relief the fact that as much as Rs 31.5 crores was invested in the petroleum industry and was mainly the result of larger inflow of fresh capital and a further fall in capital repatriation. Comparing this with a net inflow of Rs 2.5 crores in 1959 and a net outflow of Rs 15.7 crores in 1958 in the petroleum industry, the importance of this industry in the total private foreign investment in 1960 clearly emerges. This sudden and sharp rise in inflow of capital into the petroleum industry may be perhaps explained as a sort of a reaction to the earlier years when there was a considerable disinvestment.

Acceptance and Expectance

Our South Indian Correspondent writes :

THERE is no abatement in the response of the South to the national danger. As elsewhere this is now the frame of reference and the context within which all else proceeds. But after two weeks have passed, a certain balance, even a co-existence, has been reached between what one may call the feeling of acceptance and the more stirring impulse of expectance.

Nor is this altogether bad. It reveals a certain poise and calm — the serenity about which Nehru talked in the Lok Sabha. The people in all of the four States grouped as the South show no signs of getting involved in any sort of chauvinistic hysteria. Reports come in from town after town indicating that the people have decided that sacrifice and extra effort are now their normal daily pattern and attitude. Donations do not cease either. But there is a danger. The national emergency in the first flush did induce a healthy restiveness, a vibrancy which was the other, and perhaps better, half of serenity. Far too little is being done to turn this also into a permanent emotional attitude and to fructify it in the shape of a production upsurge and a greater social cohesion based on a deeper equality, especially in the rural areas.

And the fault lies foursquare with the political leadership. It is confused and even inept. Take the pattern of the National Defence Committees now established at the State levels. Madras has included the Communists, Mysore did so from the start. In Kerala the Government is aggressively intent not only on excluding them but on using this exclusion to politically isolate them. In Andhra Sanjeeva Reddy is hedging and says that he is not "yet convinced" that the Communists should be given a clean bill.

In Hyderabad and in Trivandrum there was terrific activity in the days prior to Krishna Menon's exit. Apart from the high level Congress leaders, the back-bencher M Ps were roused as never before. The younger ones claim that they were trunk-called to the Capital and that their e'an, beyond the suspicion of Right-ism or anti-Nehruism, was largely responsible for the killing. And they are anxious that this process should be now carried forward.

A very large section, if not a majority, of the topsiders in the bureaucracy and in the ranks of the Congress politicians are thoroughly annoyed with Nehru's concluding speech in the Lok Sabha. Their objections can be grouped under two main headings.

The first pertains to the basic approach or the philosophy with which one should encounter the Chinese

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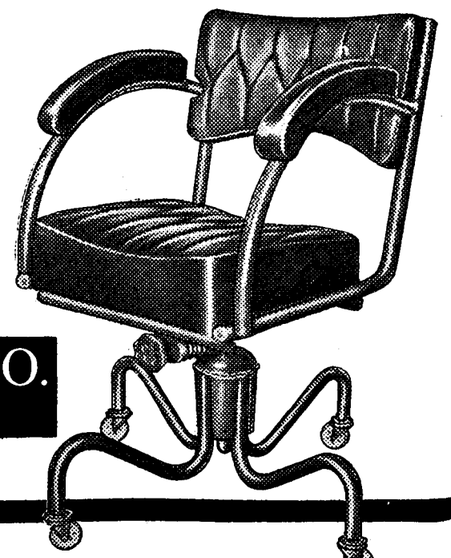
REVOLVING AND TILTING CHAIR WITH CUSHION SEAT AND BACK



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challenge. It is contended that without hating the enemy one cannot fight him, far less defeat him. Nehru warns against brutalisation and calls for a clear line of demarcation between the Chinese people and their Government. This is termed here as the spirit of a phony war. Churchill and, oddly enough, Stalin are recalled and the argument is that a spirit of hate must now be fully released.

The second fundamental objection is to the persistence in non-alignment and the refusal of the Prime Minister to project the war as a battle between communism and democracy. The argument is that non-alignment is admirable when one is striving for peace but quite debilitating when one is up to the neck in a war. This is not a question of international relations so much as a matter of mass mobilisation — non-alignment is far more negative than the positive slogan of defence of democracy.

It would be wrong, however, to create the impression that the Congress leadership as a whole is now ranged against Nehru. Not only are there fairly influential groups who are convinced that after Nehru or with the reversal of his policies there would be no India which the commonality would fight for, but the general run of the Congress leadership is taking to politics almost for the first time after Independence.

So much had factionalism, casteism and regionalism become the dominant passions that the policies enunciated by Nehru were not so much accepted as not debated. The national emergency has started up the political motors inside the Congress. The danger is, of course, that this is happening at a moment not particularly propitious for radicalism. But the joining of the debate is healthy.

Funds for Defence

FROM the way the people are responding to the Government's call for funds for defence, the success of the various fiscal measures announced some time ago seems to be assured. However, some of the investors in the Defence Bonds, particularly private companies and some of the public enterprises, show more enthusiasm than judgement in this respect. Every day reports appear in the press of some company or the other, both in the private and public sectors, declaring its intention to invest the provident funds of its employees in the new Defence Bonds and the amounts so earmarked are being publicised. It is questionable, however, whether these subscriptions are going to bring in any net resources to the exchequer.

As it is, provident funds are invested compulsorily in Government securities, which means that if some of these funds are invested in Defence Bonds, the subscription to Government securities would fall to that extent. Consequently, there would not be any net accretion of resources to the Government. It is necessary to impress this upon the companies. If they are really serious about making a net contribution to Defence Funds, they should ask their employees to raise their contribution to the provident fund on a voluntary basis, so that the total amount invested in Government securities — whether in Defence Bonds or other Government securities — may increase.

This is relevant not only in the case of business firms; some local authorities have also declared their contributions to the Defence Fund. This is naive, for if they divert their resources to the National Defence Fund, many essential projects on which the funds are to be spent will be shelved or, alternatively, they will approach the State Governments for grants or subsidies. It is good, therefore, that some State Governments have pulled up local authorities and prohibited them from contributing to the Defence Fund.

In and Around Lok Sabha

The Gospel We Preached

IN Parliament lobbies, in political and official circles, in shops and streets, there is the same feeling of shock and consternation at our military reverses on the NEFA and Ladakh fronts. The Government and some of our prominent leaders had said that in both these areas the high altitudes and inclement weather made it impossible for man or beast to stay there for very long. It was also thought that once winter set in, the Chinese would be compelled to stop their military operations. Both these prognoses have proved wrong. The Chinese are continuing to pour in large troops.* The troops are from Manchuria which produces hefty, strong men, quite unlike the small-statured Chinese. They are reputed to be tough and ruthless.

The Government has said that it is futile, at this stage, to spend time and effort on finding out what exactly went wrong with our defence planning and strategy. The explanation given is that we have been out-numbered; caught unawares. Even so, it still does not excuse the heavy losses sustained by us. Strategic withdrawal to positions which are defensible is a prime principle of warfare at any time. There remains, therefore, a case for an official enquiry into what actually happened in NEFA.

Politically, our mistake was, obviously, that we believed the gospel we preached—the gospel of peaceful co-existence; of peace and goodwill among men. It just shows how far we have to go in the practice of diplomacy and the promotion and maintenance of successful foreign relations. While the Chinese assured us of friendship, they prepared for war. While the border skirmishes went on since 1953, when the first incursion of the Chinese troops occurred at Damzan in Uttar Pradesh, we continued to believe that the border question would be settled through negotiations. On November 14, which was his seventy-third birthday, the Prime Minister replied to the long debate on the Chinese aggression which had lasted for six days. He looked a tired and weary man. All political parties appeared to give him their full support. Every Member recognised his leadership. "We might not have been quite prepared to meet this invasion", he said, "our mentality may be built towards peace". That is the truth of the matter. Yet, unfortunately, there is some implied questioning of the policy of non-alignment. A certain section of the Congress Party, particularly some among the younger group, feel that it is time we gave up the policy of being on good terms with all and instead openly acknowledged the so-called "friendly countries".

The entry of Chavan into the Cabinet as the Defence Minister has been generally well-received both by Members of Parliament and the Services. He has the reputation of being a good administrator and of having drive and imagination. In some official quarters, it is thought that there should have been a bifurcation of the Defence portfolio into "Defence" and "Defence Production". There is some apprehension that T T Krishnamachari's Department of Economic and Production Co-ordination may overlap with Defence Production, thus creating confusion and encouraging the not uncommon bureaucratic habit of 'passing the baby'. It is thought that if the two departments could be separated, the Defence Ministry could convey its requirements to the Ministry of Defence Production and any shortfall in quality or quantity of defence production could be checked. Service personnel, in particular, were known to be keen on a bifurcation of the Defence Ministry.

* This was written before the cease-fire.

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Chinese Strategy

(From a Correspondent)

INDIA'S border with China, after the occupation of Tibet by China in 1957, is some 2,500 miles long. An understanding of the motives and strategy of China's internal and external policies is, therefore, of the greatest importance to us. The current Chinese military aggression makes such an understanding imperative.

In the past, the Chinese, whenever they were strong and united, were expansionist, spurred on by their conception of themselves as the chosen race. Before the advent of Western imperialism in Asia during the fifteenth and the early part of the sixteenth centuries, Burma recognised the Ming Emperor as suzerain, and over Thailand, Java, Sumatra, Malaya, Annam, Korea and Japan, Peking claimed the rights of a paramount power. For over fifty years during the fifteenth century even Ceylon paid tribute to China and recognised the Ming Emperor as suzerain.

During the centuries of Western domination, China was weak and exploited in many ways. This feeling of being wronged has persisted. Further, the idea of being the chosen race still dominates Chinese minds. Now they feel they can translate their aspirations into reality, strong and united as they have become for the first time in the last three or four hundred years.

This objective and its motivating factors are more or less similar to those of Napolean, Hitler and Tojo, with one vital difference — that the Chinese regime is perhaps much better organised and much more rational, calculating and ruthless in the pursuit of its aims. The Chinese regime does not depend upon the whims and caprices of one person or a few persons; it is an organised regime, which can perpetuate itself.

Not Related to Communism

The basic factors governing Chinese policies are not organically related to international communism. The latter merely helps the furtherance of the main objectives of Chinese policy by providing a suitable dogma. The parallel is perhaps Muslim religion vis-a-vis the Mongolian invaders. International communism means merely the recognition of Chinese hegemony by the other countries as far as China is concerned. The thesis of inevitability of war and the impossibility of peaceful coexistence suits the Chinese temper and objectives as it helps them to maintain a permanent ruthless war-machine.

With these motives strengthened by the communist ideology, the course of action and the strategy that the Chinese regime would pursue become clear. Rational, calculating and ruthless as the Chinese regime is, it is yet wary of any military misadventure in the pursuit of its aims, unlike Hitler or Napolean. She would pursue an expansionary policy by all conceivable tactics and back them up with military action, whenever necessary. Communism helps her in this policy as it enables her to foster internal movements in neighbouring countries that might convert these governments into more or less subservient regimes, which could later be controlled by military might. This has been Chinese policy with regard to Korea and Vietnam. A country which can be easily subjugated, and over which China has historical claims, has to be conquered by force — this happened with Tibet.

In Burma and Indonesia, Chinese policy seems to be to create satellites gradually and without giving any impression of imperialistic designs. Similar also seems to be her strategy with regard to Nepal, Bhutan and Sikkim.

In relation to India, Chinese policies seem to be guided by a variety of motives. China obviously would not like a strong and united India, particularly wielding an influence in world affairs far greater than is warranted by her basic economic and military strength. In Asia, China would not like a rival power. Hence, establishing a convenient and subservient regime in India must be one of her long-term policies. Further, over-populated as China is, believing as she does in the inevitability of a nuclear world war, she would like to expand into the under-populated parts of India bordering China which would also make China less vulnerable to nuclear attacks by either Russia or the Western powers. From this point of view, possession of the whole of Ladakh and Assam must appear eminently desirable to China.

Immediate Objective

But all these aims can be achieved only step by step. Immediately, therefore, China would like to put a sort of legal stamp on her occupation of a part of Ladakh, where she has built a road linking Sinkiang with Tibet. Further, it hurts her sense of pride and suits her policies not to respect the boundaries fixed by the imperialist powers who exploited her. Since India did not recognise and acquiesce in the Chinese border claims, the only course left for an arrogant and ruthless expansionary power was to enforce such recognition by power of her arms. It is quite likely that China would not pursue, immediately, her larger objectives in India, with regard to Assam and Ladakh, if her border claims in Ladakh are recognised by India.

Such, then is the background to the present conflict. China may have thought that with the show of military might India would come to terms with her immediately; militarily weaker and peace-loving as India is, China calculated that she would succeed in her objective. She may have further thought that non-aligned India would not ask for military assistance from the West.

All these calculations seem to have been upset. Unprepared as India was, she rose to meet the aggression with monolithic unity. In fact, as a result of Chinese aggression, India has become united as never earlier. Together with this spontaneous response within the country, India has already obtained and will presumably continue to obtain massive assistance from all friendly countries. Further, Russia has not supported Peking's military adventure. Finally, if there is a long and protracted war, China would be completely isolated and would have to face the combined might of the whole world. If Russia does not actually oppose China, she may, at least, keep out of the conflict and may not back China in a war, the aims of which she does *not* approve.

All this seems to have induced Peking to concentrate on the immediate objective of legalising its occupation of parts of Ladakh and defer the pursuit of larger aims — that is, capturing the whole of Ladakh and Assam. For the present, she has succeeded in her immediate objectives of occupying, more or less, all the Indian territory she claims as hers. Why not stop, then, and impress upon the world her peaceful intentions? This seems to be the motive behind China's peace offer of October 24 as well as November 21.

Since India rejected the October 24 proposal and insisted upon Chinese withdrawal to the September 8 position in her latest proposals, China seems to have taken, at least partially, India's demands into account, while appearing to reaffirm her own October 24 position. The latest offer, in effect, suggests that China would withdraw 20 kilometres behind the McMahon line in NEFA and 20 kilometres behind its present actual line of control in Ladakh; that if India takes corresponding measures, China is willing to negotiate.

What should India do? It may not be a bad policy to wait and watch while continuing to make real and effective military preparations without taking the offensive immediately. If during the next few days the Chinese keep their word and unilaterally withdraw from their present advanced positions, talks need not be ruled out while, of course, keeping ourselves in readiness for any eventuality.

The crux of the problem would be Ladakh. In effect, the Chinese proposals amount to an offer to settle the border dispute on India's terms in NEFA and more or less on the Chinese terms in Ladakh. We must make a cautious and realistic appraisal of the implications of this offer. But whatever happens, India cannot afford to drop her military guard on the border. Now that we are sufficiently aware of the threat that China poses, we have to unremittingly pursue the objective of building up adequate military and economic strength to counter effectively China's extra-territorial ambitions.

Capital View

Crisis Comes to a Head

Romesh Thapar

IT is very difficult to decide where to begin and where to end this weekly report. Since I last wrote about the 'inexplicable' lull on the front we have suffered major military reverses, and these have set in motion forces which are now beginning to agitate and organise for the removal of the Prime Minister who is described as paralysed by his delusions about non-alignment. The sacrifice of the Army Chief was considered necessary to break the mounting wave of criticism; probably more heads will fall in the process of salvaging damaged political reputations, notwithstanding that the process of head-hunting at this moment has a profoundly demoralising effect and encourages the ambitions of the enemy. Changes in leadership are required at every level but not in this piecemeal manner.

The second Chinese assault, mounted on a scale more massive and thorough than the first, has cleared the way for them to control the entire mountain mass in NEFA and to make the active defence of Assam an impossible undertaking with our present military strength. At this critical juncture, however, the Peking adventurers have ordered a cease-fire and given notice that they will withdraw *unilaterally* twenty kilometers (12½ miles) behind lines of 'actual control' and those which are described as 'traditional customary' as on November 7, 1959. This is an extension of Chou En-lai's earlier three-point offer — steps which have obviously been forced upon the adventurers by a sharply critical USSR and increasing isolation in the world.

Diplomatic Offensive

From what one can gather, there has been hectic diplomatic activity behind the scenes during the past few weeks. The Maoists were adamant in their refusal to accept the Indian demand for a withdrawal to positions held prior to September 8; they described this as an attempt by Nehru to 'dictate' terms and viewed with displeasure President Nasser's attempt to support and popularise the Indian demand. Following the disengagement over Cuba and the renewed assertion of the Khrushchov doctrines in Soviet policy, the Chinese apparently considered it necessary to confuse the general diplomatic situation and so make a decisive Soviet intervention more difficult. The latest proposals, deliberately and cynically released to the world (and even foreign diplomats in Delhi) many hours before they were handed over to the Ministry of External Affairs, are designed to rob us of our friends in the West and the East, and also in the non-aligned world. In other words, a diplomatic triumph is sought which will support their undoubted military success. All the more reason that our reply be cogent and persuasive so that the confusion which is bound to arise can be cleared speedily.

A careful reading of the Chinese statement shows it to be full of inaccuracies, contradictions and calculated vagueness. Take the NEFA area, first. When the Chinese speak of the 'illegal McMahon Line', they actually refer to a line which runs some 7-9 miles south of the high ridge of the watershed which is, according to us, the actual McMahon Line. They offer to withdraw 12½ miles (20 kilometers) north of what they consider to be the 'line'. This means that their main force will be some 3½ to 5½ miles north of the

McMahon Line as shown on our maps, but they retain the right to establish check posts to a depth of 7-9 miles south of the McMahon Line as claimed by us. As for our own positions, it is not made clear whether we are to advance to the Chinese description of the McMahon Line or to 20 kilometers south of it. One para contradicts another, although there is reference to demilitarised zones. In this tortuous way the Chinese try to make out that after withdrawing, their so-called 'frontier guards' (*sic!*) will be 'far behind their positions prior to September 8, 1962.'

Ladakh-for-NEFA Offer

The logic of this kind of 'offer' is best seen when applied to the situation in Ladakh. It is stated that in the middle and western sectors the Chinese 'frontier guards' will withdraw 20 kilometers from 'the line of actual control' which earlier is also described as 'the traditional customary line'. If one refers to the map, it will be seen that the Chinese refuse to face the fact that their line of control in November, 1959 was some miles south of the road built by them across Aksai Chin. They were pushing southward towards the Karakoram range and established their Chip Chap post only last year. Now, although talking about returning to positions held prior to September 8, 1962 under the present 'offer', they in fact intend to retain control of all their gains in Ladakh during the present invasion, making clear that they will not permit India to establish those 43 checkposts in the Chip Chap and Galwan valleys, in the Pangong Lake area and the Denchok area which have been overwhelmed. Presumably, we are also expected to abandon strategic Chusul as part of the 'corresponding measures'.

We have to tread warily. The *unilateral* aspect of the 'offer' is designed to give it dramatic trappings, to clothe naked aggression in sweet reasonableness. Chinese Communist history is punctuated by such moves. We are tempted with the prospect — not very clear at the moment but implied — of regaining control in NEFA against a surrender in Ladakh. The 'offer' is made when our limited military potential is strained to the maximum, when Pakistan's rulers are exploiting the situation to the full by claiming a mutually agreed tentative settlement on the future of the Kashmir Valley as the pre-condition for massive U S military aid to India, when anger is mounting in the communist world against the militarist adventurism of the Maoists, and when voices are beginning to be raised to warn against the disastrous consequences of a prolonged total war on the Indian sub-continent. Of course, it is unfortunate that we have been so slow in reacting to these Chinese moves. In fact, we have been caught unprepared. Whatever the outcome of these moves, a major operation will have to be launched to consolidate the sizeable international support which we have been able to mobilise throughout the world, support which significantly cuts across the frontiers of power blocs.

Soviet Pressures on China

Much will depend on the deliberations now going on in Moscow within the Soviet leadership. It is known that Khrushchov is in contact with the Governments of various communist States, that he is desperately anxious to bring the Maoists to order, but there is a wide divergence of opinion as to how far he will be able to go to discipline them. This depends largely on the intensity of the ideological battle which has been joined within the U S S R and the communist world. Every day's delay in dealing firmly with adventurist Maoism pushes India into the hands of those who would commit her fully to a total war. Such a situation can crystallise rapidly, for political life within our country is polarising at almost every level: the widespread arrests of Indian communist leaders is a pointer.

The crisis is also taking confused form at governmental level. While the elevation of T T Krishnamachari as Minister for Coordination of Economy and Defence (with powers which are not precisely defined but appear somewhat unlimited) suggests that overlapping responsibilities which lead to administrational paralysis will be dealt with, there are indications that his colleagues in the Cabinet are tense and resentful. They are not prepared to be accommodating in a situation which is rather fluid. It is reported that Defence Minister Chavan has been very firm about retaining control over defence production. Industries Minister Subramaniam might also insist that only the Cabinet can shelve his schemes for steel expansion in Goa and Salem, not the Minister for Coordination. And so it will go on, until it is clear who is going to head India's war effort. Valuable time is being lost by the clash of various ministerial empires, but for the moment there seems no way by which to jump the present temporary balance of power at the Centre.

No More 'Advisers'

Meanwhile, the Government of India is taking serious note of the marked shortage of organising talent available to it. It may well be necessary in the coming months to entrust specific jobs to a number of retired civilians. However, it is to be hoped that they will be given assignments and not attached as 'advisers'. This thought arises because of the manner in which retired generals are sought to be used as 'advisers' to the Defence Minister despite the presence of Service Chiefs who are, and should be, the advisers. Attempts to create a system of checks and balances will negative efforts to forge a streamlined administrative and control system and spread demoralisation. When the full story of these days is written it will not make pleasant reading.

The demand persists that if the Prime Minister is to consolidate the national awakening and give it positive direction, he must associate younger, experienced and technically-trained men at every level of policy making — and this development can only take place if the Cabinet is radically reorganised along the same lines. Patchwork is not going to provide the leadership or the drive which the nation needs at this juncture. And national awakening is not enough, for the people have to be educated and made aware of the many facets of the crisis which is now coming to a head. Whether the cease-fire lasts, or is the prelude to another assault, this is the time to act. We cannot face the future unless we develop the necessary resilience to condition the pressures which are being brought to bear upon us from many directions.

From the London End

Anglo-Japanese Trade Pact

THE long delayed Anglo-Japanese trade treaty, which was finally signed last week, is particularly important for two reasons. First, it means that Britain will now waive her right to invoke Article 35 of GATT to impose, at will, special discriminatory tariffs or quality controls. This is a tacit recognition that it is no longer fair to treat Japanese goods as if they were produced by "sweated labour" in view of the enormous increase in Japanese wage levels over the last ten years. The reason for Article 35 in the GATT agreement, was the assumption that the Japanese were both low cost producers and unfair traders. With Japanese standards of living rising very rapid'y, this argument is no longer valid.

Although, strictly speaking, this trade agreement has no political conditions attached, it is recognition of the fact that Japan is becoming more and more a "Western" country — an increasingly important member of the capitalist group of countries. This treaty, therefore, marks a very important step forward by Britain to admit Japan to the world trade. There is no doubt that the treaty will prove extremely valuable to Japan. She can base her future trade relations with the Common Market countries on this treaty. Hitherto, the negotiations have been carried on with the individual members of the European Economic Community, but in the last few weeks, discussions have been taking place with Professor Hallstein, the President of the Common Market Commission in Brussels. With a British precedent in waiving article 35, the Japanese hope that other Western European countries will also follow suit. At present, this article is still invoked against Japan by 15 countries, including, among the Western industrial states, France, Belgium, Holland, Austria, Luxembourg and Portugal. Italy limits Japanese imports without invoking the article. Japan is at the moment busily engaged in extending her trade relations and pushing her exports all over the world. A new agreement has recently been concluded with China and a trade agreement with New Zealand has been re-negotiated, while talks are going on with Australia.

Opportunity for British Exporters

The second reason why this Anglo-Japanese trade agreement is specially significant is that it seems to be an indication that the British Government has now come down more decisively on the side of those who have been arguing for the adoption of an expansionist policy by Britain if the economy is ever to be dragged out of its present rut. The signing of this treaty indicates that British industry will gain quite as much in the Japanese market as it will lose because of Japanese competition in the home market.

The treaty itself is to remain in force for six years and will come into effect in April or May next year after ratification. Under this treaty, Japanese exports to Britain and British exports to Japan will, in future, have to face only the tariffs and quota restrictions applied towards imports from all countries in general.

At a Press Conference held by the Japanese Prime Minister Mr Ikeda, in London after the signing of the agreement, he said Japanese imports from Britain should be 20 per cent to 25 per cent up after the first year of the treaty's operation and might rise by more if Britain bought more from Japan. Among the items he felt that Britain could, to her advantage, buy from Japan were cameras, transistor radios, transistors, T V sets and microscopes.

The current trade agreement between Britain and Japan which is to be renewed up to the time the new treaty is ratified, ensures that Japan will liberalise or licence generously a large number of U K exports, including machine tools, cars, whisky and wool cloth. It is expected that the quota for cars will be £ 150,000; that for whisky £ 500,000; and that for wool cloth £ 3,500,000.

The six-year trade agreement contains safeguards of two kinds against disruptive competition. First, a general safeguard on all products in case of special need, and, secondly, a list of "sensitive items" on which restrictions will continue.

Under the first category, defensive action can be taken if imports reach such a level that they threaten disruption to the domestic industry. The second specific safeguard covers a list of "sensitive items" where protection by controls — either voluntary or otherwise remains permissible. These safeguards are of three kinds. Japan has agreed, first of all to use her existing export control machinery to limit its shipments of certain items — principally, textiles and radios and T V sets, to agreed amounts for at least the next three years. Second'y, it is agreed that Britain should retain import controls for at least a similar period on certain other items that Japan cannot provide export controls for, such as cutlery, sewing machines, microphones and binoculars, toys and games and domestic pottery. Thirdly, both countries have the power to impose import restrictions on any items when domestic manufacturers are threatened with "serious injury" either by mutual agreement or, even unilaterally.

The table below shows the items which will be affected under voluntary export control by the Japanese.

Japanese Exports to Britain

		1963	1964	1965
Cotton yarn	(£'000)	nil	nil	nil
Spun yarn and man-made fibres	(£'000)	25	25	25
Cotton fabrics	('000 sq yds)	5,500	6,000	7,000
Woven wool fabrics	(£'000)	400	500	600
Woven and knitted silk fabrics	('000 sq yds)	500	700	950
Man-made fibre fabrics	('000 sq yds)	3,000	3,600	4,200

Goods on Which the U K May Continue Import Control
(£ '000)

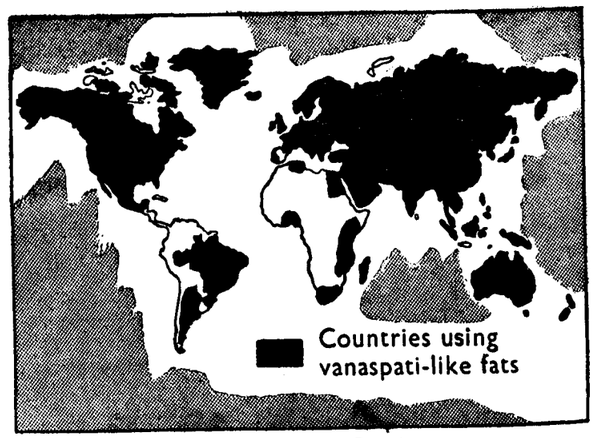
Item	Previous Quota	1963	1964	1965
Sewing machines & parts	250	350	600	
Binoculars and parts	60	100	200	
Toys and games	550	700	950	1,275
Pottery	150	200	250	300

Industry Welcomes Treaty

Generally speaking, the treaty has been welcomed in Britain, although the U K wool industry has already complained bitterly against wool tops and yarn not being subject to control. On the other hand, it must be appreciated that U K exporters will now benefit from the doubling of Japan's global quotas for woollen textile imports. Again, clocks, imitation jewellery, non-transistarized radio and T V sets and gramophones, parts of electron microscopes, insulated wire and wire cables and wire mesh and netting have all been placed on open general licence. The British radio and T V industry, however, regards the increased quotas for the import of radio and T V equipment as a serious threat to the industry's future. The Federation of British Industries, while welcoming the Anglo-Japanese treaty said:

"On the good side the opportunity for our exports to share in the progressive liberalisation of the Japanese market is secured. In addition, increased facilities are to be given for our exports of several non-liberalised items which are important to us. For example, machine tools, motor cars, wool cloth and whisky. All this should provide growing opportunities for our exports which we are confident will be seized".

Against this, the F B I point out, any increase in Japan's exports to Britain was bound to excite resentment as long as they were assisted by export subsidies which the major Western nations had agreed to forswear. Shortly after this statement, the President of the Board of Trade was able to announce that Japan had given an assurance that it would sign the GATT declaration banning export subsidies on industrial products by March 1964 at the latest.



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Book Review

India in the Machine Age

N R Sheth

Factory Workers in India by Arthur Niehoff, Milwaukee Public Museum, Milwaukee, U S A. Pp 115.

THE academic as well as practical importance of the study of the social implications of urbanization and industrialization in 'underdeveloped' countries such as India is now well recognized. The work done so far in this field, is, however, very inadequate. The information available on the subject hardly warrants any significant generalization. Dr Arthur Niehoff's book is an attempt to provide fresh information in the field of urban and industrial sociology in India. It will, therefore, be read with much interest by those concerned with the problems of urbanization and industrialization in India and other 'underdeveloped' countries.

The book is based on an investigation the author carried out among some factory workers in Kanpur in Uttar Pradesh. The workers selected for the study were all migrants from rural areas and had changed over from non-industrial to industrial jobs in joining Kanpur factories. In this sense, the title of the book is a misnomer. It apparently carries an implication that the factory workers in Kanpur can be treated as 'representative' of factory workers in India. This is certainly not true. Although we have no precise data, we can say with confidence that 'factory workers in India' do not have the same social background. In particular, all factory workers are not migrants from rural to urban areas and from agricultural to industrial jobs, as are the workers studied by Niehoff. In Western India, for instance, there are many workers having a long tradition of urban living and non-agricultural patterns of livelihood.

Direction of Change

The starting point of Niehoff's study is the contention that the process of urbanization and industrialization in an underdeveloped society, changes its institutions in the direction of those of the industrial urban 'society' of the West. The latter is marked by individualism, rationalism and an achievement-oriented social stratification permitting mobility to individuals. Which implies that these characteristics are the necessary correlates of an "urban, industrial society" and hence absent in an 'underdeveloped' society in its traditional form. This assumption is yet to be proved.

The aim of the author is, first, to describe the changes brought about by migration to urban areas and shift to factory jobs in the traditional social structure of Kanpur workers. The account of the 'traditional social structure' is a suitably abridged version of the picture drawn by earlier writers such as O'Malley, Lowie and Hutton. Second, he wants to compare the changes just mentioned with the changes that occurred in the West as a result of industrialization.

Indian and Western models

There are thus two models in the author's conceptual framework — the model of traditional non-industrial Indian Society and that of industrial Western Society. His problem then is to see in what respects the changes induced by urbanization and industrialization have moved the social life of Kanpur workers from the first to the second model. He asks, in effect, questions such as: How far has caste been replaced by class? How far has the joint family given way to the 'individual' family of the West? There are some changes which Niehoff describes as 'peculiar' to the Indian situation, i e changes in those aspects of social life which have no parallels in Western society (e g changes in the various restrictions connected with caste). But for the most part the study is set against the two models mentioned above.

An important issue arises at this stage. How far is the description of Indian society given by O'Malley and others valid for the pre-migration social life of Kanpur workers? We know quite well that though caste, joint family and village community exist throughout India, there have been at all times important regional and local variations in them which need to be considered for a study such as Niehoff has attempted. The model of the traditional society he has drawn may have its own utility, but it cannot serve as a substitute for the description of the social background of a specific group of people such as Kanpur factory workers. Since, then, there is no valid information about the pre-migration social life of the workers in question, it is presumptuous to argue, as Niehoff has done, that the social life of workers described in the book is a by-product of their migration and acceptance of factory-jobs.

The author reports his findings in 17 chapters spread over 90 pages of the book. It is somewhat reassuring that he raises specific questions in the beginning of every chapter and answers them. Otherwise, it would be extremely difficult to understand titles such as 'Economics of the Worker', 'The Household' and 'Family Size'. The first only gives the details of income and expenditure of an average factory worker in Kanpur and a comparison with the budget of his American counterpart. 'The Household' tells us mainly about the changing pattern of the joint family in Kanpur and the emergence of the nuclear family. The title 'Family size' is selected for the chapter which indicates the trend towards fewer children in the city and the attitude of workers to birth-control. 'The city and the village' deals with the relative advantages and disadvantages of the city and the village, and mainly contains stereotyped idealization of workers. It is, in the reviewer's opinion, a total loss.

Caste and Class

There are five chapters on caste. The first of these is 'Caste and Class'. Among Kanpur workers caste and class coexist. They intersect each other in the sense that a high caste man may belong to a low class and *vice versa*. The author has grouped the various castes into high, middle and low according to their association with the different strata of the traditional *Varna* system. One would expect a sociologist working on India to know the relevance of the *Varna* system for an understanding of caste in modern India. The latter part of this chapter is devoted to the existence of classes among factory workers. For some important social relationships, class has replaced caste. On a review of the number of classes postulated for India by earlier writers, Niehoff decides himself in favour of a three-class system. Industrialists, clerks and workers are regarded as belonging to the high, middle and low classes respectively. This is an extremely simplified picture of social stratification in urban India and has little use for the sociologist. For even a cursory observation of the social attributes of the different occupational and income groups is sufficient to demonstrate the existence of several classes merging into one another.

The differences between the classes are stated to be mainly cultural — differences in clothes, in the brands of tobacco and in the railway classes used by them. The only thing said about the relations between the classes is that the higher classes behave towards lower ones in an authoritarian way. However, the evidence brought in to substantiate this argument is thoroughly unconvincing. The following passage is worth quoting at length.

> "The treatment of individuals of low class by upper and middle class persons *can be* very authoritarian. In most instances that I observed the low-class individuals accepted such treatment without protest. On one occasion when I was accompanied by a Hindu College student I wished to take some movies of a camel that was being led along a road. The camel driver was of lower class status, as attested to by the fact that he was doing this manual work. The college student was *probably* of upper middle-class status and was wearing Western clothes, which always establishes a man of middle-or high-class status. (What about factory workers? See photographs on pp 32 and 48). The student, in his desire to help me, told the camel driver to stop, ordered him to have the camel kneel down, to mount the animal, and to go back down the road a distance and then come towards us slowly, a procedure repeated twice. I was surprised, but nevertheless pleased, to have such excellent control over the subject for photographic purpose. When *we were finished*, I wanted to give the man something for his trouble and *expenditure of time*, but my companion insisted that this wouldn't be necessary, nor was it even necessary to thank the camel driver. He was dismissed with a summary "JAO", the Hindi imperative for "to go". (p 25) (Italics and parentheses mine).

It seems the social stratification in Kanpur has vanished into insignificance before the camel-driver *curio* and photography.

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Caste and Occupation

In the other chapters on Caste the author has discussed the changes in the traditional features of caste, such as restriction on choice of occupation, restriction on interdining and social intercourse, cultural exclusiveness and endogamy. Although the higher-castes had a tendency to prefer high and clean jobs in factories, there were many exceptions since those who migrated later had little or no chance of job-selection. The relation between caste and occupation thus became weaker in the urban industrial situation. However, the choice of occupation was much wider for lower castes than for higher ones. We are informed in the chapters on migration that the first migrants from villages to Kanpur were members of low castes who were driven out for reasons of poverty and social exploitation. These low caste people were absorbed in high and clean jobs as well as in low and unclean jobs. The higher castes migrated later and not always for economic reasons. When they arrived in town, most clean jobs were already manned by lower castes. The former had, therefore, to be satisfied with low unclean jobs. This means that the lower castes were in a position of advantage in the economic scale. This is a very important observation and, if it had been pursued, might have provided a good understanding of inter-caste relations in Kanpur.

In the two chapters on marriage, we are told that the marriage pattern and ideas regarding marriage are almost entirely traditional. The unmarried are looked down upon; marriage is primarily essential for a son. Marriages are mostly arranged; the age at marriage is still low; there are no inter-caste marriages. However, a large number of married men leave their wives back in their villages and live alone in Kanpur.

One full chapter is devoted to the problem of the unmarried after saying that there are few unmarried. The unmarried men remain so due to high dowry. ("High castes paid the largest dowries and there was more bachelorhood among the high caste Hindus . . ." Does the author inform us that there is a bride-price among high-caste Hindus in U P ?). Some remained unmarried because they left their villages suddenly. Some problems connected with bachelorhood — prostitution, etc — are discussed.

The chapter on 'leisure time' catalogues the games and pastimes of the city workers. It is said the workers combine the traditional with the modern by seeing religious films. The prohibition policy of the Government is also considered as falling within the purview of the study and we are told that prohibition was a success *generally*.

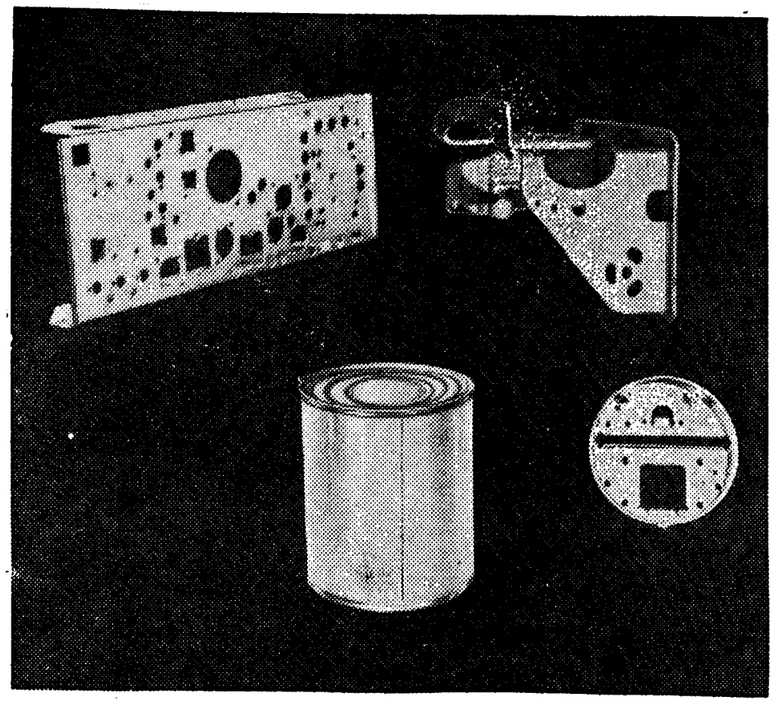
Finally, there is a chapter on 'Social Control' wherein we are told that Kanpur is more 'disorganized' than non-industrial cities like Lucknow. There were more cases of sex crimes, thefts, horseplay etc in Kanpur than elsewhere. That is, social control over the individual is weakened by industrialization. In this chapter the author also refers to some 'bad habits' prevailing among Kanpur workers, such as body elimination in open spaces, and sneers at them. One wonders whether this also is an example of disorganization.

Comparison with Western Society

In "Conclusions" the author summarises what he has said in the previous chapters. He also carries out in specific terms the work of comparing changes in Kanpur with the model of the industrial western society. The emergence of class is a definite parallel to the West. Changes in caste are not comparable to the West, whereas the family has moved towards the Western-type of family. Individual mobility has increased, which again is a parallel to the Western Society. In short, industrialization and urbanization have produced the same type of change in the social set-up of India as they produced in Western Society. The hypothesis needs the support of similar studies in other areas.

Unfortunately, Niehoff has made several vague and incorrect statements in the book under review. On page 55, for example, we are told, "The Hindu method of eating by popping balls of food into the

mouth with the fingers without touching the lips is also an indication of the mouth's pollutability." Anyone conversant with India knows that the method of eating described here is certainly not "the Hindu method". And he says in the preface that he was often invited to the kitchens of Kanpur workers! Again, there is a statement reading "Many younger sons *who lost out in inheritance* came to the city for employment" (p. 35). Does he suggest the existence of primogeniture in Indian society? We wish the author had been more serious about his study as well as about Indians.



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Five-Year Plan for Britain

(From Our London Correspondent)

The major economic event in the U K in October was the publication of the long-awaited first report of the National Economic Development Council.

The rates of growth postulated in the N E D C's blueprint are so much higher than Britain's current growth rates in all sectors, and particularly in the field of exports, that there may well be a certain pessimism about the possibility of achieving these targets.

One thing, however, appears to be clear. It does look as if the simple truth that Britain's best hope of winning through to enduring health in the balance of payments field lies in getting firmly embarked on a growth policy at home.

This may well herald the permanent abandonment of the restrictionist themes that have dominated the British economy during the last decade.

THE season of political conferences is now over and paradoxically enough, both the Tory and the Labour Parties believe that Brighton and Llandudno have increased their chances of winning the next General Election. Against this rosy optimism on the political front, the economic situation in Britain is far from inspiring. The report of the National Association of British Manufacturers confirms a number of other reports, including one from the Treasury on industrial production, that there has been little growth in recent years. Although the seasonally adjusted index of industrial production is one point up for August, these small monthly variations are almost meaningless. For the first eight months of 1962 the general index has been running just one point (or less than one per cent) above the level of a year ago. Indeed, this tells the same story of stagnation as the recent report of the Federation of British Industries which showed "no change" on balance in the level of industrial output since June.

In the field of exports, the position is still unsatisfactory. It is true that the September trade gap was reduced to £ 50 million, but since the August trade figures were exceptionally bad, some improvement was only to be expected. Indeed, for the third quarter of 1962, the position is that while imports have been rising, exports (despite the generally favourable conditions in overseas markets) have remained stationary at the level they reached in the second quarter.

For a trading nation like Britain, more than any other country, the world economic situation is of vital importance, and, ironically enough, when the Government is at last putting forward, very belatedly, proposals for positive economic growth, this has coincided with a time when both America and Western Europe look as if they are heading towards a downturn. At the same time, the continuing decline in world commodity prices reduces the export earnings of the developing countries of the world and limits their capacity to import from the industrialised nations, thereby limiting the expansionary possibilities in these countries.

The major economic event of October was the publication of the long-awaited first report of the National Economic Development Council. In order to prepare this blueprint, the National Economic Development Council drew up an "outline model" of the economy in 1966. To meet the 4 per cent target they have worked out, on a strictly academic plane, the key elements in the economy such as income, consumption, imports, exports and investment which would be compatible with the targetted rate of growth (please see table).

In this connection it is interesting to look at the trend toward long-term forecasting in Britain. The Treasury's forte lies, as is well known, in short-range forecasting, but N E D C is now looking five years ahead. The National Institute of Economic and Social Research (a private organisation) is already looking ahead at the economy in 1970. Professor Stone at Cambridge is also engaged in a

The Use of National Resources in 1961 and N E D C's Estimates for 1966

	1961	1966 Provisional (at constant 1961 prices *)	Increase % per annum 1961-66
Resources Available			*(Million £)*
Gross domestic product at market prices	24,486	32,225	4.0
Imports of goods	3,998	4,990 †	4.5
Net imports of services	83	95 †	—
Total	30,567	37,310	4.1
Use of Resources			
Consumers' expenditure	17,336	20,280	3.2
Public consumption ‡	4,570	5,460	3.6
Investment	4,798	6,470	6.2
Exports of goods	3,863	5,100 †	5.7
Total	30,567	37,310	4.1

* Constant 1961 prices are used to show the changes in "real" terms.

† Allowing for net investment income from abroad and grants paid abroad, the balance of payments surplus on current account would be £ 300m.

‡ Current expenditure by central and local government on goods and services. This is about half the total public expenditure. The rest is investment in roads, schools, hospitals, etc, and "transfer payment" such as pensions, subsidies and debt interest.

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task of long-term forecasting up to 1970. Summarized briefly, the National Economic Development Council's report sets a tentative target of an average growth of 4 per cent a year between 1961 and 1966. In order to achieve this objective, British exports will have to increase by 5.7 per cent a year, i e about twice the rate recorded in recent years. Such a rise would mean that Britain would have to maintain its share of world trade in manufactures instead of having a declining proportion as in the past. Imports will also have to be stepped up, while investment will have to show a yearly rise of 6.2 per cent, while the output per worker must improve by 3.3 per cent. The report makes it quite clear that the programme suggested is not a "hair-shirt" one. Provision has also been made for consumers expenditure to rise at a slightly faster rate than in the past, i e 3.2 per cent a year, or 2.5 per cent per head of the population. The increase in the five years up to 1961 was 2.1 per cent per head.

Understandable Pessimism

Since the rates of growth outlined in this blueprint are so far above Britain's current rates of growth in all these sectors, especially exports, there may well be a certain amount of pessimism about the possibility of achieving these targets. Exports would have to grow considerably faster than imports to allow for Government aid to developing countries, for net investment of private capital overseas and to help to remove the need for "stop and go" policy. On the other hand, an improvement in net invisible earnings is assumed—last year they were poor. One thing at least seems clear. It does look as if the simple truth that the U K's best hope of winning through to enduring health in the balance of payments field lies in getting firmly embarked on a growth policy. It may well herald the permanent abandonment of the restrictionist themes that have dominated the British way of economic life over the past ten years.

Perhaps the most interesting feature of this blueprint is the recognition that a policy of growth means growth in all sectors, not pinning one area (the home market) down to allow others (exports) to grow. Indeed, because of its balance of payments vulnerability, the main armour in British economic policy has been to set tight on home demand, hoping that somehow or other this would help to increase exports — a policy that has failed decisively, for no amount of restricition of home demand has generated an upsurge in exports, and indeed this policy has led to Britain's rate of growth being practically the lowest in Western Europe.

It should be noted that all the calculations in producing the model for N E D C have assumed that Britain will enter the Common Market, but the Director has pointed out that if Britain does not join, the main estimates of the model will not fall to the ground and it could be quickly revised.

Cost of Tory Rule

Commenting on this blueprint, Hugh Gaitskell said that it betrayed to the world the economic incompetence of its own creator — the Prime Minister — "in the most devastating indictment of ministerial folly ever presented to a Government by its own officials." This showed that if the Government had not scrapped the planned economy it inherited from Labour in 1951, the nation would have been better off to-day to the tune of £ 2,000 million a year, equivalent to an increase in income of about £ 40 a year for every person. Mr Gaitskell claimed that the Council's report, by showing what was possible, revealed what had not been done during the last few years of Tory rule. "The new plan provides for an increase in production of 4 per cent a year. This is what it is now thought can be achieved provided we plan for it. In the years when we did not plan — the ten years that followed the scrapping by the Tories of Labour's planning set-up —the average increase in production was only 2.8 per cent".

Gloom over Prospects for British Trade

However, even the National Economic Development Council's report will not dispel the rapidly spreading gloom over prospects for British industry and trade. What is quite obvious in Britain to-day is that the home market is failing to provide industry with the orders it needs to work to full capacity. This, together with the general world situation, makes the prospects for Britain very difficult. When as serious and conscientious a man as Dr Jacobsson, the Managing Director of the International Monetary Fund, goes out of his way to emphasize the dangers of a possible deflationary move leading to a world recession, these warnings cannot be brushed aside off hand. He has emphasized the fact that the decline in commodity prices in the underdeveloped world is bound to have an adverse effect on the industrialised nations, and at the recent International Monetary Fund meeting, he spoke of the need for more co-operation among the industrialised nations in providing markets for the products of the developing countries and seeing that enough money was provided to finance world trade. He drew attention to signs of business slackness in the industrialised world as well, and called on the leading nations to act together to meet a threat of world-wide deflation. He pointed out that by the beginning of next year, more expansionary fiscal and monetary policies would be needed in the industrialised countries.

European Boom Tapering Off

Even more serious, is the fact that the Euorpean boom now seems to be losing some of its momentum. Mr Robert Marjolin, the Vice-President of the European Economic Commission, in reviewing the progress in the Six, came to the conclusion that the European boom — which had done much to sustain world trade at a high level over the past few years — was ending, and there was a possibility that the Community might face difficulties next year. There was, of course, still plenty of life in the boom in France and Italy, where the labour shortage was not as acute as elsewhere, but overall, the picture was not so promising. "We do not", said Mr Marjolin, "expect a recession. We think 1963, as a whole, will be a favourable year. A recession might occur at the end of 1963 or later. What is causing concern, however, is the fact that the European economy may slow down at the same time as the American". There is still a real possibility that a mild recession in United States business

capital participation varying between 55 per cent and 65 per cent. So every tyre manufactured in India leads to a further drain of foreign exchange through remission of profit to the parent company abroad.

What then is the answer to the problem? A massive increase in direct imports is certainly out of the question. Nor would it be satisfactory to import tyres on a rupee payment basis. In 1960-61, the State Trading Corporation imported 1.2 lakh tyres from East European countries. The tyres performed unsatisfactorily under Indian conditions and there is still a large stockpile of them lying unsold.

Perhaps the answer is purchase of tyres from abroad on barter terms. A small and satisfactory beginning was made in this direction in 1960-61 when 10,000 tyres were imported from Japan under a barter deal that cost the country nothing at all in foreign exchange. The possibilities of more barter deals to bridge the production-demand gap in the country deserve to be systematically explored.

Table 4 : Break-Down of Raw Material Content Cost of Tyres

	Weight (Per Cent)	Value
Rubber (natural and/or synthetic)	50	27.5
Fabric (Rayon cord)	17	38.5
Carbon black	18	4.5
Bead-wire, etc	15	10.9
Total raw materials	100	81.4
Labour	—	1.6
Overheads, depreciation, bonus, etc	—	17.0
Total	—	100.0

Source : Tariff Commission Report, 1958.

Table 5 : Import of Raw Materials for the Tyre Industry

	(Rs crores)
1959-60	10 **
1960-61	7.25
1961-62 *	7.28

* Upto August 1962.

** Including Rs 3 crores of import of equipment.

B B Petrols

THERE has been recently some hectic activity in the shares of British Burma Petroleum which rose from a level of about Rs 1.25 to as high as Rs 4.88 a few days ago. The main factors which pushed up the shares are apparently two: First, the company is reported to have received sometime ago Rs 41 lakhs in foreign exchange from South Africa. This amount cannot be profitably employed; second, the hope is entertained that the company would receive a big amount by way of compensation from the U K Government as war damages. The shares recently declined to about Rs 3 in tune with the rest of the market. The Company has now declared a dividend of 8 per cent subject to tax for the year ended March 31, 1962 against 10 per cent paid in the previous year.

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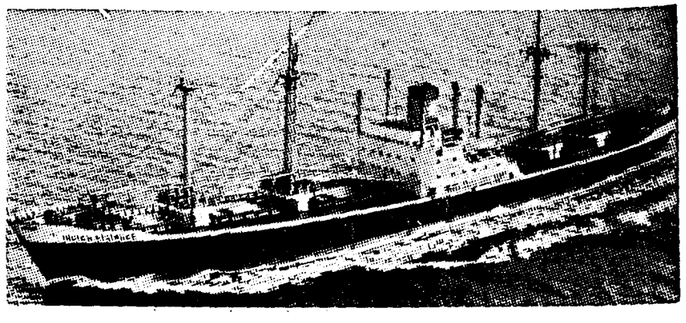

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The Optimum Firm and the Optimum Farm

A Comment

D U Sastry

Dr Raj Krishna's article, "The Optimum Firm and the Optimum Farm", (*Economic Weekly*, October 6 and 13, 1962) raises a number of important questions on size and efficiency. I shall confine my observations to the field of industry. That there has been no discussion on the choice of the particular unit in the size distribution of industries is very largely true. Accepting for a moment that the size distribution of industries in terms of labour input is not an adequate measure, the question arises as to the possible alternatives open and their practical feasibility. I propose to examine this aspect of the problem. It is one thing to say that classification of industries should be based in terms of other inputs and output as well, besides labour. It is quite another to examine the feasibility and usefulness of classifying industries in terms of other inputs and output as well. Dr Raj Krishna should also have examined the second question.

Capital as Basis of Classification

Capital is the only major input in industry other than labour. We can conveniently dismiss land as the basis of classification in industry as its importance in the structure of input is negligible. An initial question to be answered before it could be decided that capital should form the basis of classification is whether total capital should be considered or only fixed capital. Total capital cannot be considered because working capital component is extremely variable as it is directly proportional to output, which is dependent on the conditions of demand. Thus working capital may vary anywhere from zero to the production capacity of the industry. Fixed capital alone can, therefore, be taken as the basis of classification. But this raises formidable problems of capital measurement. The size distribution based on undeflated capital series would give only spurious results. Among the inputs in industry, therefore, labour is a more meaningful measure as it is stable, and its use less objectionable as compared to that of capital.

Value Added as Measure of Size

There is the suggestion by Dr Raj Krishna that the size distribution of industries should be given in terms of output or value added. Physical output as a measure of size is ruled out because of heterogeneity of output and in the case of joint products. The problem of aggregation into one common meaningful physical unit bristles with complexities. Recourse, therefore, is generally taken to the concept of value added. The value added totals are again subject to great variation from year to year, as it is directly influenced by conditions of demand. Value added series are also subject to price changes. In other words, some of the difficulties that one encounters in the use of capital input as the basis of classification of industries are also present in using value added. Added to this, there is another special problem. In some of the industries for certain years value added series are negative. Now, how is one to deal with such cases, if the size distribution is to be based on value added.

In the light of these considerations it appears that labour, as the basis of size distribution, seems to be the least objectionable measure. It is stable unlike (working) capital and value added; it has none of the difficult problems of measurement and deflation, unlike capital series and value added. The stable character of labour input is itself a sufficient condition in favour of measuring size in terms of labour. If labour constitutes the single major input in the structure of inputs — and it does in most of the consumer goods industries and most certainly in all the labour intensive small industries — then classification in terms of labour has justification both in principle and practice. The usefulness of this measure of size, in such an event, can hardly be questioned.

An important question may be raised in this context. Is a uniform, blanket classification, whatever be the measure of size, at all appropriate in the size distribution of industries ? This point needs clarification to avoid likely misunderstanding. The bigness and smallness irrespective of the measure of size in which it is expressed, differs widely as between industries. The biggest rice mill, for instance, is not comparable even to the smallest of cotton textile mills; the smallest jute mill would still be the bigger compared to a flour mill. In other words, each industry requires a separate classification and this problem is specially relevant to industry, unlike agriculture.

Problem of Efficiency

We may now turn to the problem of efficiency. It is true that efficiency in industry has been measured so far only in terms of labour. But, it has never been responsibly claimed that labour productivity measures overall efficiency. They knew and made it clear that they were measuring only partial productivity. I do not understand why partial productivities should not be measured so long as one makes it clear that it does not reflect overall efficiency.

Dr Raj Krishna is 'compelled' by the nature of the data to continue to measure size in conventional units. I may draw his attention to the N S S reports 55, 56, 57 and 58 where the size distribution of industries are given in terms of capital and value added as well for 63 groups of industries covered by S S M I operations for the years 1954, 1955, and 1956.

We thus come to the inevitable conclusion that labour as a measure of size is not merely convenient, but quite stable and highly useful, particularly when it is the single dominant input in an industry.

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Company Meeting

The Tata Iron and Steel Company, Limited

Statement of the Chairman, Mr J R D Tata

THE following statement by Mr J R D Tata, Chairman of the Tata Iron and Steel Company, Limited, dealing with Company's working for the year ended 31st March, 1962, has been issued to shareholders. The Annual General Meeting of the Company will be held on Thursday, the 13th December 1962 at 4-30 p m at the Birla Matushri Sabhagar, 19 Marine Lines, Bombay-1.

To the Members,

This statement comes to you at a time of national emergency created by the Chinese invasion of India, when our own problems and difficulties must be viewed against this background of war and peril to our country. Whatever our differences with Government may be in regard to their attitude towards our industry and although we may disagree with some of their economic policies, I am sure we are all agreed that, as in previous emergencies involving the country's security, the Company should offer unstinted co-operation and assistance to Government in the prosecution of the war effort.

The year under review was dominated by the Tariff Commission's Inquiry and Report and Government's orders thereon. The main features of both have been explained in the Directors' Report. We are mainly concerned here with the reduction which Government have effected, unjustifiably in our view, in the retention prices recommended by the Commission. In this context it is important to bear in mind that the Commission's Inquiry and recommendations related exclusively to a two-year period which had already elapsed by the time the Commission reported. One would have therefore expected that here, if ever, was an occasion when Government could hardly disagree with the Tariff Commission since the Commission's recommendations were based not on estimates, theories and assumptions relating to a period still in the future, but on actual known figures, facts and conditions about the truth and reality of which there could be no argument.

After nearly five months of cogitation, Government not only disagreed with some of the Commission's principal findings but even reversed their own previous decision and instructions to the Commission on the important question of the repayment of the special advance.

Provision for Depreciation

The changes made by Government resulting in a total reduction of Rs 27.50 per ton in the average retention price recommended by the Commission for the two years 1960-61 and 1961-62, are explained in paras 12 and 13 of the Directors' Report. The most serious change has been in regard to the provision for depreciation and return on gross block. Government rejected the Tariff Commission's view that, for purposes of calculating the incidence per ton of depreciation and return, an output of saleable steel at a rate of 90% of capacity was reasonable. Apart from the fact that it normally takes several years to overcome "teething" troubles and train staff in the use of new equipment and techniques, before so complex a unit as a new steel plant can be made to operate smoothly, the additional handicaps imposed on the steel companies by the conditions prevailing in the country were so serious that, if anything, the Commission was unduly severe in adopting a rate as high as 90% as a basis for their calculations. Yet Government, although well aware that the inability of the steel plants to make more steel was largely due to the appalling quality of unwashed market coal allocated by the Coal Controller and the deficiencies in transport, for both of which they were themselves mainly responsible, decided that the steel plants should have worked at 100% of capacity during these two years and deserved to be penalised for not having done so. Government accordingly reduced the retention prices on that account by Rs 16.5 per tonne which cost our Company Rs 4 crores over the two-year period, and thus unfairly deprived both the steel companies of the full depreciation and return prescribed by the Commission. This action, coupled with the Minister of Steel's subsequent speeches or statements at Press conferences in which he equated with inefficiency the industry's failure to achieve 100% performance, was particularly hard on our Company which has had to struggle against heavy odds during and after the last World War, and which undertook, at considerable risk, a crash programme of expansion at the express request of Government.

Government, according to their resolution dated 7th September 1962, also excluded from the capital block the Special Advance made to the Company between 1954 and 1956. This must mean that in Government's view Rs 10 crores worth of physical assets should earn no depreciation, let alone a return, on the ground that their cost was initially met from a Government advance. Apart from its unfairness, such a view ignores the obvious reality that plant and machinery are subject to wear and obsolescence, irrespective of the manner in which they were originally financed, and that failure to provide depreciation would clearly be contrary to sound principles of accounting and financial management.

In justifying the reduction in the provision for interest on working capital, Government, according to a statement by the Minister as reported in the papers, based their decision on the assumption that the Steel Companies enjoyed the benefit of large interest-free deposits from customers and of large arrears of surcharge not paid into the Iron and Steel Controller's Equalisation Fund. This assumption is totally

incorrect in both respects. Advance deposits which are taken only against so-called "bazaar" indents have at no time exceeded a crore, while our dues to the Equalisation Fund were at the end of July 1962 only about Rs 2 1|2 crores and not Rs 12 crores as the Minister is reported to have stated in Parliament.

Repayment of Special Advances

Government's reversal of their previous decision that the retention price should include an element for the repayment, with interest, of their Special Advances in terms of their agreements with the two Companies is disturbing although it may not immediately affect our financial position. However, their announcement that, as an alternative, they are considering the possibility of a part of the special advances being repaid out of fresh capital, raises fundamental issues of grave concern to the Companies and their shareholders. This is not the occasion for me to discuss the legal aspects of the matter, but I am sure shareholders will be relieved to learn that the Company has informed Government that an issue of fresh capital would be unthinkable in the present circumstances and, for a number of cogent reasons, would be unacceptable to the shareholders whose consent would be required for the purpose.

In our representation to Government we have pointed out that the low retention prices fixed by them, if maintained in the future, will seriously affect our ability to finance the heavy commitment which Government themselves have asked us to undertake to double our coal output in the Jharia Field. The whole of the cost of this project, if it ultimately materialises, will have to be financed from borrowings, including a further loan from the World Bank to meet the foreign exchange cost. Our capacity to service and repay such fresh borrowings in addition to our existing loans must obviously depend on the resources we are able to raise over the years from retained earnings.

Unhealthy Trend

If the steel industry of the country in both public and private sectors is to remain healthy and to make its full potential contribution to the security of the country, it is imperative that it be ensured the wherewithal to finance the continuous process of replacement and development essential to maximum production and efficiency.

We do not ask for favours at the expense of the consumer or the tax-payer, nor do we expect that prices fixed by Government should reward inefficiency, but we do ask that a more realistic account be taken of the conditions under which the steel industry is compelled to operate in India and, particularly, of the shortages and deficiencies in raw materials, transport and other factors over which it has no control.

I regard with dismay Government's growing propensity to brush aside the carefully calculated and reasoned recommendations of the Tariff Commission, which consists of "men of ability and standing who have shown capacity in dealing with problems relating to commerce or industry or in administration" — to quote the relevant section of the Tariff Commission Act, 1951. I do not suggest of course that Government should automatically accept every recommendation of the Commission, but I do urge that their advice should be set aside only in the most exceptional circumstances and for the most convincing reasons. From a speech made by the Minister for Steel to the Committee of the Indian Merchants' Chamber in Bombay, it would seem that Government consider the Tariff Commission and their approach as completely out-dated and that some other method of fixing prices should be evolved. As the only practical alternative I can see would be for the Ministry concerned to determine prices at its sole discretion and thus become the exclusive arbiter of an industry's destinies, one cannot but view with alarm this indication of Government's intention to scrap the long-standing and salutary practice of seeking independent and impartial advice in fixing prices in major controlled industries. In a planned and controlled economy such as ours, it is only by exercising restraint in the use of their enormous economic powers that Government can retain the confidence of the people in the fairness and impartiality of their policies and actions.

Cost of Expansion Programme

Before I close, I cannot, in fairness to the Company, leave unanswered the criticism voiced by the Minister for Steel, that the Company's expansion programme was originally estimated to cost Rs 66 crores but had actually cost Rs 120 crores. In my statement to the shareholders two years ago, in answer to a similar criticism, I gave the true facts, of which Government should therefore be well aware. The estimated cost of the two million tonne programme, as accepted by the World Bank in 1956, was Rs 95 crores. The actual cost including subsequent additions and modifications was about Rs 110 crores. Excluding about Rs 6 crores of expenditure arising from subsequent increases in import duties and manufacturers' escalations, over both of which the Company had obviously no control, and additional purchases of spare parts decided upon for the sake of added safety, the total excess came to about Rs 9 crores, equivalent to only 10%, over the estimates, a remarkably low figure of excess for a project of such magnitude and complexity. It is somewhat disheartening to find that the Steel Minister should have been provided with such incorrect data despite the fact that correct information was available to Government.

The tenor of this Statement may sound out of tune with my opening remarks but its main purpose is to clear the air and set the record straight. Having done so, I can assure Government of the Company's unstinted support and co-operation in the Defence effort. We fully realise the importance of steel production to a country at war. In the grievous and complex tasks ahead, we place ourselves, our staff, our technical and human resources and our long experience of the steel industry at the disposal of Government in the furtherance of the country's total war effort.

Bombay, 8th November, 1962.

J R D TATA
Chairman.

Note : **The above statement is not a document purporting to be a report of the proceedings of the Annual General Meeting.**

Around Bombay Markets

Dalal Street Still in Difficulty

Thursday, Morning

DALAL STREET is not yet through with its difficulties arising out of the heavy slump in equities following the Chinese aggression. Stockbrokers have been trying hard to persuade their clients to square-up their outstanding transactions — fresh business is prohibited — at the minimum prices fixed by the stock exchange authorities, but without much success. Bears continue to sit tight on their sales because of the steady deterioration in the political situation. But with minimum prices protecting them against further losses, bulls too have shown little anxiety to liquidate their holdings; besides, hope persists that the political situation might take a favourable turn any time. With both bulls and bears reluctant to square-up their business, the market continues to carry quite a heavy load — outstanding speculative business is estimated between Rs 5 crores and Rs 7 crores. This could lead to all sorts of difficulties if the war situation were to deteriorate further and/or the Government were to ban forward dealings and order compulsory squaring-up of all outstanding positions. Already, the market has had quite a big beating. The fact that all settlements have passed off smoothly despite the heavy slump in equities since May does not mean that everything has gone on smoothly. Inquiries in the market indicate that some of the stockbrokers have suffered heavy losses, estimated between Rs 25 lakhs and Rs 40 lakhs, due to their clients' failure to meet their obligations.

Persuasion having failed, the stock exchange authorities have imposed a margin of 20 per cent on total short sales which will be carried forward at the end of the current settlement. The rate of margin will be 30 per cent if the carryover business exceeds Rs 40 lakhs. The margin money is payable on the basis of the making-up prices. Genuine sales — sales against which delivery is to be effected — have been exempted from margin. More drastic measures are likely to be taken if the proposed margin fails to produce the desired results. The Government too seems deeply concerned over the slump in the stock market and it is anxious to contain speculative activity in order to prevent a further deterioration in the morale of the investment market. The Stock Exchange Directorate, Union Ministry of Finance, has drawn the attention of the market authorities and of the speculating community to the fact that, under the Defence of India Rules, the Government has full powers not only to fix minimum prices for all securities but also to give directions to any individual or any body of individuals in regard to regulating contracts in securities or for any other purposes connected therewith. The stock exchanges have also been asked to provide detailed information about the commitments of their members, the names of such members, names and addresses of their clients on whose behalf, if any, such commitments have been accumulated and any other information relevant thereto. Apparently, this information is being sought with a view to enabling the Government to decide on the course of action to be taken.

Ban Forward Dealings

Informed sources say that the Government is considering banning of forward dealings in shares and that it might not hesitate to invoke the Defence of India rules for closing all outstanding positions. Business would be permitted on a strictly cash basis if the border situation causes a further deterioration in the sentiment in the investment market. Indeed, speculation has no place in an economy operating under national emergency which demands strict discipline. It is time that speculators heeded official warnings and co-operated with the market authorities in reducing the market's load by squaring-up their positions at the earliest. The Government might not perhaps have waited all this while for ordering the closure of all outstanding forward business but for its understandable concern about 'vyaj budliwalas' — investors who finance carry-forward business. Interests of these 'vyaj budliwalas' need to be properly safeguarded. Of the total outstanding business of Rs 5 crores to Rs 7 crores, sales by way of 'vyaj budla' are estimated around Rs 1.5 crores to Rs 2 crores. It should not be difficult to relieve the 'vyaj budliwalas' of their burden if the Life Insurance Corporation were to step into the market and absorb most of the floating stock by effecting purchases through the President of the Stock Exchange. Once this has been done, the Government can do whatever it likes with the purely speculative business.

Of course all these restrictive measures might become altogether unnecessary if India and China can settle the border dispute through negotiations instead of military force. The nervousness on the stock market would certainly subside if peace returns to the borders though it is doubtful whether the market would be able to push its way substantially up and sustain any marked recovery in face of the heavy strain on the country's resources because of the massive increase in defence expenditure. The surprise unilateral declaration of cease-fire by China imparted a steadier feeling in the stock market on Wednesday and, for the first time in many days, a good many shares were quoted above the official minimum prices. Business, however, continued to be extremely restricted because operators were inclined to await New Delhi's reaction to Peking's dramatic offer of cease-fire before taking any action. The immediate outlook for equities depends almost entirely on the developments in the political situation.

Bullion

Gold at New Low

SPOT gold which had touched an all-time high of Rs 129.90 (per 10 grams) in August and was

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SHIRT : 2 metres and 75 centimetres (2.75 metres) instead of 3 yards

COAT : 2.75 metres } instead of
TROUSERS : 2.75 metres } 3 yards each

BLOUSE : 0.90 metre instead of 1 yard

A Sari of 6 yds. will be 5½ metres in length.

1 Metre = 1 yd. and 3⅛ inches

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DA 62/432

METRIC SYSTEM Means

SIMPLICITY & UNIFORMITY

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quoted around Rs 121 in the beginning of November dropped precipitously to Rs 102.50 within a few days of the announcement of the issue of gold bonds on 3rd November. After moving irregularly between Rs 104 and Rs 107 for about a fortnight the price of spot gold suffered a fresh sharp break last week and the quotation was marked down from Rs 106 (on 20th November) to around Rs 94 — the lowest since 1958-59 — in kerb dealings the next day. Wednesday's panicky decline was not caused by Peking's dramatic announcement of a cease-fire along the entire China-Indian border. The hurried selling which produced Wednesday's steep fall was touched off by the Union Finance Minister's statement that the Government would take some more steps in a month's time to bring down the price of gold. If the Finance Minister's views have been reported correctly, Shri Desai expects the price of gold to come down to around Rs 70 per tola which in turn would make gold bonds attractive.

The decline in the price of gold is welcome in that it improves the prospects of selling gold bonds but the current price is still too high to make these bonds look attractive. No official estimates are yet available about the quantity of gold that has been exchanged for these bonds but the response does not appear to have been encouraging. Subscriptions to the gold bonds have not perhaps even equalled gold contributions to the National Defence Fund. Not much gold is likely to be collected through the bonds unless the price of gold records a further substantial decline. The ban on forward dealings in gold which has been extended to cover non-transferable specific delivery contracts is certainly welcome but these measures will have to be supplemented with strict control of spot dealings if smuggling is to be checked. While the decline in smuggling activity will lead to a considerable saving of valuable foreign exchange, it cannot, by itself, bring about a decline in prices. On the contrary, reduced smuggling will tend to push up prices. It would be wrong to suggest that the recent decline in the price of gold has been brought about by the Government's determination to put a stop to smuggling activity. The market is panicky mainly because it fears that the Government is likely to place restrictions on an individual's gold holdings. Shri Morarji Desai is reported to have told the Consultative Committee of Parliament for his Ministry that the Government's ultimate aim was to fall in line with other countries where private possession of gold in large quantities was not allowed. India's critical foreign exchange position and the additional burden that the defence bill will now impose call for the utmost effort in mobilising the country's vast gold hoards for productive purposes. It would be unfortunate if the favourable psychological opportunity provided by the present national emergency were to be missed. Apart from the tax concessions, subscribers to gold bonds have been assured that they would not be asked any questions in regard to the origin of gold. The Government might do well to issue a warning that this facility would be withdrawn after a few months and further that the Government is likely to restrict private gold holdings. Such a warning should help subscriptions to gold bonds.

Last week's sharp decline was not confined to gold. Silver also came under heavy pressure. Silver Magsar (3) delivery which had recorded a high of Rs 217.45 in the preceding week was marked down to Rs 204.10 on 21st November. Spot silver declined from Rs 212.45 to Rs 199 during the same period. The supply position of silver being even more tight than that of gold, it is difficult to understand why the Government should not have banned forward trading in silver along with gold.

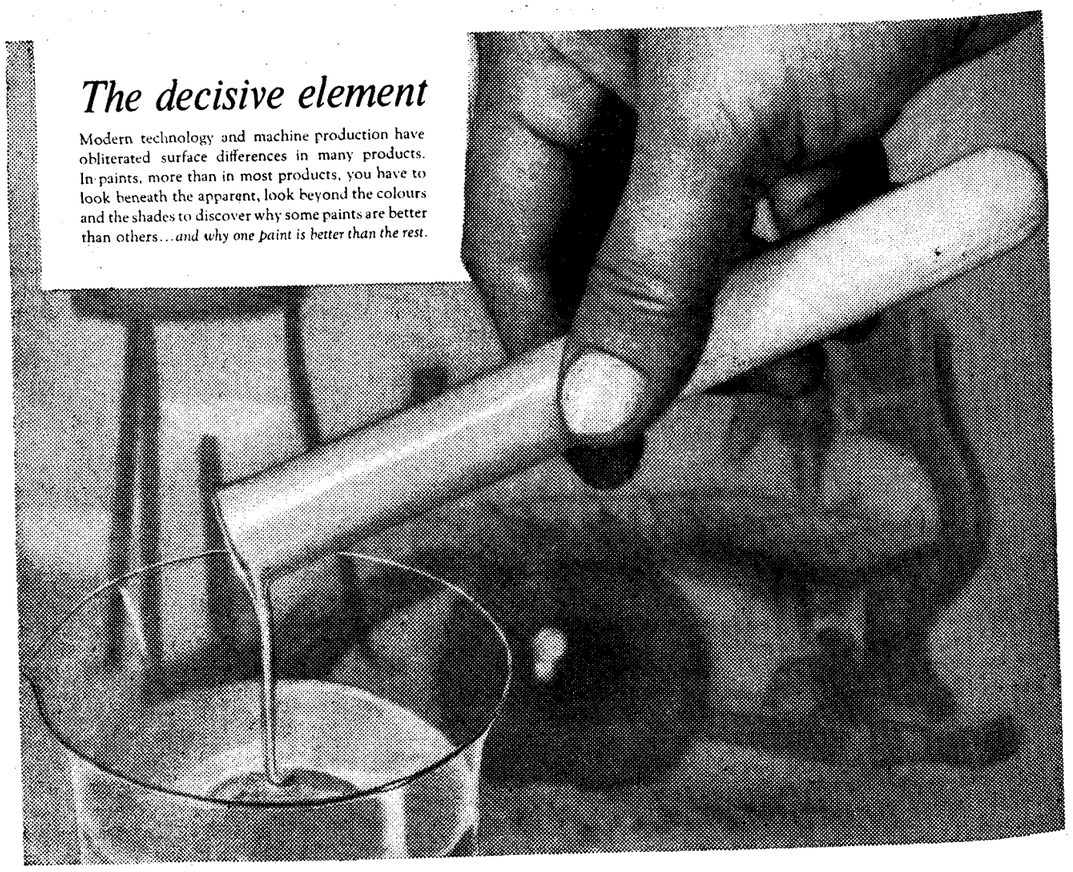
Oilseeds

Break In Groundnut

IT was a disastrous week for bulls of groundnut. The January contract suffered the worst fall of its career and Tuesday's (20th November) panicky bull liquidation pushed it down to an altogether new low of Rs 213.12 (per 250 kgs), well below the 19th July low of Rs 215.75. With Tuesday's closing price more than Rs 10 down from the previous settlement rate, special clearing had to be arranged. Groundnut futures dropped precipitously despite firm overseas advices in respect of groundnut extractions. Apparently, bulls had been scared by the disturbing news about the rapid advance of the Chinese troops in NEFA. Trading sentiment was guided entirely by the developments in the border situation. And the market was not slow to respond to the dramatic Chinese announcement of cease-fire. Groundnut futures which had closed at Rs 213.50 on Tuesday shot up to Rs 219 the next day on hurried short covering and fresh bull support.

Speculative interest is centred mainly around groundnut and movements in groundnuts continue to set the tune for the entire market. Linseed futures were marked down from Rs 39.12 to Rs 37.37 but rallied to Rs 38.50 (per 50 kgs) at the week-end. Castor futures moved down from Rs 167 to Rs 162 to recover later to Rs 165. Cottonseed futures showed a net loss of Rs 3.50 at Rs 100 at the week-end. Since the price trend is being moulded mainly by the unpredictable developments in the political situation, it is difficult to say how the market will behave in the immediate future. The general view is that oilseeds prices are unlikely to develop any further weakness if peace returns to the northern borders. A great deal will depend on whether New Delhi accepts Peking's offer.

Export houses reported fairly good business in groundnut extractions last week. Prices realised were 5 to 10 shillings higher than in the preceding week. The U K was mentioned as the chief buyer. The Communist countries have been keeping off the Indian market for over a month but most shippers seem optimistic about the revival of buying by these countries. Business in linseed cake and cottonseed cake continued to be on a restricted scale. The Continent was reported to have purchased small quantities of linseed cake at around £ 39 per ton and the U K took some decorticated cottonseed cake around £ 34 per ton, December shipment. Castor oil also attracted some attention and East Germany and the U K were said to have purchased about 300 to 400 tons each. Commercial



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variety castor oil fetched about £ 109 per ton.

Cotton

Prices Decline Sharply

THE cotton market also developed pronounced weakness because of the disturbing war news and it was at its worst on Tuesday, 20th November, when the March contract was sold down to Rs 703 (per 3 quintals) — the lowest level for the season. Earlier in the week, it had been quoted around Rs 729. The precipitous fall was caused more by panicky bull liquidation and lack of fresh support than by aggressive bear selling. The market turned distinctly steadier on Wednesday following the announcement of a cease-fire offer by China. The March contract was up again at Rs 718.25 and the closing was only slightly lower at Rs 716.75. The market might get stabilised around the current levels if the political situation does not deteriorate further.

The spot market was also distinctly subdued but turnover was limited. Mills are reluctant to purchase more than their minimum requirements because apart from the good crop, estimated between 54 lakh and 56 lakh bales, the Government seems well-determined to enforce the price control order. Arrivals are gradually picking up and few varieties are now quoted above the ceiling rates. Cloth off-take continues to be poor; both traders and consumers are inclined to restrict their purchases because of the uncertain political situation. With cloth off-take unencouraging and new crop arrivals likely to gather momentum in coming weeks, particularly after about the middle of December, spot cotton prices can be expected to show a somewhat subdued tendency in the near future. Not much progress has yet been made in regard to export of Bengal Deshi. Total sales are estimated around 35,000 to 40,000 bales, though the export quota for two lakh bales had been announced early in September.

Company Notes

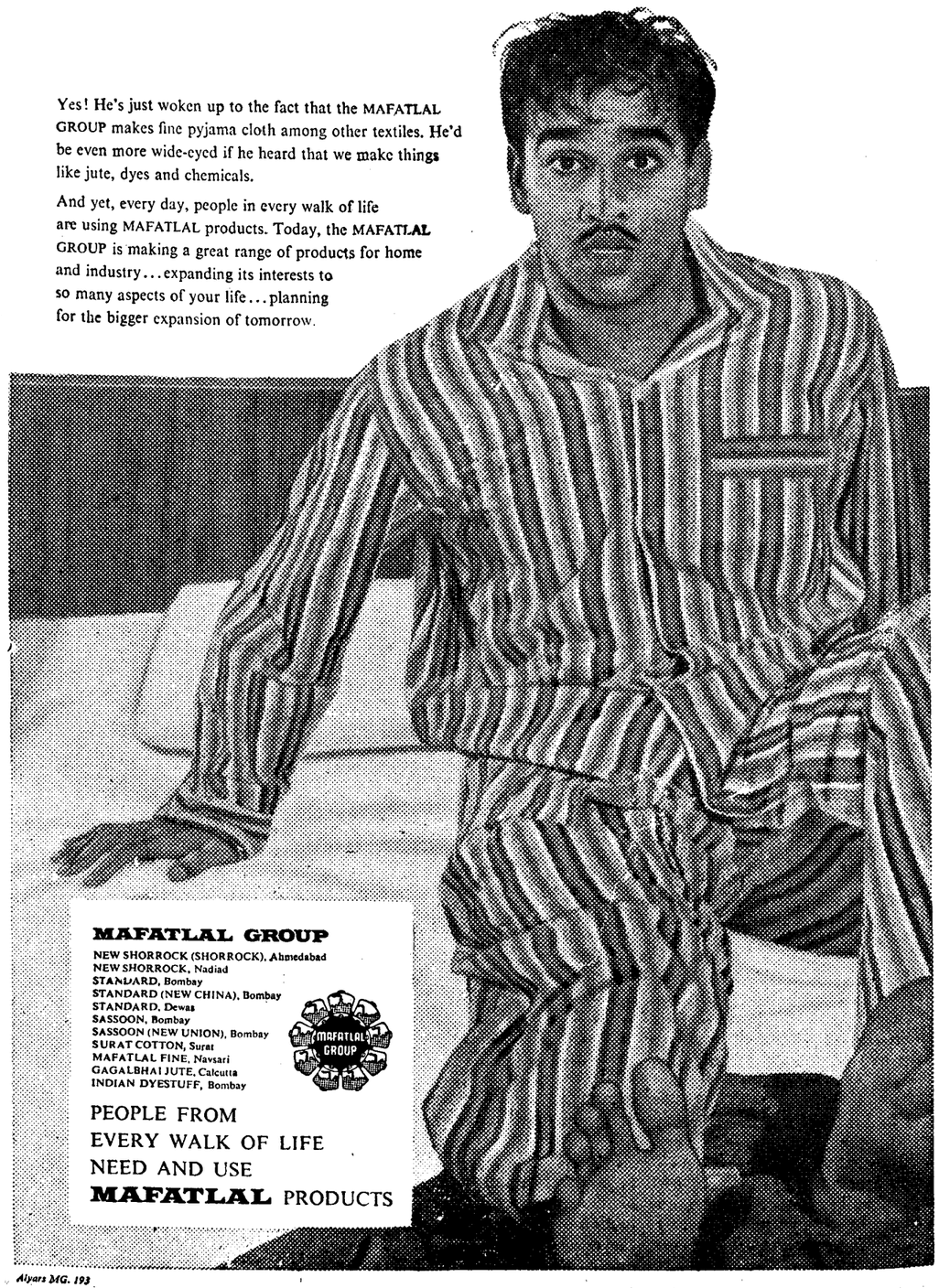
Indian Iron and Steel

THE Report and Accounts of the Indian Iron and Steel Company for the year ended March 31, 1962 have been circulated among shareholders. The delay in the preparation of the Report and Accounts has been, according to the Directors, due to the delay in announcement by Government of its decision in regard to the retention prices of steel and pig iron applicable to the two years 1960-61 and 1961-62.

During the year, sales of semi-finished and finished products less surcharge and rebates have fetched Rs 56,14.78 lakhs (Rs 53,89.79 lakhs), and the gross profits before taxation are also higher at Rs 9,18.78 lakhs (Rs 6,99.82 lakhs). The Accounts as now presented include the increase in the retention prices in respect of the period from April 1, 1958 to March 31, 1960 and the additional retrospective income on account of higher retention prices in respect of the years April 1, 1960 to March 31, 1962. The income in respect of the previous years thus included amounts to Rs 2,28.52 lakhs. The revised retention prices for the years 1960-61 and 1961-62 recently notified do not take into account any allowance for plant rehabilitation and hence no provision has been made in this year's accounts for any such reserve, and the allocation of Rs 51.15 lakhs made in the previous year's accounts under this head, has been transferred to the General Reserve in this year's accounts. Following the Report of the Tariff Commission in 1959, the Company had provided, during the last two years, Rs 1,40.01 lakhs, bearing interest at 5 per cent payable on the Special Advance received from the Government from July 1, 1958, and, at the same time had included a corresponding amount in the sales retention prices as the anticipated compensatory element. Although in its latest Report also, the Tariff Commission had recommended the inclusion of a special element in steel prices to cover interest and repayment of Special Advance, the Government has rejected the recommendation. So the Company has written back the entire amount allocated to this reserve in the past years. The provision for depreciation has been computed on the "straight line" basis at Rs 3,35.25 lakhs as against Rs 2,97.47 lakhs for 1960-61. With the virtual completion of expansion programmes initiated in 1953 and 1955, the amount transferred to the Statutory Development Rebate Reserve has been only Rs 21.57 lakhs as against Rs 166.57 lakhs for 1960-61. This reduction in the rebate, the rise in profits on account of the retrospective increase of retention prices, and the increase in the rate of corporation tax from 45 per cent to 50 per cent have required the Company to make a larger provision for taxation at Rs 395.50 lakhs as against Rs 166.00 lakhs in the previous year. A sum of Rs 7.19 lakhs has been written back from the General Development Reserve to the credit of the Profit and Loss Account representing the excess of the compulsory allocation from profits to the Development Rebate Reserve over the actual amount of tax remission. The Company has set aside Rs 300 lakhs out of the profits to the General Reserve with a view to conserving its resources for repayment of loans and for financing the collieries development programme and general capital works. After providing for interest and other charges, writing back amount of Rs 16 lakhs from the Taxation Contingencies Reserve, and making the allocations to the reserves as mentioned above, there is left a balance of profit for the year of Rs 224.90 lakhs. Together with Rs 16.42 lakhs brought forward from the previous year the total disposable amount comes to Rs 241.32 lakhs. Dividend on preference shares absorbs Rs 17.55 lakhs. The Company has declared dividend at the rate of Rs 1.60 nP per share or 16 per cent, subject to tax. This accounts for Rs 199.05 lakhs and the balance of Rs 24.72 lakhs is carried forward.

Production of iron during the year was 1,187,397 tonnes and of steel 9,34,498 tonnes, showing a small increase over the previous year. The output at the Kulti Foundries was 230,423 tonnes which is

"Mafatlal caught me napping?"



Yes! He's just woken up to the fact that the MAFATLAL GROUP makes fine pyjama cloth among other textiles. He'd be even more wide-eyed if he heard that we make things like jute, dyes and chemicals.

And yet, every day, people in every walk of life are using MAFATLAL products. Today, the MAFATLAL GROUP is making a great range of products for home and industry... expanding its interests to so many aspects of your life... planning for the bigger expansion of tomorrow.

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SASSOON, Bombay
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SURAT COTTON, Surat
MAFATLAL FINE, Navsari
GAGALBHAI JUTE, Calcutta
INDIAN DYESTUFF, Bombay

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Alyars MG. 193

also higher by 13,129 tonnes than the previous year. However, the Report points out that operational conditions throughout the year continued to be difficult owing to the erratic transport position and the still further deterioration in the ash content of coal. In fact, since the output of the previous year was adversely affected by the strike of Government employees in 1960, the comparison of the year's production with that of the previous year may not present a real picture. According to the statement of the Chairman, the total production of iron and steel ingots is less by 6,000 tonnes on the basis of "actual rate of production". The Railway strike which hindered the movement of raw materials and the coal shortage compelled the Company to damp down all the four blast furnaces for a time on account of which the loss in production of steel ingots is estimated at 27,000 tonnes. Owing to the poor, almost unusable, quality of the raw materials, particularly coal, the rated capacity could not be reached. These difficulties were in marked contrast to the situation facing the Government plants.

With regard to the capital projects, the Report mentions that considerable progress has been made in the development of the Company's coal-bearing property at Chasnalla which is being undertaken with the financial assistance of the World Bank which has given a loan of $ 19.5 million to cover the foreign exchange cost. The project for the manufacture of spun iron pipes and specials in collaboration with Stanton & Staveley, U K, has now been approved by the Government. The operating Company, to be incorporated as IISCO Stanton Pipe & Foundry Co, will be a subsidiary of IISCO. A site for the factory has been selected at Ujjain in Madhya Pradesh and design work is proceeding. The collaborators will supply all plants and spares which cannot be made in India and which may account for about one-third of the cost. The remaining part of the expenditure will be financed by IISCO. The collaboration agreement has been approved by the Government and necessary licences have been received. Further work in this connection is proceeding satisfactorily with the exception of the construction of the railway siding. The approximate total cost of the completed plant will be about Rs 3 crores and the annual production of pipes and specials will be about 65,000 tonnes. The company proposes to make a Rights Issue to finance the erection of this plant.

Bombay Burmah

THE Bombay Burmah Trading Corporation has at last announced its long-awaited bonus issue at its ninety-ninth Annual General Meeting on November 12. It is a centenary-year gift, so to say. It is doubly welcome because the announcement came at a time when the share market was in a heavy slump. The market reacted to the announcement by putting up the fully-paid shares from about Rs 596 to Rs 640, though this striking improvement was not maintained.

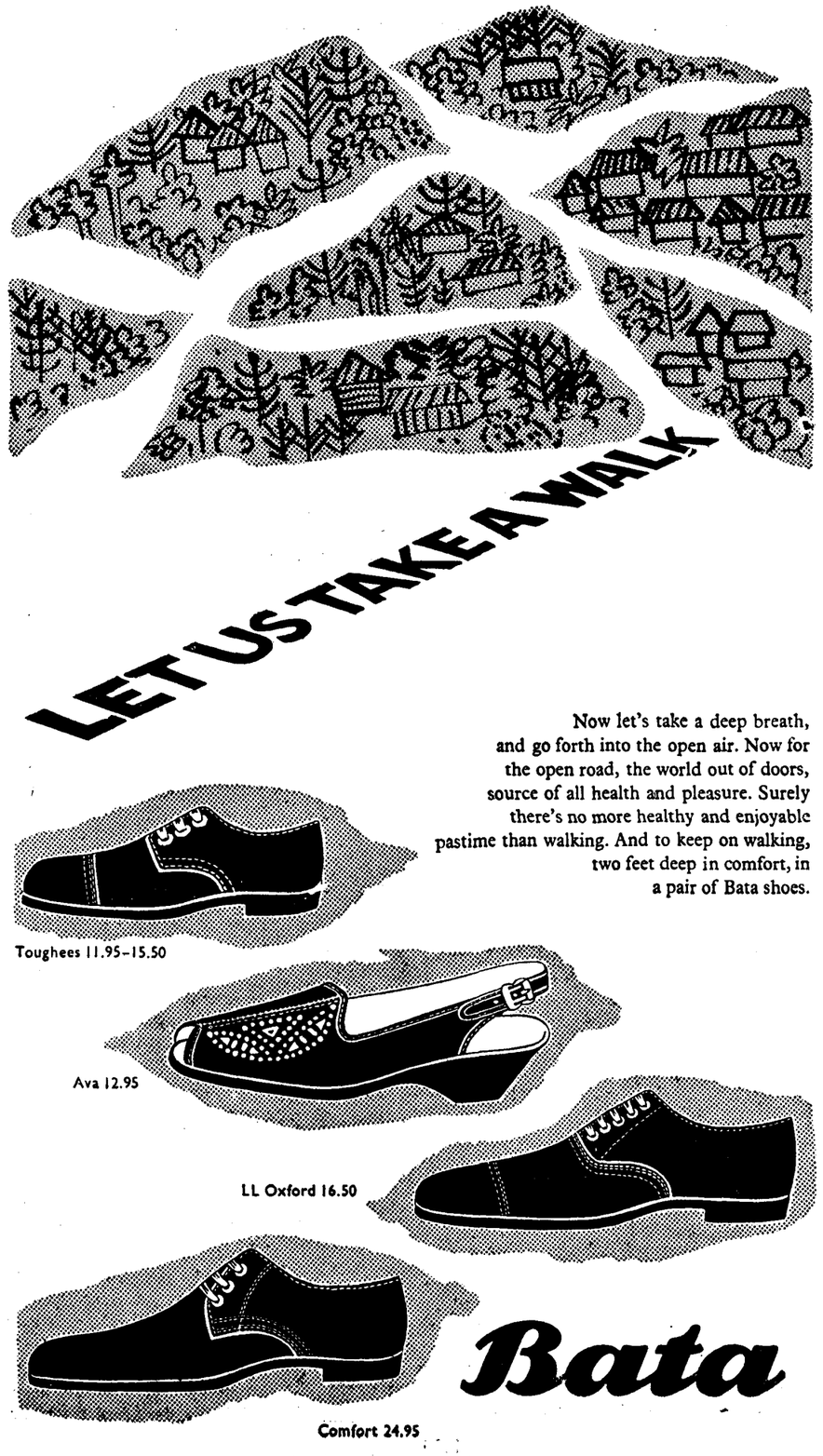
Under the bonus issue, holders of fully-paid shares of Rs 2,500 and Rs 125 will receive bonus shares on the basis of one-for-one, while in the case of Rs 50 paid-up shares with a nominal value of Rs 125, a further sum of Rs 50 will be treated as paid-up making in all Rs 100 paid-up. The bonus issue will be made by capitalising a sum of Rs 133.75 lakhs out of the company's reserves. It is proposed to sub-divide all the shares into shares of Rs 25 each, whereby the Rs 2,500 and Rs 125 fully-paid shares would become shares of Rs 25 each fully paid-up, and the Rs 100 partly-paid shares with a nominal value of Rs 125 will also become shares of Rs 25 each but with Rs 20 paid thereon. After this capital reorganisation is effected, the company's paid-up capital will be Rs 267.50 lakhs divided into two categories of shares namely 7,34,000 shares of Rs 25 each fully paid and 4,20,000 shares of Rs 25 each on which Rs 20 will be paid-up. These proposals are, of course, subject to the sanction of Government.

The company's gross trading receipts and other incomes for the year ending May 31, 1962 have shown a small increase to Rs 624.69 lakhs (Rs 611.91 lakhs) while expenses and other charges have gone up to Rs 523.61 lakhs (Rs 489.99 lakhs). Profits before taxation have suffered a set-back to Rs 101.08 lakhs (Rs 121.91 lakhs) and profits after taxation have similarly dwindled to Rs 51.58 lakhs (Rs 62.91 lakhs). Taking into account Rs 1.61 lakhs, being the balance brought forward, and Rs 9.08 lakhs, being the income attributable to previous years no longer required, the amount available for disposal is Rs 62.27 lakhs (Rs 71.55 lakhs). Allocation to reserve amounts to Rs 16.10 lakhs (Rs 25.81 lakhs). The company has maintained its dividend at the previous rates, namely Rs 825 per share of Rs 2,500, Rs 41.25 per share of Rs 125 and Rs 16.50 per share of Rs 125 each (Rs 50 paid-up) — all inclusive of interim dividends paid. A sum of Rs 2.03 lakhs (Rs 1.61 lakhs) is carried forward.

Against the paid-up capital of the company of Rs 134.58 lakhs, reserves and surplus stand at Rs 418.64 lakhs. Cash and bank balances amount to Rs 112.95 lakhs out of the current assets of Rs 298.17 lakhs.

The working results of the year, according to the Directors' Report and the Chairman's Statement, have been more adversely affected by two factors: a decline in the average return on sales of timber produced by the Wallace Bay Branch in a year of rising costs and a sharp reduction in coffee yield of Coorg Estates. Variations in commodity prices and in crop yields are usual features in the company's business. Despite the drop in timber and coffee earnings, the company has been able to maintain its dividends after providing adequate reserves.

The company's Formica venture has now taken shape. The company will, in collaboration with Formica International (U K), float a new company, Formica India Ltd, for the manufacture of industrial and surfacing plastic laminates. The proposed company will have a capital of about Rs 1.5 crores in equity shares, 50 per cent of which will be subscribed by Formica International, 49 per cent by Bombay Burmah and 1 per cent by Indian nationals approved by the two companies. One of the conditions imposed by the Controller of Capital Issues, it is reported, is that subscribers to the shares of the new company should retain them for a minimum period of ten years.



CURRENT STATISTICS

BANKING RETURNS

(*Rs crores*)

Reserve Bank	Nov 16	Nov 9	Oct 19	Nov 17 '61
1 Note circulation	2077.26	2086.96	2047.88	1920.42
2 Rupee coin	121.97	120.32	123.38	123.18
3 Deposits				
(a) Central Govt	60.77	50.43	52.42	62.50
(b) Other Govts	7.06	17.86	15.27	11.13
(c) Banks	92.89	82.79	89.88	82.83
(d) Others	162.36	160.07	159.86	146.24
4 Foreign securities	88.08	88.08	88.08	116.86
5 Balance abroad	5.14	5.92	6.27	24.58
6 Rupee securities	1763.29	1778.29	1738.31	1578.84
7 Investments	194.12	174.23	140.06	180.52
8 Loans and advances to Govts	43.79	33.70	39.66	73.60
9 Other loans and advances	148.97	150.19	144.40	131.85
Scheduled Banks	**Nov 9**	**Nov 2**	**Oct 12**	**Nov 10 '61**
1 Aggregate deposits (net)	2044.08	2043.57	2048.04	1797.37
Demand (net)	810.19	814.63	808.18	720.99
Time (net)	1233.88	1228.94	1239.85	1076.38
2 Cash in hand	50.61	53.31	54.76	56.16
3 Balance with Reserve Bank	76.64	72.73	73.14	72.32
4 (2)+(3) as % of (1)	6.24	6.17	6.25	7.15
5 Borrowings from Reserve Bank	3.96	6.02	10.40	26.14
(a) Against usance bills and/or promissory notes	2.32	4.19	6.15	12.69
(b) Others	1.64	1.83	4.25	13.46
6 Advances	1172.63	1174.02	1183.69	1045.30
(a) State Bank	252.87	255.25	256.60	251.54
(b) Others	919.76	918.77	927.09	793.76
7 Bills discounted				
(a) Inland	163.86	165.09	157.68	142.27
(b) Foreign	53.51	51.13	50.58	47.18
(c) Total	217.37	216.22	208.26	189.45
(i) State Bank	16.69	15.41	12.34	14.34
(ii) Others	200.68	200.81	195.92	175.11
8 (6)+(7c) as % of (1)	68.00	68.03	67.97	68.70
9 Investment in Govt Securities	683.61	693.65	690.15	611.34
10 (9) as % of (1)	33.44	33.94	33.70	34.01
Cheque clearance	**241.27**	**211.71**	**170.49**	**151.52**

Bombay Money Rates

(*Per cent per annum*)

	Nov 9	Nov 2	Oct 12	Nov 10 '61
Call money from Banks	3.79	3.02	3.90	4.59
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	Nov 22	Nov 15	Oct 18	Nov 23 '61
Gold (per 10 grams)				
Spot	94.25	104.50	120.15	122.40
Silver (per kilogram)				
Spot	197.00	215.00	221.20	209.75
Forward	201.00	217.45	222.70	211.30

INDEX NUMBER OF INDUSTRIAL PRODUCTION

(*Base* : 1951 = 100)

Industry	1962			1961
	May	April	Mar	May
Mining and quarrying	**186.3**	**182.8**	**192.6**	**168.9**
Coal	176.5	172.0	178.7	158.3
Iron ore	326.5	337.1	391.2	319.5
Manufacturing	**185.8**	**188.4**	**198.7**	**173.0**
Sugar	168.3	373.7	538.3	220.8
Tea	112.3	71.5	29.4	98.3
Vanaspati	199.1	205.0	234.4	189.6
Cigarettes	185.5	189.7	202.7	188.0
Textiles	122.5	121.6	118.7	115.1
Cotton	116.2	116.2	112.1	115.3
Jute	141.6	138.0	138.8	114.2
Footwear	190.6	212.7	195.8	164.4
Paper & paper boards	288.2	282.2	291.2	275.7
Rubber products	252.4	255.0	265.3	224.1
Tyres	269.8	276.9	280.8	240.3
Tubes	241.3	—	223.4	238.9
Chemicals and chemical products	291.6	288.6	289.3	275.8
Sulphuric acid	390.4	387.0	374.2	370.5
Caustic soda	811.9	755.0	822.8	735.2
Soda ash	454.9	—	455.9	384.3
Superphosphates	593.7	—	533.7	638.7
Ammonium sulphate	755.8	680.7	858.3	614.0
Paints & varnishes	188.6	186.9	184.2	176.3
Soap	172.2	200.7	171.1	171.4
Rayon	1216.8	1000.8	1105.8	997.1
Non-metallic mineral products (except petrolem and coal)	275.1	267.5	276.5	257.2
Glass and glassware	241.3	244.1	246.4	203.7
Cement	270.3	262.9	279.3	261.9
Ceramics	310.0	312.8	313.3	290.8
Basic metal industries	262.5	259.3	297.4	220.6
Iron and steel	295.2	295.2	343.3	240.7
Pig iron and ferro-alloys	287.4	287.4	310.0	268.8
Finished steel	298.4	298.4	356.6	229.5
Non-ferrous metals	248.4	230.0	237.3	242.4
Aluminium	555.5	527.0	581.7	408.4
Gold	70.2	66.3	79.7	62.5
Metal products (except machinery and transport equipment)	384.4	—	342.3	362.9
Machinery (except electrical machines)	651.1	—	644.3	544.1
Diesel engines	520.5	522.5	596.7	563.2
Power-driven pumps	297.1	—	—	285.3
Sewing machines	837.5	755.5	766.7	662.0
Machine tools	2070.1	—	2568.6	1095.4
Electrical machines	519.3	—	468.3	422.9
Conduit pipes	247.2	—	352.2	349.0
Electric motors	721.8	—	644.5	552.1
Power trasformers	1330.7	—	1312.3	773.0
Electric lamps	364.9	337.2	379.8	298.0
Electric fans	634.5	565.0	529.4	531.1
Radio receivers	398.2	—	413.0	369.6
Transport equipment	322.0	—	365.0	308.0
Automobiles	256.5	216.9	309.3	254.3
Bicycles	1088.3	1005.9	1015.6	938.3
Electricity Generated	366.8	361.5	360.5	330.4
GENERAL INDEX				
Crude	189.7	191.8	201.8	176.1
Seasonally adjusted	191.7	192.5	193.9	178.0

Source : Central Statistical Organisation (Industrial Statistics Wing), Calcutta.

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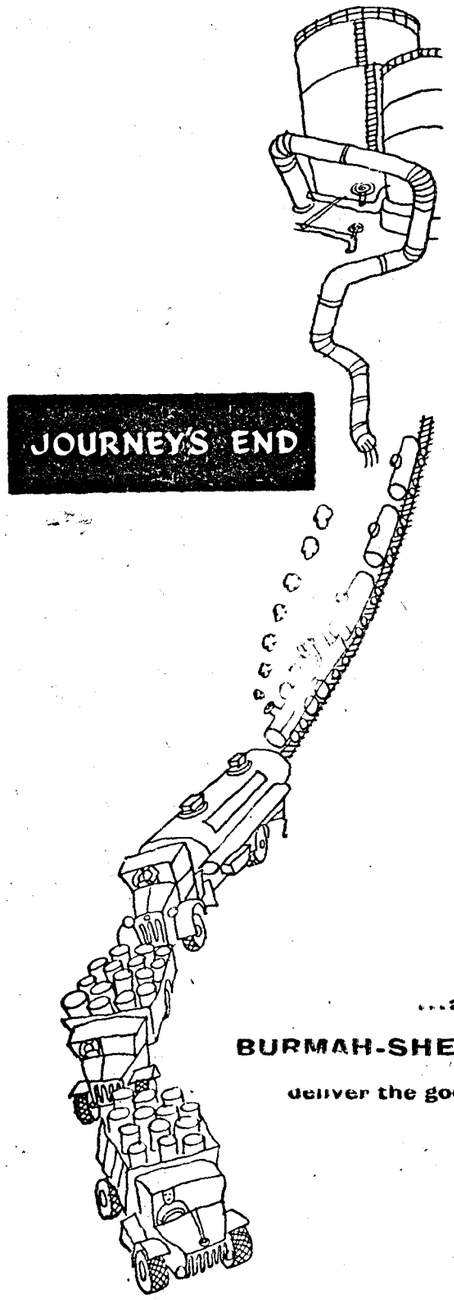

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Steel and Defence

NOW, of course, there is a national emergency and it may be conceded that steel prices are too trifling a matter to engage the attention of Parliament in view of the grave situation facing the country. If, however, the intimate relation between steel production and defence is borne in mind, the question would not be found unworthy of the nation's consideration even at this hour. Weeks have passed since the Chairmen of the two steel companies made their statements to their shareholders and answered the charges against them implicit in reducing the retention price of steel recommended by the Tariff Commission. The Government case has been completely demolished on questions of fact, as in the matter of the so-called interest-free advances to the steel companies by intending purchasers. Sir Biren Mookerji has given out the facts in full. It was the Government's contention in reducing the working capital of the company to four months' cost of production as against eight months' claimed by the company and six months' allowed by the Tariff Commission, that (a) every indentor of steel had to pay in advance 25 per cent of the total value of his order in cash to the steel producer before it can be booked, and, therefore, the companies invariably had a fairly large sum of money at their disposal; and (b) at any given time, the companies had large sums of Government money in their possession which were not actually paid into Government account. This is a simple question of facts and the facts, as given out by Sir Biren, are that 80 per cent of the sales are to Government, including railways, and to well-established customers, who make no security deposit; it is only in the case of small bazaar parties that the producers take a security deposit and these deposits are mostly in G P Notes and fixed deposits in banks, the interest on which is payable to the customers and not to the company. Far from security deposits constituting 25 per cent of the value of orders placed, in the last three years they constituted only a little above half per cent of the gross steel sales. The Minister of Steel and Heavy Industry has neither sought to refute these facts nor has he had the courage to own up his mistakes and make reasonable, though belated, amends.

As regards (b), Sir Biren says bluntly that the statement that at any time the producers owe large sums to the Government is "just a myth". On the contrary, the Government conveniently forgets that it is the companies which collect surcharges on its behalf and bear all the collection expenses, including cash discount on the amount of these surcharges. Moreover, they have to wait years to get reimbursement from the Equalisation Fund in respect of any increase in retention prices. For example, the latest increase in steel prices which are due from 1st April 1960 was made available to the companies only after a timelag of two-and-half years. Thus, crores of rupees due to the companies were lying with the Equalisation Fund for this period while the companies had to borrow from banks paying interest to meet their day-to-day obligations.

Working capital, however, is a minor matter. Much more important and indeed vital in ensuring the development of the steel industry is

the question of returns on borrowed capital, especially the special advance given by the Government to enable the steel companies to carry out their expansion. The terms and conditions of these advances are governed by a solemn agreement entered into between the Government and the steel companies. Now the Government has deliberately gone back on its past commitment by turning down the Tariff Commission's recommendation to add an element to the retention price to cover interest on and repayment of this special advance and further by disallowing depreciation on the block built out of this advance. The latter is manifestly against all principles of sound finance while the former appears to be even worse, though Sir Biren mildly puts it as a wish on the part of the Government 'to resile from its previous commitments and undertakings'. J R D does not even go that far. In refusing to add an element to the price to cover this advance, he says, the Government 'reverts from their own previous decision and instructions to the Commission on the important question of the repayment of this special advance.'

Both the question of working capital and past agreement or understanding between the Government and the companies in regard to the special advance are questions of facts. The latter at best may be a question of legal interpretation but even to concede that would be to stretch terms beyond the verge of decency. But what is one to say of the stand of the Government that in determining costs and fair prices, the norms should be cent-per-cent utilisation of capacity ? The point to be noted is that the question refers to a past period, two years ending May 31, 1962. So it is not a matter of estimation or of hypothesis but of hard fact. True, inefficiency should not be rewarded. There is everything to be said both for incentives to stimulate efficiency and disincentives to penalise inefficiency. But are these ends secured by assuming a flat rate of production at 100 per cent of the rated capacities of the steel plants ? As Sir Biren rightly says, nowhere in the world have steel plants been rated at 100 per cent of capacity. It can only be expected over short spells, not continuously over years and that too if the circumstances are favourable which is by no means the case with our steel plants in view of the well-known difficulties of transport and supply of raw materials of requisite quality. In the circumstances, 90 per cent efficiency as a factor of normal operation is obviously reasonable. This is the average accepted by the U K Iron and Steel Board and this was also adopted by the Tariff Commission as the basis for determination of fair prices.

Whether in war or peace, the strength of the Nation's economy lies in its steel production. That means, steel should get the maximum priority in any planning for economic development or for defence. Whether steel should be in the public sector or in the private sector is only of academic interest at present. Fifty per cent of the steel capacity is now in the private sector, and Government has no plans to nationalise it. That being the case, any price policy which Government may decide upon should have a relation to facts. Both the steel companies have expanded their capacity to the present level by large borrowings, primarily from the World Bank. They have to repay the loans.

The Government decision, in the circumstances, appears to lack logic and shows complete disregard for reality. What would be the motive behind so wrong-headed a decision ? Sir Biren asks in dismay :

> Why then this ire as if the industry has done something terrible, and deny it a healthy climate all round to earn a reasonable return on the capital employed, which is largely being ploughed back from profits and maintain an increasing output, thereby enhancing the growth of national wealth ?

There is yet no answer.

It is a relief to turn from this dismal story to Sir Biren's survey of the wider horizon of steel making. This is perhaps the most rewarding and the most valuable single contribution to the understanding of economics of steel making that one has come across in many a day. He does not dismiss all talk of expansion of steel production as a 'fatal fascination'. On the contrary, he stresses only the obvious when he says :

> The assessment of the future demand for steel in India is a futile exercise of mind and brain as the quantum is so large as to outstrip the ability to achieve it by any specified period of time.

Planning of steel production must start with the planning of the materials out of which steel is made. He emphasises the need for much more energetic exploration of these materials beginning with explorations for limestone and for transport development, to carry the limestone to the steel works; he then goes on to the imperative need for conservation of metallurgical coal and deep-mining of such coal and, finally, concludes by emphasising the inevitability of the dispersal of steel making so that the present concentration of the industry can be corrected and transport breakdowns averted. It was bold of him to stress the necessity of starting steel production on the sea coast also in order that the export potential of this industry may also be developed. Along with this is the supreme necessity of training up steel technicians which gigantic task, he thinks, has not been wisely handled. He says :

> Far too many trainees without previous Works experience have been sent abroad for a training of doubtful value when instead they should have been employed in the construction of the plant they would eventually have to operate.

One is disposed to agree with Sir Biren about this all-important prerequisite for steel development.

First things, however, must come first. The only sensible and economical way of developing steel is to enable existing plants to expand their capacity in a systematic, orderly fashion. Sir Biren's own company evidently envisages stepping up production to 2 million tonnes of ingot capacity if only the minimal conditions for such expansion are met. Concluding his comments on the Government's decision regarding retention prices, Sir Biren is compelled to observe :

> It virtually means saying good-bye to any future expansion, even if it be for merely balancing of your plants and thereby effecting a fully economic unit.

Surely, matters cannot be allowed to stand here. It is now for the Government to speak out its mind.

Rural Credit: Whither Now?

CERTAINLY after the Committee of Direction of the All-India Rural Credit Survey reported almost a decade ago, and in some States even earlier, responsible opinion all over the country accepted the desirability of the "integrated credit scheme" for the development of the agricultural sector. The Government's decision to introduce this scheme was reaffirmed over and over again, in and out of season, and in various contexts. It was stated that necessary machinery to implement the decision was being set up in the States and at the Centre, and the major financing agency, the Reserve Bank of India, was also geared to provide funds and guide the cooperative credit structure in the right directions. As far as marketing and processing were concerned, the Central Government itself took over the responsibility of developing these activities in close coordination with the credit system. The newly nationalized State Bank of India was also drawn into the scheme.

No one imagined, of course, that the introduction of the integrated credit scheme would be smooth or that the progress would be quick. It was accepted all round that the process of implementing would be prolonged, even painful at stages. But at the same time it was confidently expected that if once the policy decisions were taken and the broad strategy accepted, and resolute action was initiated along those lines, progress would be achieved *albeit* slowly. But though the integrated credit scheme was initiated in the early fifties in almost all the States, it has not been given a fair trial. It was not merely that policy decisions once taken were not resolutely adhered to, but implementation was hampered by continuous vacillation. In some States, the achieving of targets — of new societies to be set up, of members to be enrolled, of villages to be covered, and so on — so obsessed the administration of the scheme that many of the elementary precautions were either lost sight of or thrown to the winds. The result of such faulty implementation we are witnessing today — uneven and unconnected development in the different spheres with the goal of an integrated credit system in the rural areas still as far away as at the time of the scheme's introduction.

The consecutive Follow-up Surveys conducted by the Reserve Bank have spotlighted the dismal progress of the integrated credit scheme. The report of the latest, the fourth, Follow-up Survey which covers 1959-60, therefore, makes familiar reading. This survey was conducted by the Reserve Bank in 9 districts, of which all but two, Tanjore and Krishna, were also surveyed in the All-India Rural Credit Survey in 1951-52. As in the three previous Follow-up Survey reports, a wealth of data relating to the supply of and demand for credit in rural India has been presented. Despite the attempt not to underline too heavily the shortfalls in achievement after almost a decade of work in this direction, the failure of the scheme is evident at various places in the report.

According to the report, among the main factors responsible for the "unevenness" (*sic*) of development of cooperatives were the "inadequacy" (*sic*) of efforts at reorganization and reorientation of the cooperative structure, the lack of adequate efforts at reorientation of the loan policy of central banks, the unsatisfactory performance of marketing cooperatives, the absence of adequate and coordinated efforts at setting up processing units in the cooperative sector, the lack of efforts to introduce State participation in the management of cooperatives, and the domination of cooperatives by vested interests. Even this selective list is rather comprehensive, and a branch of human knowledge like economies where techniques of measurement are still largely undeveloped, there is a strong temptation to pick out some or the other of these factors as the more, or the most, crucial ones, depending on one's predilections. A number of different and opposing approaches can be readily recognized.

There is the official sector as opposed to the large and amorphous mass of interests making up the non-official sector of cooperation. Even within the state sector one can distinguish three different agencies —the Union Government, the State Governments and the Reserve Bank of India, specifically its Agricultural Credit Department. When the clouds of controversy have blown away, someone would have to evaluate the relative contributions of these three agencies to the developments of the last decade, and many surprising conclusions would follow such an enquiry.

Another approach to an evaluation of the progress of the scheme is that of the advocates of more development-oriented rules and procedures as opposed to those who see almost insuperable obstacles in the way of all serious attempts because of the existence of powerful vested interests. The latter group's apprehensions stem from the manner in which the opposing forces in the rural sector have been evolving in the last few decades, particularly since the War. There is now a large and growing mass of incontrovertible evidence which points towards a concentration of economic power in rural India in the hands of the well-to-do. For various reasons, some of them at least well known, the land reforms initiated by the different State Governments have failed to achieve their aims. Power and influence in the rural sector are no more broad based and diffused today than they ever were. They are concentrated in a few hands which may become fewer as time goes on if resolute action is not taken urgently. It is an ominous thought that under the cloak of national emergency the process may receive further and open encouragment. So that corrective steps would need to be more severe in future. The land reform legislation was not actuated by welfare considerations or the egalitarian urge alone; it had as its foundation a solid core of economic justification. At the other end is the path of free and virtually unrestrained activity that too perhaps has some merits. But the mixture of the two has only the demerits of both and very few, if any, of the merits of either. This is where we stand now. *Atah kim ?* Whither now ?

Weekly Notes

Talks on Kashmir

THOSE in this country who had refused to be too much impressed by the recent exaggerated statements of Pakistani Ministers and politicians will not be surprised that Pakistan has agreed to hold talks on "Kashmir and other related matters" beginning at the ministerial level and leading to a meeting between Prime Minister Nehru and President Ayub Khan. The hysterical expressions of concern at the supply of western arms to India (in spite of the stringent control that is to be exercised over the use of these arms), the copious threats to walk out of western defence pacts and even to conclude a non-aggression pact with China — these are no more than manoeuvres to put Pakistan in a strong bargaining position.

That, in spite of all this, Pakistan would be prepared, even eager, for negotiations was always apparent. For hard pressed as India is at present on the China border, Pakistan could hope to extract the most concessions at this juncture. All that was necessary was to create the impression that it was India which needed to settle the Kashmir question now and that India should, therefore, be prepared to make concessions in return for Pakistan's goodwill in the border conflict with China.

Even so, the proposed talks are to be welcomed. For, it cannot be denied that if we could withdraw a substantial part of our troops at present deployed in Kashmir, it would greatly add to our strength on the China border. But Pakistan has shown that not only is it keenly aware of this but will also do its utmost to exploit the situation. This fact cannot but condition our approach to the ensuing talks.

A Strange Tax

BEGINNING with Bihar in 1938, several States have imposed a tax on agricultural income as one of the measures to raise resources for development from the rural sector. This week the Maharashtra Assembly passed the Agricultural Income Tax Bill moved by the Finance Minister after a summary debate. Under the bill, net annual incomes of Rs 36,000 will be exempted and incomes above that amount will bear tax at a flat rate of 50 per cent. While every attempt by the States to mobilise resources, particularly from the rural sector, is to be welcomed, some features of the Maharashtra bill are bound to strike any one as strange and require to be explained by the Government. Foremost among these are the absurdly high exemption limit and the absence of any progression in the rate of taxation.

The exemption limit, by any standards, is abnormally high, being twelve times the limit allowed in respect of income tax levied by the Central Government on non-agricultural incomes. In no other State which imposes agricultural income tax is the exemption limit so high. Further, since the exemption limit refers to the net taxable income, gross income will have to be much higher to be subject to tax. With the known low productivity of Indian farms, it would be absurd to imagine that the proposed tax will raise any revenue worth the name.

The high exemption limit appears all the more ridiculous when one remembers that with the coming into effect from January 1962 of the Maharashtra Agricultural Lands (Ceiling on Holdings) Act, 1961 — which extends also to the lands owned by the 13 joint stock sugar companies having their own sugarcane farms — there will hardly be any holding large enough to yield incomes high enough to be liable to the proposed tax. One, therefore, fails to understand the reason for bringing up this tax proposal. Or does it mean that the Government is not serious about enforcing the ceiling on land holdings in the near future? But there have been reports that the enquiry into the records of sugar farms would be completed in about six months or so and that the ceiling on their holdings would be then enforced. In that case, is the proposed tax a short term measure to be imposed only till the provisions of the Land Holdings Act are implemented? If that is the intention, then it is a very ill-conceived measure. To create all the necessary assessment machinery for the agricultural income tax and then to repeal the tax after some time hardly makes sense.

Similarly, the flat rate of tax on incomes above the exemption limit also confounds all current thinking and practice in the field of income taxation. Even with the high exemption limit there should have been an element of progression.

The proposed tax thus appears to be ill-conceived both in regard to the rate and the exemption limit. Besides, the Maharashtra Government cannot surely be unaware that other States have not been able to raise any substantial resources from the agricultural income tax. This has been attributed to the difficulties of assessing farm incomes. It is becoming increasingly evident that if the State Governments are really serious about mobilising resources from the farm sector, they have to devise a more practical measure that the agricultural income tax. An effective alternative, it has been suggested, would be some sort of a progressive tax on land holdings with a reasonable exemption limit which would be low enough not to be affected by the enforcement of land ceilings.

Provident Funds

THE Government's decision to raise the rate of compulsory provident fund contributions under the Employees' Provident Fund Act, 1952, from 6¼ per cent to 8 per cent in four industries, i e cigarette, electrical, mechanical and general engineering, iron and steel, and paper, has not come any too soon. The compulsory provident fund scheme, during the decade of its operation, has been gradually extended to cover several industries. That is not to say, however, that the number of subscribers to the scheme today is by any means very impressive. Yet the scheme has definite potentialities. In the current emergency, when the whole nation is making sacrifices and the need to mobilise additional resources for defence and development is imperative, it would not have been unwise to raise the rate of contribution in other industries also. The war economy has its own logic. Since the entire provident fund contributions are invested in Government securities, it would be a relatively inexpensive way of raising the needed resources for defence. Hence the possibilities of raising the rate in other industries as well as of extending the scheme's coverage deserve to to be carefully examined. Surely, at this time neither the employees nor the employers would mind a slightly higher rate of contribution. The additional burden on the employers as a result of a rise in the rate would certainly not be excessive.

In the mobilisation of small savings, provident fund contributions play a significant role and hence the great potentialities of the scheme need to be fully exploited at the present juncture when psychologically the nation is prepared to make sacrifices. In addition to extending the coverage of the scheme and raising the rates, there should be also a proviso for encouraging additional voluntary contribution to the provident fund by the employees up to a further 8 per cent. For the period of emergency, it would also be appropriate to induce the workers to contribute their annual bonus to the provident fund. The Employees' Provident Fund Act provides an effective mechanism for restricting consumption and should be fully exploited.

Vote for Stability

FACED with a choice between almost certain political chaos and equally certain one-man rule, the French voter has, for the second time in two months, indicated that he considers the latter the lesser evil.

Gen de Gaulle's landslide victory in the French General Election has surprised observers. Earlier, at the time of the referendum in October on the issue of the mode of election of future French Presidents, the General had declared that he would resign unless the people gave him a clear majority. This, with a people who dread nothing more than a return to the chaotic conditions of the Fourth Republic, proved to be a forceful enough threat to give de Gaulle 61 per cent of the votes. Nevertheless, it was widely predicted that after the General Election the President would have to cope with a vastly increased opposition. This expectation was based on the large proportion of voters who did not vote in the referendum (23 per cent) and the apparently favourable response to the vigorous campaign of the anti-Gaullist parties.

In the event, however, the Gaullist party, the U N R, has won as many as 233 seats in an Assembly of 485. Gaullist strength in the new Assembly may rise to 270 with the help of other supporters. De Gaulle will thus have an absolute majority — a near miracle by French standards. The Gaullists secured roughly seven million votes, almost twice as many as in the 1958 election. All the anti-Gaullist parties, with the exception of the Communist Party, have emerged from the election politically emaciated. The Conservative Party (CNI) was almost wiped out and the strength of the Catholics (MRP) was reduced by a third.

The anti-Gaullist coalition of Socialists. Christian Democrats, Radicals and Conservatives, failed to carry conviction with the voter as all these parties and most of their leaders had at one time or the other in the past appeared to support de Gaulle and his policies. Understandably, therefore, the anti-Gaullist voter seems to have preferred the Communist Party which has been steadfast and uncompromising in its opposition to de Gaulle. As a result, the Communists have emerged considerably strengthened. Even Guy Mollet, the virulent anti-Communist Socialist leader, had to throw himself on Communist support after the first ballot to escape certain defeat. Declaring that he considered Gaullism the greater evil, he compromised to the extent of entering into an "understanding" with the Communists to prevent splitting the anti-Gaullist vote.

The Communists have thus emerged from their political isolation. This may turn out to be one of the most significant results of the election. The immediate consequence of the election — the absolute majority for the UNR — is, from the Frenchman's point of view, both gratifying and disquieting. The political stability of the last four years will be maintained. The President can continue to pursue his visions of French grandeur. On the other hand, the General has openly outraged the Constitution and got away with it. With neither Parliament nor the Constitution to check him, how much of a democracy is France today?

Yugoslav Aid for Development

RECENT years have seen a strengthening of economic ties between Yugoslavia and the countries of Asia and Africa. This is in part the natural outcome of the steady development of the Yugoslav economy. It is also the result of the prominence which Yugoslavia has come to acquire within the bloc of non-aligned countries.

Economic relations between Yugoslavia and Afro-Asian countries extend beyond conventional trade, assuming diverse forms of economic and technical co-operation. Thus Yugoslavia has made available substantial amounts of financial assistance and a large number of technical experts to these countries. Those who have benefited from Yugoslav assistance during the last four years include Indonesia, Ceylon, India, Pakistan, the U A R, Ethiopia, Ghana and Tunisia. Deferred payment facilities extended by Yugoslav exporters of capital equipment have also assisted development of basic industries in Afro-Asian countries.

Consequent upon the rising standard of living of its people, Yugoslavia has become, to a much greater extent than before, a consumer of goods produced by the developing countries. As a result, Yugoslavia imports increasingly larger quantities of consumer goods from Asia and Africa. Yugoslav industry also procures part of its requirements of raw materials from the developing countries which are frequently faced with shrinking markets and unfavourable prices for these materials. In the process, Yugoslavia has established close and direct trade relations with Asia and Africa. For example, whereas Yugoslavia formerly bought cocoa from Ghana on the London exchange and rubber from Indonesia on the Singapore exchange, today it im-

ports these goods directly from the producers.

However. Yugoslavia does not buy only primary products and light consumer goods from Asia and Africa. Its imports include the products of light and heavy industries also. For example, it buys from India processed iron and steel products, some chemical manufactures, pumps, small diesel engines, etc.

Yugoslav assistance to the developing countries similarly covers a variety of industries. For example, in Ethiopia, Yugoslavia has designed and built heavy industrial projects, supervised building of a textile plant, construction of Port Asab, the modernisation of a gold mine, the construction of a hydro-electric station, etc. Recently, the Ethiopian Government has entrusted the Yugoslav Institute for Crude Petroleum with the preparation of the blueprints for and supervision of the construction of a large petroleum refinery which is being built with Soviet assistance.

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Letter to Editor

Devaluation

I HAVE read Professor Das Gupta's letter on devaluation. I feel sufficiently strongly in favour of a reform to make certain points *totally* clear.

(1) The problems of timing (from a tactical viewpoint) and magnitude of a change are distinguishable from the question of the direction of the change. No matter what my views may be on the former, I have no doubt concerning the latter. I am *definitely* in favour of a "devaluation in our present context".

(2) The fact that my argument concerning expenditure effects require certain empirical assumptions should not be construed as a weakness of my case. All economic arguments depend necessarily upon empirical assumptions. Those who oppose a reform in favour of devaluation cannot persuade me to change my position until they have produced *alternative,* more plausible, empirical assumptions to demonstrate that I am in error. (Moreover. I did not merely argue that "certain expenditure effects associated with devaluation ... under certain assumed conditions may be non-inflationary." I argued that, under *our* (empirical) conditions, they *would* be *anti*-inflationary in the *Keynesian sense).*

(3) Further, the case for devaluation is not dependent purely upon the effects on exports (on which too much attention is centered). As I have argued earlier, the resulting economy by the users of imports is of equal importance. It is necessary to get away from the untenable assumption that the import requirements of an activity are firm and rigid and not subject to the influence of prices.

(4) In conclusion, let me emphasise that while devaluation and the adoption of tariffs and (straightforward) subsidies have similar real effects and hence I have no overwhelming preference for the one or the other, this cannot serve to refute the point that either would represent a reform over the present position. If those who oppose devaluation still think that it does, they are falling into the fallacy of *ignoratio elenchi.*

J BHAGWATI

New Delhi,
November 24.

In and Around Lok Sabha

New Masters, New Servants

WITH Chavan as the new Defence Minister and Gen Chaudhuri as the new Chief of Army Staff, there has been talk of 're-organisation' of the Army and the Defence Ministry. Parliament has been reasonably quiet after the recent changes and the only demand has been that there should be a secret session of the Lok Sabha where Members will be free to discuss matters of military importance. This would, it is argued, end the whispering and gossiping in the lobbies. The Government has quite rightly refused to agree to such a demand, knowing full well that secret sessions will be anything but secret. Besides, what useful purpose can a secret session serve? Members of Parliament are neither military erperts nor do they have access to reliable and authentic information. Most of their talk is based on rumour and gossip, both of which are most harmful at this stage. What we need is realistic appraisal of the situation and sober action.

Whether the changes in the top personnel of the Defence Ministry occurred accidentally or were effected to suit the new Minister, is a matter which is out of the scope of common knowledge. It is, nevertheless, true that some officers from Maharashtra have been transferred to Delhi. Some of the existing personnel in the Defence Ministry are, therefore, understandably suffering from a feeling of insecurity. If every ministerial change is accompanied by change of administrative personnel, there can be little continuity or stability in Government. Being new to the democratic system of Government, we are liable to follow almost a feudalistic pattern where loyalty to personalities is more important than adherence to principle. This is pernicious and needs to be checked before greater damage is done.

* * * *

All political parties are of the opinion that unless the Chinese withdraw to the September 8 line, we should be wary of hastening into any talks with them. In any case, we cannot slacken our efforts on our frontiers. The extremists argue that we should keep on fighting now that we are in the fray. If we agree to negotiating, we shall weaken our position vis-a-vis not only the Chinese but the world at large, they argue. More sober and knowledgeable opinion is, however, wary of rushing to such sweeping conclusions.

The arrival of the British and American military teams to assess the situation on the Northern borders coincided with the meeting of the National Defence Council. Foreign missions such as these have, of course, to be very tactful and cannot, therefore, express their frank opinion that advisory councils like the National Defence Council cannot be of immediate use; that they are neither competent to carry out a change in military strategy nor are they in a position to effect any alteration in internal or external policy. It would be interesting to read the reports given by the British and American Missions to their respective Governments. But these will of course be confidential.

The most important legislation of the week was the Defence of India Bill which had a long queue of speakers. Members who had not had a chance to participate in the earlier debate on Chinese aggression, had an opportunity to express their views during this debate. It is not uncommon for members to deliver speeches which are only remotely concerned with the bill under consideration. In the latter part of the week, there was much activity in the lobbies, while legislation limped along with scanty attendance in the Lok Sabha. A number

of M Ps had gone back to their States and their constituencies for 'war work'. Others were just not interested in the legislative side of the parliamentary business; they were busy attending meetings or actively helping in the political work of their parties. The glib promises of forgetting political differences in a national crisis were, of course, soon forgotten; now it was a question of how to build up a following among the people. This was obviously the best time to do so by exploiting the 'feeling of insecurity' among the people.

The move for a discussion on the Chinese truce proposals is attracting much attention. If the debate is included in the list of Parliamentary business, there is likely to be much excitement and once again a great clamouring among the M Ps to get a chance to speak in the debate. It is *the* subject which gets the most publicity today; and, after all, politicians thrive on publicity.

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Capital View

Peace or War

Romesh Thapar

THOUGHT and action change now from day to day. The absence of long-term perspectives, a fact which has been referred to repeatedly in these columns, has made of us a confused people. Small wonder that China's 'drip treatment' destroys our capacity to analyse fully the ramifications of the present situation and our ability to think ahead of the Chinese. In this kind of atmosphere — a mixture of indecision, frustration, bitterness and humiliation — there is a tendency to take emotional and unthinking stands about peace and war.

It is difficult to believe, but the truth is that the presence in the Capital of military-cum-political missions from the USA and the UK has done much to stabilise our attitudes and to give them content and shape. At last, the discussions in official circles have moved from explosive emotionalism, which refuses to face facts, to a more sober study of India's interests and how these are to be safeguarded. We are now assessing the implications of policies which lead to peace or war. This is a sign of health, although several serious observers are still of the opinion that politically we can be subverted by factions which are planning to exploit the present situation either to destroy the Prime Minister or to make him a prisoner of his own Cabinet.

Chinese Will Withdraw

All our sources of information confirm that the Chinese cease-fire will be followed by the withdrawal, acts which will create the impression abroad that their naked aggression was merely a massive punitive expedition to warn us of the implications of 'forward policies' and the like. To counter this impression and to prepare our friends abroad about the possibility of further 'unilateral acts' of this nature, we have dispatched diplomatic missions to the East and the West. A communist delegation headed by S A Dange would also have left for Moscow and East Europe had the Government of India not been stampeded into arresting even members of the anti China wing of his party; these cases are to be reviewed, and Dange may still proceed on his mission to isolate the Peking adventurers.

Two Alternatives

Those who argue that we must tread carefully in the coming months explain that there are only two possible alternatives before India:

1. Mount pressures on the Peking adventurers to withdraw to positions held prior to September 8, 1962. Utilise the period of the cease-fire to reorganise the Indian army, re-equip it and double its present strength. This is fundamental because we are for the first time facing a first-rate military power which has pierced the Himalayas. Our armies have not only to handle new equipment, but to learn new tactics. This will take time, and nothing should be done to create a situation where unprepared formations have to be thrown into sacrificial battle. The cost of such a programme will have to be *largely* borne by us — that is, if we are anxious to preserve our independent status and not be reduced to becoming sleeping partners in a military alliance. And as we grow in strength we will be able to compel the Chinese to demarcate an agreed frontier, which will involve adjustments, but which will be difficult to violate in brazen fashion.

2. We can also refuse to compromise with Peking. We can make a total commitment to a total war. Appeal to the United Nations for protection. Override a possible Soviet veto by a two-third majority in the General Assembly. Settle with Pakistan by offering to place the Kashmir Valley under U N trusteeship during the emergency with a pledge to hold a plebiscite. Mobilise to expel the Chinese from Tibet. The cost of such a campaign will be borne by the West through the United Nations. Show China such strength that she will realise that her own ruination lies in a total war. Immediate defence can be provided by U N forces while India's millions are mobilised.

Sober elements within our country and outside are urging that we act according to the first of the alternatives. It has already been pointed out by authoritative advisers from abroad that a total war with China would inevitably lead to World War III with India as the field of battle. What use is a total war unless India intends, together with her allies. to dictate a peace in Peking which would ensure and guarantee the creation of a Tibetan buffer ? Such an undertaking would depend for success on the U S A opening a second front along the China Coast. Will the U S S R sit back and be content to watch the destruction of China ? There can be no two opinions that the world will be fully engaged, perhaps in the nuclear field too. As for northern India. it would be devastated from the air even by conventional bombers. China's major cities and industrial centres would be out of range, unless the U S A made available her bases in the Pacific.

Big Two will not Permit War

From which-ever standpoint one looks at the situation prevailing on our border, it is impossible to accept the thesis that Kennedy and Khrushchov will permit the world to drift to war over disputed territory in NEFA and Ladakh. Indeed, as the Cuban crisis and the moves following it prove. the U S S R and U S A are anxious to investigate the possibilities of a wide *detente*. The U S A. while not going as far as the U K in urging the need for a negotiated settlement, has also been only too willing *formally* to respect India's non-alignment with the additional demand that we 'settle' the Kashmir question. Kennedy's advisers know that our non-alignment has been delivered a rude shock and is bound to develop western 'leanings', particularly if the enlarged Indian armed forces are to be reorganised by experts

from the U S A and the U K. The future political power of an enlarged army is not lost upon foreign observers in the Capital.

Pressures on Government

Broadly speaking, the dilemma of peace or war which confronts India is being resolved by the realities of the balance of power prevailing in the world at the moment. But the really dangerous period in the political life of the country is only just begun. By the time these lines appear in print, the Chinese invaders will be withdrawing. Pressure will be exerted to force the Government of India to militarily reocccupy the lost territories and not to respect the enemy's conditions for its unilateral withdrawal. Will the Prime Minister be able to persuade his more excitable colleagues to restrain themselves? It is admitted in impartial circles that some of them would use the emergency to dethrone Nehru and the Nehruites. The Congress Party has not developed the *elan* and unity which was expected of it, and it is too late to order a clean-up even though the Working Committee has talked of 'disciplinary action' against members who indulge in 'criticism' of the leadership.

Somehow and soon the ruling party has to stand firmly on its feet and refute the hysterical propaganda of its opponents. The people must be taken into confidence. The full implications of various demands must be explained to them. We cannot continue to delude ourselves that the strength of public opinion and the voluntary response of the people is adequate to meet the war crisis which is going to remain with us for a long time. The sorry story of civilian panic from Tezpur is a timely reminder of what can happen unless our many millions are organised and informed, insulated against the rumourmongers and demoralisers. That we have hardly begun to address ourselves to this problem can be seen from the juvenile content of the discussions held at the highest levels of our political life — and these find reflection in the *cliche* techniques adopted in All-India Radio programmes.

In the coming week our attention will be focussed on the meeting of leading non-aligned powers in Colombo. This meeting marks the continuation of the initiatives undertaken by President Nasser of the U A R. Our official delegations visiting Arabia, Africa and South Asia will, it is hoped, be able to sharpen non-aligned attitudes to the war along the Himalayas and so build the pressure on Peking to respond to world opinion. We must also assist non-official delegations to press forward with this vital work.

However, whether it is peace or war, India's energies must be focussed on tapping all available resources to build the defences of our country and to ensure that our developmental plans will not be abandoned. Our successes in this endeavour will determine how far we can preserve our independence of action. The reluctance to announce an Emergency Budget suggests that we are wallowing in the belief that our financial problems will be resolved by aid from abroad. This is a short-sighted attitude. But more about this later, for the situation now unfolding cannot but compel us to face these realities.

From the London End

By-Election Shocks for Tories

LAST week's shattering by-election results came as a painful shock to the Tories, dispelling the mood of rosy optimism generated by the seeming unanimity at their recent Llandudno conference. This set of by-elections, nicknamed "the Little General Election", were of crucial importance to the Tories as a test of public opinion in Britain. They were the first by-elections since the disastrous Orpington election in March and the Leicester North East election in July, both of which were massive votes of no confidence in the Tories.

In the five by-elections involved, Labour won two seats — one at Woodside and the other at South Dorset — "the most unkindest cut of all" for the Tories: in South Northants and Central Norfolk where the Tories had a comfortable majority of over 6,000, they were barely able to hold their own and in Chippenham the Liberal candidate reduced their majority of just under 9,000 to 1,588!

Although the Conservatives had felt they might lose Glasgow's Woodside to Labour (where indeed the Labour candidate got a majority of 1,368) they had so definitely believed that they would hold the four English — and predominantly rural — seats by respectable majorities. They argued that all these four seats were agricultural, all Conservative by tradition and one of them had returned a Tory member for over 50 years. They therefore seemed seats with normally impregnable majorities. In the event, at Chippenham, the Conservatives held their position with a majority of only 1,588 against the Liberal candidate. The loss of South Dorset (where Labour won by a majority of 704) came as a complete bombshell. Norfolk Central they won by a majority of only 220 over the Labour candidate. In Northants South the Conservative majority was reduced to 917.

Anti-Government Swing

These by-elections underline the anti-Government swing that has been going on for nearly two years now. It must not be forgotten that Chippenham, Dorset South, Norfolk Central, Northants South lie at the very heart of the Tories' political power. For years, these four seats have been solidly Conservative. These rural constituencies, insulated from the worries of large-scale unemployment and the redundancies of the Woodside constituency, outside the heavy industrial belt and safely isolated from commuters and the new social groups in the dormitories who have shown their predelection for the Liberals, seemed impossible to budge and yet, in the event, Labour was able to capture South Dorset and severely reduce the Tory majorities in the other constituencies.

In the five by-elections, the Conservatives' share of the poll, compared with the 1959 election figures, dropped by an average of 16.4 while Labour's share dropped by an average of 4.5 in four constituencies, but rose by 2.2 in Norfolk Central. Against this showing, the Liberals' share in the four contests in which they participated (they did not fight the Northamptonshire South in 1959) has risen by just over 12 per cent.

Perhaps one of the more interesting features of these elections is that it is mainly the Liberals who are taking away the votes from the Conservatives. Even now, Labour is not increasing its share of the votes, and has, despite its two gains, obtained a lower proportion of the poll. Obviously there is still a very widespread reluctance to vote Labour on the part of many who are discontented with the Tories. So far this year, Labour has only been able to win four seats out of seventeen contests. It has not been able to exploit the deep unpopularity of the Government.

Liberal Revival Continues

Although the Liberals did not do as well as they had expected — their proportion of the vote was lower than it was earlier in the year — the results certainly belie the confident Conservative assumption that the Liberal revival is dead. One thing that has been proved is that the Liberal revival is no longer confined to the Orpington-type seat and to electors protesting against mortgage rates and commuter fares. At Chippenham, for example, the Liberal candidate had a 50 per cent increase and was able to push into second place and reduce an apparently impregnable Tory stronghold to something like a marginal constituency.

Perhaps the most interesting of all the elections was at Dorset South where the intervention of an Independent anti-Common Market candidate supported by the redoubtable Earl of Sandwich, led to a total of over 5,000 votes against the official Tory candidate Angus Maude's total of 13,079, thus causing a Labour victory. This election showed quite clearly how strong the anti-Common Market feeling is even among Tory voters. It does illustrate that in areas where effects of joining the Common Market are understood, the opposition is greatest. Farmers there know what ending the present system will mean to them and have voiced their opinion in clear terms. It will certainly make the Government appreciate the fact that, despite Llandudno, many of their supporters, particularly in the rural areas, have grave doubts about the implications of British membership.

Although the Tories are doing their best to pretend that the Common Market was not the real reason for their defeat at South Dorset and are talking bitterly about Sir Piers Debenham and the Earl of Sandwich "standing again by proxy", it cannot be denied that statistically the Tory voters were divided about 70-30 on the Common Market. The lessons are very disturbing for the Conservatives, particularly if future difficulties overtake them on this issue and negotiations at Brussels go sour.

Impact on Brussels Negotiations

Although the Dorset by-election may have the effect of making Mr Heath tougher about the conditions he demands for British agriculture in the Common Market negotiations, there is no reason to suppose that the Government will be deflected from its attempt to join up with Europe. However, the Tories will no doubt have learnt a lesson from the strength of the anti-Common Market candidate from Dorset and will appreciate that this could well make a vulnerable issue for the Conservatives since others might try to cash in on the anti-Common Market feeling.

Apart from feelings on the Government's attitude to the Common Market, the main factors in the disillusionment of the average voter have been Britain's disappointing economic performance. But what makes the situation even worse is that it looks as if the electors are protesting, not against any single factor by itself, but rather at the whole image of the Government.

Some of the factors contributing to this general mood of disillusionment were the Cuban crisis which showed quite clearly the reduced stature of the U K in world affairs, the awkward handling of the Vassal affair which brought further discredit to the Government and the present state of the negotiations in Brussels which just keep dragging on.

But the real key to the general mood of discontent is the economic situation. Last week, for example, unemployment reached its highest November total for twenty-two years. Production has remained practically stagnant with only a one per cent increase over last year. There is also no doubt that the 1960s are going to be a difficult period, both for business and labour — certainly as compared to the 1950s when Macmillan could boast "You've never had it so good". In the last few years, capacity has caught up with, and in some cases exceeded, demand in most of the countries of the West. The U K's own margin for further general expansion is not very large. The balance of payments is in equilibrium at the moment, but there is a large measure of slack in industrial plant. The average voter sees that unemployment keeps rising, but prices have not fallen, and that the prospects for the future do not look bright at all.

Progressive Image Unconvincing

Although the Government has tried to reshape its policy to provide a progressive image and has set up a consumers' and workers' protection programme and Mr Maudling has embarked on a timid expansionary policy, it will be some time before these measures will yield any valuable results that wil be impressive enough to move the electorate back to a mood of enthusiasm for the Tories. The Conservatives are now faced with the gravest problem they have been confronted with since 1945. If the Tories did only half as badly in the next General Election as they have done in the last few days, they would clearly lose it. In view of their general unpopularity, it is unlikely that the Conservatives will contemplate a General Election before the summer of 1964.

Commenting on the results of the by-elections, Mr Harold Wilson said: "If there is one thing plain to everyone, except Mr Macmillan, it is that the Tory Government has completely lost the confidence of the electorate and the sooner they put the whole future of the Government and British politics to the test of a general election the better it will be for the country and all political parties."

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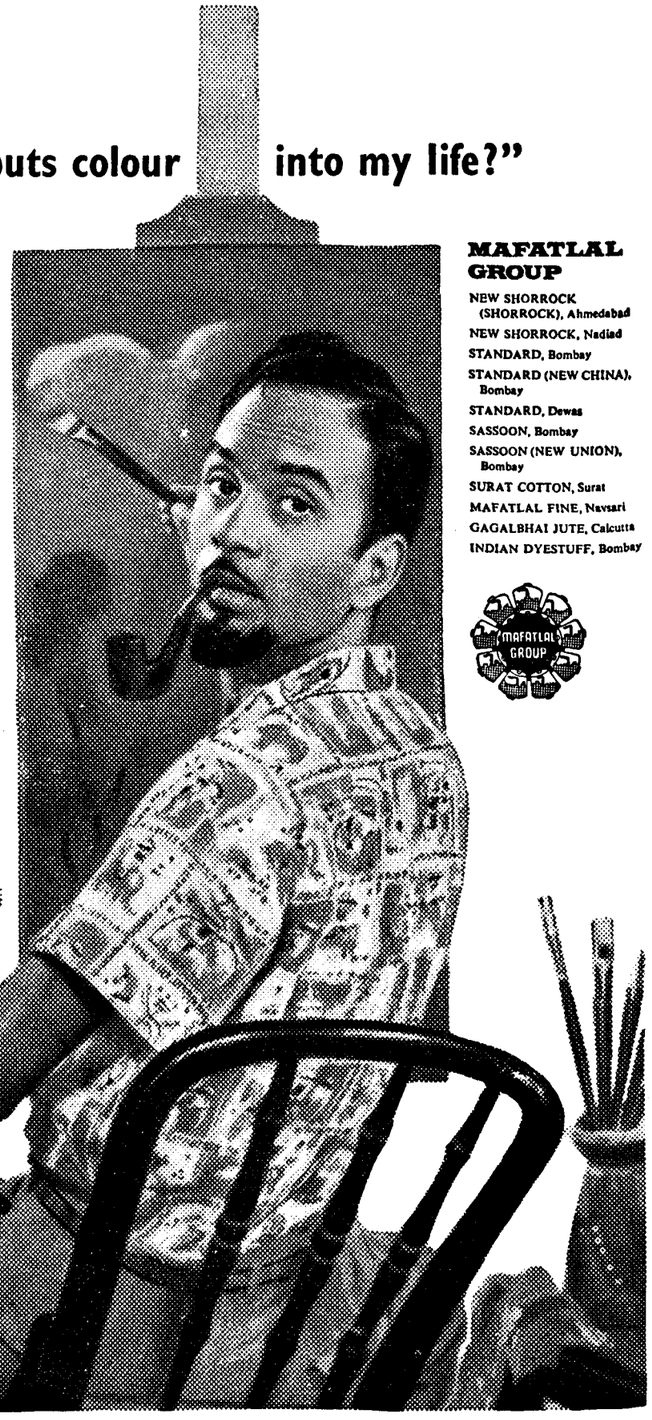

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Book Review

Industrial Finance

Some Aspects of Industrial Finance in India by George Rosen; Asia Publishing House, 1962. Pp XVI + 144. Price Rs 9.50.

ONE cannot help having mixed reactions to Dr Rosen's book. In a slim 134 page volume he has packed a lot of material, and on the subject of industrial finance it is certainly a notable contribution. But it is unlikely to retain this place. This is not because he has not presented "the theory of the structure and development of capital markets in under-developed areas" which he promises in the Preface. It is perhaps just as well that no such theory is adumbrated. The number of theories about under-developed countries is already too large considering that there are few under-developed countries which have even broadly similar features; and generalisations based either on conditions in a few countries with which an author is acquainted or on an assumed set of conditions rarely apply to the under-developed world as a whole.

The reasons for feeling a little disappointed with Dr Rosen's genuine endeavour are other. These are two. The first is methodological. The second arises from expecting institutions to perform certain functions for which either their history and/or their ways of business do not fit them.

Methodological Weakness

The methodological weakness is simply this—that much of the edifice of argument is made to rest on the rather shallow foundation of the behaviour of certain institutions during a very short time-span. Chapters II to V are devoted to an analysis of bank advances to industry — the general policies governing such advances and their distribution by sizes of firms and among different industries. Limiting himself largely to data for the three years from 1956 to 1958, Dr Rosen shows, by using simple correlation concepts, that during this period bank finance to different industries was not correlated either with the gross profit rates of different industries or their annual growth rates. Apart from the fairly palpable weakness of this criticism, one might as well anticipate here a comment which should really come later. There is no reason to expect this correlation. Bank finance is provided predominantly for working capital and so banks give largely against tangible security, the availability of which need have no correlation with the rate of growth of a particular industry or its profitability. There is again the methodological weakness that this argument rests on data for only two years. The ranking of different industries, either according to the growth rate or of annual profits, might be significantly different if data covering a larger period are examined. And, in any case, why this formidable array of ranking by growth and profit rates and correlation coefficients ? Actually, a simple industrywise breakdown of scheduled banks credit is sufficient to show that a large part of it goes to the traditional industries and these are *not* ones which have grown particularly faster or have reaped any large profits in the recent years !

Incidentally, it seems that the repeated complaint that banks concentrate on older well-established industries may not be as tenable as it looks. During the few years studied by Dr Rosen, banks increased very substantially their advances to engineering, textiles other than cotton, and jute and miscellaneous industries. If they had only restricted themselves to the traditional industries, credit would not have recorded the phenomenal increase that is there for any one to see. While on this point a comment may also be made on Dr Rosen's estimate that around 1958, 20 to 25 per cent of the banking systems' industrial advances were virtually longer term advances mainly by allowing short-term credits to be rolled over. One would have thought that an able investigator like Dr Rosen would have preferred not to have committed himself to a particular figure on this aspect of bank finance — not only because it is very controversial, but since the concept itself is not clearly delineable. One of the bases for arriving at this figure was the percentage of bank advances to industry against the security of plant and equipment to industrial advances as a whole. But even the proportion of 20 per cent as being relatively longer term advances gives a figure of no less than Rs 99.5 crores in 1958, which seems disproportionately large in relation to the volume of investment in industry. He has also stated that such long term needs as are met by banks are not correlated again with the rates of profit or of growth of different industries. This conclusion is unwarranted. The main discussion of the round-about supply of long term funds by banks to industry has been conducted in global terms. As long as no industry-wise breakdown is available, this conclusion must remain a conjucture and that is perhaps the manner in which it could have been expressed, if at all.

Bank Finance and Size of Firms

The analysis of bank finance by size of industrial borrowers is illuminating, though the conclusions again are not new. For small firms, bank finance is relatively unimportant as a source of funds because such firms lack access to banks. For firms falling in the Rs 5 to Rs 10 lakhs total net assets size-group, existing firms can get their normal working capital needs from banks. For larger firms with a record of a relatively large rate of plough back, there seems a tendency during periods of stability or slow growth to substitute own finance from reserves for bank finance for both short and long-term capital needs. In periods of rapid expansion they have relatively easy access to banks. For this latter factor Dr Rosen has cited an interesting evidence, viz, the changes in the ratio of credit outstanding to total credit limits from 1953, with data

collected by the Reserve Bank. He shows that this ratio rose slowly from 83 per cent in December 1953 to 87 per cent in December 1955, and 95 to 96 per cent during December 1956 to April 1957, before falling gradually to 87 per cent by November 1957, and states that "some of the greater intensity of the use of bank credit unquestionably reflected a shift by firms from their own resources to bank credit for the finance of inventory expansion (against which they could raise their credit limits), while their own resources were used for fixed plant expansion". But without presenting further supporting data, the conclusion need not follow *unquestionably*. An important factor which might have led to greater use of bank credit is rising prices of industrial raw material, fuel, power, light and lubricants, the price indices for which recorded substantial increase during 1955-56 to 1957-58. This was also a period when industrial production rose significantly. The high ratio of credit outstanding to total credit limits may also arise because in a period of increasing demand for credit, banks are more circumspect in sanctioning limits so that undrawn amounts are reduced to a minimum and more borrowers can be accommodated. Lastly, credit outstanding as on the last day of the year may not be a dependable guide in these matters as it is likely to be affected by numerous other factors which may be scarcely related to the main trends in the economy.

Criticism of L I C

The same feature — generalising from limited data — is found in the section devoted to the Life Insurance Corporation in its role as a supplier of industrial finance. It is stated that the L I C has tended to concentrate its investments among the older, large and well-established industries. Further, there is evidence that holdings were concentrated in the very large companies. This comment, made soon after the establishment of the L I C, does less than justice to the organisation. At one place Dr Rosen does recognise that many of the L I C's holdings in 1958 were bequeathed to it by its predecessor companies but this is not given its due weight in the assessment.

At various places, Dr Rosen has expected too much from the financial institutions. This bias in the case of banks has already been mentioned. By and large, the expansion of the business of banks in the second half of the 'fifties was in the direction of the established industries, although the newer industries too made demands on the resources of banks. For reasons which Dr Rosen has not gone into, the newer industries did not require as much assistance for inventories as the older industries. Commercial banks in India are not investment trusts which select their clientele having in view their growth prospects. His criticism about the L I C is perhaps more justified, if it is made to apply to the predecessor companies. Even then it cannot be stated that the investment portfolio of these companies largely excluded the newer industries. In any case, these newer industries made an impact on the economy only in the late 'fifties. Many of them were set up with considerable foreign collaboration and unless their prospects were reasonably certain it would not have been prudent for insurance companies to go in for such investments in a large way.

The discussion on the special financial institutions — the Industrial Finance Corporation of India, the State Financial Corporations, Industrial Credit Investment Corporation of India and the Refinance Corporation of India for Industry —in Chapter VII, is able. With experience, some of the rigidities in the working of the institutions are gradually being removed. There is no doubt that the State Financial Corporations in particular are too tied to the apron strings of the State Governments. This invariably tends to make their policies conservative. But in the few years that these various Corporations have been in existence, they have financed a number of units in the newer industries as well.

Case for Higher Interest Rates

The Chapter on the structure of interest rate makes more than a promising beginning, but ends abruptly. Having made out earlier a case for higher rates of interest for term finance for more risky investments, it is shown that the setting up of the specialised financial institutions have meant additional supply of funds at the existing rates of interest and such funds are taken up not just because they are available but because Government policy has made it possible for new units to be set up taking their help. The diagrammatic representation of the supply of (and demand for) credit in the organised financial market through two sets of hypothetical supply and demand curves—before and after the special institutions came into being — is a little confusing. Their shape beyond the customary market range is difficult to prognosticate and it seems Dr Rosen has considered the supply of (and demand for) current and term finance on the same curve. Incidentally, in this section he seems to contradict an earlier finding, viz, that the banks have ignored the newer industries. These specialised institutions are not guilty of this to the same extent and in this discussion he ascribes the greater supply of bank finance to industry after the special institutions have came into being, to the fact that "banks would consider firms receiving special finance good risk".

At least till some one else takes up the analysis of the working of industrial financing agencies in India over a period longer than that for which data were available to Dr Rosen, his work will be the most important one in the field not merely because he has been able to derive some interesting results but also for his freshness of outlook and methods of investigation.

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Towards a Theory of Indian Politics

Some Implications of the Results of the General Election

Surindar Suri

The main political significance of the general election is that it demonstrated that elections have been established and are being recognised as the means for settlement of political issues. In the choice between extra-parliamentary political processes such as mass movements that break laws and defy constituted authority, and the parliamentary processes, the people have indicated a preference for the latter.

It would be foolish to claim that the parliamentary system in India is now so well established that nothing untoward, not to say lethal, can happen to it in the foreseeable future. But certain it is that the system would not be swept away with the mere stroke of a general's baton as in Burma, Sudan or France. The parliamentary system in India would need some overthrowing.

A SIGNIFICANT aspect of the general election was the increase in the proportion of voters who exercised the franchise. The proportion of voters who cast valid ballots was 45.7 per cent of the total electorate in 1952 and rose slightly to 46.7 per cent in 1957 but it jumped to 53.7 per cent in 1962. But this is not the true index of voter participation, which should include invalid ballots. Unfortunately, the Election Commission did not publish figures of the invalid votes cast in the 1952 election, but the percentage of total votes polled was 48.3 in 1957 and rose to 57.7 in 1962. This almost 10 per cent increase in voter participation confirms the impression one formed before the election that there was much greater popular interest in this election than in earlier ones. Apart from the fact that repeated elections tend to sensitize people to the electoral process and produce a habitual inclination to vote, the higher participation was caused by the many controversial issues injected into the campaign.

In the Punjab practically every adult seemed to be discussing the merits or defects of the political leadership provided by Chief Minister Sardar Partap Singh Kairon, but voters' interest was heightened further because of the Punjabi Suba issue, and the election was transformed virtually into a referendum. Besides, there was an outside chance that the Congress party might be unseated in the Punjab. Such issues and possibilities drew voters to the polling booths. But the question is whether the higher proportion of active voters in 1962 signified growth of political maturity or whether it was merely the reflex to a piquant situation that might not recur in future elections. There is some reason to believe that the habit of voting would persist in the future.

Congress Decline in Hindi Region

Some political struggles outside the Punjab were no less bitter, as for example in West Bengal, particularly Calcutta, in Madras, Madhya Pradesh, Rajasthan, and Bombay City. Some fights centred around personalities of which the Menon-Kripalani contest was the archetype. A question that arises is whether it was an accident or part of a general trend that the Congress party or individual Congress candidates were so hard pressed in particular areas. Madhya Pradesh, Rajasthan, Uttar Pradesh and Bihar are the four States where the Congress party fared badly whereas the opposition parties, particularly the right wing, did correspondingly well. These States possess certain characteristics in common, for they constitute the main Hindi-speaking region which is supposed to dominate political life in the country. What does the attrition of Congress strength in this Hindi-speaking "Prussia" of the Indian subcontinent tell us about the structure of Indian politics? Is the decline in Congress strength in the Hindi areas (and one should include Delhi as well as the Hindi regions of the Punjab) a single development despite the diversity of factors among the different States? If it was a common trend, what evidence is there to prove that a common, if not all-pervading political or social force was operative in the different States, what was the nature of this force and what does it portend for the future?

A full analysis of the political meaning of the election results would involve a large number of calculations. The initial step of the analysis should be not what the outcome heralds for the future but what it tells about the present political structure in the country. There is, of course, a philosophical question to be answered before we start the political analysis, namely, in what way, if at all, do election results mirror the socio-political reality? Since the issue is that of the validity of the parliamentary system, we need not go into it here, but it is obvious that the political life in India is deeply and increasingly involved in the parliamentary process. Political parties that disclaimed faith in parliamentarism went to a great deal of trouble to participate in the election. In the Punjab the Akali party, which had launched a mass struggle to win the Punjabi Suba, turned to the elections because extra-parliamentary means did not produce success.

The main political significance of the election was, then, that elections have been established and are being recognised as the means for settlement of political issues. In the choice between extra-parliamentary political processes, such as mass movements that break laws and defy constituted authority, and the parliamentary processes, particularly struggle by means of elections, the people of India have indicated a preference for the latter. It would be foolish to assert that the parliamentary system in India is now so well established that nothing untoward, not to say lethal, could happen to it in the foreseeable future. But certain it is that the system would not be swept away with the mere stroke of a general's

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baton, as in Burma, Sudan or France. The parliamentary system in India would need some overthrowing. Elections specifically and the parliamentary process in general do not merely reflect the political life in India but form it.

India's Non-Political Past

When seen in this light the question, "what does the election tell us about political reality"? appears metaphysical because we do not know and cannot know the nature of the ultimate political reality. There is more than one sense in which the parliamentary system in India does not reflect but constitutes political life. Apart from the freedom movement between the two world wars, and usual political activity thereafter, India has not since the mutiny known politics nor an active political movement. Even the freedom movement led by the Congress party was more than political: it was semi-religious. The movement contained some elements of a religious revival and socio-cultural awakening. The non-political aspects of the freedom struggle were no less important than the political. During those formative years of Indian politics in the course of the national struggle, the parliamentary system found it relatively easy to settle on the Indian soil; one major reason was the absence of an alternative political concept. British-style parliamentarism was confronted with no counter-concepts because India had become apolitical in the preceding century. The Indian political tradition had been broken, if not destroyed, in the course of British conquest. Rajas and maharajas were conserved more or less as museum pieces; they did not serve as rallying points of political awakening or foci of crystallisation. India is perhaps unique in having lost its political tradition, since countries such as Indonesia, Malaya, Burma, kept it going under foreign rule.

The lack of a political concept of its own rendered the Indian political movement virtually impotent against British power. It was not until British-educated leadership under Gandhi and Nehru equipped itself with the adversaries' intellectual weapons that the battle for India's independence was truly joined. Gandhi's was the remarkable achievement in that he created a synthesis of western forms with an Indian content. He gave expression to the traditional thoughts of the Indian people in simple, chaste English, or argued the Indian case with the rectitude of the London Barrister. The point is that during the 18th and 19th centuries the religious, social and cultural life of the Indian people, which continued along traditional lines, lost its political superstructure and, indeed, could not express itself politically either in words or in action. Those who learnt to speak a political language, such as members of the Indian National Congress before it came uder Gandhi's leadership, talked the British idiom but failed to convey the Indian meaning. It would only partly be an exaggeration to assert that Indian politics in the twentieth century has known no form but British parliamentarism. The question of adopting a non-parliamentary form of government in India has never been acute, for there has never so far been a genuine alternative.

Congress and Parliamentary Democracy

The Congress leadership was determined that it shoud be in the saddle when India became free. that power must be transferred to it and to no other party; it did not want to be in the opposition to the political heir of British government in India but to be that heir. No doubt it is for this reason that the Congress party accepted many conditions of the transfer of power, including the separation of Pakistan. Congress leaders were apprehensive that, if they rejected British terms, power might be transferred to some other party or group or parties or individuals and, the recent political tradition of India being what it was, even the mighty Congress might find it hard to dislodge the British "puppets". Thus the Congress party launched a big campaign against the Radical Democratic Party, led by the ex-Communist M N Roy, who had cooperated with the British Government during the second world war: The Radicals enjoyed practically no mass support in the country but they had established friendly relations with the British authorities in India. Some of them hoped that they might be the beneficiaries when the British abdicated. Congress leaders as well as the Royists seemed to apprehend that whosoever was installed in the seat of power in India would not be dislodged. Since the pattern of political activity in India had not been settled, any Indian ruling group seemed to have a good chance of providing the crystallisation model.

It might be that no party but the Congress and no political form but parliamentary democracy had a chance of coming to stay. But we may keep in mind that the Congress party has not won even 50 per cent of the votes cast in the elections to the Union Parliament and only infrequently in the elections to State legislatures. Parliamentarism has won ground steadily but only in the 1962 election did more than half of the electorate exercise the franchise. Neither the Congress party nor the parliamentary system may be said to receive overwhelming or enthusiastic support of the voters, yet both have remained unchallenged since independence. The foundations may not be too solid but the superstructure has proved durable. An interesting feature of the recent election was a seeming return to the pattern of the first general election in 1952. The popular vote received by the Congress in elections to the Lok Sabha declined to 45 per cent of the total votes cast after having risen to 47 per cent in 1957. The number of Lok Sabha seats won by the Congress was almost the same as ten years earlier. In Punjab and Rajasthan the political picture today parallels that of a decade ago.

1952 Pattern Repeated

In some parts of the country and, more significantly, at the national level there is an apparent swing of the political pendulum back to the starting point. The significant feature of the first general election was considerable overall uncertainty. Some political parties, especially the Socialist and the K M P P had high hopes of winning power in some States or at least of making a powerful showing. In 1952 no one took for granted that the Congress party would gain a sweeping victory. The electorate

voted the Congress to power but not overwhelmingly. Although it was taken for granted in 1962 that the Congress party would win all over the country, its victory was not as sweeping as it was in 1957. On the other hand it is unlikely that the percentage of popular support for any party in India would ever be overwhelming, or that a clear-cut two-party system would emerge. Since the votes will tend to be scattered widely, it is likely that whosoever wins the election in India would do so by a relatively small margin of votes. It should not be considered less of a victory for that reason.

Low Proportion of Votes

In most western democracies the voter participation lies above 70 per cent and often reaches 80 per cent or higher. In India the proportion of the votes cast is on the low side, and the shift in the allegiance of the voters is often rapid. Deep political loyalties have not yet taken shape. The Indian is not born a Congressman, or Communist, Socialist or Swatantra. It might be more correct to say that he is born a little of each of these, that his sympathies are inclusive rather than exclusive. He tends to vote for the Congress party for its inclusive political outlook, but not for the parties that are exclusive such as Jan Sangh, Swatantra or Communist. It would follow further that the citizen tends to vote negatively, i e, against something rather than for something.

Psychologically, the reason for the negativism of electoral behaviour in India might be explained as follows. Because of his universal and inclusive outlook — characteristics often considered as typical of the Indian national character — it is unlikely that anything concrete, i e, any specific individual or party or its programme, would satisfy or correspond to the desires and wishes of the typical voter. Even the satisfaction of his material wants might not suffice to win his loyalty to the party that brought it. The Indian voter, in other words, is not likely ever to be satisfied; it is probable that he would be dissatisfied with everything, always. In this atmosphere of discouragement, the question posed is not a positive but a negative one: it is not what would satisfy or appeal to him more than anything else but what he finds most repugnant. In other words, the psychological field is charged negatively and the objects carry negative qualities; the measuring rod carries numbers in a reverse order. The logic of Mr Bentham is constricted, for the principle that motivates the citizen is that of least unhappiness or, perhaps, maximum opposition. Like other generalisations in this essay, this one should not be taken literally for it illuminates at best one aspect of political behaviour in India.

The Victor's Perils

Social psychology mirrors social structure, which in India is fragmented heavily into castes and subcastes, regional and religious groups, sects and sub-sects, *bhaicharas,* or factions that form around strong personalities and local leaders. A major concern of each of these splinters is to hold its position by preventing any of the others around it from climbing higher. Those who have worked in a commercial organisation or political party may know that members spend more time pushing others downwards than they do trying to climb upwards. The caste system rationalises this situation in that it ties the social status of the individual to his birth in the particular group so that it is not subject to change in this life. But the caste system does not order the relations between the sub-castes, which are the real determinants of social behaviour. Furthermore, political and economic activity which is no longer determined by the caste order, provides a free field for competition. The result is law of the social jungle, of the war of all against all. In this circumstance there is a force that unites people even though temporarily: where a group tries to move upwards in the social hierarchy, others around it will unite to pull it down. A relentless social struggle goes on among individuals as well as their groups; it is carried over into the political field. When a candidate wins an election he finds it difficult to repeat his success for others join hands against him in order to defeat him. The trouble with elections is that someone must win. It might be more congenial for the social outlook in India if it were possible for all candidates to lose. Since this cannot be, the next best thing is to work so that the same candidate is not elected twice.

Negative Political Behaviour

As a result there is rapid turnover of membership of Parliament and State legislatures. In the newly-elected Lok Sabha, for instance, more than half the Congress members and around three-fourths of the opposition members are freshmen. Equally striking instances are provided by some State legislatures.

The negativism of political behaviour is a reflection of the prevailing scarcity. If someone were to get one morsel of food more than he did already then someone else must eat one morsel less. Those who get a full meal are concerned that no one gets more than his present share so that the well-fed might not be pushed down into the ranks of the half-fed. The newness of parliamentary institutions particularly and of self-government generally is another reason that encourages negative political behaviour. If the people have not yet discovered that parliamentary institutions might be used as levers to draw concessions from the ruling group, one reason is that there are so few concessions at all to be gained. If popular pressure for welfare measures were to become as strong in India as it is in Ceylon, for instance (or in Burma, for that matter), there may be second thoughts among the wealthier classes on the fitness of India for democracy. The upper classes need not resist when the lower classes are not demanding. But that is because the lower classes are not used to the idea of self-government; nor do they fully realise that the state machinery may be employed to advance their cultural and material interests. In order to recognise the complexity of the Indian political scene it should be recorded that the government machinery is not geared to welfare functions. Bureaucracy in India operates like the machine in Pavlovian experiments which is intended to engender negative reflexes: the animal that came near it received a shock, and was reluctant to approach it a second time. Parliament and the bureaucracy make a strange but complementary pair: the bureaucrat is potent but unapproachable; the parliamentarian is approachable but impotent. The latter does represent the citizenry in so far as he shares its futile bitterness against the bureaucracy. To some extent the "strength" of parliamentary institutions in India lies in their relative ineffectiveness; they will not be taken for granted when they begin to assert their power.

But it would be an injustice to political institutions and parties if one were to paint a dark picture without relieving features. A significant fact of political life in the country is that it is changing. The change is slow, perhaps much too slow to produce discernible results in a short period.

Baffling Complexities of Political Scene

The complexities of India's political scene are truly baffling. A trend in one part of the country is countered by another in a different area. The Praja Socialist Party may have been wiped out in Maharashtra and shattered in West Bengal but it scored notable successes in Mysore and Gujarat. The Congress party lost in some areas but gained in others, and so did the opposition parties. They have the choice of looking at the darker side of the picture or, as they preferred understandably, at the brighter side. India is not a continent but a universe. The question raised earlier was whether events and trends in different States are inter-connected in some way or whether the apparent unity and diversity of the political trends is merely accidental. Was it merely accidental that the strength of the Congress party declined in the Hindi-speaking areas but went up in peripheral regions such as Maharashtra and West Bengal? If we could discover the inter-connection between developments in the different areas or regions, we might gain the key to the understanding of Indian political behaviour. The election results may have something to do with other features of social and political developments in the country. The last fifteen years have witnessed continuous social unrest. There have been strikes, riots of various kinds and other mass movements. But disturbances and uprisings somehow did not occur simultaneously or in a positive conjunction, but were dispersed in time and sporadic. The all-India strike of state employees in 1960, if it had taken place in conjunction with a major mass movement, such as the mass struggle for the Punjabi Suba launched by the Akali Party, might well have toppled the government, justifying Pandit Nehru's worst fears. But the strike took place independently of and isolated from other movements. Similarly, communal or linguistic riots in U P, Madhya Pradesh and Assam took place disjunctively. Had they occurred simultaneously, the government would have had a hard time of it trying to control them. Political India appears like a closed universe where an outbreak in one area serves to inhibit movement in other areas. If this were not the case, if unrest at one point were to infect others, the outcome would be revolutionary. Serious disturbance anywhere would act like a trigger to set off a chain reaction. But the situation, as it is, is anti-revolutionary, for an outbreak tends to die off because it fails to catch on. The question is, what is the nature of the political universe that is India?

The Emerging Pattern

To answer this question would require a great deal of investigation and cogitation. For the present no more would appear possible than to mention some lines of approach. Some statistical models of cybernetics theory would seem to fit the conditions in India, particularly the model of an ultra stable system and the multiple stable system. The ultra stable system, to put it briefly, is one where the high instability of parts or components is related to the stability of the whole. The brain is such a system. But a complex of such systems, the so-called multiple stable system, is one where the changes of the subsystems, themselves ultra stable, are mutually compensated. The socio-political reality of India would seem to correspond to a multiple stable system. We cannot regard India as a simple or relatively homogeneous entity nor as a disjointed complex which possesses no unity except the merely geographical one or the historical accident of having fallen under British rule. India is an integrated complex of a number of more or less self-contained structures, which are historical, cultural and increasingly political. They are self-contained and autonomous in so far as they are parts of the larger whole which is India. In other words, the autonomy of the parts is the obverse of their interdependence, which is to be understood not as the dependence of simple parts to the whole but the mutual inter-dependence of virtually autonomous wholes.

These sub-systems might be States or regions, or they might be linguistic units. It is a matter for empirical research to determine what are in fact, that is, in terms of actual socio-political behaviour, the sub-systems of the Indian political system. Furthermore, the sub-systems themselves are complexes built out of other complexes, and it would be necessary to inquire into the structures at the different levels. How do changes come about at the different levels, whether the tensions generated at one level are transmitted upwards, downwards or laterally and what happens to these tensions in each of these movements? If the nature of the Indian political system can be articulated clearly, it might provide some clues to such acute problems as the nature and means of national integration, the processes of social and economic growth, the possibilities and limits of the national goals which the country may hope to attain. If uncertainty today characterises the Indian political scene, it might be taken as a hopeful sign. There is a sense of expectancy in the air, an urge to look ahead, be it to something hopeful or something ominous. Gradually the people are being freed, and are freeing themselves from the thrall of the past, yet there could hardly be any people, not even the Chinese, who are so much tied to the past. But anxiety, uncertainty and expectancy are turning their face to the future. In this mood it is impossible for the people to form a solid bond with any political party. The

political history of India or, more accurately, the unpolitical history of India, bears evidence that the people will not yield its trust to a body that is very much ahead of them. If the time for a revolution comes, the people will make the revolution and not a party; hence it will not be a revolution in the traditional sense. It may be a peaceful revolution or even a parliamentary one; on the other hand, it may be merely chaotic.

The slow movement forward of the people, the change in their orientation from the past to the future, the desperate negativism of behaviour, betoken that a profound transformation is under way. The emergence of outspokenly conservative parties and organisations indicates that the movement forward has set in. Forces that are opposed to socialism and are determined to defeat it have not armed themselves to lay a ghost. The election results, in sum, throw light on the political structure in India and, in fact, form its main substance or content. A systematic study of the elections and their relation to political movements could lead us to understand the nature of the Indian political system and to develop a scientific theory of Indian politics.

A Case of Aborted Growth: India, 1860-1900

A Comment

Walter C Neale

DR George Rosen (*The Economic Weekly*, August 11, 1962) argued that whereas some industrial growth occurred in India during the last half of the 19th century—in cotton textiles, jute manufactures, coal mining, and in investment in railways and engineering — the growth was insufficient to increase incomes or the degree of urbanization. He then argued that economic hypotheses alone could explain the failure of industry to "take hold": the absence of internal markets because of low wages and famines, the reduction in artisan incomes when mill-made cloth undercut the rural weavers, and imported machinery of assured quality at little more (and perhaps less) cost than that at which an Indian industry could have produced it are together fully sufficient to explain this period of economic history.

I have no quarrel with this much of the thesis, but from it he derives the conclusion that "one does not need a wide variety of sociological reasons to explain the absence of development in India", and that it is incorrect to argue that "Indians were averse to money-making". My complaint is that the second proposition — aversion to money-making — is not necessary to establish a sociology of underdevelopment, and that the first proposition — logically "sufficient" economic reasons eliminate the need to consider sociological reasons — does not answer the question of whether the sociological causes give rise to the economic causes.

Wrong Equation

The error of equating aversion to money-making, lack of profit motive, other-worldly motivation, absence of a materialist philosophy, and other psychological-philosophical attitudes, to sociological factors would not arouse my ire — and in fairness to Rosen, he does not make the equation, but rather points out that many have — were it not that it is so commonly committed. The sociological point is not that people are different, but that they reason, choose, and act in different environments of which the social structures are important components.

Poverty was and is an important cause of the absence of internal markets; but another contributory factor is the absence of monetization. Absence of monetization can be called economic but has its roots largely in the social systems of *jajman-kamin* relationships, *batai*-and-clientele, and "permanent service". Here the point is that people do not have the monetary means — as opposed to real income — to buy; not that there is no interest in goods or money.

Or take Rosen's statement that for "the higher income group, the larger part of its consumption expenditure was probably on imported consumer goods in the absence of Indian production and *under the influence* of English rulers" (italics mine). Is not this *influence* a compounding of emulation arising from a new *social* hierarchy and from the colonial *political* situation with whatever utilitarian virtues the imported goods provided? One cannot account for this influence by examining costs, profits, risks, and uses alone. One must take account of prestige and power, and this is what those of us who argue "sociologically" wish to see emphasized.

Diffusion of Profit Motive

Another case in point (one which Rosen does not mention, but illustrative of the issue being debated here) is the absorption, as an economic cause, of the "diffusion of the profit motive" when gains must be spread among the membership of an extended family. The motive diluted is economic, but to account for the dilution the analyst must describe the kind of family involved, and a family is not primarily an economic institution.

The heart of Rosen's argument — that good businessmen would not have built large industries in India between 1860 and 1900 — stands. What is not substantiated by his evidence is that his is a satisfying explanation (even if, within the limits of his argument, it is logically sufficient). The conditions underlying the circumstances outlined by Rosen could have been non-economic or "sociological" and if they were — as some of us believe to be the case — then the fuller explanation of abortive growth must be in part non-economic.

Changing Status of Scheduled Castes

Victor S D'Souza

It has been argued, among others by F G Bailey ("Caste and the Economic Frontier"), that while the social status of most castes may change in response to change in their socio-economic conditions, that of the Brahmins at the top and the Scheduled Castes at the bottom of the caste hierarchy is fixed. It follows that whatever the change in occupations or economic standards, the Brahmins cannot come down in social estimation and the Scheduled Castes cannot rise.

However, a re-examination of Bailey's own data and evidence from other studies shows that this may not be true. An attempt is made here to show that the causal connection between social status and socio-economic conditions holds good even in the case of Scheduled Castes.

RECENT studies of caste have established the close correlation between social status usually referred to as ritual status of caste groups and their socio-economic conditions like occupations, wealth, level of living and so on. The higher the socio-economic conditions of a group, the higher is its social status in the caste hierarchy. F G Bailey, in his book on Caste and the Economic Frontier, has demonstrated the causal connection between these variables so that social status of a group is always dependent upon its economic condition which latter may be regarded as the independent variable. Therefore, it follows that in order to improve the social status of a group it is necessary first of all to improve its economic conditions or more generally speaking, its socio-economic conditions.

The Scheduled Castes are characterised by a low, in fact the lowest, social or ritual status in the caste hierarchy, as well as by low socio-economic conditions. The above hypotheses suggest that an improvement in the socio-economic conditions of the Scheduled Castes would automatically raise their social status. But the discussions of social scientists do not assure us on this point. For, it is argued, by Baily for instance, that while the social status of most of the castes may undergo change according to changes in their socio-economic conditions, that of Brahmins at the top and Scheduled Castes at the bottom of the caste hierarchy is fixed. Whatever the change, the Brahmins cannot come down in the social estimation of the people and the Scheduled castes cannot rise. This is presumably because the Brahmins are associated with the most sacred and highly respected occupation of priesthood and the Scheduled castes with the unclean and lowly occupations of sweeping, cobbling, disposal of carcasses etc. If this were so there is every reason for the Scheduled castes and their well-wishers to despair. But a re-examination of Baily's own data and evidence from other studies shows that there is no cause of despair.

Improvement in Economic Condition

As a result of a large number of factors including, primarily, the measures taken by the Government, there has been a noticeable improvement in the socio-economic conditions of the Scheduled Castes. It may take several generations for Scheduled Castes to come up to the level of the higher castes. But studies of Indian communities have shown that in most cases the educational, occupational and economic conditions of the Scheduled Castes are better than those of "other backward classes" who in point of social status are considered to be higher than the former. It is, therefore, instructive to see whether there has been a corresponding improvement in the social status of the Scheduled Castes.

While there have been a great number of studies about the socio-economic conditions of the Scheduled Castes, studies about their social status have been very few and also inadequately conducted, owing perhaps to the vague nature of the subject matter. Such as they are, they provide significant insights into the changing character of the social status of the Scheduled Castes.

In his study, referred to above, of a village in Orissa, Bailey found that the Scheduled Caste termed Boad Outcastes, had made considerable progress in their economic condition. But they had not risen correspondingly in the social estimation of the villagers. Hence Bailey came to the conclusion that in the case of Scheduled Castes the causal connection between caste status and economic status does not hold good.

The social status of a caste is its ranking in the caste hierarchy by its own members as well as by members of other castes. The correlation and causal connection between social status and socio-economic condition would imply that with the relative improvement in the socio-economic conditions of a group its relative ranking in the caste hierarchy would also rise. If this relationship did not hold good in the case of Boad Outcastes, an improvement in their economic conditions would not have brought about any change in the ranking of that group by its own members as well as by others. But the evidence shows that while the other castes did not give a higher status to the Boad Outcastes in spite of their relatively higher economic condition, the latter ranked themselves higher. Thus the social status of the Boad Outcastes in their own eyes had changed in conformity with a change in their economic condition. Therefore, the correlation between social status and economic condition holds good even in the case of Boad Outcastes, although in a partial manner.

Social Tensions : Their Meaning

For the validity of the correlation between social status and socio-economic conditions it is not necessary to show that the two variables invariably change simultaneously. It is possible that while the socio-economic conditions of a group change, certain factors may inhibit the corresponding change in its social status. But according to one of the postulates of social change, uneven change in the correlated variables is always accompanied by social opposition and tension. In the case

of the Boad Outcastes, the change in the variables of social status and economic condition were uneven and they were in fact accompanied by opposition between the Boad Outcastes and the other castes in the village. Baily has dealt with this point in some detail and has pointed out that the Boad Outcastes were trying to sever themselves from the village social structure. The existence of opposition and tension between the Boad Outcastes and the others shows that the social status of the former was responding to a change in their economic condition.

The present author tried to study the relationship between social status and occupational status of Scheduled Castes in an investigation covering three different villages of Gujarat, Maharashtra and Mysore States. In the Gujarat and the Mysore villages the occupational status of the Scheduled Castes was the lowest in their respective villages. They still followed their traditional lowly occupations of cobbling, sweeping and the disposal of carcasses. Correspondingly in the social evaluation of the villagers too they were ranked the lowest. Not only were they so ranked by the other castes but even by themselves. Their relations with the other castes were quite cordial.

Higher than Other Castes

But the situation was different in the Maharashtra village. There the occupational status of Scheduled Castes was higher than that of some other castes in the village. For instance, while the occupational scores for the village as a whole and for the Bhil. Rajput and Vaddar Castes[1] were 521, 685, 700 and 700 respectively, that for the Scheduled Caste of Mahar was 537, the lower score indicating a higher occupational status. The Mahar had also given up their traditional unclean occupations. All this did bring about some change in the attitude of the villagers towards the social status of the Mahar. Although some of the villagers still graded the Mahar lowest in the caste hierarchy, most of them ranked the Mahar either equal to or higher than the Vaddar. All the same the rise of the Mahar in the social estimation of the villagers was not quite commensurate with the improvement in their occupational status.

The effect of the improvement in their occupational status on the Mahars themselves had been phenomenal. They were aware that their improved occupational status had not received adequate social recognition on the part of others and consequently as in the case of the Boad Outcastes they too had reacted by trying to secede from the village social structure. This they had done by renouncing the Hindu religion and adopting Buddhism. When asked to rank the various caste groups in the village, they alone as a group refused to do so on the plea that all groups were equal in prestige. This was no doubt an unrealistic stand — and the Mahars themselves were aware of it in their heart of of hearts — but was the result of the tension existing between them and the higher castes.

Slow Change

On the whole it is clear that as a consequence of the change in their occupational status the social status of the Mahar had begun to undergo a change. But since the change in their social status was not commensurate with that in their occupational status, social opposition and tension has arisen in their relations with the other castes.

It is therefore, not necessary to hypothesise that the social positions of the Brahmins and the Scheduled Castes are rigidly fixed at the opposite extremes of the caste hierarchy. No evidence has been adduced so far to prove the fixed position of Brahmins although Brahmins have always been ranked the highest in the caste hierarchy by social scientists and others on a priori grounds. In practice the Brahmins are not given the highest status by virtue of their association with the occupation of priesthood, for the priest in India is no longer rated the highest in social prestige.[2] At any rate most Brahmins no longer follow their traditional occupations. Wherever Brahmins are ranked topmost in the caste hierarchy, it is because of the prestige of the occupations which they now follow. There are instances where Brahmins as a group are superseded in their occupational status by other groups and in such cases the Brahmins are in fact ranked lower in conformity with their occupational status.[3]

Impact of Tradition

However, the studies on social grading of occupations in India show that the traditional occupations of the Scheduled Castes are still ranked the lowest. A significant proportion of the members of these castes still follow their traditional occupations. Consequently even when some of the members have secured higher occupations, the community at large in the beginning is apt to evaluate the Scheduled Castes in terms of the prestige of their traditional occupations rather than that of the new ones. Even when the Scheduled Castes completely give up their traditional occupations it will take quite some time for people to forget their past association with those occupations. Thus there is likely to be an element of time lag in the change of social status of the Scheduled Castes in response to a change in their occupational status. The association of the Scheduled Castes with the lowest types of occupations would appear to inhibit to some extent the normal consequence of the change in their occupational status.

This is a plausible explanation of the observed uneven change in the variables of Caste Status and occupational status of Scheduled Castes. But the fact remains that the correlation and causal connection between social status and socio-economic conditions holds good even in the case of Scheduled Castes.

[1] The Bhil are a group of tribal origin, the Rajput are traditional warriors now reduced to the status of agricultural labourers in the village and the Vaddars are a group included in the category of Backward Classes. In the traditional caste heirarchy all these groups were ranked higher than the Scheduled Castes.

[2] The present author conducted two investigations of social grading of occupations, one by University students and the other by villagers. In both cases priests secured a rank lower than some other occupations. For instance, the villagers renked priests only fourth after the occupations of owner cultivator, tenant cultivator and teacher in that order.

[3] This is shown in the present author's study on "Caste Status and Occupational Status" as yet unpublished.

National Accounts of India
1958-59 and 1959-60

K N C Pillai

It has not been possible to construct a complete set of National Accounts for India as some of the essential aggregates such as capital formation, savings and consumer expenditure have not been estimated with accuracy.

Recently the Central Statistical Organisation has brought out certain tentative estimates of gross capital formation consistent with the proposed revised series of national income estimates contained in the "National Income Statistics — Proposals for a Revised Series of National Income Estimates for 1955-56 *to* 1959-60".

Utilising these estimates of gross capital formation and the proposed revised series of national income, an attempt has been made here to construct a set of National Accounts.

It has not been possible to draw up the complete set of National Accounts recommended by the U N. However, keeping the standard system of National Accounts in view, the set of National Accounts presented in the First Report of the National Income Committee has been elaborated to the extent possible.

THE National Accounts provide a systematic record of the economic activity of a country during a given period by classifying all economic transactions taking place within that country or between it and other countries into relevant groups (flows) and by presenting these flows in a system of accounts and tables which facilitates the understanding of the statistical relationships among these flows.

"Even a simple inspection of the figures, for a given year or over a period of time, yields information on certain structural properties of the economy which is a useful, if not essential, background for public policy formulation. For instance, it is relevant to know what part of the total product of an economy is devoted to consumption as opposed to capital formation; the extent to which the economy is dependent on foreign trade; and the part which is played by foreign aid in providing the goods and services absorbed by the economy; the relative amounts of production originating in various industrial sectors such as agriculture, manufacturing and trade; the extent and the manner in which different parts of the economy make saving available for capital development; and other pieces of information of a similar kind. Useful conclusions can be derived from such factual information without any elaborate analysis. Even a rough quantitative picture of the economy is valuable for many administrative purposes and for this reason National Accounting Studies should be undertaken even if in the short run they cannot be expected to attain a high degree of quantitative precision". ("A System of National Accounts and Supporting Tables", U N Series F, No 2.)

Table 1 : Domestic Product Account

(*Rs abja*)

	1958-59	1959-60		1958-59	1959-60
1. Domestic product accruing to			5. Current expenditure on commodities and services		
1.1 private sector (13)	120.2	123.3	5.1 private (10)	107.2	109.0
1.2 govt sector (22)	1.1	1.2	5.2 government (18)	9.5	10.3
1.3 total	121.3	124.5	5.3 total	117.7	119.3
2. Provision for fixed capital consumption	8.3	8.7	6. Gross domestic fixed capital formation		
			6.1 private (27.1)	14.6	13.1
3. Indirect taxes			6.2 public (27.2)	6.9	9.7
3.1 taxes	8.1	8.9	6.3 total (27.3)	21.5	22.8
3.2 miscellaneous fees	0.8	0.7	7. Increase in stocks		
			7.1 private (28.1)	2.4	2.4
3.3 total (24)	8.9	9.6	7.2 public (28.2)	1.2	0.1
			7.3 total (28.3)	3.6	2.5
			8. Exports of goods and services (32)	7.2	7.7
4. *Less* subsidies (19)	—0.5	—0.5	9. *Less* Imports of goods and services (35)	11.0	10.0
Gross domestic product at market prices	138.0	142.3	Expenditure on gross domestic product	138.0	142.3

Table 2 : Private Appropriation Account

	1958-59	1959-60		1958-59	1959-60
10. Consumption expenditure (5.1)	107.2	109.0	13. Income from domestic product (1.1)	120.2	123.3
11. Direct taxes (25)	3.6	3.7	14. National debt interest (23)	0.6	1.0
12. Private savings (30.1)	11.8	13.7	15. Earned income from abroad (33)	—0.2	—0.2
			16. Current transfers to household (20)	1.6	1.9
			17. Net current transfer payments from abroad to private sector (34-36-26)	0.4	0.4
Disposal of Private income	122.6	126.4	Private income	122.6	126.4

Estimate of Capital Formation

So far as India is concerned, it has not been possible to construct a complete set of National Accounts as some of the essential aggregates such as capital formation, savings and consumer expenditure have not been estimated with accuracy. The First Report of the National Income Committee presented a simplified set of National Accounts where the items consumer expenditure, provision for depreciation, private capital formation and private saving were depicted by symbols only. Recently the Central Statistical Organisation has brought out certain tentative estimates of gross capital formation consistent with the proposed revised series of national income estimates contained in the "National Income Statistics — Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60". Utilising these estimates of gross capital formation and the proposed revised series of national income a set of National Accounts has been constructed which is presented in this note. It has not been possible to draw up the complete set of National Accounts recommended by the U N in their "A System of National Accounts and Supporting Tables". However, keeping the standard system of National Accounts in view, the set of National Accounts presented in the First Report of the National Income Committee has been elaborated to the extent possible.

The estimates of national income used in the National Accounts presented here relate to those published in the "National Income Statistics — Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60". Detailed Accounts of public authorities have been presented in this report only for the two years 1958-59 and 1959-60 and consequently it has been possible to construct the present set of National Accounts only for these two years. The estimates of fixed capital formation and depreciation provision have been taken from the "National Income Statistics — Estimates of Gross Capital Formation in India for 1948-49 to 1960-61" brought out by the C S O. These estimates of gross capital formation and the revised series of national income are yet to be finalised and on their finalisation the set of National Accounts presented here will have to be appropriately revised.

The Different Accounts

The first Account which is the domestic product Account derives the gross domestic product at market prices and presents the use of gross domestic product for current consumption and capital formation purposes. In Table 1 the estimate of current expenditure on commodities and services in the private sector has been derived as a residual. The enterprises and the households and non-profit institutions have been combined together and the appropriation Account of this combined private sector is presented in the next Account. In this Account the disposal of private income is shown and the estimates of private savings have been derived as a residual. The capital reconciliation Account has been consolidated for the private and government sectors and the savings of the private and government sectors are carried to this consolidated capital reconciliation Account. The current and capital reconciliation Account of the rest of the world sector are also presented here. It will be seen that in this articulated system of Accounts each individual credit entry has a corresponding identical debit entry elsewhere in the system.

The set of Accounts presented here, it will be seen, is short of the standard system of National Accounts recommended by the U N in as much as

(i) the Account II relating to distribution of national income by factor shares has not been presented in the present series,

(ii) the distinction between enterprises and households including private non-profit institutions has not been shown, and

(iii) the capital reconciliation Account for the private and government sectors have been combined.

At a later stage when the necessary details become available it would be possible to remove these limitations also.

Some of the conclusions emerging from the Accounts presented in this note may be briefly mentioned here. The gross domestic fixed capital formation accounts for Rs 2,150 crores in 1958-59 (or 15.6 per cent) out of a total expenditure on gross domestic product of Rs 13,800 crores. Of this nearly one-third is accounted for by the public sector. The disposable private income works out at Rs 11,900 crores in 1958-59 and of this 90 per cent is consumed leaving the share of savings at 10 per cent. From the consolidated capital reconciliation Account it will be seen that the gross domestic capital formation of Rs 2,510 crores in 1958-59 is financed to the tune of Rs 1,350 crores from internal savings and from borrowing from abroad to the extent of Rs 330 crores.

Table 3 : Government Appropriation Account

	1958-59	1959-60		1958-59	1959-60
18. Consumption expenditure (5.2)	9.5	10.3	22. Income from property and enterpreneurship (1.2)	1.1	1.2
19. Subsidies (4)	0.5	0.5	23. *Less* national debt interest (14)	0.6	1.0
20. Current transfers to household (16)	1.6	1.9	24. Indirect taxes (33)	8.9	9.6
21. Saving (30.2)	1.7	1.1	25. Direct taxes (11)	3.6	3.7
			26. Net current transfers from rest of the world (34-36-17)	0.3	0.3
Disposal of current revenue	13.3	13.8	Current revenue	13.3	13.8

Table 4 : Consolidated Capital Reconciliation Account

	1958-59	1959-60		1958-59	1959-60
27. Gross domestic fixed capital formation			29. Provision for fixed capital formation (2)	8.3	8.7
27.1 private (6.1)	14.6	13.1	30. Saving		
27.2 public (6.2)	6.9	9.7	30.1 private (12)	11.8	13.7
27.3 total (6.3)	21.5	22.8	30.2 public (21)	1.7	1.1
28. Increase in stocks			30.3 total	13.5	14.8
28.1 private (7.1)	2.4	2.4	31. Net capital * transfers from rest of the world		
28.2 public (7.2)	1.2	0.1	31.1 private (39.1)	—0.1	—0.1
28.3 total (7.3)	3.6	2.5	31.2 public (39.2)	3.4	1.9
			31.3 total	3.3	1.8
Gross domestic capital formation	25.1	25.3	Finance of gross domestic capital formation	25.1	25.3

Table 5 : Rest of the World — Current Account

	1958-59	1959-60		1958-59	1959-60
32. Exports of goods and non-factor services (8)	7.2	7.7	35. Imports of goods & non-factor services (9)	11.0	10.0
33. Net factor income from rest of the world (15)	—0.2	—0.2	36. Current transfers to rest of the world (34—17—26)	0.2	0.2
34. Current transfers from rest of the world (17+26+36)	0.9	0.9	37. Surplus of the nation on current account —(38)	—3.3	—1.8
Current receipts	7.9	8.4	Disposal of current receipts	7.9	8.4

Table 6 : Rest of the World — Capital Reconciliation Account

	1958-59	1959-60		1958-59	1959-60
38. Deficit of the nation on current account —(37)	3.3	1.8	39. Net capital transfers from the rest of the world *		
			39.1 private (31.1)	—0.1	—0.1
			39.2 public (31.2)	3.4	1.9
total	3.3	1.8	total	3.3	1.8

* Including net borrowing from abroad.

Around Bombay Markets

Share Dealings on Cash Basis

Thursday, Morning

THE feeling of despondency continues to pervade the stock market which has been hard hit by the severe slump in equities following the Chinese aggression. Quite a large number of stockbrokers are said to have suffered sizable losses partly on their own and partly because of their clients' failure to meet their obligations. But it is not these losses that the brokers are really worried about. Far more disturbing is the poor prospect of business in the foreseable future. Business has been virtually at a standstill since 5th November and there is no knowing yet when the market will be permitted to resume forward dealings which provide the mainstay for the Bombay market. Even at its best, cash business is only a small percentage of the turnover in cleared securities.

Official warnings and the penal margins on short sales have brought about a welcome reduction in the volume of outstanding business. About 75 per cent of the outstanding sales are now said to be in the nature of hedge or against 'vyaj budli'. How to settle this business is the market's big headache at present. The difficulty could be overcome to a very large extent if the Life Insurance Corporation could be persuaded to purchase the securities, which are acting as a big drag on the market, at around the minimum prices fixed by the stock exchange authorities. Century, National Rayon, Indian Iron and Tata Steel are said to account for the bulk of the outstanding business in the market and they are not saleable at the minimum prices

Relaxation in Trading

The governing board of the Bombay Stock Exchange decided on 28th November to permit trading with immediate effect in all cleared securities except these four leading speculative counters — Century, National Rayon, Indian Iron and Tata Steel — on a cash basis without prior permission of the President. Business in 10 cleared securities had already been permitted on a spot delivery basis from 16th November. The relaxation in trading has been made in view of the fact that the outstanding business has been reduced substantially and a measure of security has returned to the market because of the prevailing lull in the political situation.

The decision to permit trading on a cash basis is welcome in that it will enable genuine holders to dispose of their investments should they be in need of funds. Of course business will not be permitted below the minimum prices. The stock market is in for a difficult period. How difficult, it is not possible to forecast because a great deal depends on the unpredictable political situation. As Shri J R D Tata has rightly pointed out in his statement to the shareholders of the Investment Corporation of India, until the situation on the country's northern frontiers becomes clearer and the fiscal, monetary and other measures which Government may promulgate in pursuance of the war effort become known, it is impossible to estimate the full impact that such factors might have on the economic trends in the country.

Bullion

Wanted Action, Not Words

IN the nervousness which followed the Finance Minister Desai's statement that the Government was considering further steps to bring down the price of gold and that its ultimate aim was to fall in line with other countries where private possession of gold in large quantities was not allowed, spot gold was marked down to a new low of Rs 85 on 21th November. But thereafter the market developed a distinctly steadier sentiment and the quotation for gold recovered to Rs 94.50 per 10 grams. More significant than the recovery in prices was the marked revival of buying inquiries. Most market men feel that all the anxious selling is perhaps over and that the price of gold might not fall below Saturday's low of Rs 85 unless the Government actually takes further steps to bring down prices. As a matter of fact,

none of the measures taken by the Government so far is really of a bearish character. If the Finance Minister thinks that he can produce a further big decline in the price of gold — Rs 70 a tola will probably remain a dream — and make the price stay at the lower level for a long time merely by holding the threat of further drastic measures without backing it up with action, he is sadly mistaken.

Strict control of spot dealings also, though very desirable, cannot, by itself, push down prices; it can only help keep a check on smuggling activity. Smuggling is likely to shrink to small proportions if the price of gold stays around Rs 85 because it is not possible to obtain gold in large quantities in world markets at the international price of Rs 53.58 (per 10 grams). Nor can the Indian rupees be exchanged for pound sterling and the U S dollar at the official exchange rates —the rupee is quoted at a heavy discount in the unofficial exchange market which is far more active that the official exchange market. If the market is deprived of the supply of smuggled gold, prices are bound to develop an upward trend in due course of time if the Government does not take strong measures which affect the demand for gold. For too long has the Government been flirting with the idea of mobilising the country's vast gold hoards for productive purposes. Notwithstanding the various concessions, the response to the gold bonds does not seem to have been encouraging. The idle gold hoards cannot be mobilised without some sort of confiscatory measures which are implied in the Finance Minister's statement about falling in line with other countries where private possession of gold is discouraged. The sooner the Government acts the better. It should not be difficult to devise a scheme under which all the buying and selling of gold is done through a centralised agency and the supply of gold is strictly rationed for marriages and other social customs, with the quota varying with the financial position of the party concerned.

Silver developed further weakness last week and despite the week-end recovery, prices showed sizable net losses. The quotation for Magsar (3) contract which had been marked down from Rs 204.10 to Rs 191.80 recovered later to Rs 196.25 and the spot material was generally quoted at a discount ranging between Rs 4 and Rs 2.75 a kilogram. The decline in futures led to the imposition of margin and two special clearings — all within three days. The ban on forward trading in gold has led to a marked increase in speculative activity in silver. It bears repetition that the case for banning speculation in silver is even stronger than that of gold because of the comparatively small volume of floating stocks. Will the authorities explain why they have kept open the futures market in silver while prohibiting forward *dealings* in gold ?

Cotton

Futures Hit New Low

THE smart rally in cotton futures which followed the surprise announcement of a cease-fire by China proved to be an extremely short-lived affair. Jarilla March had recovered from Rs 703 to Rs 721.25 (per 3 quintals) within just two days. But the subsequent fall was even more precipitous as the contract was down to a new low of Rs 700.50 in the next two days. And it moved further down to Rs 694.75 by the week-end and Wednesday's closing was only a little higher at Rs 696.75 — a net loss of Rs 20 over the week. The downward trend in cotton futures is more than a mere seasonal phenomenon. A record crop of 54 lakh to 56 lakh bales, prospects of large supply of U S cotton under P L 480, continued poor off-take of cloth which has led to the accumulation of large stocks with the mills — the October-end figure of 431,900 bales (of 1500 yards each) is a record high for a year-growing monetary stringency, Government's determination to hold the price line, and increased liquidity preference because of the political uncertainty — all these factors have contributed to the recent decline in cotton prices.

Trading sentiment near the week-end was also affected by the Government of India's decision banning forward trading in kapas (unginned cotton) throughout the country with immediate effect and the closure of all outstanding transactions at the rate prevailing at the close of business on 26th November. There is no regulated futures market in 'kapas' but business goes on freely in various upcountry centres. From the point of view of marketing of the crop, the futures market in 'kapas' is probably more important than the officially recognised futures market in cotton. Of course there is no sense in having a futures market when prices tend to keep at or above the statutory ceiling for the simple reason that the problem in such a situation is not one of marketting the crop but that of securing supplies at the controlled prices. Besides, hedge trading loses much of its meaning when the structure of the contract is so devised as to give it a distinctly bearish character. It is an open secret that as a hedge contract the present Indian cotton contract is quite useless.

Supervisory Scheme Challenged

To come back to the market story, cotton prices have suffered quite a substantial decline over the past few weeks. But this setback only brings the futures contract close to its previous season's high of Rs 693 — a ceiling which had been in existence for nearly a decade. In ready, it is only the unofficial premiums above the revised ceilings which have disappeared. Most varieties are quoted at or slightly below the revised ceilings — Rs 105 per 3 quintals higher than in the previous season. Arrivals are gradually increasing while mills continue to restrict their purchases to their minimum requirements. Turnover remains poor.

With prices inclined to drift lower, the trade is becoming increasingly critical of the supervisory scheme which has been introduced this season. And a prominent cotton merchant from Tirupur has already filed a petition in the Bombay High Court challenging the validity of the appointment of supervisors by the Textile Commissioner for the marketing of cotton. The petitioner has contended that the supervisory scheme is "bad, invalid, arbitrary, illegal and without authority" and without or in excess of jurisdiction vested in the Textile Commissioner. The petitioner has submitted that the scheme has the effect of eventually bringing about a monopoly in favour of a number of business houses whose names have been approved as supervisors. The scheme is said to be palpably discriminatory. The petitioner has contended that the supervisory scheme has unlawfully deprived him of valuable rights and is an unreasonable restriction on his right to carry on trade and business guaranteed under the Constitution. The Court has directed that the petition is to be returnable for hearing on 3rd December. The Textile Commissioner and the Government of India are the respondents.

Imports and P L 480

The long-awaited announcement about the supply of U S cotton under P L 480 has at last been made. The U S has agreed to supply India 3.75 lakh bales (400 lbs each) of long staple cotton under P L 480. A purchase authorisation enabling India to obtain this cotton from the U S is expected to be issued shortly. Reliable sources think that this allocation will soon be followed by the release of a further sizable quantity to enable India to step up cloth output for meeting the defence requirements. Encouraged by improved prospects of getting large quantities of U S cotton, the Government has announced a sizable cut in the allocation of global cotton quota of 1.75 lakh bales announced in August with a view to save foreign exchange. There will be a 25 per cent cut in respect of cotton stapling 1-3/16" and above and 45 per cent in the case of cotton stapling 1-1/16" and above but below 1-3/16". The cut will not apply to (1) specific quotas issued by the Textile Commissioner to meet defence requirements, (2) retention quotas issued under the export promotion scheme and (3) licences already issued on the basis of applications submitted. The cut now made will, however, be made good as far as possible from future imports of foreign cotton or staple fibre. The Textile Commissioner does not guarantee that the deficit will be made good in the same staple length. If the mills have paid premium in excess of that due to be paid as a result of the above cut, the same will be refunded or adjusted against future quotas by the Indian Cotton Mills' Federation.

Oilseeds

Prices Ease Further

OILSEEDS prices recorded a sharp drop after the smart rally following the dramatic announcement of a cease-fire by China. The January contract in groundnut which had recovered from Rs 213.12 to Rs 221.75 (per 250 kilograms) fell to a new low of Rs 212 by the week-end and Wednesday's closing was not much higher at Rs 213.37. Linseed March which had been bid up to Rs 38.44 (per 50 kgs) were down again at Rs 37.25. Cottonseed January moved down from Rs 101.50 to Rs 95.50 and castorseed March eased from Rs 165.87 to Rs 161.25. Groundnut continued to monopolise speculators' attention. The sharp break in groundnut was caused by persistent upcountry selling because of the steady increase in the flow of new crop arrivals. Growers and merchants appear to be very anxious to dispose of their goods in view of the grave political situation. Liquidity preference seems to have considerably increased with political uncertainty. Monetary stringency is mentioned as another importent reason for the rush for marketing the produce. Linseed and castorseed are drifting lower mainly in sympathy with groundnut. The general feeling in the market is that oilseeds prices will continue to drift lower for some time with occasional technical rallies now and then. Of course quite a good deal will depend on the developments in the political situation.

Expeller Quota Ill-timed

The Government of India's decision releasing an export quota of 26,500 tons of groundnut expeller cake is both unwise and ill-timed. There is no meaning in sanctioning an export quota for expeller cake when extractions are doing extremely well and they are fetching attractive prices — record high for a few years. Overseas demand for Indian groundnut extractions continues to be very good and exports this year are expected to set a new all-time record. The U K which has been the chief buyer in recent weeks was reported to have purchased further sizable quantities of groundnut extractions last week and it paid up to £38-10 per ton for November shipment, £38 for December and £37-5 for January position. With soya meal quoted substantially higher, the outlook for Indian groundnut extraction is considered to be quite promising, though it is quite likely that the overseas buyers may reduce their quotations in view of the distinctly easier tendency in groundnut prices here. While groundnut extractions are saleable around £38, the overseas quotation for expeller cake is mentioned 10 shillings lower. However, since the export quota for expellers cake is small, it will not have any important bearing on the export prospects for extractions. Export business put through in linseed cake last week was reported to be very small and the price was mentioned around £38-10 per ton. Business in castor oil was also poor; the U K was reported to have purchased 300 to 400 tons during the week. The U S buyers have continued to keep off the Indian market throughout the year.

Barium Chemicals

THE first Report of the Directors of Barium Chemicals, New Delhi, up to June 30, 1962 shows that the Company has obtained possession of about 30 acres of land at Kothagudem, Andhra, for setting up its factory for the manufacture of barium compounds. The civil engineering works connected with the project are now in hand. Letters of credit for the import of machinery have been opened and orders for the indigenous equipment placed.

The factory is expected to go into production in the latter half of 1963. In the meantime, the Company has secured an *ad-hoc* licence for the import of barium salts of the value of Rs 10 lakhs from East Germany, and has opened letters of credit against firm orders.

During the period ended June 30, 1962, the Company has earned by way of interest, less tax, Rs 14,108 againt an expenditure of Rs 2,38,517. The difference of Rs 2,24,409 is treated as expenses during construction and capitalised along with other items of expenses not written off, all of which amount to Rs 5,81,601.

Company Notes

Tata Iron and Steel

THE Report of the Directors of Tata Iron and Steel for the year ended March 31, 1962 throws much useful light on the operation of private steel companies in general.

In the case of the Tatas, after the new plant went into full operation in 1959-60, the large expansion in production during 1960-62 and the corresponding increase in the gross revenues have not been followed by a proportionate increase in net profits.

During the year, the production of iron (hot metal) has gone up to 1.65 million tonnes (1.59 million tonnes), of steel ingots to 1.64 million tonnes (1.62 million tonnes) and of saleable steel to 1.32 million tonnes (1.26 million tonnes). The output of saleable steel has reached only 87 per cent of the target of 1.5 million tonnes, the shortage being attributed to the poor quality of raw materials and transport difficulties. The iron ore output has fallen by 170,000 tonnes to 2,104,000 tonnes. Sales less rebates during the year have recorded an improvement to Rs 8611 lakhs (Rs 7911 lakhs).

The profits of the Company, after including Rs 279 lakhs being adjustment in retention prices for the previous year and after providing Rs 1315 lakhs for depreciation have amounted to Rs 609 lakhs (Rs 567 lakhs). To this were added Rs 34,000 being the balance brought forward from the previous year and Rs 69.1 lakhs drawn from General Reserve No. 2 to make up Rs 678.34 lakhs. Of this, a sum of Rs 678 lakhs allocated to the Development Rebate Reserve and Rs 34,000 are carried forward.

Owing to the inadequacy of the profit, the Directors have drawn Rs 465 lakhs from General Reserve No. 1 (taxed profits of previous years) to pay dividend, subject to tax, at Rs 9 per share on First Preference shares, Rs 7.50 per share on Second Preference shares and Rs 10.36 (Rs 7.25 net) per Ordinary share. The dividend on Ordinary shares has been declared as *ad interim*, but no final dividend is proposed.

The Report has drawn the attention of the shareholders to some important points in the accounts. As the element of depreciation included in the revised retention prices has been reduced from 6¼ per cent to 5 per cent on the gross block, provision for depreciation has been made at this rate and so the allocation on this account is lower at Rs 763 lakhs (Rs 907 lakhs). However, an additional provision of Rs 553 lakhs has been made to make up the total amount allowable under the Income-tax Act. This brings the total depreciation provision to Rs 1315 lakhs (Rs 1392 lakhs). The statutory allocation to the Plant Rehabilitation and Development Rebate Reserve is Rs 678 lakhs being the full amount admissible for income-tax purposes. No provision has been made for any interest payable on the Special Advance from Government as the retention prices do not include any allowance for this purpose.

The Company has repaid Rs 5.4 crores to the World Bank according to the terms of the loan agreement. This brings the outstanding loan of the World Bank to Rs 40.3 crores. Other bank deposits of the order of Rs 1.3 crores were also paid off during the year. Total borrowings have thus come down to Rs 54.1 crores (Rs 59 crores).

The lower retention price for steel will seriously affect the Company's ability to finance the programme to double the coal output in its Jharia field undertaken at the instance of Government. The whole cost of the programme will have to be met from borrowings, including a further loan from the World Bank.

A fresh issue of capital to enable the Company to repay a part of the Special Advance is, according to the Chairman, unthinkable in the present circumstances, having regard to the additional share capital of Rs 21 crores issued in 1955, the limitations imposed by the retention prices fixed by Government on the Company's ability to pay adequate dividends even on the existing share capital and the conditions in the share market. The Company is said to have made a representation to the Government protesting against the retention prices and disagreeing with Government's views on the question of a further issue of capital.

Shri Tata has pleaded for a realistic appraisal of the conditions under which the steel industry is operating in the country. The company requires about 2.4 million tons of washed coal. As against this, the Company's present sources of supply are insufficient, and the expected supplies from Government's washery is not expected to be forthcoming in time. The Directors are, therefore, examining the possibility of expanding the Company's colliery in Jharia. A well-known firm of American consultants is entrusted with the work of surveying the project.

The shareholders are informed that the Company proposes to form 2 new companies with foreign collaboration. The first, Tata-Robins-Fraser, will be formed in collaboration with Associated Cement Companies Ltd, Hewitt-Robins Inc, U S A, and Fraser & Chalmers Engineering Works of G E C, U K, with the object of manufacturing materials handling and processing equipment such as conveyors, crushers etc, and supplying engineering services such as designing and installation of conveyor systems. The Company will have initially an issued capital of Rs 60 lakhs in which TISCO will hold 31 per cent, ACC 20 per cent and the American and British partners the rest in equal proportions. The machinery to be manufactured and engineering services to be provided will be of vital importance to coal, steel, cement and other industries. Tata-Robins-Fraser will be located at Jamshedpur.

The other company to be formed will be known as Metal Profiles of India Ltd, and will manufacture cold rolled sections used in building, automobile and mechanical handling equipment industries. The collaborators are Stewarts & Lloyds and Metal Trim, U K. This Company will issue initially a capital of Rs 17 lakhs in which, subject to the approval of Government, TISCO will hold 40 per cent, Metal Trim 33 per cent and Stewarts & Lloyds 27 per cent.

Dharamsi Morarji Chemical

DHARAMSI Morarji Chemical has several schemes to expand the scope of their activities. Chief among these schemes is the manufacture of Boron products such as Borax and Boric Acid in collaboration with the well-known British firm, Borax (Holdings), which controls 70 to 80 per cent of the world's Borax deposits and is the biggest producer of Borax in the world with a business network spread over the U K, France, Spain, Australia, the U S A and Latin America.

The British firm also meets 80 to 90 per cent of India's requirements of Boron products. India's requirements of Borax which is a vital raw material for a number of industries such as glass, enamels, porcelain, etc, and which provides micro-nutrient requirements of agriculture in the form of Boron, are at present entirely met through imports. Import of Boron products last year totalled about 9,000 tons valued at Rs 65 lakhs. Demand for these products is expected to rise appreciably in the next few years.

Dharamsi Morarji Chemical has put up jointly with the collaborators an application to manufacture 17,000 tons of Borax and 3,000 tons of Boric Acid per annum. The scheme envisages an annual turnover of about Rs 2 crores. Dharamsi Morarji Chemical will have a substantial stake in the new venture involving an outlay of about Rs 60 lakhs, and will also supply large quantities of sulphuric acid and steam for the venture.

It is proposed to set up a new company under the title Borax-Morarji. The foreign collaborators have agreed not to charge any fee or royalty for the supply of technical know-how. Besides supplying the plant and equipment, the foreign collaborators will also make cash subscription to the equity capital of the new company. The proposed plant will be located at Ambernath and will go into production in about 15 months from the date of approval by the Government of India. It is estimated that the scheme is likely to result in a saving of 30 per cent of the foreign exchange expenditure on import of these products.

Dharamsi Morarji Chemical is also going ahead with its scheme of expanding the manufacture of Sulphuric Acid. A new Sulphuric Acid plant at the Ambernath Works with a production capacity of 300 tons per day is expected to go into operation by the end of next year. The company has secured a license for expanding its production of Aluminium Sulphate at Raipur to 50 tons a day. This production will be achieved by the end of 1962. The Ambernath Works is already licensed to produce 100 tons per day of Aluminium Sulphate.

Dharamsi Morarji Chemical has also been active in the field of manufacture of Superphosphate Fertilisers. The Ambernath factory is running at full capacity and the Raipur unit which was commissioned last year has fast picked up production. According to present indications, the production of Superphosphate at the Ambernath and Raipur factories in the current year is expected to be 90,000 tons as against 65,000 tons last year.

The company has recently received official permission to make a rights issue of Rs 10 lakhs at par and the question of timing the issue is being considered by the Board of Directors.

The Rs 7 crore Dharamsi Morarji-Khatau-Montecatini Project for the manufacture of explosives, fuses and detonators has almost reached the final stage of Government's approval. The technical and financial collaboration for the project is to be provided by the well-known Italian firm of Montecatini. The proposed plant which is being jointly put up by Dharamsi Morarji Chemical and Khataus in collaboration with Montecatini will have a capacity of 6,000 tons of Nitro-Cellulose, 10 million Coils of Safety Fuses and 50 million Detonators. To implement the project, a new company with an equity capital of Rs 3 crores is proposed to be floated. The foreign collaborators and Indian promoters will each provide 33 per cent of the equity capital and the balance will be offered for public subscription.

Assam Sillimanite

ASSAM Sillimanite has reported higher sales during the year ended March 31, 1962, at Rs 26.38 lakhs as against Rs 25.26 lakhs in the previous year. The production at the mine amounted to 7974 tons (7540 tonnes). The profits of the Company before providing for taxation amount to Rs 4.23 lakhs (Rs 2.94 lakhs). After making a provision of Rs 2.20 lakhs (Rs 1.35 lakhs) for taxation, the Directors have allocated Rs 1.80 lakhs (same as last year) for dividend to be paid at 5 per cent which is lower by 1 per cent on account of the increase in the nominal value of the share entitled to participation in profits from Rs 30 lakhs to Rs 36 lakhs by the issue of rights shares since the end of the last financial year.

The Directors report that the Company has under an agreement with the International Finance Corporation, Washington, received the sum of $ 873,523 (Rs 41.30 lakhs) to finance the foreign exchange cost of plant and machinery for the first stage of its refractory project. Orders for the plant and machinery have been placed.

The Sino-Indian border conflict was not without its effects on the Company. Some of the transport vehicles of the Company have been requisitioned. And as the strike of the Joint Steamer Company in East Pakistan continues, transportation of sillimanites from Assam is stopped.

Looking into the Company's future working, the Chairman indicated that the Company's expenses on mining and transportation will continue to increase, but it would not be able to pass on the enhanced cost to buyers owing to competition. Demand for sillimanite in the home market is gradually expanding. Exports, however, provide the bulk of revenue. In future it is proposed to export not only raw materials but also finished products for which there has arisen a demand from foreign buyers. This may enhance the present earnings of the Company three to four times.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Nov 23	Nov 16	Oct 26	Nov 24 '61
1 Note circulation	2067.90	2077.26	2049.22	1902.67
2 Rupee coin	123.86	121.97	122.82	124.66
3 Deposits				
(a) Central Govt	65.32	60.77	51.01	49.39
(b) Other Govts	5.71	7.06	9.85	22.36
(c) Banks	83.17	92.89	80.70	84.12
(d) Others	163.45	162.36	161.05	149.13
4 Foreign securities	88.08	88.08	88.08	116.86
5 Balance abroad	6.06	5.14	4.49	28.98
6 Rupee securities	1753.29	1763.29	1738.29	1558.84
7 Investments	203.33	194.12	143.25	205.19
8 Loans and advances to Govts	42.42	43.79	43.59	66.46
9 Other loans and advances	148.18	148.97	153.59	129.58
Scheduled Banks	**Nov 16**	**Nov 9**	**Oct 19**	**Nov 17 '61**
1 Aggregate deposits (net)	2044.50	2044.08	2057.38	1804.39
Demand (net)	799.68	810.19	814.00	720.37
Time (net)	1244.82	1238.88	1243.39	1084.02
2 Cash in hand	49.77	50.61	52.69	50.21
3 Balance with Reserve Bank	84.75	76.84	84.53	75.81
4 (2) + (3) as % of (1)	6.58	6.24	6.67	6.98
5 Borrowings from Reserve Bank	2.46	3.96	1.76	4.93
(a) Against usance bills and/or promissory notes	0.41	2.32	0.90	2.21
(b) Others	2.05	1.64	0.86	2.72
6 Advances	1153.23	1172.63	1169.14	1036.27
(a) State Bank	240.90	252.87	251.66	226.84
(b) Others	912.33	919.76	917.48	809.43
7 Bills dicounted				
(a) Inland	162.72	163.86	157.17	141.53
(b) Foreign	51.88	53.51	49.40	46.71
(c) Total	214.60	217.37	206.57	188.24
(i) State Bank	17.02	16.69	12.81	15.35
(ii) Others	196.58	200.68	193.76	172.89
8 (6) + (7c) as % of (1)	66.90	68.00	66.87	67.86
9 Investment in Govt Securities	684.75	683.61	697.13	607.09
10 (9) as % of (1)	33.49	33.44	33.88	33.65
Cheque clearance	**238.82**	**241.27**	**227.23**	**224.08**

Bombay Money Rates

(Per cent per annum)

	Nov 16	Nov 19	Oct 19	Nov 17 '61
Call money from Banks	4.00	3.77	3.05	4.23
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Nov 29	Nov 22	Nov 1	Dec 1 '61
Gold (per 10 grams)				
Spot	98.25	94.25	120.00	122.55
Silver (per kilogram)				
Spot	194.70	197.00	224.50	222.55
Forward	196.70	201.00	225.50	213.25

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year Ending March 1953 = 100)

Group and Sub-group	Sept 1961	August 1962	Sept 1962	% increase (+) or decrease (—) in Sept '62 as compared with Sept '61
Food Articles	**121.1**	**131.5**	**130.0**	**+ 7.3**
Cereals	103.4	109.5	109.4	+ 5.8
Pulses	89.2	113.0	111.3	+24.8
Fruits & Vegetables	148.3	146.5	129.2	—12.9
Milk and Ghee	116.9	133.0	126.5	+ 8.2
Edible oils	153.3	159.4	158.6	+ 3.5
Fish, Eggs & Meat	136.6	149.1	155.3	+13.7
Sugar & Gur	123.9	151.2	154.6	+24.8
Others	173.1	171.0	172.5	— 0.3
Liquor & Tobacco	**99.7**	**99.2**	**99.8**	**+ 0.1**
Tobacco	96.2	95.7	96.3	+ 0.1
Fuel, Power, Light and Lubricants	**121.4**	**125.0**	**124.9**	**+ 2.9**
Industrial Raw Materials	**138.3**	**139.6**	**139.8**	**+ 1.1**
Fibres	127.7	128.6	130.0	+ 1.8
Oilseeds	156.3	160.4	159.5	+ 2.0
Minerals	94.8	93.4	93.4	— 1.5
Others	127.0	124.7	124.7	— 1.8
Manufactures	**125.5**	**129.0**	**129.4**	**+ 3.1**
Intermediate Products	**140.6**	**143.1**	**142.9**	**+ 1.6**
Finished Products	**123.1**	**126.7**	**127.2**	**+ 3.3**
Textiles	123.4	125.3	125.9	+ 2.0
Cotton	127.9	129.3	129.2	+ 1.0
Jute	114.2	111.1	113.3	— 0.8
Woollen	123.1	141.3	141.3	+14.8
Silk & Rayon	118.9	131.3	132.9	+11.8
Metal products	151.6	160.8	161.0	+ 6.2
Chemicals	111.6	115.1	116.2	+ 4.1
Oil cakes	143.5	163.9	163.6	+14.0
Machinery & Transport Equipment	113.5	117.9	117.8	+ 3.8
Others	121.2	125.3	125.3	+ 3.4
All Commodities	**124.6**	**131.2**	**130.6**	**+ 4.8**

Foreign Trade

(Merchandise Value)

(Rs crores)

		Imports	Exports*	Balance of trade
1962	September	97.22	61.64	— 35.58
	August	80.73	61.46	— 19.27
	July	79.58	55.60	— 23.98
	June	88.06	46.62	— 41.44
	May	88.10	50.09	— 38.01
	April	89.86	49.13	— 40.73
1961	September	76.06	59.25	— 16.81
	August	77.24	60.15	— 17.09
1961–62		1058.18	660.41	—397.77
1960–61		1121.62	642.33	—479.29
1959–60		960.77	639.65	—321.12
1958–59		903.64	572.64	—331.00
1957–58		1036.40	635.14	—401.26
1956–57		902.91	619.62	—283.29
1955–56		774.35	608.91	—165.44
1951–52		979.34	732.95	—246.39

Source : Department of Commercial Intelligence and Statistics, Ministry of Commerce and Industry.

* Includes re-exports.

SMALL SAVINGS

(Rs Lakhs)

	'62 June		'62 May		'62 April		'61 June		1961 Total		1960 Total	
	R	O	R	O	R	O	R	O	R	O	R	O
Total Small Savings	—	779,29	—	862,70	27,29	864,42	28,02	784,91	342,30	865,27	329,98	778,05
National Savings Certificates												
5 years	—	79	—	80	—	82	—	1,13	—	86	—	1,24
7 years	—	1,77	—	1,80	—	1,84	—	2,29	—	1,88	—	2,46
12 years	—	61,68	—	63,07	—	64,25	—	77,54	—	65,52	—	81,40
National Plan Certificates												
12 years	5,96	360,11	5,51	355,86	5,32	352,13	6,57	299,41	79,70	348,51	82,54	287,19
10 years	—	16,62	—	16,70	—	16,80	—	18,02	—	17,33	—	18,37
Annuity Certificates (15 years)	—	—	5	3,69	5	3,66	3	3,43	49	3,63	69	3,38
Cumulative Time Deposit												
5 years	26	4,63	26	4,38	20	4,14	19	2,18	2,33	3,96	1,20	1,70
10 years	11	2,28	11	2,17	9	2,06	7	1,15	1,01	1,97	65	95
Post Office Savings Bank Deposits	20,27	331,35	19,89	332,43	20,41	337,26	19,27	301,88	241,98	340,76	228,77	305,22
Cash Certificates, Defence Savings Certificates and Defence Savings Bank Deposits	—	—42,53	—	—42,51	—	—42,47	—	—42,12	—	—42,43	—	—41,99
Treasury												
10 years Deposit (3½%)	—	—	—	26,11	—	26,78	—	34,45	—	27,50	—	38,80
Savings Certificates (4%)	—	—	92	55,69	1,19	54,68	1,89	42,43	16,79	53,35	16,14	37,34

Note : Annual figures relate to the year beginning April.
R = Receipts
O = Outstandings

Source : Accountant General, Posts and Telegraphs Department, Government of India and Reserve Bank of India.

PRODUCTION OF IRON AND STEEL

('000 metric tons)

	Tata	Indian Iron	Mysore Iron	Rourkela	Bhilai	Durgapur	Kalinga Industries	Total
Pig Iron :								
1962: Jun	139.0	87.6	6.3	52.4	94.7	63.1	2.3	445.4
May	146.0	112.3	6.4	45.9	99.8	67.1	2.3	479.8
Apr	144.3	109.7	6.3	20.4	93.7	69.2	2.3	445.9
1961: Jun	131.9	96.9	5.1	30.7	78.6	55.7	2.1	401.0
May	142.4	100.8	4.1	35.4	72.6	54.0	2.7	412.0
Apr	135.4	99.4	4.9	36.6	69.6	59.1	2.9	407.9
Semi-Finished Steel :								
1962: Jun	32.8	6.4	—	0.5	29.2	14.3	—	83.2
May	37.1	10.9	—	0.3	18.8	24.8	—	91.9
Apr	36.2	5.2	—	0.3	14.0	29.2	—	84.9
1961: Jun	44.4	17.4	—	10.7	22.0	17.5	—	112.0
May	48.1	11.7	—	4.9	11.6	21.9	—	98.2
Apr	51.6	11.3	—	2.5	6.5	24.5	—	96.4
Finished Steel :								
1962: May	78.7	46.8	3.2	28.3	41.9	15.9	—	246.2
Apr	73.7	41.0	2.7	13.5	35.4	13.2	—	210.5
1961: May	56.1	29.8	2.9	10.1	17.9	1.7	—	146.4
Apr	53.1	39.0	2.9	11.5	12.2	1.5	—	146.9

Note : Break-down of production figures is given for the major producers. In the case of Finished Steel, total production figures include other units.

Source : Department of Iron and Steel, Ministry of Steel, Government of India.

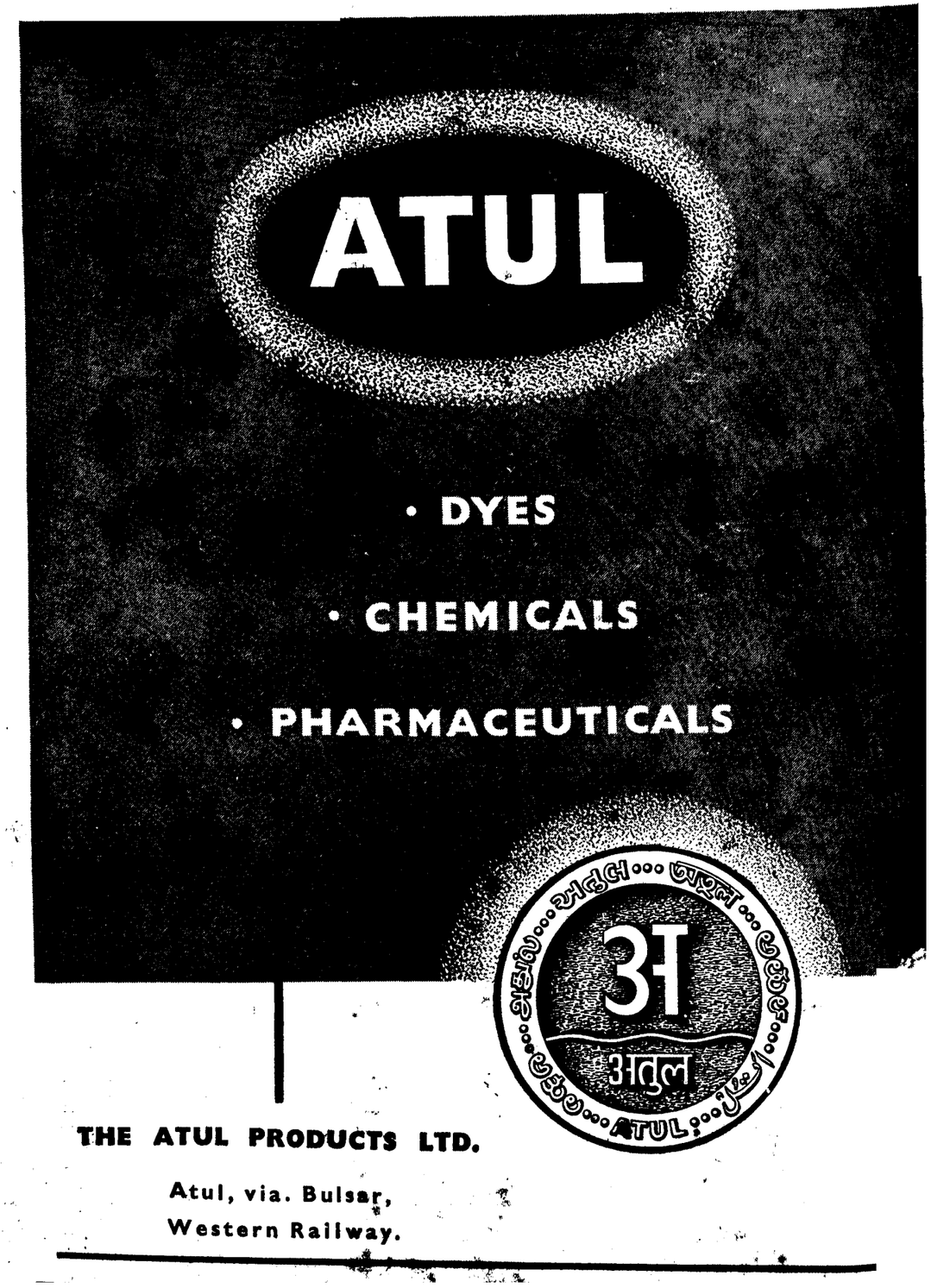
CLOTH PRODUCTION

(Monthly Averages or Calendar Months)

('000 metres)

	Coarse	Lower Medium	Higher Medium	Fine	Superfine	Total
1962 : May	56,119	120,372	173,467	14,628	20,923	386,509
Apr	55,688	118,268	169,413	14,259	20,344	377,972
Mar	55,846	119,674	170,851	14,282	20,630	381,283
Feb	54,408	117,643	158,769	13,249	18,236	362,305
Jan	62,103	130,845	171,809	14,700	19,514	398,971
1961: May	61,160	128,932	170,149	15,057	17,977	393,275
Apr	57,574	128,984	165,272	15,005	17,979	384,814
1960	53,688	132,476	158,091	17,451	22,977	384,683
1959	67,974	132,740	133,992	18,436	22,176	375,318
1958	73,911	258,761*	—	23,093	19,670	375,435
1957	88,675	266,922*	—	29,190	20,400	405,187
1956	54,761	289,302*	—	33,836	26,464	404,363

* Includes Lower Medium and Higher Medium. **Source :** Textile Commissioner, Bombay.



Analysis of the Stock of Money

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Economic Mobilisation

IT is at some distant day in the future that most people dream of shaking off their sloth and emerging suddenly as heroes. But the fight is here and now. If that sounds too jingoistic, let us put it as the need for defence effort, for flexing the muscles and getting on with the job. True enough, even the greatest effort, the maximum that the nation is capable of, cannot be put up all of a sudden and overnight, so to say. There has to be a steady build-up, the momentum has its own rhythm but none of these apply to the beginning of effort. The people have been stirred, they are eager to do their part. But those who are responsible for giving a purposive direction and building up the effort seem to be too slow in getting into stride.

With the lull on the front following cease-fire, the danger is real that the enthusiasm of the people, so spontaneously generated, may be dissipated or slacken for lack of direction. Delhi is in the real danger of falling into the trap of waiting and watching. Until the precise estimates of the defence requirements in terms of men and materials are known and until the financial component of these estimates and targets for economic mobilisation, whether in terms of the diversion of foreign exchange to defence industries or the draught on economic resources in physical terms can be fixed with some precision, Delhi does not seem disposed to act.

A group of economists in Delhi, moved by the danger implicit in this attitude of waiting and watching, have felt compelled to issue a statement to the press calling upon the Government to introduce a supplementary budget, as a matter of immediate urgency. The full text of the statement is published elsewhere in this issue as a letter to the Editor. It is to be presumed that economists all over the country will broadly agree with this statement. That no attempt was made to secure their signatures was because that would have taken a long time and the signatories felt that no time should be wasted in issuing this call to the Government and the people. The response of the Finance Ministry to this appeal should make it amply clear that behind it there was no hidden hand either of the authorities or even of the economists inside the Government. Delhi's response to the extent that it has been made known is exactly what the signatories had apprehended. The regular budget would come in three months' time. Where then is the hurry and why not wait until the magnitude of the financial resources necessary is clearly determined? Why should o... earning any income or making any efforts to earn, one may as... until the full details of one's likely expenditure are clear? I... ment like this a rebuttal of the need for a supplementary bu...

The supplementar... uld have come not only because it is easier to tax now b... se if all the defence taxation is postponed to the norm... is would raise many difficulties. First, the normal budge... e to increase taxes purely because of the Third Plan. W... iously expanded defence budget, plus substantial additio... rd Plan, the resulting total taxation would be very difficult ... oss. Second, we had already started from a

situation of excess demand. This is evidenced by the tremendous concern about prices prior to the Chinese agression. Third, the increase in prices, which is bound to come about if there is no supplementary budget, would add considerably to the difficulty of taxing through the normal budget. When prices have risen and are rising, people will be much less willing to put up with taxes.

Neither is it possible to argue that the increased defence expenditure will be mostly in foreign exchange and will thus be taken care of under lend-lease and other assistance. We know from the actual budget estimates for 1962-63 that nearly a little less than half of the current expenditure on defence consists of pay and allowances to Army, Territorial Army etc, and to civilians employed with or for the Army. If the strength of the Army is to be doubled, as most people agree, then our expenditure on pay and allowances will go up about Rs 120 to 140 crores. Add to this the additional expenditure on civil defence etc. Unless the Pentagon is going to put this addition to the Army pay-bill on its own payroll, we have to foot the bill ourselves! We also have to put up increased armaments capacity to supply the Army with the arms and ammunition which will be necessary. Here, because of the increased size of the Army and the increasing rate at which we shall have to equip it with items like modern automatic rifles, the scale factor to be used in estimating the level of annual armaments production necessary to equip and sustain the Army will be fairly large. We shall also need additional capacity in cement and steel, above the levels postulated for the Third Plan, because the cement will go extensively into construction while steel will be needed for armaments production. Non-ferrous metals will also have to be increasingly supplied as inputs for armaments production. Are the Americans going to provide these on lend-lease? They won't put up factories and then dismantle them and take them home "when they are not necessary". We would have to invent a completely new form of lend-lease to cover these requirements!

Even if we get military aid to cover the immediate equipment needs, this will be added up with the normal economic aid and it is bound to put pressure on the latter. This is true also of P L 480. And just because of the emergency, we cannot suddenly forget that aid, regardless of what the aid-givers tell us, inevitably conditions one into a state of servility. One might even be tough and argue that it is unpatriotic to say that we must rely totally on the Americans and not undertake any domestic fiscal efforts; this is as much bartering away one's freedom as not wanting to fight the Chinese.

No one will suggest, of course, that a supplementary budget is all that is necessary or even that it is the most imperative need in the present situation. One can readily agree that when it is difficult to reduce the size of the Plan and when it is essential to raise vast resources for the growing defence expenditure, it is consumption that has to be curtailed. And the curtailment of consumption will not be taken care of by the supplementary budget alone. Our experience over the last few years of development has amply shown that main inflationary pressures arise from the shortage of foodgrains and other essential items. If that be so, even the future pressure would be in that direction, irrespective of whether the expenditure is an investment expenditure or defence expenditure. There is little scope for reducing essential consumption of this type below the present level and it is foolhardy to believe that taxation would achieve any such result without being resisted by the public.

Fiscal measures, however stringent, can only supplement and strengthen the more effective remedy of devising a strategy of diverting productive capacity from non-essential or lower priority industries to the defence industries. The emphasis by the economists on the financial side of the defence effort should not, therefore, blind us to the limitations of the role of finance in the defence effort of the magnitude that is necessary.

That non-essential consumption should be curtailed and that the Plan should be re-oriented in order to meet the demands of defence must be pretty obvious. Economists can highlight only the financial aspect of the problem. It is for the Government and industry to survey the industrial potential, make the best possible technical assessment of it and address themselves forthwith to the re-tooling of industries and their conversion to the prior needs of defence. This task devolves primarily on the Ministry of Economic and Defence Coordination and this Ministry deserves every assistance, particularly of the best technical expertise that the country has.

Agricultural Refinance Corporation

AT long last, the Bill for setting up an Agricultural Refinance Corporation was introduced in the Lok Sabha by the Finance Minister this Wednesday. As no copy of the Bill is yet available, detailed comments must be postponed, particularly in regard to the use of the word "Refinance" in naming the proposed Corporation rather than "Finance" which had so far appeared in more than one context. If the changed nomenclature reflects a shifting of the grounds, and if this Corporation is to be the counterpart of the Refinance Corporation for Industry in the field of agriculture and allied activities, the change is to be deplored as, like the Corporation for Industry, it will be largely bereft of initiative and must depend more on its success as a catalytic agent than on its own exploratory and financing activities which the established financial institutions — especially the cooperative Land Mortgage Banks — would subsequently take up and release the Corporation's reserves for further pathbreaking activities. In the Corporation as originally thought of, it would be the existing institutions functioning along accepted lines which would refinance projects which the Corporation had earlier located, processed and financed. It is thus that it had attracted so much eager attention. What metamorpsis this original concept has since undergone is not clear from the press reports.

Apart from this, no doubt a very basic consideration, the authors of

the Bill seem to have taken pains to avoid some of the mistakes that were committed in the case of some of the other Corporations. The authorised capital of this Corporation is proposed to be Rs 25 crores, but it will start with a paid-up capital of Rs 5 crores of which Rs 2.5 crores will be contributed by the Reserve Bank of India, Rs 1.5 crores by the State Cooperative Banks and the Central Cooperative Land Mortgage Banks, and the remaining Rs 1 crore by the banks, L I C etc. The Government of India is to guarantee the repayment of the principal and payment of dividends on these shares. As much as one-half of the initial capital will come from scheduled and cooperative banks and the L I C, so a reasonable dividend of perhaps not less than 4 per cent would have to be paid. The Bill provides, however, that at least for a period of 15 years, Reserve Bank will not claim its dividends which may be deposited with the Corporation and suitably invested. Even a dividend of 4 per cent on Rs 2.5 crores amounts to Rs 1.5 crores in 15 years, which is equal to 30 per cent of the paid up capital. In the case of the State Financial Corporations, a similar provision whereby they could credit to a special Reserve Fund the dividends accruing to the Reserve Bank and the concerned State Government was introduced as late as in 1962, that is 11 years after the Act came into force. Even then the benefit was restricted by fixing the maximum amount in this fund at 10 per cent of the paid-up capital. The State Governments have further sought to numb the provision by agreeing to forgo out of their share of the dividend only as much as is forgone by the Reserve Bank.

But an even more significant feature is the provision of an interest-free loan of Rs 5 crores from the Central Government to the proposed Agricultural Refinance Corporation. This has so far been denied to the Industrial Finance Corporation and all the State Finance Corporations although a parallel corportion in the private sector, the Industrial Credit and Investment Corporation, was given a Rs 7.5 crore interest-free loan for 30 years, repayable in 15 equal instalments from the 16th year onwards. The contribution of this loan to the viability and economic strength of the I C I C I can hardly be overderestimated.

It may be contended, however, that in the light of this considerable interest-free loan, and the proposed maximum borrowing power of the Corporation at 20 times its paid-up capital and reserves (it is only 10 times in the case of the I F C and the State Finance Corporations), why should it have been necessary to float it with as much as Rs 5 crores of capital? Although the Reserve Bank's dividends would be impounded, it may have to be paid out of the income to be derived by investing the proceeds of the interest-free loan till the advances portfolio assumes a sizeable proportion.

There is no likelihood, however, of the Corporation finding itself short of funds. Large amounts of P L 480 counterpart funds are lying undisbursed in the Reserve Bank. Actually one of the objects of setting up a statutory corporation was that it would be able to supplement its resources from borrowing, a course which is not open to the Reserve Bank under its statute.

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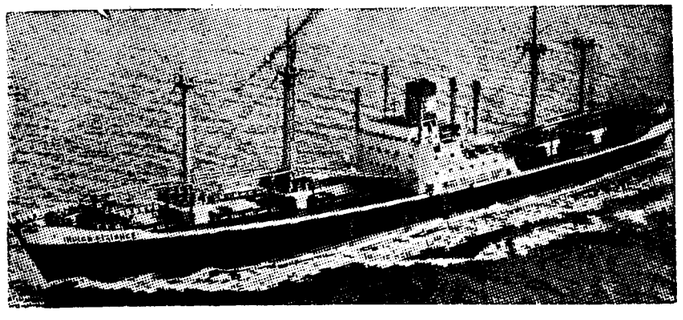

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Weekly Notes

Cooperative Credit

THE Agricultural Credit Department of the Reserve Bank has just published the Statistical Statements relating to the Co-operative Movement in India for the year 1960-61. As usual, the statistics are somewhat dated because they appear with a time-lag of two years. Nevertheless, they provide some useful information regarding the growth of the co-operative movement in quantitative terms. During 1960-61, the number of co-operative societies of all types rose from 313,499 to 332,488, i e by 6.1 per cent. This increase is significant; considering that the total number of societies had been brought down by 4.1 per cent in 1959-60 over the preceding year, as a result of the steps taken to revitalize the small-sized societies which led to the liquidation of some of the weak units.

It is not the growth of societies in number, but data regarding the working capital of the State co-operative banks, central co-operative banks and primary credit societies which throw searching light on the working of the cooperative credit societies. The proportion of owned funds to the total working capital of State co-operative banks declined in 1960-61 to 10.8 per cent from 11.3 in 1959-60. Similarly, the proportion of deposits fell from 34.4 in 1959-60 to 32.6 in 1960-61. On the other hand, the proportion of borrowings from the Reserve Bank rose from 48.8 per cent to 51.4 per cent during these two years.

More or less the same pattern is discernible in the composition of the working capital of the central co-operative banks. Thus, the proportion of owned funds and deposits declined from 16.9 per cent and 38.6 per cent respectively in 1959-60 to 16.7 and 36.8 per cent. All this suggests that co-operative credit has yet to find its feet.

Even the figures of growth of deposits of these institutions have to be taken with some reservation. The deposits of the State co-operative banks increased from Rs 60.15 crores in 1959-60 to Rs 72.33 crores; but of this increase, only Rs 5 crores are accounted for by individuals. Likewise, the total deposits of the central co-operative banks rose from Rs 95.41 crores in 1959-60 to Rs 112.02 crores in 1960-61. Of this rise, about Rs 9 crores were due to individuals. This shows that compared to the State co-operative banks, the central co-operative banks were more successful in mobilizing resources.

No Finance for Assam

THERE is a disturbing report that prominent Indian Scheduled Banks have stopped discounting inland bills drawn on traders in Assam and that they are now merely collecting the bills at the risk of the drawers of the bills. This has naturally led to some panic and crisis of confidence in business circles. At a critical period the banks have thus been responsible for spreading panic, instead of allaying it, and shaking the confidence of the people in the border areas. This action of the banks should be treated as utterly irresponsible. Coming in the wake of earlier reports that many Assam tea gardens were at a standstill, being unable to pay their employees because all the currency lodged with the Tezpur Treasury had been deliberately burnt, it goes to show that even our financial machinery, easiest to run and control, can get out of gear so easily.

What has the Reserve Bank been doing? Instead of tinkering with the tiers, if it devoted a little more attention to the practical needs of the situation, it would have played a much more effective part in keeping the economy going. It is unfortunate that the Reserve Bank, even at a critical period like this, should continue to behave in its usual wooden and lethargic manner. It could have, and should have, instructed the bankers to desist from such irresponsible action and worked out at the same time some scheme in consultation with the Government for guaranteeing advances to people in the border areas.

War Risks Insurance

THE two bills on war risks insurance introduced by the Finance Minister in the Lok Sabha on December 5, 1962, are exactly on the pattern of the War Risks Insurance Act enacted for the period of the Second World War. Like that Act, these two bills also suffer from two principal defects: they are inequitious and unimaginative.

They are inequitious because their scope is limited only to factories and business goods; other properties of individual citizens are not included in the scope of these bills. Thus, the bills do not give protection to those owning house property as well as other durable goods. The general principle of war risks insurance is that the cost of repairing the damage to property as a result of enemy action has to be borne by the entire community. This dictates a *universal* as well as *compulsory* scheme of war risks insurance, which should include in its scope all types of property.

In the U K, during the last World War, factories and business goods as well as house property and personal belongings were included in the scheme of war risks insurance, which was compulsory as well as universal for all properties excepting personal belongings. There was free insurance for personal belongings upto a certain limit, above which insurance was voluntary. Instead of imitating the inequitious scheme prevailing in India during the Second World War, the Finance Ministry could have profitably studied the British scheme.

The two bills are unimaginative because the Finance Ministry does not seem to have realised the importance of the scheme of war risks insurance for mobilising financial resources and restricting consumption. If the scope of these universal and compulsory schemes is widened to include house property and a scheme of voluntary insurance for personal belongings with free insurance upto a certain limit is introduced, a substantial amount of financial resources can be mobilised.

It is not late even now to remove the inequity from the bills and at the same time to reframe them suitably with the objective of mobilising financial resources. Members of Parliament would do better to devote thier attention to constructive and studied criticism of such measures as the War Risks Insurance bills than to content themselves with repeating broad political banalties.

L I C Valuation

A POLICY of caution and conservatism has continued to characterise the valuation of life policies as disclosed by the Third Valuation Report of the Life Insurance Corporation of India as at December 31, 1961, just published. Apart from the usual considerations, the present uncertainties have evidently weighed with the Corporation and dictated a greater degree of prudence than would ordinarily be called for, and justifiably too. Since nationalisation, the business expansion of the Corporation has been not merely encouraging but highly impressive, with a net-work of organisation steadily spreading throughout the country and increasing in efficiency. From this alone, apart from the rapid growth of life funds and their higher earnings, policy-holders had reasons to expect better results in so far as their share of profits is concerned.

The total number of policies in force on the date of valuation was 85.81 lakh assuring a sum of Rs 2,738 crores including bonuses compared with 69.29 lakh policies assuring a sum of Rs 1,958 crores at the preceding valuation. There were also 10,297 life annuity policies for Rs 109.50 lakhs per annum. Out of the profits disclosed by the Valuation, Rs 32.73 crores have been allocated to the policy-holders and Rs 1.72 crores to the Government. The Corporation has declared bonuses for the biennium at Rs 16 per thousand per annum on Whole Life Assurance and at Rs 12 80 per thousand per annum on Endowment Assurances, the same as at the preceding valuation. The old grievance that some of the life companies which the L I C acquired were able to declare a higher bonus and would have done better if they had been allowed to continue may still be heard but in the new set-up such exercises in hypothetics are meaningless and unprofitable.

In view of the progressive improvement in the mortality experience of the lives assured with the Corporation, a lighter mortality table viz Modified Oriental (1925-35) Ultimate Mortality Table was used for the valuation as on December 31, 1959 as compared with Oriental (1925-35) Ultimate Mortality Table used in the 1957 valuation. The Corporation, however, points out that the actual mortality experience during 1961-64 of the lives assured with it has been taken in hand). Yet, with a view to provide a sufficient margin, the same Table as was used for the preceding valuation has been used in the current valuation also for all classes of assurances, with certain exceptions. This brings out forcefully the cautious and conservative basis of the latest valuation. Again, despite the perceptible improvement in the yield on the Corporation's investments during the biennium to 4.14 per cent from 3.81 per cent in the preceding biennium, the rate of interest assumed in the valuation has been maintained at 2 7/8 per cent, although a slightly higher rate would have been well justified. Here again the Corporation has preferred to err on the side of caution, presumably having in view the possible adverse effects on the future earnings of the Corporation of the present political uncertainties.

U Thant in U N

WHEN, after Dag Hammarskjoeld's sudden and tragic death in September last year, U Thant was appointed acting Secretary-General of the United Nations it was almost universally regarded as a stop-gap appointment. Few expected then that U Thant would become Secretary-General proper. The odds were against him. In the first place, at the time of Hammarskjoeld's death it even appeared doubtful whether the U N would ever have a Secretary-General again. The Soviet Union's bitterness against Hammarskjoeld's role in the Congo had crystallised into the Troika proposal which would have made nonsense of the office of the Secretary-General. When U Thant was elected acting Secretary-General, the Soviet Union made it amply clear that it was merely holding its demand in abeyance, not forsaking it.

There was also another reason why U Thant appeared an unlikely successor to Hammarskjoeld. This had to do with the image of the former Secretary-General at the time of his death. In the eight years that he held office, Hammarskjoeld had begun to appear so indispensable to the world organisation that it seemed unlikely that anyone would adequately fill the role which Hammarskjoeld had played in world affairs as U N Secretary-General, least of all an unassuming, almost unknown Burmese official.

Yet, when U Thant was unanimously elected Secretary-General last week no one was in the least surprised. While perhaps the principal factors responsible for this fortunate consummation were forces beyond his control, undoubtedly U Thant's own contribution was by no means insignificant. By supporting U Thant's election the Soviet Union has in effect given notice of withdrawing its Troika proposal. This decision appears to have been prompted by two factors. First, the Troika demand had met with almost universal opposition and stood no chance of being accepted by any significant number of nations outside the communist bloc. Equally important, as acting Secretary-General U Thant had, to a certain extent, enforced the desirable principles which had found distorted reflection in Khrushchev's Troika. His eight under-secretaries were drawn from all the three blocs, including two from the Soviet Union. Hammarskjoeld was apt to take on himself most of the work and rarely consulted or confided in his subordinates. In fact, his estrangement with the Soviet Union is known to have begun with his persistent neglect of the Russian under-secretary. U Thant has wisely avoided creating such an impression and the tradition which he has set may contribute inestimably to the stability of the office of the Secretary-General.

In international affairs, the solution of the West Irian dispute has been U Thant's outstanding achievement. The decisive factor which influenced the Dutch decision to agree to a phased transfer of West Irian to Indonesia was the diplomatic pressure of the United Na-

tions and the United States and the two names which were mentioned as having played the vital roles in making the agreement possible were those of U Thant and Mr. Ellsworth Bunker, the ex-US Ambassador to India. The settlement of the West Irian dispute was a feather in U Thant's cap and clearly strengthened his claim to election as Secretary-General.

But both U Thant and the United Nations are still on trial elsewhere — in the Congo. The United Nations intervened in the Congolese political crisis with a clear mission. Unfortunately that mission remains far from accomplished. Particularly at the present moment when the Congo seems to be slipping into the throes of a civil war U N influence is conspicuous by its absence. In August last, fresh after the West Irian settlement, U Thant had appeared to take the initiative in the Congo with his ten-point programme to end the secession of Katanga. This programme had been widely welcomed as being just the right mixture of inducement and compulsion which might be expected to bring Tshombe to heel. However since then U Thant has given the impression of allowing the initiative to slip from the U N once again. To regain the initiative is U Thant's immediate task as full-fledged Secretary-General.

Letters to Editor

Supplementary Budget Now

THE border conflict has important economic implications. The vital steps required to meet the new situation have not been taken so far. We think it necessary, therefore, to express ourselves clearly and emphatically in favour of certain policy measures.

Regardless of a ceasefire, the army will have to be expanded upto twice its current size, at the minimum. The pay and allowances, arms and ammunition, construction of roads and air fields, civilian defence etc will add considerably to the defence budget. The defence expenditure, on the most conservative estimates, can be expected to double its present level. This implies an increased annual expenditure of the order of Rs 400 crores.

The physical demands created by such expenditure will have direct consequences for the availability of consumption. Making full allowance for lend-lease and other arrangements which are being made for military purchases from other countries, we will nonetheless have to divert resources from civil to military use. The extent of switch-over of existing capacity to military use is, in fact, very limited. This is true also of the diversion of imported raw materials to current military use. However, the extent of possible switch-over is much larger and inevitable, when we think of new capacity creation (and its utilization) with the aid of imports. In any realistic assessment, the extent of such draft on foreign exchange will not fall below Rs 100 crores per annum for the next few years.

The switch-over must necessarily take place, in the bulk, at the expense of consumer goods. Not merely will the supply of imported materials to consumer goods industries have to be curtailed; capacity creation in these industries will also have to be slowed down. This must be so because we cannot afford to cut into our investment programmes. The necessity to adhere to investment projects hardly needs to be emphasised. In the main, the investment goods projects, which constitute the hard core of the Plan, will have to be retained or enlarged and expedited. Our long-term prospects for economic expansion, and hence also viable defence, rest upon the determined and successful implementation of these projects.

The resulting, inevitable diminution in the availability of consumption below the level assured in the Third Plan is coupled with the addition to the demand for consumer goods which springs from the expenditure on the defence effort. These two factors, therefore, reinforce each other in creating a problem of excess demand for available consumption.

It cannot be argued that sizeable resources may be freed by economy in public expenditure. Austerity in administrative and building expenditure will be necessary. Some projects which are really relief measures may be shelved. Economies may be effected in spheres like education by reducing the teacher-pupils ratio, for instance. Those cannot add up to more than 15-20 per cent of the required resources. Further, they cannot reach levels without impinging eventually on long-term objectives (as, for instance, when deterioration in educational standards affects efficiency).

Nor can an effort of this magnitude be managed on the basis of donations and borrowings. The size of the *donations*, as also their spread, are encouraging as an index of national response to the crisis. But they cannot provide more than a tiny fraction of what is necessary. A good part of the donations now being made come from accumulated savings of the past, not from cuts in present consumption, and so what is made available is, to that extent, only finance, *not* the real resources required for current production. Borrowings also are inadequate. The fact that interest is paid on them adds to the future burden of the exchequer; the terms offered on the bonds issued already are much too generous to make the problem of interest payments at all easy. Further, borrowings also represent, in varying degrees, a diversion of savings from one form to another whereas the increase in defence expenditure demands that there should be *extra* saving of a matching amount. Unless, therefore, both donations and borrowings exceed *many* times over even the most optimistic estimates, there will be inflation if additional taxation is not brought into effect.

The conclusion concerning additional taxation is both obvious and inescapable. It clearly calls for an immediate Supplementary Budget. With the defence expenditure increasing from the outbreak of the crisis, the Supplementary Budget should have come some weeks ago. But it has not.

The longer the Budget is put off, the greater are the dangers to the stability of the economy and to the success of the defence effort. When prices start rising, key projects will be put under the heavy pressure of unthinking, ad hoc cuts. What has to be avoided, at all costs, is an unplanned price rise whose incidence is undiscriminating; such price rise will affect adversely the willingness to save and the welfare of the lowest-income groups.

There is no doubt that, at the height of the Chinese aggression, a Budget would have been not merely tolerated but even welcomed. It would have fulfilled a visible need and made concrete, for many, the conception of "sacrifice". The psychological opportunity for a Supplementary Budget still exists. A very large number feel that the government have failed in matching their actions with their professions of national honour and sacrifice. The opportunity to tax must be seized before it is too late.

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H K MANMOHAN SINGH
T N SRINIVASAN

New Delhi,
December 3.

Agricultural Income Tax Bill

PLEASE refer to your comments on the Maharashtra Agricultural Income Tax Bill (*The Economic Weekly*, December 1, 1962). You have maintained that "even with the high exemption limit there should have been an element of progression". In fact the very provision of an exemption in any tax which is to be imposed at a flat rate would automatically introduce some element of progression in the tax if this exemption is available to all incomes.

To illustrate the point, according to the Maharashtra Agricultural Income Tax Bill agricultural income upto Rs 36,000 will be exempted and income above that amount will bear tax at a flat rate of 50 per cent. Now a person with an agricultural income of Rs 50,000 would pay an effective tax of 14 per cent on his total income since he pays 50 per cent tax on the Rs 14,000 over the exemption; a person with an income of Rs 100,000 would pay an effective tax of 32 per cent; and those with Rs 150,000 would begin to approach the 50 per cent limit. Thus it is incorrect to say that there is no element of progression in the Maharashtra Agricultural Income Tax Bill.

This is however not to deny the fact that the proposed tax would be almost ineffective as a means of raising revenue.

MAHESH BHATT

Ahmedabad.
December 5.

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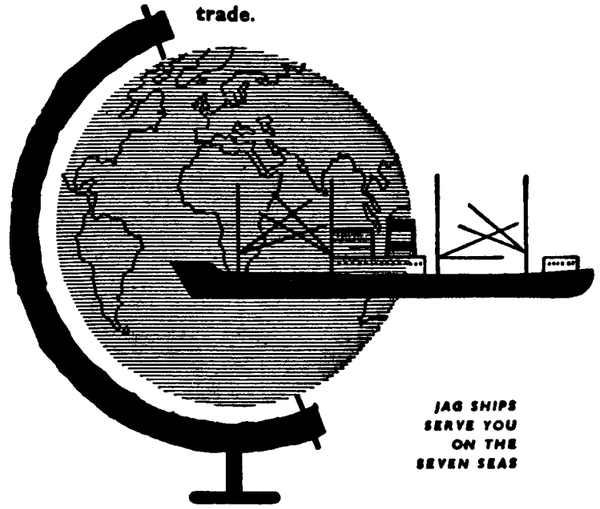

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A Letter from Assam

Fools' Paradise

THAT we erred badly in our military strategy against the Chinese is no longer a secret; further, that the policy and attitude of the Central Government have created an atmosphere of insecurity and confusion in Assam is evident to anyone who takes the trouble to enquire into the popular feeling and behaviour. It is, therefore, surprising that our 'Leaders' (a word which belongs to the days of colonialism, and should be dropped now) *should continue* to hold mass meetings in various parts of the country to express deep sympathy for Assam while they do nothing to concern themselves with solving the practical problems.

When the enemy was almost on their doorstep, say the Assamese, the Central Government were ready to leave them to their fate. The military and administrative personnel with their families were the first to move out to safer places. This was specially true of Tezpur which has undoubtedly suffered the most in the Indo-Chinese hostilities. What sort of a fool's paradise do we live in? Can we not see that we can no longer shut our eyes to reality and that even if we succeed in fooling ourselves, we do not fool the world. It is time we did some re-thinking. It is time we stopped making excuses for our failures and deluding ourselves into a false sense of security.

Panic spread rapidly in Tezpur after the fall of Bomdila and Sela. The planters and their families got away as soon as they could; other rich people followed suit. With the military and Government personnel already moving out, it is small wonder that the common man felt that he was being abandoned to the enemy. This is exactly what happened. How can the civilian population be expected to stay on in a city deserted by civil and military authorities? Till a few days ago, there were signs of utter bewilderment among the thinking people of Assam; tempers were still running high; there was a seething anger against Delhi; there was dread of the future. While our 'Leaders' had repeatedly assured them that we would fight to the last man before we gave up an inch of our native soil, events had proved the futility of such words. Even militarily, this assurance made no sense. There was no clear idea what should be done in case Tezpur was threatened. The sweeping instructions issued from the Home Ministry in Delhi ordered the evacuation of Tezpur. How and with what priorities this was to be done had not been worked out. The consequent confusion and the rush to leave the city are both understandable.

The events which followed in Assam have to be viewed against the background of the questionable national loyalty of the frontier people, infiltration of Muslims from Pakistan, the lack of integration of the peoples of the plains and hills and the need for good political leadership.

Today, Tezpur is a city divided into the military and civil sectors. What a marked difference between the two. The airfield and the surrounding areas are buzzing with troop activity; military jeeps and lorries are constantly on the move and the noise of aircraft landing and taking off is never-ending. The town, on the other hand, is still quiet and dazed. Only fifty per cent of the population has returned home. Life is gradually assuming normality but it takes a long time to re-establish confidence in a frightened people.

Evacuee Camps

Similarly in Gauhati, which has now become the seat of the Assam Government, there is still an atmosphere of fear and doubt about the future. Many of those who had gone away have not come back and the shopping centre is unusually quiet. In contrast, the Evacuee Camps are alive and humming with refugees. The little tents have already the appearance of homes. Women are busy cooking or looking after the children; lines of clothes are hanging out to dry; children are running round or sleeping peacefully in the midday sun. One could not help being amazed at the extraordinary adaptability and the fortitude of these people, who have so little of material goods and are so rich in their contentment.

While news from Assam is quite obviously censored and photographs from the aeroplane or near the airfield are strictly forbidden, I found half a dozen foreign correspondents at the airport, with their complement of cameras and other accessories. In Parliament, news is often withheld from M Ps on the ground that it is not "in the public interest" to give out such news, and Government is far from liberal when it comes to giving permission to Indian newspaper-men to go to Assam. Such discrimination is difficult to explain.

The Indian jawan is known for his outstanding reputation of loyalty to his Commanding Officer and to his battalion. Given the right leaders, he will willingly give his life in the cause of his country. It is difficult to tell if he understands the abstract concept of nationalism, but that is irrelevant to the present situation. There are some damaging rumours afloat which can only be scotched with the clarification of certain known occurrences. Why did the Sela Pass fall when we had enough rations to hold out for two months? Why was the outflanking by the Chinese not anticipated? What is the truth of the stories brought back by some of the 'stragglers'? All these questions cannot be explained away by the routine answer of information being withheld "in the public interest." It is a matter for consideration that on the Ladakh front, where our lines of communication are much longer and the conditions of fighting more difficult due to the higher altitude, our Army is still holding out. Whatever reverses we have had, they have not come as a landslide. We are proud of the fact that we held out against the Chinese; that we are still in possession of Chusul. Is good leadership one of the possible causes of the Army's good performance there?

It is just as well for the Government to realise that victories and defeats in war are no secrets; that even if they should choose not to give out certain pieces of information, the Peking Radio and the B B C announce them freely and as no measures are taken to jam these broadcasts, people listen to them and draw their own conclusions, which are often more damaging to the national cause, than if they were given the right information by the authorities at the right time.

Capital View

New Dimensions to the Crisis

Romesh Thapar

THESE days, the atmosphere in Delhi is more unreal than usual. The war which appeared to be on us a few days ago seems suddenly to have dissolved, although we are still not quite sure about the extent of the Chinese withdrawal and whether it will be more or less north of the September 8 line. The political-cum-military missions from the U S A and the U K have departed leaving behind a heap of speculation about the future of the Kashmir Valley and the degree to which our armed forces will come under the influence and control of 'foreign experts'. Symposia are being held all over the city to examine the present validity of non-alignment, whether it should be scrapped, preserved or modified. And our more energetic economists are impatient with a government which refuses to do anything tangible to mobilise internal resources to face a crisis which is going to stay with us for many years. Only all-India Radio seems totally unaware of the challenges and the shifts in the situation — but, then, it has been so always.

The Government of India's decision to send only the *civil* administration into the areas evacuated by the Chinese invaders in NEFA is a pointer to the desire now prevalent not to do anything militarily which might damage the chances of a negotiated, mutually-accepted settlement of the border question. The decision is also dictated by the opinion of the General Staff, earlier rejected, that the eastern mountain mass can only be defended effectively if we have adequate forces at our command; in other words, it is unlikely that political argumentation will be used again to push our armies into untenable positions when more defendable lines exist further South.

Non-aligned Pressure on Peking

The text of the Chinese 'offer' and the clarifications which have been made available continue to cause confusion. A study of the maps and the alignments on various dates suggests that whereas the *main* Chinese forces will be north of their September 8 positions in NEFA, in Ladakh certain stratagic areas will be retained. Of course, if the original Chinese 'offer' is to be observed, we will have to create a demilitarised zone in territories formerly held by us as a prelude to negotiations. The Government of India, using the mediatory efforts of non-aligned nations, hopes to persuade Peking to vacate its aggression fully so that a proper climate for negotiations is created. First reports indicate that the special missions sent abroad have done good work and clarified non-aligned attitudes on the nature and extent of Chinese agression.

There is no doubt that, at the moment of writing, almost everyone seems to agree that we are entering a protracted period of difficult and ramified diplomatic activity during which the military situation will recede into the background. The statement has to be qualified because, with Maoism as an adversary, it is impossible to be absolutely certain about the intentions of the enemy. However, the business of reorganising and re-equipping our armed forces has been taken in hand. Apparently, the quantum of military aid received in the early days of the invasion was a very small part of the total demand made, but now detailed lists of priority equipment are being drawn up to give us the muscle to face the Chinese in the eastern sector. The assessment of our needs on the western sector, however, has been clouded by the objections advanced by Pakistan which happens to be a military ally of the powers who are actively aiding us.

Western Persuasion on Kashmir

It is well-known that within a few days of the Chinese invasion pressure was mounted on us from Washington and London to 'settle' with Pakistan and concentrate the bulk of our forces committed on her border against the enemy in Ladakh and NEFA. The demand was also raised within the country, particularly when it appeared that Pakistan was about to embark on an opportunist thrust into the Kashmir Valley. To 'settle' with Pakistan could only mean one of the three things:

a) make a unilateral statement, pledging the holding of a plebiscite after the emergency;
b) place the Valley under United Nations control with the promise of arbitration after the emergency;
c) partition the valley on the basis of an earlier Indian offer.

While the USA wavered between the first and second 'possibilities', the UK, acting through Duncan Sandys, was reported to be confident that some kind of partition scheme could provide the basis for a settlement.

Double Loss?

The bitterness of the Indian reaction was summed up in the widely-quoted retort of a senior Cabinet Minister who declared that having lost the barren rocks of Ladakh to the Chinese we were now expected to hand over a rich and fertile Valley to Pakistan in order to prepare for defence against the Chinese in the mountains of NEFA! And, naturally, there were quips about the rocks of Ladakh being 'sacred' and the Valley being 'expendable'. Nevertheless this mood did not blunt the desire to find a solution which would relieve a sizeable section of our army for battle against the invading Chinese. The desire was seized upon by our friends from the West and now, 'misunderstandings' notwithstanding, we will take part in talks which we hope will ease the tension and strengthen our defences against China. What the ultimate effect of these hurried and unprepared moves will be, it is as yet too early to indicate.

Duncan Sandys, however, is pulling no punches. He declared to reporters at London airport that 'it makes nonsense of defence against China to be wasting one's forces guarding against one's near neighbours.' This loaded and rather undiplomatic statement was followed by another to the effect that the Russians had backed out of the MIG deal and that the USA and the UK would have to see what they could do about it. Obvious nibbling at our sovereignty by distinguished visitors needs firmer hand-

ling, or else doubts will be created as to whether our policy-makers are in command of the situation. Some such feeling is growing about defence matters, too — what with foreign military experts creating the impression that they are taking over our armed forces and US Ambassador Galbraith visiting the 'front' to hold conferences with army commanders. This is bad propaganda, to say the least.

Neo-nonalignment

In these days, when every second person has become an amateur strategist one is hesitant to add another theory of defence to the hundreds already advanced. It is being argued, however, that if we were able to break down western resistance to our receiving armoured corps equipment, we would be able to create a deterrent in the plains of the Punjab and so dissuade Pakistan from an adventure in the Kashmir Valley. If such a situation were created we could withdraw soldiers trained in mountain warfare from the Valley to strengthen our positions in Ladakh and NEFA. Western resistance to such a move is natural, for Pakistan is a military ally and cannot be offended; indeed, the foreign military observers and inspectors are here to see that we fulfil the terms imposed and concentrate the aid against the Chinese. But the thought does occur that if western aid is to be used only against China, why is it not possible to get Soviet aid to deter Pakistan? Neo-nonalignment, you might say, but you would be surprised how often the theory is invoked these days.

Soviet attitudes to the India-China clash are still in a formative stage, according to those who study trends in the communist world. While the Chinese invasion is seen as a sharp manifestation of the ideological aberrations of Maoism, there is as yet no clear idea as to how Peking should be disciplined. But evidence is accumulating that the Maoists have been unable to confuse communist opinion by their unilateral 'offer' of a cease-fire and withdrawal; they remain isolated and the description of Peking's war against India as 'unreasonable and absurd' by the Italian Communist leader, Palmiro Togliatti, is going to isolate them further. It looks very much as if the Soviet Union, while formally remaining neutral itself, is encouraging important sectors of the commuist movement to deliver broadsides against China.

Probably, the tactics adopted have been carefully worked out to avoid a violent split between the two communist giants, but Delhi is impatient. Distressing, too, is the caricaturing of Soviet neutralism; no effort is made to publish direct criticism of China in the Soviet press even when that criticism comes from some one of the eminence of Togliatti. Presumably, the Soviet Union is holding back until the China withdrawal is completed and it is known how far the lines of November 7, 1959 differ from those of September 8, 1962. Meanwhile, the fluid section of Indian opinion, more-or-less decisive in the situation which prevails, wants to see whether the MIGs will arrive.

Who's in Command?

We are certainly in the throes of a vast ideological shake-up which affects our sub-continent and also the world. Kennedy and Rusk have drawn attention to these changes. Khrushchov, in his own way, is doing the same. Only the dogmatists and sectarians in both the opposed blocs want to polarise the world through supposedly 'principled' commitments at individual and national level. Against this background, the concept of non-alignment is likely to see many transformations. India, pitched by circumstances over which she has little control into the focal point of the ideological shake-up, will have to move most skilfully to preserve her sovereignty and independence of action. This complex situation, unfortunately, is not fully understood by those who control some of the crucial levers of political power in India. The Patils and Chavans have as yet to learn a great deal about the subtleties of the challenges which confront us.

These are some of the new and growing dimensions to the crisis. We have to address ourselves to them or they will overwhelm us. Will the Prime Minister and those who think like him act while there is still time to consolidate the gains of fifteen years and build afresh for a secure future or will we have to go through the usual self-destroying process before a new leadership is thrown up? This question forms again and again even as we face the critical problems spawned by the Chinese invasion.

Letter from South

The Age of Politics

SOUTH India watches tensely whether the much-trumpeted unilateral Chinese withdrawal is going to be effected. Nor is this a matter of a fear to fight should the fates so decree. In the major cities truckloads of soldiers have been spontaneously cheered on their way to the stations. The contributions to the National Defence Fund roll in. The rage at the Chinese attempt to humiliate us all burns as before. But, as elsewhere, there is no bellicosity. There is a desire that, consistent with honour, negotiations should become possible. Hence the watch for the withdrawals.

Contrary to cynicism and scepticism, India's role as a peace-maker and as the symbol of morality in world politics has come to be cherished by the commonality. There is a widespread sense of pride that because of its policy and, above all, because of its leader our country had not merely steered clear of world conflicts but had time and again been asked to be arbiter when such conflicts arose. These feelings were never aroused because they were never seriously questioned. It might be said that they retreated, as it were, to the unconscious of the race.

Not Seriously Challenged

Widespread discussions reveal that the mental and emotional situation with regard to the goal of a socialist society was much the same. In this part of the country, at any rate, neither the D M K nor the Swatantra in their *mass* campaigns seriously challenged this objective. What they harped upon was the lack of implementation or implementation in a fashion that helped the hierarchy of property. The Communists, naturally enough, had no quarrel with the declaration

of socialism as the national goal nor with non-alignment.

And the Congress with its overwhelming strength and influence never took the message of non-alignment or of socialism seriously, to say nothing of taking it to the people. It set the tone of casteist and regionalised postures or, at best, of surface day-to-day politics of meeting and adjusting particularised pressures.

What the national emergency has done is to decisively inaugurate the age of politics. The Chinese thrust has confronted the nation with the first consuming crisis since Independence. The event itself has galvanised the people to question and question the very fundamentals. Some go so far as to state that never before — even the 1930s and 1942 are not excluded — had there been such mass talking and listening. There is no escaping politics these days.

Inevitably the mass mood forces itself on to all political parties. The one party that has no doubts is the Swatantra. It is actively campaigning, under Rajaji's detailed guidance, for an anti-Communist national government totally committed to the West. It is spreading the message to all who care to have it that Nehru on his lonely own, surrounded by sycophants, cannot lead effectively against the Chinese Communist aggressors. It is repeating again and again that Nehru is far too entangled with the past policies, on which he built up his own prestige, which have led to the present debacle on the frontiers but which he shows no signs of now energetically repudiating. Only the inclusion of the Swatantra saint and lesser sages in the Cabinet can force his hand.

Holy Trinity

It is interesting to note that the Swatantra campaign in the South, at least, has as one of its themes what can be called the total officialisation of Government. Its contention is that the political leaders should be more in the nature of symbols and rabble-rousers while the actual work of administration should be left to those who have made a profession of it — the cadres of the Central and State services. The analogy they draw is that just as the actual fighting is directed by the generals, while Nehru concerns himself with broad policy issues, on the home front, too, the civilian "generals", i e, the tribe of Secretaries should be given a free hand. These are said to be impartial; to have know-how, and a vested interest in getting things done. Besides, the military commanders are said also to feel more at ease with them.

This insidious propaganda falls sweetly on the ears of the professional administrators, who have ill-concealed contempt for their political superiors. Their biggest grouse at the moment is that full powers have not been delegated to them, despite all the weeks that have passed since the emergency was proclaimed. There is nothing better they would like than to short-circuit the entire democratic process, which they disdainfully refer to as the politicians' paradise.

What we are getting is a certain reshuffle or rather a new crystallisation of the Establishment on the basis of the Holy Trinity of the Rightwing politician, the topsider bureaucrat and their colleagues in the private sector and the army. In the age of politics they would banish democracy on the plea of a firmer and more efficient national coherence.

Communist Transformation

The other powerful non-Congress force in the South is the Communist Party. Even before the widespread and quite indiscriminate arrests hit it, the Communist Party in Tamilnad and Andhra had gone through a severe shake-up. If the Chinese aggression has strengthened the Right in the nation as a whole, it has dealt a death-blow to the Left inside the Communist Party. The Left majority in Tamilnad has been reduced to a rump and the entire leadership is refurbished. And this new leadership gave a spectacular demonstration of its power by holding one of the biggest rallies in the memory of Madras to proclaim its new national line. In Andhra sweeping changes in the editorial board of the Communist daily and of the State Secretariat signalled the rout of the once formidable Sundarayya group. In Kerala the Left had never been a force but it is the Centrists rallied round Namboodiripad and Gopalan who have now been thrust into insignificance. All along the line the supporters of the Dange approach have swept forward to total control.

The evidence of the healthy nature of this transformation is the calm and persistent mobilisation for national defence that the Communists continue to conduct, despite the provocation of the arrests and the unjustified exclusion from the Defence Committees (except in Madras where, however, the Government-appointed Communist has quite inexplicably been put behind bars).

But placed as it is, the Communist Party is still fighting a rear-guard action. It is quite creditably holding on to its already existing mass base and establishing its patriotic *bona fides*. It is a herculean job to convince the unattached that the Communists have a role to play in a situation created by the aggression of a Communist State. That it has not fallen back and that it does get a hearing is a tribute to its present policy, its long years of work in many areas and to the racial unconscious mentioned earlier.

No Congress Answer

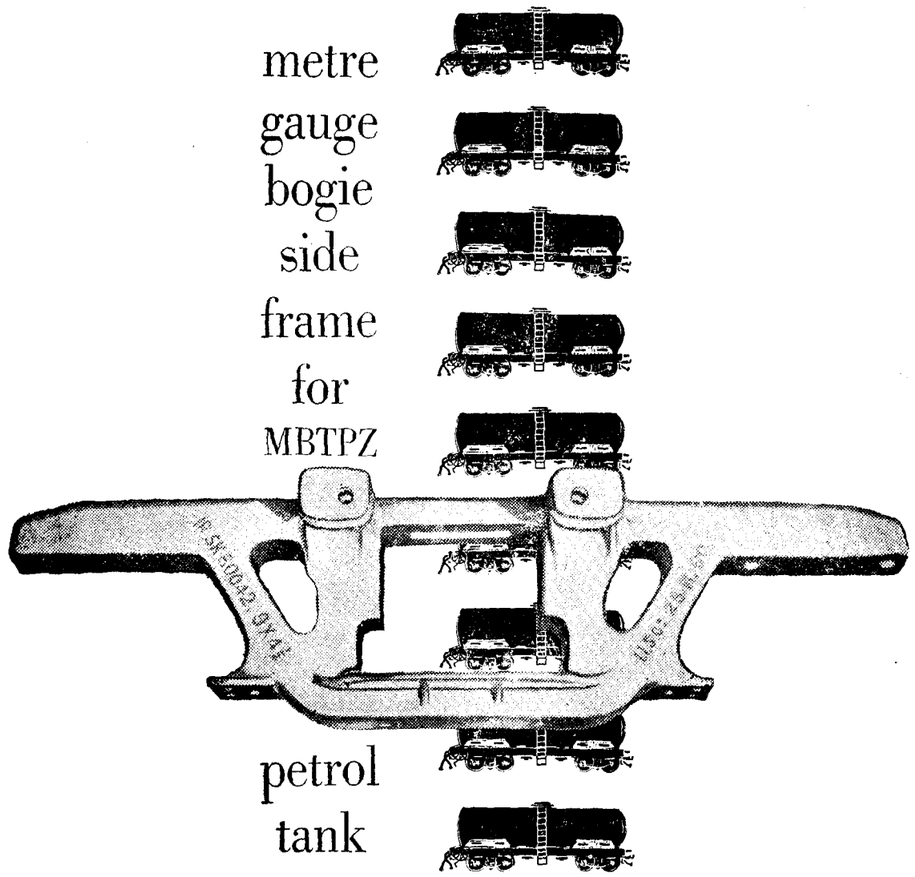
The Congress, however, will ultimately decide which way the political wind will blow. The burdens of administration are undoubtedly onerous and the strain is considerable. It is a sign of the contribution that the Congress has made to the shaping of India that the overwhelming majority continue to look to it for a lead. Those who dream of the officialisation of the Government overlook the cardinal fact that if the officials are accepted today it is because they appear as representatives of the Congress Government.

From looking for a lead, the people have to move forward to working for an ideal. It is here that the Congress leadership is badly falling down. These days one is strongly reminded of Nehru's analysis of the Congress on the eve of its Tripuri session in 1939. He had said then that to apply the European Right-Left concepts would be pointless. The Congress in its bulk was Left-Centre but only in terms of nationalism and of struggle in the contest of this objective. This is certainly true today of the Congress in the South. It wants urgently the

defence of our freedom and wants all measures to be taken towards this end. But what measures ? Here there is a vacuum, except for the traditional gimmicks.

The Congress leadership does not seem to know how to project and to defend the declared policies of socialism and non-alignment. It is as yet unable to make these real in terms of popular consciousness and tasks. It is unable to make a strong case for what is a patent fact — the present national leadership is admirably suited to rally India and the world against China. There is fumbling and even an attempt at apologetics.

Only if the Congress revitalises its faith will the second coming of age of politics not lead to the drowning of the ceremony of the nation's awakening in blood.



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IIC-67

Village Caste and Community

V Nath

The village and the caste are the two foci of community feeling in rural India. The average villager feels that he belongs to these two entities. What is happening to these feelings of belonging to the village and the caste in the midst of the rapid social and economic changes which are coming over rural India? The question is of fundamental importance.

In much of our thinking on rural development, it is assumed that the "village" is the "community". Many of our policies and programmes in this field depend for their success on the existence of a strong feeling of community centering on the village and would by their success, strengthen this feeling further. Programmes requiring popular participation for works of collective benefit like a road or school building furnish an example.

The basic developmental institutions in the village, the panchayat and the co-operative, similarly depend for their success on the existence of a strong feeling of community centering on the village. The feeling of belonging to a caste is to an extent complementary to that of belonging to the village. But it is also competitive; loyalty to caste serves also as a rival to loyalty to the village.

An attempt is made here to answer the question posed above by describing the situation in a Rajasthan village which the author has had the opportunity of studying in some detail for about a year.

K IS a medium-sized multi-caste village with a population of about 2,000, located at a distance of 6 miles from the district headquarter town, which itself is a small town with a population of about 20,000. K is connected with the town by an all-weather motorable road. Until 1955 when the Jagir was resumed, K formed part of the Jagir of an important Jagirdar of the former Jaipur State. The Jagirdar was very powerful in the village, up to the formation of Rajasthan in 1949-50. Thereafter, his power disappeared because Jaipur State ceased to exist; the new Government was committed to abolition of Jagirdari and it was accepted by all that its abolition was only a matter of time.

The village has 26 castes, of which Brahmins and Rajputs among the high castes, Jats, Malis and Meenas among the cultivating castes, and Chamars among the Scheduled castes are the most numerous. Chamars, forming about 1/4th of the total population of the village, are the largest single caste. However, no single caste is in a dominant position in the village.

Village Is Home

The average resident of K is very conscious of the fact of his belonging to the village. K is his home. He is also keenly aware of membership of his particular caste. Caste is the most important social institution and the main basis of social grouping. The village itself is thought of as an entity composed of seven castes; the smaller castes being ignored in this reckoning. It is recognised that in any matter concerning the whole village, representatives of all the castes must be consulted. Each caste is known by its traditional occupation and social status (place in the social hierarchy), although it is recognised that very important changes have taken place in these respects in recent years. It is recognised for instance, that the Rajputs have lost their political and social supremacy and that the Chamars after leaving lifting of dead animals and leather-work, are concentrating on cultivation and are aspiring to become equals of the traditional cultivating castes like the Meenas and Jats.

Only One *Abadi*

In order to understand the changes which are occurring in the feelings of belonging to the village and the caste, it will be useful first to recall the bases on which these feelings rested in the past, and then to analyse the changes to which each of these has been subject. In my view, the feeling of belonging to the village rested on four main bases:

(i) contiguous living;
(ii) isolation and concentration of economic activity within the village;
(iii) the Jajmani system; and,
(iv) caste.

So far as contiguous living is concerned, no marked change has taken place so far. Practically all the village families continue to live within the *abadi* (habitation area) of the village. With increase in population and growing prosperity, a large number of new houses have come up during the last 10 years; but all these are located within the village *abadi*. This area is now fully occupied and the villagers have been feeling the need for additional land for housing. A few families whose houses in the village *abadi* are insufficient for their needs have begun to use *baras* (literally "cattle sheds") built near their irrigation wells for residential purposes. But these *bara* dwellings are additional and supplementary to their main houses in the village. There is as yet no movement out of the *abadi* area; but there will be soon, because the need for additional land is being keenly felt. The new *abadi* lands will have to be at some distance from the existing *abadi*, because the lands contiguous to the *abadi* are all highly productive, well irrigated lands — the best in the village —, which the owners are very unwilling to give up. When movement to the new *abadi* areas takes place, the village families will be divided among two, three or more settlement units, and the feeling of belonging to one village, which is continuously strengthened by the fact of living together in a compact settlement will be weakened. It is not improbable that in course

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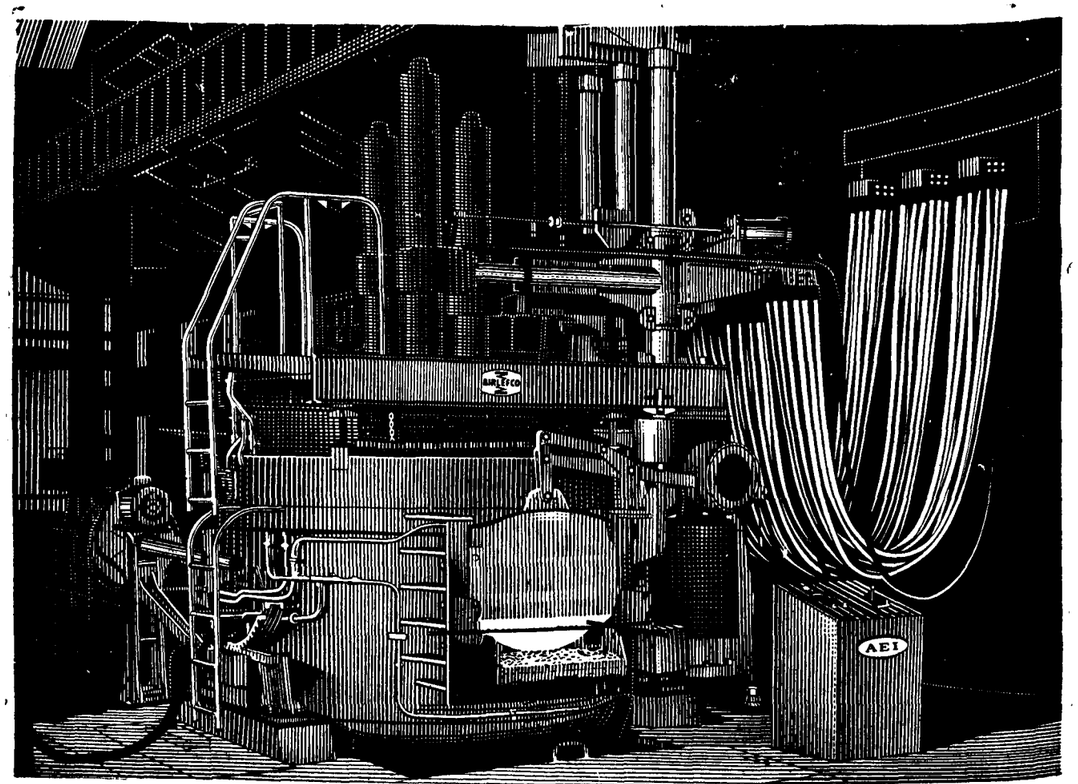

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of time each of these new *abadis* develops an identity of its own. However, this is for the distant future.

Isolation and concentration of economic activity within the village are things of the past now. It is hardly necessary to recount the stages in which these changes have occurred over the last 100 years or more, or to mention the social and economic forces which have brought these about. These are well known. However, it is well to emphasise that these forces have been operating with increasing vigour during the last decade, and especially since the completion of the all-weather motorable road, five years ago. To-day, the combination of the road, motor transport, and bicycles has brought the village within 20-30 minutes of the town and has made active and daily contact with it possible. One important result of this has been the growth of commuting to work in town. About 50 men of the village have permanent year-round jobs in industries and public works in town or the railway station. Another 100-150 persons work as casual or salaried workers for 4-8 months in the year. These 150-200 workers, representing about 1/6th of the total labour force of the village, go to town almost everyday and are in constant touch with happenings in it and the outside world. The merchants, village leaders like the Sarpanch and the four students who go to study in the High school, are other frequent visitors to the town. The average cultivator does not go to the town so much: but even he goes often enough — to buy cloth and other essentials, to dispose of his produce and for various miscellaneous purposes.

Contact with Town

Besides the villagers going to town, many townmen come to the village. Eight school teachers come daily to teach in the village school: two shopkeepers live in town and come to their shops in the village. Government officials, political leaders, itinerant vendors, are other frequent visitors to the village. The daily newspapers, the postal service and the radio also contribute towards keeping the villagers informed about happenings in the town, in Rajasthan and the world at large. All in all, the village is in constant touch with the town and the average villager is nearly as well informed about news as the town dweller of comparable economic and educational status.

With about one sixth of the labour force working outside it, the village is no longer the sole theatre of economic activity. Those who work outside feel that they are no longer entirely dependent upon the village for their living but are part of a larger economic system, of which the focus is the town. Even those who do not work themselves know that work is available in town, that it is an alternative or supplement to their agricultural work, and an opportunity for their younger generation which can be availed of when the family holding is no longer sufficient. The village lands are no longer seen as the sole source of sustenance; other sources are seen as actually or potentially important. The consciousness of being part of a nation-wide economic system grows, *albeit* slowly. The more thinking and better informed villagers realise that the pace of development works in the town depends upon decisions taken by Ministers and officers in Delhi and Jaipur. The trader and the village leader who has had much to do with courts and other administrative agencies has had this consciousness for a long time. It is now coming slowly to the ordinary villager.

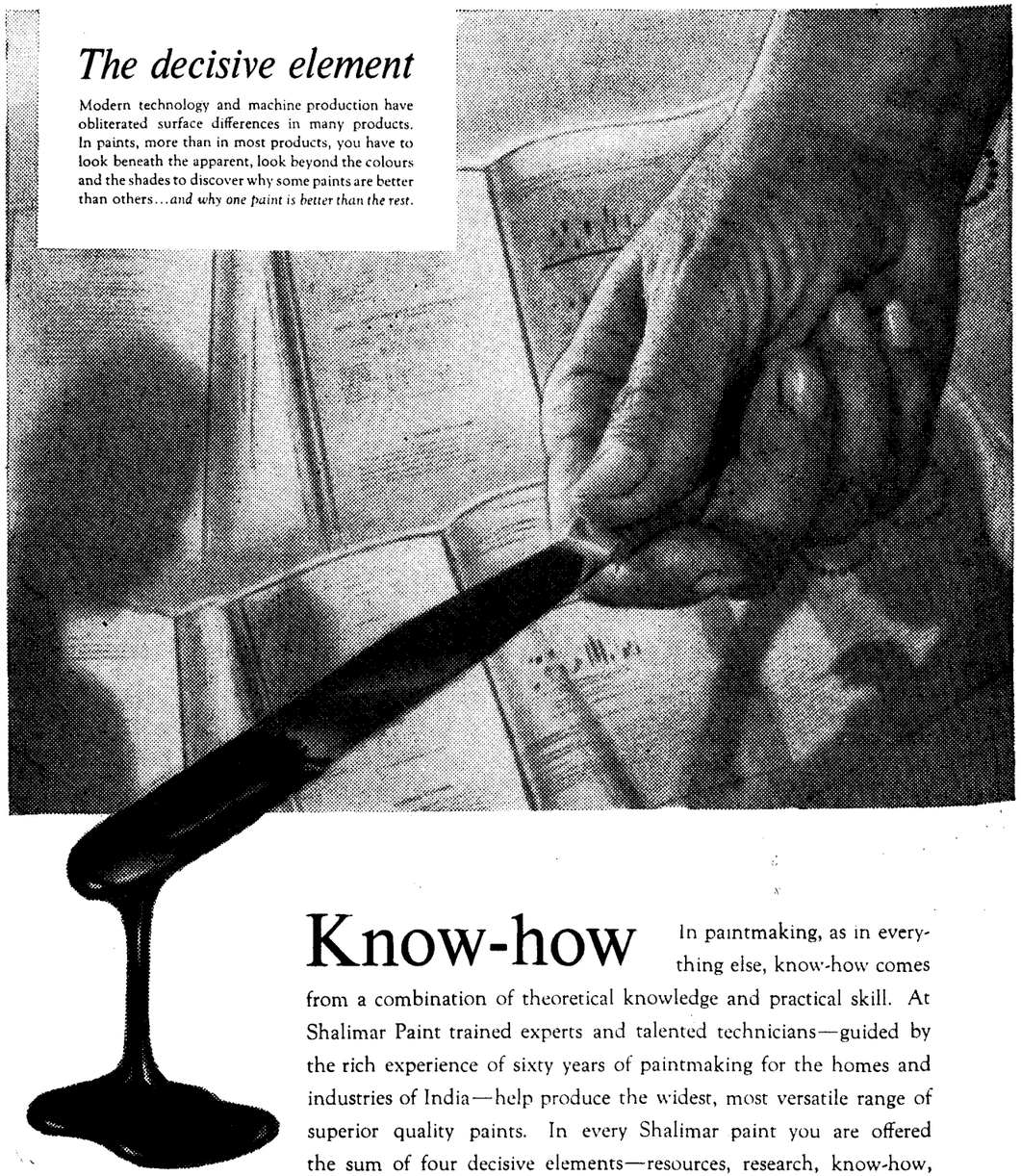
As a result of this active and continuous contact, there is widespread awareness of the link with the town. However, there is as yet no realisation of forming part of a region (like the area of the Panchayat Samiti or the Tehsil) of which the town is the centre. The panchayat members and other informed villagers know that their village forms part of the S Panchayat Samiti. All of them know that it forms part of the tehsil of the same name. But, these institutions only emphasize the link of the village with the town; they do not as yet bring any marked awareness of belonging to the region covered by them or of any link with other villages in the region. The links with other villages depend upon kinship and marital relationships; but the regions * for these are different and do not coincide with the above administrative units.

The Jajmani System

The Jajmani system has all but broken down. The system even though it had been disintegrating for a long time had continued somewhat longer in this area, than in other parts of the country, because the Jagirdars enforced the traditional obligations, especially those involving unpleasant jobs like drawing of water by the Kumhars (potters) and cleaning of utensils by the Nais (barbers). As a result, the breakdown of the system was especially rapid after the abolition of Jagirdari, when one caste after another repudiated its customary obligations. The biggest blow to the system was given in 1956 by the Chamars' refusal to lift dead cattle and to do leather work. The movement against doing these two jobs had been active among the Chamars of the area since the middle forties. It came to the village immediately after the abolition of Jagirdari. Most of the villagers opposed the Chamars: but a few including the Sarpanch who depended upon their votes, supported them. After some time, the villagers acquiesced in this change which had been occurring over the whole area and which they considered inevitable. The dead cattle are now lifted by the Bhangis (scavangers), who flay the carcasses and sell the raw hides, but do not do any tanning or leather-work. The villagers have to depend upon purchases in town for all their requirements of leather-goods, chief among which are shoes and *charas* (leather bucket for lifting water for irrigation). There is not even a cobbler in the village who would do repairs. Two other castes, the Kumhars and the Nais, have left their customary obligations of drawing water and cleaning utensils, though they are carrying on their major traditional occupations of making pots and hair-cutting, respectively.

The Jajmani system is being followed in an attenuated form in respect of only four castes: Kumhars, Nais, Khatis (carpenters) and

* The area in which the marital relations of a caste are concentrated. These regions are different for different castes.



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Lohars (smiths). The Kumhars supply earthen pots for which there are no factory-made substitutes yet. The other three render services which are essential, especially for cultivators. But even in case of these four castes, the Jajmani system is not being followed by all the families in the village. Most of the non-cultivating and a large number of the cultivating families are not following Jajmani, but are paying for the goods and services furnished by these four castes in cash. Even the families having Jajmani relationships, obtain only a part of their requirements in Jajmani payments, and pay for the rest in cash.

Caste

Caste acted as a support of the Jajmani system : the two were intimately related, and it is doubtful if the Jajmani system could have existed without caste. Therefore, through its support to the Jajmani system, caste may be seen as a contributor to the feeling of belonging to the village, just as the isolation and the feeling of belonging to the village could be seen as factors contributing to the enforcement of caste discipline. However, the more important role of caste today is as an alternative or rival focus of community feeling, and it is with this role of caste that we are concerned here primarily.

Caste has been weakened in several ways. First, with the growth of individualism, caste organisations have become weaker, especially among the high castes — Brahmins, Rajputs and Mahajans. Many members of these castes feel that they have no caste organisation or discipline left any longer. This is an exaggeration however, because there are few cases of serious lapse from the conduct traditionally sanctioned by the caste. The Rajputs and to a lesser extent the Brahmins have had to suffer a major social and economic come-down in the wake of abolition of Jagirdari and to make major adjustments in their attitudes and modes of living. The weakness of the caste organisations among them is due partly to this factor. Among the cultivating and lower castes however, as the following discussion will show, the caste organisations continue to be strong and have been assuming new roles.

Ideas of Social Equality

Second, caste as an arbiter of social status is much less important than before. The lower castes particularly are restive with the inferior status which the caste system gives them. Ideas of political and social equality have been sweeping the village. There have been two General Elections and four elections to the Panchayat and the lower castes have experienced the political propaganda which accompanies these. They see also that the village level institutions, the Panchayat, the cooperative and the school, are all based on egalitarian principles and that they are entitled to the benefits of these institutions as much as the high castes. They see their representatives sitting on the Panchayat along with the high castes and realise that one of them could one day be the Sarpanch (there is one Chamar Sarpanch in the Panchayat Samiti already). This more than anything else convinces them that time have changed and that social equality is not only desirable, but also attainable. They are also becoming increasingly conscious of their economic rights and privileges. This is true especially of the Chamars, who after leaving their leather-work are depending entirely upon cultivation and labour. They have got rights in land under the recent Tenancy Legislation and are very anxious to obtain more Government land for cultivation. They know that the Government is giving special concessions to the landless and the Scheduled castes in allotment of agricultural lands. They are very keen to avail of these concessions and are quite vocal about their special previleges and "rights".

The high castes also realise that the obvious social inequalities associated with the caste system must go. Some high caste villagers, notably the Sarpanch, have made an effort to abolish untouchability and have succeded to the extent of opening one drinking water well to all castes. They also realise that restrictions on food and drink are not practical in towns, and have seen shopkeepers in the town serving high and low caste alike. However, they are not yet ready to practise commensality in the village.

But while the obvious manifestations of caste are being reduced, caste as a social institution is not getting any weaker, nor is there any diminution in feeling of belonging to one's caste. In fact in some ways, the reverse is true. The caste organisation is gathering new strength by acquiring new functions and roles. The role of caste in elections and politics has been commented on by several social scientists and need not be reiterated here. In this area, the most notable recent demonstration of the strength of the caste organizations has been their effectiveness in sweeping away customary obligations : leather-work for the Chamars; carrying water for the Kumhars; cleaning utensils for the Nais. No member of the caste concerned in this or surrounding villages dare perform these tasks. The caste organisations are also effective in preventing their members from taking up new occupations for which new opportunities are arising, but which are not sanctioned by them. Thus, there is not a single non-Gujar who sells milk, or non-Mali who grows or sells vegetables. The demand for milk and vegetables is increasing with the growth of population in the town and near the railway station. But the supply of these products remains entirely in the hands of castes that have been supplying these traditionally, and in case of milk there is an acute scarcity as supplies have failed to keep pace with the increasing demand.

Caste Endogamy Rigid

It is perhaps unnecessary to mention that there is no instance of inter-caste marriage or other breach of rules of caste endogamy. Any such departures would be inconceivable. What is more significant and disturbing is that association and social intercourse are becoming increasingly caste-wise. The traditional forms of inter-caste association have steadily lost ground and the new forms, mostly sponsored by development staffs, have failed to gain popularity. Feasts on the occasions of marriages and deaths, are the best means for getting together in this area. These are now almost all caste-wise. Large feasts at the homes of rich Jagirdars or Mahajans which people of all castes attended are becoming infrequent. The Jagirdars are gone and large feasts are not encouraged (death feasts are prohibited by law). On the other hand, small

feasts to which members of one's own caste alone are invited, have become much more frequent; because even the small cultivator or labourer can now afford to give a small feast. Festivals like Dussehra Teej, Gangore, which were organised by the Jagirdar and in which the whole village participated, have been discontinued. Most of the festivals are now celebrated by the people either in their own homes (e g Diwali) or in their temples e g Janmashtami), each of which belongs to a particular caste. The only festival which is now being celebrated by all the villagers together is the Jal-jhoolni Gyaras, which comes in September-October. On the other hand the institution of caste-wise kirtans has grown. Formerly, kirtan was confined to two or three temples of the high castes and was largely the concern of Brahmins. But during the last ten years, kirtan parties have sprung up in all temples including that of the Chamars and all these parties are organised caste-wise.

Associations like Youth Club and Community Recreation Centre organised under the community development programme have not become popular. The only institution where members of different castes do meet daily, associate and play together is the school. But the school-children are young, and the influence of the school on the association and recreation patterns of adults will be seen only after 10-15 years when the school children of today grow up.

No Voluntary Community Action

The Panchayat and Cooperative are other institutions where persons of different castes come together. But these are not institutions of social intercourse or recreation. They are designed for specific administrative, developmental and economic functions. The institutions have been fairly successful in performing their specific functions. Thus, the panchayat carries out its administrative functions fairly well; and has in the past completed a number of development works like the school building, a drinking water well and the Panchayat building. The cooperative is one of the most successful in the district, having a large and successful business in credit and distribution of agricultural supplies. These institutions have a contribution to make in promoting inter-caste association on an equal footing, but they are not institutions of social intercourse and their working does not furnish any occasions for all or most villagers to come together.

One final fact may be mentioned. K has not had a tradition of voluntary community action. During the time of the Jagirdar, all works of collective benefit were carried out under the orders of the Jagirdar, often with coercive mobilisation of labour and other resources (*Begar*). After the abolition of Jagirdari, the only work of village-wide benefit for which community effort has been mobilised has been the school building. Monetary contributions for it were collected on behalf of the Panchayat by the revenue agency. There has been no other instance of mobilisation of resources on a community-wide basis. Two works, pavement of bazaar and construction of community centre, are lying incomplete because the requisite contributions are not forthcoming from the villagers. All the village leaders admit that mobilisation of contributions for a work of village-wide benefit is extremely difficult. On the other hand, caste-wise mobilisation of contributions has been moderately active. Three temples, of the Chamars, Malis and Jains, have been completed with contributions from members of the respective castes during the last five years.

Conclusion

The experience of this village leads to two major conclusions :

(i) The feeling of belonging to the village is becoming weaker; but that of belonging to the caste is not becoming weaker and is in fact becoming stronger in some ways. The feeling for the village even though it is local, is secular in character inasmuch as it transcends caste, kin or other groups, while that for the caste is essentially sectarian.

(ii) The village is being transformed from an integrated socio-economic unit to which all residents had a strong attachment and a feeling of belonging, to a habitation containing a collection of competing castes. This latter stage has by no means been reached; but the trend is in this direction.

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SISTA'S SBH-3

The Incomplete Sarvodaya Argument

Yoginder Kumar Alagh

One of the basic tenets of Sarvodaya economics is the belief that the emphasis on centralised economic planning leads to a capital intensive industrial structure which is wasteful in an economy with surplus labour.

But since the production of even a minimum core of producer goods in the public sector, of necessity, demands capital intensive techniques, the possibility of the application of the Sarvodaya doctrine of labour intensive techniques, if it at all exists, is in the substantial consumer goods sector which is largely in the private sector.

This aspect of the problem has, however, been largely ignored by Sarvodaya economics.

THE Sarvodaya economist's argument is that in an economy with surplus labour, relative factor proportions dictate the use of labour intensive methods of production. Thus, "In any scheme of National Planning it is, therefore, necessary to devise various methods and techniques of production which would be labour-absorbing rather than labour-saving. In other words, poor and under-developed countries have to depend on labour-intensive rather than on capital-intensive patterns of production both in the agricultural and in the industrial spheres". (S N Agarwal, "Principles of Gandhian Planning", p 288; also see pp 324-328).

The conclusion is that central economic planning, with its attendant emphasis on heavy industries, is wasteful. As in the case of many of the other Sarvodaya arguments (particularly the J P version of the above argument) it is difficult to find out what is really important, the argument itself or the conclusion drawn from it, particularly when some very concrete practical policy conclusion is arrived at on the basis of extremely fuzzy reasoning.

To begin with, the setting up of a core of heavy industries has to be distinguished from a capital intensive production pattern in the economy as a whole. Maurice Dobb has pointed out how a capital intensive investment goods production sector is absolutely compatible with a labour intensive consumption goods production sector. He has shown how different values of Lpi are consistent with different values of Lpc, when L stands for labour and pi and pc for productivity in investment goods sector and productivity in consumption goods sector, respectively ("An Essay on Economic Growth and Planning", 1960). A minimum of steel, cement and even some of the machines that make machines, is the pre-condition of any development at all — whether of the Sarvodaya or the Soviet pattern. And, when on the defensive, most Sarvodaya economists accept that even the Sarvodaya economy would need certain goods and services, the production of which can only be organised at the national level on account of indivisibilities in the production function. (J P Narayan, "Democratic Decentralisation", *Indian Journal of Public Administration*, July-September 1961, p 278).

The Crucial Question

However, the production of a certain core of investment goods in a capital intensive fashion, does not make the economy capital intensive as a whole. The crucial question for the Sarvodaya economist therefore, becomes, or at least should become, the production pattern in the final goods production sector of the economy. Since a minimum investment is necessary for any type of development, the issue becomes how this investment is distributed in the economy as a whole. The issue is not really 'steel or no steel' or even 'machine tools or no machine tools'. On the other hand the issue is whether this steel or these machine tools will be used in agro-industrial centres, industrial estates, or factories (and if factories, then whether large, medium or of the small type). The production pattern of the investment goods sector is of necessity capital-intensive and so the problem of labour-intensive techniques primarily arises, and perhaps can only arise, in the production pattern of the consumption goods sector.

Against this background, let us briefly examine the relevant Indian experience. For our purposes it might be useful to look at the production pattern of the public sector and the private sector separately, particularly because the public sector is engaged in the production of producer goods and the private sector largely in that of consumer goods. The Industrial Policy Resolution and the overall nature of economic planning in India have restricted the role of the public sector to the provision of what may be, broadly, called industrial overheads. Technical considerations dictate that the efficient production of these industrial overheads is possible only with capital-intensive techniques of production. This by itself, however, does not make the rest of the economy capital intensive. The effect that the producer goods sector will have on the production pattern of the consumption goods sector will only be a partial one, depending on the type of producer goods supplied. The supply of the basic industrial goods, e g steel, cement, chemicals, etc, just does not by itself appreciably affect the production pattern of the consumption goods sector because these basic investment goods can be used in a variety of production techniques, some far more capital-intensive than others. The influence of the producer goods sector on the production pattern of the consumer goods sector can only be exerted by the supply of particular types of industrial machinery.

Little Influence on Consumption Goods Sector

It is possible, of course, that the industrial machinery supplied by the public sector may affect the production techniques of the consumption goods produced in the private sector. However, under the peculiarly Indian conditions, it is not possible for the public sector to influence the demand for industrial machinery because this demand is dictated by the consumption goods sector which is entirely in the private sector. It is now commonplace that the only way in which the State affects "demand" conditions is by affording to the private sector the overall "umbrella" of a protected market with an assured increase in demand on account of plan expenditures. Within this overall "umbrella", however, decisions regarding the nature of investment and type of capital machinery to be installed, are left largely to the private sector. (See K S Gill, "Role of Government in our Economic Development", *Yojana*, December 24, 1961, pp 21 to 24, p 28).

Under such conditions it is obvious that it is the demand and not the supply factors which would set the pace for the production of industrial machinery in the public sector and thereby determine the ultimate production pattern of industry. Even in the field of industrial machinery, the public sector largely produces machines to make machines, the latter being produced largely in the private sector (e g textile machinery, sugar machinery etc). The broad conclusion is that the public sector does not significantly determine the actual production pattern of the consumption goods sector of the economy. The Sarvodaya criticism of the "capital-intensive" bias of the public sector is really off the mark, because although production in the public sector in India is capital-intensive, this sector is limited to a field in which capital-intensive techniques are technically the only viable techniques. However, this by itself does not appreciably affect the production pattern in the economy as a whole. As regards the production pattern of the economy as a whole, State policy is not always effective and also not really very clearly defined. The emphasis on small scale industries and industrial estates really shows an urge to help the small entrepreneur and capital-light industries.

Production Pattern in Private Sector

The public sector just provides the overheads. The actual investment decisions in the final goods production sectors are made by the private sector. It is in this field that scope exists for variations in production techniques. The capital intensity or otherwise of the industrial structure, is really a pertinent question for the private consumption goods producing sector of the economy. In this sector, however, the available evidence points to increasing concentration and, therefore, the use of capital-intensive techniques which go with this concentration. Prof D R Gadgil has the following to say for monopoly capitalism in India, which is largely operative in the consumption goods production sector and the trade sector: "The main point to be noticed about this field of economic activity is that, though in relation to total occupied numbers and total numbers of economic units and establishments, its constituents are small, they are by far the most dominant in political, economic and social terms in the country today. Secondly, in almost every single field of their operation a degree of concentration of economic resources and power is in evidence". (Planning and Economic Policy in India, 1961, pp 7). The Sarvodaya argument has, therefore, to be directed at the private sector. However, the Sarvodaya case against the private sector has still to be made.

It will be seen that the basic validity of the whole Sarvodaya argument for decentralised techniques of production has, as yet, not been examined at all. The argument that labour productivity is directly correlated with capital-intensity are familiar. The economists' model (Maurice Dobb, *ibid*; Oskar Lange, "Essay on Economic Planning", 1957, and V V Bhatt, "Employment and Capital Formation in Underdeveloped Economies" 1960) involves maximum capital formation. The degree to which this model is approximated in practice is probably a political and organisational problem. However, even ignoring all these problems, we find the Sarvodaya case inconsistent. The moral Sarvodaya satyagraha has, as yet, largely been directed against centralised economic planning and development of heavy industries. No Sarvodaya leader has, as yet, suggested Satyagraha against increasing monopolistic concentration in the private sector in India where the Sarvodaya problem really exists. This really brings us to the original question — whether the Sarvodaya economic reasoning is consistent in itself or whether it is largely a process of the rationalisation of certain basic value premises. A colleague, a visiting Professor from abroad, once expressed surprise at the "Utopian, out of the world," social analysis of the Sarvodayaites and their "hard-boiled, matter of fact" analysis of political issues and events, be it economic planning, Tibet or Krishna Menon. Perhaps the Sarvodaya case is not so "partyless" after all.

Kothari Sugars

THE Second Annual Report of the Directors of Kothari Sugars and Chemicals for the year to June 30, 1962 discloses a loss of Rs 1,01,520 after transferring a sum of Rs 3,46,288 to "expenditure during construction" account. Factory buildings have been completed. Erection of plant and machinery which lagged behind on account of late arrivals of vital components, will now be completed, and the sugar factory will start crushing cane in January 1963. If supply of cane is available as anticipated, the factory is expected to crush about 1 lakh tonnes during the season, January-May 1963. The increase in the cane cess from Rs 2 to Rs 5 per tonne by the Madras Government will, according to the Chairman, Shri A D Shroff, hit hard the sugar factories in Madras State. The sugar industry's export promotion drive has not achieved satisfactory results. Since the leading importing countries such as U S A, U K, Canada and Japan import raw sugar, the I S M A has asked for the Government's assistance in enabling the sugar units to switch over to the production of raw sugar for export by the Association.

Analysis of the Stock of Money

V C Shah

With the revival of monetary policy in the 'fifties and the realisation of the role of the wealth variable in monetary theory, greater attention has been focussed on the problem of analysing changes in the stock of money.

The objective of the attempts to develop a theory of money stock is to ascertain the exact nature of the relationship between the policy instruments of a central bank and the stock of money. Once this relationship is firmly established, the task of determining the parameters of monetary policy variables for achieving a given target of the stock of money will become fairly easy. To put it differently, it will not be difficult to forecast changes in the stock of money as a result of changes in the parameters of the policy variables adopted by a central bank.

An attempt is made here to evolve a framework within which analysis of the stock of money can be undertaken and to focus attention on the key variables relevant to such an analysis.

I

Analysis of Money Stock

IN an arithmetic sense, we can say that variations in total money stock are brought about by specific agencies or through certain channels, which can be classified into five categories. Thus

(i) The central bank of a country can alter the amount of currency with the public and cash resources of commercial banks through its lending policy towards commercial banks and its open market operations.

(ii) The treasury can influence the amount of currency and the cash base of commercial banks by varying its borrowings from and repayment to the central bank and through its fiscal operations.

(iii) Fluctuations in the balance of payments tend to alter the cash resources of commercial banks and currency with the public.

(iv) The public by altering its deposit-currency ratio can influence the deposit liabilities of commercial banks, other things being equal.

(v) The commercial banks themselves can change their deposit liabilities by varying the ratio of their deposit liabilities to their total cash holdings, i e cash reserves with the central bank and vault cash, other things being equal.

The above forces can be expressed algebraically with some modifications and combinations. We can then set up an equation showing the relationship between the stock of money as a dependent variable and the forces affecting money stock as independent variables. This equation can be derived as follows :

Let M = Total money supply = $D+C$

C = Currency with the public

D = Commercial banks' net demand and time liabilities

Bc = Total cash resources of commercial banks

$E = \text{Expansion ratio} = \frac{D}{Bc}$

Mb = Currency with the public plus total cash resources of commercial banks = $C+Bc$

$\frac{D}{M}$ = Deposit-money ratio

By definition $Mb = C+Bc$

$$\therefore \frac{M}{Mb} = \frac{M}{C+Bc}$$

$$\therefore \frac{M}{Mb} = \frac{M}{C+D/E} \quad \text{(substituting } Bc = D/E \text{ by definition)}$$

$$\therefore \frac{M}{Mb} = \frac{M}{M-D+D/E} \quad \text{(substituting } C = M-D\text{)}$$

Dividing the numerator and denominator of the right-hand side by M, we get

$$\frac{M}{Mb} = \frac{1}{1-\frac{D}{M}+\frac{1}{E}.D/M}$$

$$\therefore M = \frac{1}{1-D/M+\frac{1}{E}(D/M)}\,Mb \quad (1)$$

or

$$\Delta M = \frac{1}{1-\left(\frac{\Delta D}{\Delta M}\right)+\frac{1}{\Delta E}\left(\frac{\Delta D}{\Delta M}\right)}\,\Delta Mb \quad (1a)$$

Two Leakages

This formula is like the well-known multiplier formula. Like the leakages in the Keynesian multiplier theory, here we have two leakages (i) $1-\frac{D}{M}$ and (ii) $\frac{1}{E}\frac{(D)}{(M)}$. We can regard $1-\frac{D}{M}$ as "propensity to hold currency" on the part of the public. This expresses the relationship between the currency held by the public and the total money stock with the public. The second leakage $\frac{1}{E}\frac{(D)}{(M)}$ can be considered as "propensity to hold cash reserves" on the part of the commercial banks. This leakage arises in the case of a fractional reserve banking system.

In the Keynesian multiplier theory, the value of the multiplier varies inversely with the marginal propensity to save. In the same way, it is obvious from formula (i) that a reduction in the marginal propensity to hold currency $1-\frac{D}{M}$ or in the marginal propensity to hold cash reserves defined as either $\frac{1}{E}$, i e $\frac{Bc}{D}$

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or $\frac{I}{E}\frac{(D)}{(M)}$ i e $\frac{Bc}{M}$ will raise the value of the money multiplier. It may be noted that under the system of differential cash reserve ratios, a rise in the proportion of time deposits to total deposits may tend to decrease $\frac{1}{E}$ or $\frac{1}{E}\frac{(D)}{(M)}$ and thereby to increase the stock of *money*, other things being equal.

The formula (i) indicates that the autonomous variable is Mb which can be compared with the autonomous expenditure in the case of the Keynesian multiplier theory. Mb is autonomous in the sense that it is determined by the Central bank, the treasury and the balance of payments of a country. As such it is fairly easy not only to determine but also to control changes in Mb unlike the multiplicand, i e, the constituents of autonomous expenditure, in the case of the Keynesian multiplier theory.

More Inflationary?

The formula is useful in resolving the controversy whether or not the method of borrowing from the Central bank by the Government to meet its budget deficit is more inflationary than that of borrowing from the commercial banks. The primary effect of Government borrowing from the central bank is to raise the multiplicand Mb by an amount equal to the amount so borrowed to finance the budget deficit. Consequently, the stock of money will increase in proportion to the value of the money multiplier

$$\frac{1}{1-\frac{D}{M}+\frac{1}{E}\frac{(D)}{(M)}}$$

If however, the Government borrows the same amount from the commercial banks, the primary effect will be to lower the marginal propensity to hold cash reserves i e $\frac{1}{E}$ or $\frac{1}{E}\frac{(D)}{(M)}$. Thus the value of the multiplier will rise and consequently, the stock of money. Whether this increase in money stock will exceed the rise in money stock owing to Government borrowing from the central bank will depend on the initial value of the money multiplier and the increase in Mb, on the one hand, and the initial value of Mb and a rise in the value of the multiplier, on the other. It is, therefore, not possible to assert that one method is always more *inflationary* than the other.

It may, however, be noted that in the case of an underdeveloped country like India, the multiplicand Mb is relatively high. So, a slight fall in $\frac{1}{E}$ or $\frac{1}{E}\frac{(D)}{(M)}$ because of Government borrowing from the commercial banks, will lead to relatively greater increase in money stock. Moreover, in a country like India, the value of the money multiplier is relatively low. Hence a given increase in Mb owing to Government borrowing from the central bank will lead to a relatively smaller rise in the stock of money. These considerations based on formula (i) have a bearing on the definition of deficit finance and the methods of raising money to meet budget deficits in a country like India.

II

Forecasting Money Stock

The formula (i) is also useful for predicting variations in money stock provided we assume the values of the two leakages to be constant just as we assume the value of marginal propensity to consume to be constant in the case of Keynesian multiplier theory. The crucial question, therefore, is whether such an assumption is plausible or not. Here, one distinction may be emphasised. It is one thing to assume the values of the leakages to be constant and quite another to assume the currency holding function and cash reserves holding function to be stable. If we make the former assumption, our theory of money stock becomes mechanical like the old version of the quantity theory of money. In this case, our formula may cease to be a useful tool of analysis. So in order to make the formula meaningful, it is necessary that we assume the two propensity functions to be stable.

Once we assume the propensity functions to be stable, we are in a position to test empirically the hypothesis that money stock is determined by Mb. For this purpose, we may adopt the method of regression analysis after constructing two time series: (1) *total* stock of money and (ii) Mb. The regression equation so determined may be useful for forecasting changes *in money stock in response* to variations in Mb, provided we find the correlation between money stock and Mb to be statistically significant.

We may, however, note one danger involved in this approach. One obvious reason for any significantly high coefficient of correlation between money stock and Mb that may be empirically found is that Mb is itself one of the components of total money stock. Hence such a correlation is to some extent spurious. Moreover, the degree of spuriousness in the coefficient of correlation is likely to be higher, the larger the proportion of Mb to the total stock of money — as is the case in underdeveloped countries such as India. So it may be more desirable to find the regression of Mb on that quantity of money stock from which the component of currency with the public is eliminated. Any way the correlation we shall get is not likely to be perfect because the values of the two propensities are not likely to remain constant over a period of time. Nevertheless, if we could find a consistent behaviour of the two propensities in terms of objective economic variables, our confidence in the theory of the stock of money as expressed by the formula would be strengthened. In other words, it is necessary to test whether the two functions — the propensity to hold currency function and the propensity to hold cash reserves function — are stable or not.

Propensity to Hold Cash

In order to understand the propensity to hold cash reserves function, we should concentrate on $\frac{1}{E}$ or $\frac{1}{E}\frac{(D)}{(M)}$. The ratio E depends on the interaction between the asset preferences of the public on the one hand and that of the commercial banks on the other, subject to the constraint imposed by the legal or the traditional cash requirements on the maximum values of E. To put it differently, we need a demand for assets function and a

supply of assets function. We have, therefore, to determine which independent variables enter into these functions. This field of research in monetary theory is both complicated and challenging. Pending the development of the theory on these lines, we may study the trend in E or the propensity to hold cash reserves for the purpose of predicting changes in the stock of money.

The propensity to hold currency may be considered as a function of per capita real income, expected net return on deposits and tastes. If the income elasticity of bank deposits is higher than that of currency, we may expect the propensity to hold currency to fall in a growing economy. Similarly, an increase in the interest rate offered on bank deposits may lead to a fall in the propensity to hold currency on the part of the public, *ceteris paribus*. Such a decline in the propensity to hold currency will tend to increase money stock. The tastes of the public may be influenced by institutional factors such as increasing urbanisation, spread of the banking system, expansion of the monetised sector of the economy.

III

Reserve Bank's Forecast of Money Stock

In the light of the above discussion, we shall offer a few comments on the excellent study by the Reserve Bank on money stock in India. Our comments will be confined to the forecasting of the stock of money made by the Reserve Bank. Before we proceed, however, it may be emphasised that the Reserve Bank's attempt at forecasting the stock of money is merely of an illustrative nature. So our comments need not be construed as criticism of the Reserve Bank's study.

From the point of view of the application of statistical technique, it may be pointed out that the use of year-end figures by the Reserve Bank to find out the ten year average ratio of money stock to Government money (which is similar to what we call Mb) is not satisfactory. In India where there are seasonal fluctuations in money stock, it is desirable to use annual averages of the stock of money and of Government money for finding out the ratio for the purpose of forecasting changes in money stock. Further, it will be more meaningful to find out two ratios of money stock to Government money — one for the busy season and the other for the slack season by taking into account averages of money stock and Government money for both these seasons. These seasonal ratios will be useful for predicting changes in the stock of money in the ensuing slack and busy seasons and will be helpful in formulating monetary policy.

Spurious Stability

Another question is whether the ten year average ratio can be used for forecasting changes in the stock of money. This average ratio in any case does not represent the trend in the relationship between money stock and Government money. Moreover, stability of the ratio may be spurious because a large part of Government money constitutes a high proportion of the total money stock. Thus forecasting of money stock based on this technique may not prove to be useful for determining important economic questions such as the amount of non-inflationary deficit finance. Probably, a coefficient of regression based on the regression of money stock, rather money stock less currency with the public, on Government money may be a better technique of forecasting variations in the stock of money.

This statistical approach of regression analysis is, as is well-known, subject to certain limitations. One of these is the assumption that the conditions which affected the time-series in the past will continue to influence the dependent and independent variables in the future. Our confidence in this assumption can increase to some extent, if we analyse the forces affecting what the Reserve Bank calls the ratio of bank money to bank reserves (i e, our concept of propensity to hold cash reserves) and the deposit currency ratio, i e, the propensity to hold currency. Stability of the ratio of money stock to Government money over a period of ten years may be the resultant of the stable ratios of bank money to bank reserves and of bank deposits to currency or of the exactly off-setting changes in these two ratios which in our formula determine the value of the money multiplier. Moreover, the fact that these ratios are much higher in other countries implies that in India, there is large scope especially for the deposit-currency ratio to increase in the future. The Reserve Bank study shows that in the last ten years the deposit currency ratio was fairly constant. This may be due to the conflicting influence on this ratio of the various institutional and economic forces. Volume of travel per capita and the duration of travel may have increased with the rising tempo of economic activity in the fifties. There has been an expansion of the monetised sector of the economy. These two factors have exerted a downward pressure on the deposit-currency ratio. On the other hand, some forces, such as increased urbanisation and spread of the banking system, would have tended to raise this ratio. Also economic variables like real income per capita and especially deposit interest rates would have exerted an upward pressure on the deposit-currency ratio in India during the last ten years.

The upshot of this analysis is that for the purpose of forecasting changes in the stock of money and formulating economic policies, it will not do to neglect the effects of economic forces on E and the deposit-currency ratio. Moreover, it is desirable to further refine the statistical tools used for predicting variations in money stock in India.

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Need for Subsidy to Agriculture

L Merzer

Production of food is uneconomical and is justified solely by unavoidable necessity. As this branch of production, though uneconomic, cannot be abandoned, it has to be subsidised just like education or public health.

The need for subsidising agriculture exists as much in the rich as the poor countries. Even countries using the most advanced techniques of agricultural production and having the highest yields have come to accept regular and systematic subsidies to agriculture.

IN the production of commodities to satisfy the requirements of society one can distinguish three groups according to the source of raw materials and the duration of usefulness of the finished product.

In the first group are products whose raw materials are readily available at their source and the time necessary for their extraction is relatively short. These sources occupy a fairly limited area in comparison with their yield and it is possible to increase the output without increasing the area of exploitation. To this category of raw materials belong coal, timber, oil, various ores, etc.

The processing of these raw materials into finished products ready for consumption takes a short time in a relatively limited area, e g, factory or plant. The seller of the finished product expects to find in the price requested, apart from his personal profit, the cost of production starting from the raw material. The purchaser — the consumer — has to consider if the final product is of sufficient service to him to justify the requested price. In general it is so, because the acquired product will last much longer than the time taken to manufacture it and the purchasing price is spread through a period sufficiently long to avoid disturbing the balance of the consumer's budget.

The second group of commodities consists of those manufactured from raw materials of agricultural origin, such as cotton, jute, sisal and other fibres, rubber, wool, hair, hides, skins and other products originating from domestic animals, and so on. The production of these raw materials requires supervision for prolonged periods and uses large areas in the form of planting fields and pastures. There is little chance of increasing the output within this same area, or of shortening the time of ripening or maturing the products. All materials of plant origin require their season to ripen. The animals, whether sheep or cattle, take years to mature in order to give their valuable raw materials, and little can be done to make sheep produce more wool per year, or make cattle mature and make their hides available more quickly. The output can only be increased by enlarging the sown area, or the number of sheep and cattle, and hence the grazing area.

And yet the final product is as useful as the products of the first group in their lasting durability; their usefulness adequately makes up for the time needed for their manufacture. Here, as before the consumer can meet even the higher price for the goods of this group, because of the spread of the cost through a long period of time. The price is higher than of the first group, because it has to cover, in addition to the cost of manufacturing it, the cost of risks due to natural causes, disasters such as droughts, floods, pests, epidemics etc which may occur during the growth of the sources of the raw materials, and which man can do little or nothing to remedy or prevent.

The rigidity of prices of the second group of products can be avoided by substituting for them raw materials of synthetic origin such as plastics, synthetic fibres or synthetic rubbers, belonging therefore to the first group, which will render the same service at a lower cost.

Food Production Uneconomical

The third group consists of foodstuffs of vegetable and animal origin. Here the conditions for producing them are similar to those for group two, and consequently the price is fairly high and rigid. But the products will not give lasting service, such as those of the previous two groups give. They have to be consumed on the spot and continuously replaced.

It takes several square yards of good soil and a whole year to produce a loaf of bread to be consumed at one meal; similarly, a helping of meat requires acres of pasture, not to mention the years it takes to breed the cattle.

In this case the consumer has to meet the same high price as for group two, but cannot spread the cost over such a long period; on the contrary, he has to replace the product constantly. The production of food is, therefore, uneconomical and is justified solely by unavoidable necessity. In this resides the fallacy, the insoluble conflict between the producer and the consumer of foodstuffs.

As this uneconomical branch of production cannot be abandoned it has to be accepted as deficitary and be subsidised from profits gained from groups one and two.

It is an accepted fact, that countries predominantly agricultural are poor countries. It is easy to see the reason for it. Agriculture being their main source of income, their economy is deficitary. When their output is low, there is not enough for all, and prices are too high to allow the whole population to be fed. If there is a glut of foodstuffs, the market prices don't cover the cost of production, the producers are obliged to sell their goods at loss.

It is only when a country has a developed industry that it can afford to cover the differences between price and cost of production.

This subsidy has to be regulated and controlled by governments. There is a general trend in all countries towards some degree of controlled economy. Sometimes it is done one-sidedly; for instance, the

U S government has in the past brought up agricultural produce to destroy it for the sake of maintaining high prices. On the other hand, during the last war England instituted a system of subsidies for agriculture and continues it in one form or another even now. The principle is to fill the gap between the cost of production and the selling price of the produce from the general income of the state.

To subsidise a necessity, in itself uneconomical, to run on commercial base, is not a new phenomenon. Education was considered at one time as solely a source of income for those who dispensed it. People got such education as they could afford to pay for. The same applied to medical care. And yet now these are accepted almost universally as the duty of the Government towards the society they are ruling, and are paid for from general taxation.

Company Notes

Premier Automobile

THE Eighteenth Annual Report of Premier Automobiles for the year to June 30, 1962, shows that the income from sales has declined sharply by Rs 1.26 crores to Rs 21.48 crores and that the profit, after providing depreciation, development rebate and taxation, has fallen to Rs 39.54 lakhs compared with Rs 60.59 lakhs in the previous year. Adding Rs 4.74 lakhs being the balance of previous year brought forward and Rs 14.60 lakhs transferred from deferred taxation reserve, a total of Rs 58.88 lakhs is available for disposal. From this, a sum of Rs 17.72 lakhs is appropriated to make adjustments in respect of expenses, etc, and provision for taxation of previous years, and out of the balance of Rs 41.16 lakhs, the Directors have proposed a dividend of Rs 7 per share, subject to tax, as against Rs 9 in the previous year, which will absorb Rs 39.32 lakhs and leave a balance of Rs 1.84 lakhs.

The poor performance of the Company is attributed by the Directors mainly to a lower turn over due to a fall in demand for trucks, a rise in costs, particularly in wage bill (including Rs 15.08 lakhs paid to staff as bonus for 1959-60), and a larger provision for taxation at higher rates. Further, the Company had to pay from July 1, 1961, enhanced fees for technical assistance under the new agreement with Fiat S P A.

The manufacture of components and parts is progressing satisfactorily. Premier manufactured transmissions are being used on Fiat cars since October last year. The front and rear axles produced in the factory form 17.84 per cent of the indigenous content of trucks.

As regards the Company's sheet metal component project, orders for machinery and equipment of the value of 6.5 million dollars have been placed through Chrysler Corporation, and the machinery is expected to be received shortly. The cost is being met from the loan of 7.2 million dollars granted to the Company by the U S Agency for International Development.

An agreement for a further loan of 3 million dollars from the A I D for the purchase of dies, jigs, fixtures and other machinery and equipment for the S M C project was signed in June this year.

The Company has entered into an agreement with Henry Medows, England, securing an exclusive licence to manufacture and sell India Medows engines and component parts. The production of Meadows engines has begun. Full productive capacity will be reached as soon as new machine tools ordered are received and installed.

Government has allocated Rs 1 crore in foreign exchange for the import of machinery and equipment required for the expansion of the Company's plant. The Company is now producing Shock Absorbers under an agreement with Monroe Auto Equipment, U S A and has appointed Monroe S A as exclusive selling agents to market the Company's Shock Absorbers in territories not covered by the Company. The agency is for a period of 5 years subject to sanction by the shareholders.

The Copany's subsidiary, Premier Auto Electric, has taken up distribution of Beacon dynamos, etc. manufactured by Best & Co, in collaboration with Simms Motor, England. P A E has also extended the range of Prakash products which are in the market.

Investment Corporation

THE Investment Corporation of India completed 25 years on March 5, 1962, and to mark this event, the Board has recommended an additional dividend of 1 per cent on its ordinary shares as Silver Jubilee bonus for the year ended June 30, 1962.

The Corporation's income during the year by way of dividend and interest has moved up to Rs 29.45 lakhs on its investments which stood at the end of the year at Rs 517.73 lakhs, against Rs 27.07 lakhs on an investment of Rs 504.66 lakhs in the previous year. Other sources of income such as service charges, underwriting commission, etc have yielded Rs 8.28 lakhs (Rs 7.43 lakhs) raising the total income to Rs 37.72 lakhs (Rs 34.50 lakhs). Expenditure excluding provision for taxation has increased to Rs 13.97 lakhs (Rs 11.14 lakhs). The net profits, however, have remained slightly higher at Rs 23.75 lakhs (Rs 23.36 lakhs). The Directors have written back Rs 3 lakhs being the amount provided in excess for taxation in the previous year, and have allocated Rs 1.75 lakhs this year for taxation, as against Rs 5 lakhs previously. Taking into account the balance from the last year of Rs 0.71 lakh, the net profits for the year available for disposal amounts to Rs 25.71 lakhs (Rs 18.53 lakhs), from which Rs 5 lakhs (Rs 0.59 lakh) is transferred to the General Reserve, Rs 19.38 lakhs (Rs 17.34 lakhs) is allocated for payment of dividends and Rs 1.32 lakhs (Rs 0.71 lakh) is carried forward. The dividend on ordinary shares is proposed at Rs 9.50 per share of Rs 100 each including Re 1 as Silver Jubilee bonus as against Rs 8 per share for the previous year.

The Corporation's holdings in unquoted Indian shares amounts to Rs 1.60 lakhs on which it has realised an average return of 5 per cent. The Corporation's investments as on June 30, 1962 shows an appreciation of Rs 35.20 lakhs, working out at 6.8 per cent. Sales of investments during the year resulted in a profit of Rs 10.53 lakhs out of which Rs 1.99 lakhs is provided for Capital Gains tax and Rs 8.54 lakhs is transferred to Capital Reserve which now stands at Rs 114.18 lakhs (Rs 105.63 lakhs). The Corporation's paid up capital continues unchanged at Rs 220.22 lakhs.

The Corporation's subsidiary, India Standard Metal, in which it holds 53 per cent of the ordinary shares and 29 per cent of the preference shares has paid dividend at 10 per cent on the ordinary shares.

In his statement accompanying the Report, the Chairman observes that during the 25 years of its existence the Corporation has been active in almost every field normally covered by an Investment or Issue House. In addition to promoting and managing indusrtial concerns of its own, the Corporation has taken a leading part in the promotion and financing scores of new enterprises and has participated to the extent of Rs 9 crores in the underwriting of a large number of capital issues. Many of the Companies the Corporation has promoted or assisted such as National Rayon, National Ekco, Ceat Tyres, Henley Cables are today in a position to contribute substantially to the essential defence requirements of the country.

Nirlon Synthetic Fibres

THE nylon plant of Nirlon Synthetic Fibres and Chemicals, Bombay, (formerly Nanubhai Industries) was formally inaugurated by the Union Finance Minister, Shri Morarji Desai, on Sunday last. The plant has a capacity of 2 tonnes of nylon yarn per day, (making it perhaps the largest of its kind in India), which can be expanded to 5½ tonnes per day. When expanded, the plant will produce high tenacity tyre cord which can be used for truck, jeep and aeroplane tyres. The company will also establish a caprolactam (raw material for nylon) plant so as to make it self-sufficient in its raw material requirements.

There has been a growing demand for nylon in India in recent years. Imports have rapidly increased from 97,647 lbs in 1956 to 3,401,350 lbs in 1961 valued at Rs 300 lakhs.

Apart from meeting civilian requirements, nylon is of use in defence production, particularly for the manufacture of fabrics, groundsheets, lightweight tents, gun and equipment covers, parachutes etc.

The company has secured technical and financial collaboration from the Von Kohorn International Corporation of New York who have invested Rs 50 lakhs in the company's equity shares and will invest a further amount of Rs 41 lakhs when the expansion scheme is taken in hand. For the caprolactam project, the company proposes to enter into financial and technical collaboration with some other reputed U S firms.

According to present schedule, the expanded plant will be ready to go into production some time in the first quarter of 1964 and the caprolactam plant in the middle of 1965.

Humphreys and Glasgow

AT a time when the country is in need of technical know-how in different directions, the offer by Humphreys and Glasgow, the well-known firm of international consultants, contractors and engineers to make available specialised service of a much more elaborate nature than are available in India at present and to accept payment in rupees will evoke much interest. This may make a significant contribution to the industrial development of the country.

Humphreys and Glasgow have a large team of chemical engineers and their processes for the manufacture of ethylene and other petrochemicals are specially significant. The firm has offices in different parts of the world and through them is widening its contacts and services to the chemical industry.

Despite its recent start, the Bombay office has on hand contracts valued at over Rs 8 crores, two of which are for the setting up of a plant for the manufacture of dyestuffs, intermediates and allied products for ATUL and a plastics and sulfadrugs plant for CIBATUL at Bulsar. Though a foreign firm, Humphreys in conformity with its international policy, recruits qualified local personnel and, where necessary, trains them in its offices abroad.

Around Bombay Markets

Commodity Prices Decline

Thursday, Morning

UNLIKE the stock market which is always quick to beat a sharp retreat on any deterioration in the political situation, commodity markets are known to shoot up on war news. But instead of recording a rise, commodity markets generally have shown a distinctly easy tendency since the Chinese attack on India's northern borders. And the decline in prices has been quite heavy in many cases. Cotton futures have come down from Rs 754 to Rs 681 per 3 quintals and the fall has not been less pronounced in spot cotton prices. Among oilseeds, groundnut futures have moved down from Rs 233 to Rs 204.50, castor from Rs 172 to Rs 156.50 and linseed futures from Rs 40.50 to Rs 36.50. Bullion prices also have had a sharp break, with gold ready down from Rs 124 to Rs 85 (per 10 grams) and silver ready from Rs 224 to Rs 188 (per kilogram) — the latest quotations are, however, substantially higher. Non-ferrous metals, jute, chemicals, spices and copra — all have suffered sizable losses in recent weeks. Food grains and pulses have also been showing an easier tendency.

The cease-fire by China and the gradual withdrawal of the troops from the Indian territory have brought little respite to markets which had rudely shaken by the unprovoked aggression. The prevailing depressed mood of the commodity markets is in sharp contrast to the Government's serious concern about holding the priceline. It would be naive to suggest that the market bull has responded to the Government's appeals seeking full co-operation in this hour of national crisis. He has been forced to beat a hasty retreat in sheer self-defence. Better harvests, increased pace of new crop arrivals, growing monetary stringency, increased liquidity preference because of the political uncertainty, official warnings against a rise in prices and the assumption of wide powers by the Government under the Defence of India Rules — all these factors have contributed in varying degrees to the profound

change in market psychology. Even so, the decline in futures markets might not perhaps have been so very steep but for the existence of unwieldy bull positions before the Chinese invasion. There are no indications yet that the downward movement in prices has spent all its force. Quite a good deal will depend on the unpredictable development in the political situation. Official concern about holding the price line might seem unwarranted in face of the current depressed mood of the market. But it is quite logical to think that the war effort would, over a period of time, accentuate the inflationary pressures in the economy by generating new demand and also through a cut in imports of various goods. Since the current decline in the prices of most commodities is due more to a change in the mood of the market than to physical abundance of supplies, the downward trend might not persist for long. The sudden spurt in the price of gold from Rs 85 to Rs 107 in a matter of few days shows how quickly the market's mood can change. It is, however, doubtful whether the bulls would again turn very aggressive when the Government seems determined to prevent an upsurge in prices in view of the national emergency.

Bullion

Gold Rise Intrigues Desai

GOLD continues to be in the news. The price of spot gold which had been marked down to Rs 85 (per 10 grams) on 24th November was up again at Rs 107 on 4th December — the latest quotation, however, is lower around Rs 103. The rise from Rs 96 to Rs 107 came about within two days of the Finance Minister Desai's renewed stern warning in Bombay on 2nd December that the Government was contemplating further action to bring down the price of gold. The response to gold bonds has been thoroughly disappointing; only 49,675 tolas valued at Rs 30 lakhs had been received up to the end of November which is a little more than double the quantity received by way of contributions to the National Defence Fund. Addressing distinguished business men who had got together at the inauguration ceremony of Nanubhai's nylon yarn plant at Goregaon on 2nd December, the Finance Minister said "I do not understand why people are waiting (to subscribe to gold bonds) when they will not be questioned to explain their gold. Perhaps, they are afraid that their names will become known. Let them know their deeds are already known but they are not brought to book. But the Government will not go back on its promise." He added that those who wait might lose the 6-1/2 per cent interest being given by the Government to make up the difference in the internal and international prices and that if this opportunity was lost now it would become very difficult to explain gold possessions as they would not be free from capital gains tax and wealth tax. All this seems to suggest that the Government is probably thinking of some other measures of mobilising the country's gold hoards if the present gold bond scheme does not yield the desired results.

The Finance Minister appears to have been greatly intrigued and annoyed by the renewed strength in gold when he has been expecting the price to go down to around Rs 70 a tola (Rs 60 per 10 grams). But apart from issuing appeals to the public to refrain from buying gold during the period of national emergency and the issue of gold bonds at the international price of Rs 53.58 per 10 grams, there is nothing that the Government has done so far to bring down the price of gold. The ban on futures trading and the squaring-up of all forward business at the closing price on a particular day are not necessarily bearish factors. The price of gold cannot be brought down anywhere near the international price unless the Government takes some very drastic measures restricting the demand for gold. Threats and appeals — they really ill-go together — will not do. What is needed is prompt action.

Oilseeds

Exports Pick Up

OILSEEDS prices suffered a further heavy decline last week. Groundnut January moved down from Rs 213.37 to Rs 204.50, per (250 kgs) castor March from Rs 161.37 to Rs 156.50, cottonseed January from Rs 96 to Rs 92 and linseed March from Rs 37.25 to Rs 36.37 (per 50 kgs). Wednesday's closing prices were almost around the week's lowest levels. The recent decline has been caused more by nervous bull liquidation and lack of fresh support than by aggressive bear speculation. The bulls have been scared by the steepness of the recent fall and the mounting pressure of new crop arrivals. It is not merely that this is the time when the crop movement is normally in full swing but the political uncertainty and acute monetary stringency have increased the liquidity preference and the growers are anxious to dispose of their produce. Market psychology also seems to have been influenced by Government's determination to keep down the prices of essential commodities which include edible oils.

While the local market continued to be depressed, export houses reported fairly large business not only in groundnut extractions but also in groundnut oil, castor oil and cottonseed cake. The extension of the export incentive scheme to refined edible oils has improved prospects of business in groundnut oil. Business for 15,000 to 20,000 tons is reported to have been put through recently with the U. K., Burma, Hong Kong and Cyprus. And in groundnut extractions, shippers reported revival of buying by certain East European countries. Poland was mentioned as an important buyer. The U K buyers who had reduced their quotation for Indian groundnut extraction from £38 to £36-5 per ton over the past two weeks because of the pronounced weakness in groundnut prices here, were again reported buyers around £37 (December shipment) near the week-end. Fairly good business was also reported in castor oil. Cottonseed cake attracted good attention from the overseas buyers while export business in linseed cake continued to be on a restricted scale.

Reliable reports indicate that the State Trading Corporation is winding up its oilseeds section because of its disappointing performance in regard to the export of groundnut oil and groundnut expellers. It has suffered unexpectedly heavy losses in exporting groundnut oil and market reports are that it could not even honour all its commitments. Informed sources say that the recent groundnut expeller quota for 26,500 tons is the quantity remaining unutlised by the S T C.

Cotton

Down but Near Ceiling

COTTON futures last week were marked down to a new low level for the season, but fluctuations were somewhat erratic. After an early decline from Rs 696.75 to Rs 681.50, cotton futures recovered to Rs 688.50 but eased again to Rs Rs 680.50. The contract shot up to Rs 696.75 on hectic short covering induced partly by technical considerations and partly by reports of unseasonal rains in some of the cottons tracts — especially Moglai and Berar. But the rise could not be sustained for more that a day and cotton futures were down again at Rs 683.75 the very next day (Wednesday). The week-end decline from Rs 695.50 to Rs 683.75 in a matter of few hours was caused mainly by panicky bull liquidation. The reccent decline in cotton futures has indeed been quite steep — a little over a month ago the contract was quoted at Rs 754. But it is worth bearing in mind that despite the recent fall, cotton futures are quoted only a little below the level of Rs 693 which had served as the statutory ceiling for nearly a decade. Far from causing any concern, the decline in futures therefore should be welcome.

The fall in spot cotton prices has been even more pronounced than in futures but with the difference — it is indeed a very big difference — that while futures are now, quoted slightly below the previous season's ceiling, spot cotton prices are quoted only Rs 10 to Rs 40 per candy below the revised ceilings for 1962-63 which are Rs 105 per 3 quintals higher than in the last season. About two months ago when the crop outlook was still not very certain, spot cottons were quoted (unofficially of course) Rs 50 to Rs 175 per candy above the revised ceilings. The huge spread between the futures contract and spot quotations underlines the bearish nature of the hedge contract. Monetary stringency and the continued sluggish conditions in the cotton piece-goods apart, spot cotton prices can be expected to keep well within the ceilings if trade estimates of a crop of 55/56 lakh bales prove to be correct. And if prices keep well below the ceilings, the authorities would be well-advised to do away with the supervisory scheme which has been introduced this season in face of strong opposition from the trade.

Stock Exchange

Difficult Period Ahead

THE Government of India's decision banning forward trading in shares throughout the country from 30th November cannot be dismissed as merely of academic interest on the plea that the stock exchange authorities had, on their own, prohibited such business since 5th November. The market authorities had resorted to emergency measures such as suspension of business except for squaring-up purposes and the fixing of minimum prices merely with a view to tide over a difficult situation created by the heavy slump in equity prices following the Chinese aggression. Of course, the stock market had been in bad shape even before the Chinese attack. But the restrictions imposed by the market authorities were never intended to stay longer than was considered absolutely necessary. The position has completely changed with New Delhi's decision banning forward dealings. The stock exchanges will now have to live on the meagre income that cash business will yield. It is no secret that stock markets, more particularly the Bombay Stock Exchange, thrive mainly on speculative business. Even at its best, investment business constitutes only a very small percentage of the total turnover in the market. Some of the stock-brokers are seriously thinking of reducing their staff if forward business is not permitted soon enough. But prospects of resumption of forward business depend almost entirely on the developments in the political situation.

Meanwhile, the markets are gradually getting out of the difficulties created by the sudden collapse in prices and excessive bull speculation. The bulk of the speculative business has already been squared up and the authorities are now trying hard to get rid of the floating stocks of certain scrips which are acting as a serious drag on the market by negotiating business with the Life Insurance Corporation and other big investors. Once the market is rid of the bulk of floating stock, the authorities are likely to bring down gradually minimum prices to levels where they begin to attract genuine investors. It is only then that business can revive. The near-term outlook for equities is far from encouraging. The stock market cannot be expected to push its way up in face of the all-out effort that will have to be made to mobilise the country's resources for meeting the challenge posed by the Chinese aggression. The Finance Minister has already made it clear that the tax load is bound to go up considerably.

Central India Spinning

THE working of the Central India Spg Wvg & Mfg for the year to June 30, 1962, has shown a further improvement over the previous year. The better results, according to the Directors, are mainly due to a fuller utilisation of capacity, a further rationalisation of use of labour and a continued favourable trend in the cloth market. Sales of cloth and other receipts amount to Rs 603.46 lakhs as against Rs 547.59 lakhs in the previous year. Costs and expenses, including depreciation of Rs 13.55 lakhs, amount to Rs 577.59 lakhs (Rs 527.08 lakhs) leaving a profit of Rs 25.87 lakhs (Rs 20.51 lakhs) which the Directors appropriate for reducing the revenue losses of previous years to Rs 43.79 lakhs.

The Company, in order to serve consumers directly, has opened 2 more retail shops, one in Nagpur and another in Pondicherry. Exports constituted 7 per cent of the Company's sales during the year. The compulsory export scheme requires each mill to export at least 12½ per cent of its total output.

The Directors propose to restart one of the Company's units which has been closed for the last 3 years, and to operate 10,000 spindles on a rationalised basis.

CURRENT STATISTICS

BANKING RETURNS

(Rs crores)

Reserve Bank	Nov 30	Nov 23	Nov 2	Dec 1 '61
1 Note circulation	2071.30	2067.90	2063.79	1908.42
2 Rupee coin	124.64	123.86	121.14	124.34
3 Deposits				
(a) Central Govt	57.90	65.32	49.95	53.42
(b) Other Govts	10.23	5.71	10.08	15.34
(c) Banks	70.51	83.17	74.13	78.16
(d) Others	162.07	163.46	160.15	147.03
4 Foreign securities	88.08	88.08	88.08	116.86
5 Balance abroad	5.45	6.06	5.54	28.82
6 Rupee securities	1753.29	1753.29	1758.29	1558.84
7 Investments	213.29	203.33	159.80	214.63
8 Loans and advances to Govts	33.78	42.42	40.53	66.17
9 Other loans and advances	152.08	148.18	151.90	131.03
Scheduled Banks	**Nov 23**	**Nov 16**	**Oct 26**	**Nov 24 '61**
1 Aggregate deposits (net)	2038.77	2044.50	2046.94	1811.18
Demand (net)	803.07	799.68	801.94	725.03
Time (net)	1235.70	1244.82	1245.00	1086.14
2 Cash in hand	48.30	49.77	49.94	48.77
3 Balance with Reserve Bank	78.13	84.75	77.76	80.03
4 (2) + (3) as % of (1)	6.20	6.58	6.24	7.11
5 Borrowings from Reserve Bank	1.59	2.46	9.08	2.32
(a) Against usance bills and/or promissory notes	0.41	0.41	7.39	0.25
(b) Others	1.18	2.05	1.69	2.07
6 Advances	1148.53	1153.23	1174.27	1031.65
(a) State Bank	235.98	240.90	254.12	225.10
(b) Others	912.55	912.33	920.15	806.55
7 Bills discounted				
(a) Inland	159.96	162.72	159.11	143.20
(b) Foreign	54.53	51.88	51.38	48.76
(c) Total	214.49	214.60	210.49	191.96
(i) State Bank	17.27	17.02	14.51	15.79
(ii) Others	197.22	197.58	195.98	196.17
8 (6) + (7c) as % of (1)	66.85	66.90	67.65	67.56
9 Investment in Govt Securities	704.82	684.75	711.16	618.86
10 (9) as % of (1)	34.57	33.49	34.74	34.17
Cheque clearance	231.38	238.82	240.20	211.48

Bombay Money Rates

(Per cent per annum)

	Nov 23	Nov 16	Oct 26	Nov 24 '61
Call money from Banks	2.20	3.67	2.00	3.50
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(Rs and nP)

	Dec 6	Nov 29	Nov 8	Dec 7 '61
Gold (per 10 grams)				
Spot	101.75	98.25	108.75	120.80
Silver (per kilogram)				
Spot	195.60	194.70	217.45	211.30
Forward	198.10	199.50	218.20	212.40

INDEX NUMBER OF WHOLESALE PRICES

(Base : 1952-53 = 100)

Group and Sub-group	Week Ending			
	10.11.62	3.11.62	13.10.62	11.11.61
Food Articles	**130.3**	**130.2**	**128.6**	**120.6**
Cereals	110.0	109.1	108.4	102.9
Pulses	115.4	115.5	114.2	92.9
Fruits & Vegetables	129.5	131.5	129.3	150.0
Milk & Ghee	124.5	124.2	122.5	119.5
Edible Oils	157.5	158.5	157.8	150.6
Fish, Eggs & Meat	142.4	144.4	150.3	135.9
Sugar & Gur	154.3	158.6	155.6	118.6
Others	178.0	174.3	166.9	169.0
Liquor and Tobacco	**100.5**	**100.5**	**100.0**	**99.2**
Tobacco	97.0	97.0	96.5	95.7
Fuel, Power, Light & Lubricants	**125.1**	**125.0**	**124.7**	**121.6**
Industrial Raw Materials	**137.8**	**137.3**	**138.4**	**136.7**
Fibres	129.1	128.3	128.8	126.4
Oilseeds	155.0	154.6	157.1	152.5
Minerals	93.4	93.4	93.4	94.8
Others	124.9	124.8	124.5	129.7
Manufactures	**130.3**	**130.0**	**128.6**	**126.4**
Intermediate Products	**144.7**	**145.1**	**143.6**	**140.3**
Finished Products	**127.9**	**127.5**	**127.3**	**124.1**
Textiles	126.5	125.7	125.8	124.0
Cotton	129.5	129.9	130.0	128.2
Jute	113.8	109.9	110.0	115.5
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	135.3	135.3	134.9	120.4
Metal Products	161.0	161.0	161.0	151.6
Chemicals	117.2	117.2	117.6	111.3
Oil cakes	171.0	172.6	167.3	147.0
Machinery & Transport Equipment	117.7	117.7	117.7	116.2
Others	125.5	125.5	125.1	123.3
All Commodities	**130.7**	**130.5**	**129.7**	**124.4**

Electricity Generation and Distribution

(Million kW hours)

	Jul '62	Jun '62	Jul '61	1960-61	1959-60
Electricity generated	1812	1746	1617	7037.3	15029.2
Electricity sold					
Domestic consumption	156.2	150.0	129.2	1422.3	1311.3
Commercial light and Small power	105.9	100.0	75.2	864.8	724.8
Industrial power	1075.6	1060.5	970.8	9643.2	8324.1
Public lighting	20.6	19.2	15.9	194.5	174.7
Irrigation	82.7	81.3	68.1	805.4	720.0
Miscellaneous	95.5	95.9	83.0	901.8	875.9

Source : Central Water and Power Commission.

Production of Petroleum and Petroleum Products

(Monthly Averages or Calendar Months)

Metric Tons

	Crude Petroleum	Light Distillates	Kerosenes	Diesels	Lubricants	Bitumens	Heavy Ends	Other Products	Total of Petroleum Products
1962 : Jul	39,405	106,980	105,387	153,254	1,402	31,485	179,592	11,938	590,398
Jun	41,293	92,697	91,888	145,888	2,875	25,193	142,625	10,772	511,938
May	37,623	106,619	92,503	146,786	1,798	31,466	150,809	8,761	538,742
Apr	36,494	84,249	82,512	132,604	886	33,179	136,763	9,039	479,232
Mar	42,139	84,634	93,490	144,210	2,307	30,352	119,930	9,602	484,525
Feb	37,763	77,666	79,769	122,142	1,908	32,664	149,581	7,747	471,477
Jan	34,757	93,528	84,350	129,973	2,460	37,032	146,015	7,851	501,209
1961 : Dec	39,894	83,672	81,903	140,158	2,411	39,400	120,919	7,949	476,412
Nov	38,216	77,720	83,921	133,688	2,623	25,497	128,773	8,258	460,480
Oct	38,568	94,253	92,263	146,573	1,500	38,453	162,935	7,227	543,204
Sep	34,371	92,822	86,800	126,652	2,457	34,202	152,260	5,396	500,589
Aug	32,315	96,692	82,697	157,975	2,412	37,037	144,033	4,913	525,759
Jul	40,036	100,160	95,857	156,188	2,425	30,517	166,298	5,123	562,568
Jun	38,620	97,223	89,192	159,839	2,095	41,911	160,869	5,095	556,224
May	39,360	102,360	93,267	148,722	2,100	44,070	174,368	5,823	570,710
Apr	29,949	83,779	94,024	141,196	1,312	28,816	177,119	4,400	530,646
1962	38,496	92,339	89,986	139,265	1,988	31,624	146,525	9,387	511,074
1961	36,844	89,066	84,783	139,050	2,107	36,530	150,940	5,895	508,370
1960	37,445	87,260	77,605	133,300	1,799	33,135	141,066	5,468	479,813
1959	36,768	79,248	61,330	118,264	1,794	24,201	140,218	4,303	429,358
1958	35,477	82,215	53,598	99,319	1,524	18,882	137,421	4,741	397,699
1957	35,731	86,788	51,480	77,220	1,439	14,733	133,272	5,757	370,689
1956	32,006	80,353	45,468	59,270	1,439	13,716	118,031	5,927	324,204
1955	27,941	66,467	37,424	49,363	1,355	7,112	83,994	5,266	251,980
1951	22,014	4,234	4,318	3,641	1,947	339	1,439	4,826	20,744

Source : Ministry of Mines and Fuel, Government of India

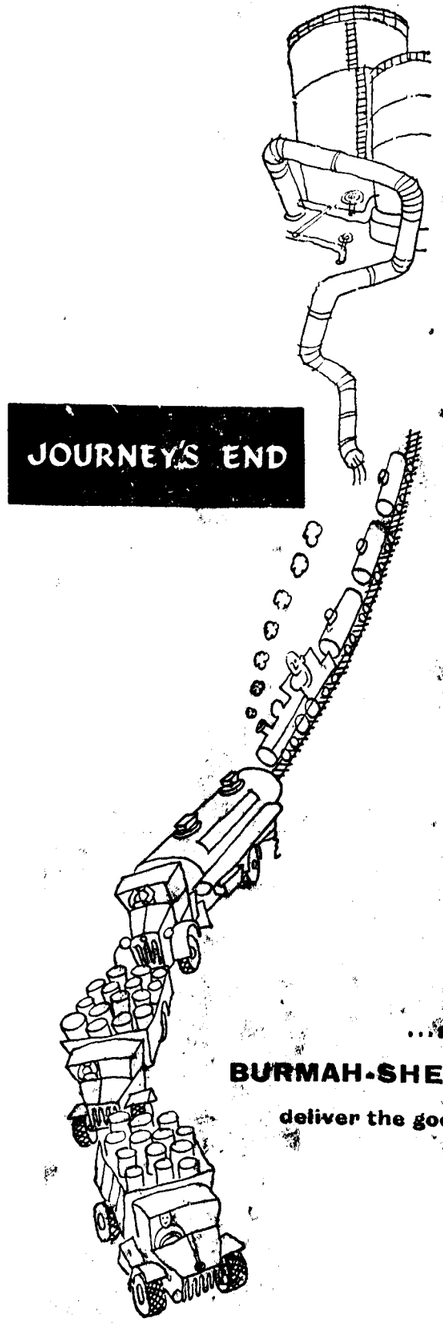
RAILWAY WAGONS LOADED

Aggregate from April 1, 1962 to September 30, 1962

(In '000)

	Broad Gauge			Metre Gauge		
	1962-63	1961-62	Increase (+) or decrease (—) percentage	1962-63	1961-62	Increase (+) or decrease (—) percentage
Revenue earning traffic						
Coal and Coke for public	774.2	727.6	+ 6.40	135.7	133.6	+ 1.56
Grains and pulses	207.8	217.1	— 4.32	188.5	197.7	— 4.69
Oilseeds	26.6	27.7	— 3.81	28.4	26.2	+ 8.07
Raw cotton	10.3	11.0	— 6.01	9.2	8.7	+ 5.13
Cotton manufactured	5.5	5.6	— 2.21	1.3	1.6	—16.70
Raw jute	31.8	18.2	+74.80	33.1	24.0	+37.60
Jute manufactured	3.0	2.5	+19.70	2.9	2.6	+13.50
Sugar	35.8	29.5	+21.60	40.7	38.0	+ 7.24
Cement	94.5	99.4	— 4.89	88.0	95.8	— 8.16
Sugarcane	11.7	12.6	— 6.92	72.3	67.1	+ 7.76
Iron and Steel						
Pig iron	20.8	24.1	—13.60	3.7	3.0	+22.90
Others	166.3	143.4	+16.00	36.8	32.6	+12.70
Tea	5.8	6.4	— 9.15	10.5	11.9	—11.90
Metallic ores						
Manganese ores	30.6	35.6	—13.90	7.6	8.4	—10.60
Iron ore	289.2	241.0	+20.00	33.5	34.1	— 1.84
Others	14.3	7.7	+85.50	12.7	12.4	+ 2.27
Limestone and Dolomite	134.2	116.5	+15.20	38.2	37.4	+ 2.16
Miscellaneous full wagons	797.2	764.9	+ 4.23	620.8	632.6	— 1.88
Miscellaneous smalls	162.4	169.1	— 3.97	136.7	147.0	— 6.99
Non-Revenue traffic						
Railway coal and materials						
Coal for home line	144.2	134.9	+ 6.92	138.9	129.4	+ 7.31
Coal for other Govt railways and manufacturing units	246.0	223.6	+10.10	10.8	19.3	—44.20
Other stores	101.6	86.1	+18.00	74.8	76.4	— 2.05
TOTAL	3314.0	3104.3	+ 6.75	1724.8	1740.0	— 0.87

Source : Ministry of Railways (Railway Board), New Delhi.



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Non-aligned Move

THE objective of the Colombo conference of the six non-aligned Afro-Asian nations was neither that of airing lofty sentiments about peace and friendship nor that of passing judgment on the rights and wrongs in the Sino-Indian conflict; it was to create conditions in which it would become possible for India and China to start negotiations for settling the border question. The decision not to publicise the proposals agreed to at the conference is proof of the earnestness with which this objective is being pursued by the six. A premature disclosure of the proposals may well have prejudiced their chances of acceptance by India and China. Instead, it has been wisely decided to convey the proposals confidentially to the two Governments. And after the two Governments have had the chance to study the proposals in detail, the Ceylonese Prime Minister is to visit New Delhi and Peking to ascertain the response to the proposals and to decide the future course of action of the neutral countries. The communique issued by the Colombo meeting makes it clear that the Afro-Asian countries do not consider their efforts ended with this meeting but that they will continue "until a final settlement of this problem can be negotiated directly between the Governments of India and People's Republic of China".

The exchange of communications between India and China, never very illuminating, has at least brought this out that the principal differences between the Indian proposals for starting negotiations and the Chinese proposals of November 21 are in relation to Ladakh. India has been insisting that the military positions as they existed prior to Sepember 8, 1962 should be re-established while the Chinese proposals are that Indian troops should withdraw 20 kilometres from their present positions. The latter involves two things. First, India must not re-establish the 40-odd check-posts in the Chip Chap and Galwan river valleys, the Pangong lake area and the Demchok area which were overrun by the Chinese after October 20. These posts were behind the Chinese claim line. Second, India would have to abandon vital positions like Chushul, etc which are to the south of the Chinese claim line and are now held by Indian troops. In his communications to the Chinese Prime Minister and in his speeches in Parliament, Pandit Nehru has made it clear that there can be no question of Indian troops withdrawing from their present positions in what is recognised even by the Chinese to be Indian territory. On this question there can be no compromise. As for the Indian demand that the Chinese must withdraw to the positions held by them on September 8, 1962, China should not find this unacceptable since the Chinese Prime Minister has himself pointed out that when the Chinese troops withdraw to their positions of November 9, 1959, they would also be behind their positions as on September 8, 1962.

Should the Chinese Government forgo its demand that Indian troops withdraw from their present positions, as does not appear unlikely at the moment of writing, the difference between the Indian and Chinese proposals would boil down mainly to whether Indian troops are to go forward and occupy the area lost since October 20. The Prime Minister has told Parliament that in NEFA it is not proposed at present to send

our troops to occupy the territory vacated by the Chinese in the course of their withdrawal. This does not, of course, prejudice our right to re-occupy these areas nor does it involve any commitment that we would not do so in the future. Can some similar arrangement be evolved in Ladakh? What has to be borne in mind is that in agreeing to some such arrangement we would not be taking up permanent positions which we would not be able to give up should some future development require that. Any modifications we may make in our earlier proposals will be only for the purpose of facilitating the initiation of negotiations.

Another thing which needs to be made clear is that there is, and there can be, no contradiction between striving for a negotiated settlement with China and pursuing a systematic policy of strengthening our defences. If China's aggression has proved anything, it is that neither China nor India can hope to achieve a military settlement of the border question. The long-term programme of building up our defence strength, on which we are now embarked, is really complementary to the policy of negotiating with China. For, military strength has essentially a negative role. It will prevent the other party from trying to gain a bargaining advantage through force. Again, once a settlement has been reached, it will deter the other party from trying to upset it. Strengthening our defences is thus the essential concomitant of a negotiated settlement, but it is no substitute for it. Adequate recognition of this would definitely make for a better understanding of the efforts of the non-aligned countries.

More on Agricultural Refinance

HOW the Agricultural Finance Corporation which had been thought of earlier underwent a metamorphosis and appeared as the Agricultural Refinance Corporation in the Bill introduced in the Lok Sabha last week had appeared to be something of a mystery, judging from newspaper reports, as commented in these columns last week. A careful examination of the full text of the Bill, which is now available, only confirms and does not remove the earlier misgivings. The Bill runs into 47 Clauses and has two schedules appended to it. A discussion of the Bill clause by clause has been postponed for the next session of Parliament, and there is, therefore, still time for the legislators to look into it carefully and to make sure that the original intention of establishing the Corporation is not lost sight of in the process of legislation.

The change of name from 'Finance' to 'Refinance' is a matter of more than a little significance. As originally thought of, the existing institutions — the State co-operative and State land mortgage banks — were to refinance projects which the Corporation had earlier located, processed and financed. This earlier concept has undergone a complete change in the Bill which was presented before Parliament.

Clause 22 of the Bill specifies the several kinds of business the Corporation may transact, viz, (a) granting of loans and advances by way of refinance to an eligible institution (earlier defined as a central land mortgage bank or a State co-operative bank or a scheduled bank, being in each case a shareholder of the Corporation), repayable within 25 years; (b) granting of loans and advances repayable within 25 years, otherwise than by way of refinance to another class of eligible institutions (earlier defined as co-operative banks) which are not shareholders; (c) subscribing to the debentures of any eligible institution (shareholder or other), repayable in not more than 25 years, and unconditionally guaranteed by the concerned State Government. In addition, the Corporation can guarantee, with the prior approval of the Central Government, deferred payments in connection with the purchase of capital goods from outside India due from (i) the latter category of (non-shareholding) eligible institutions, or (ii) any person and guaranteed to the Corporation by one of the former categories of eligible institutions. It can act as the agent of Governments in their loan and debenture transactions with any eligible institution. There is, of course, also a catch-all provision empowering the Corporation to "generally do all such matters and things" as may be incidental to or consequential upon the discharge of its functions under this Act.

It is possible to argue that the above kinds of specified business need not preclude the Corporation from undertaking pioneering development projects largely on its own and financing them by loans and advances through the second category of eligible institutions. Later on, the funds of the Corporation could be reimbursed by these or other institutions floating debentures in the open market. But as long as such functions are not written into the constitution of the Corporation, the odds would be, in all probability, against the Board of the Corporation undertaking such functions impelled merely by the spirit behind the Act. With a nine-member Board of Directors in which the Government would have a comfortable majority — the Chairman, a Deputy Governor of the Reserve Bank, three officers of the Central Government nominated by the Government, and the Managing Director to be appointed by the Reserve Bank — the Corporation is more likely to go by the letter than the spirit of the Act. The fear is confirmed by the very distinct provision in Clause 22 (4) which debars the Corporation from granting accommodation by way of refinance to shareholders, or making loans and advances other than by way of refinance to other eligible institutions, or guaranteeing deferred payments, "unless it is fully and unconditionally guaranteed as to the repayment of principal and interest by Government", except where the borrowing institution makes available "other security to the satisfaction of the Board".

The number of occasions where the Bill seeks guarantee of different governments looks formidable. The Central Government is to guarantee the repayment of the principal and payment of interest

on the shares of the Corporation as well as on its bonds and debentures; it may also guarantee foreign currency loans obtained by the Corporation from any bank or financial institution in India or abroad. It is only the deposit-liability of the Corporation that the Central Government has not been asked to guarantee, although the State Governments have been asked to guarantee the deposits of the State Financial Corporations. Against this small concession to the Central Government stands however the massive obligation on the State Governments to guarantee the State Corporations' loans and advances and guarantees for deferred payments, a limitation which happily has not been imposed yet in the case of industrial term finance. This guarantee may inhibit the initiative of the Agricultural Refinance Corporation far to the right of the line which separates traditionally conservative and cautious financing from taking calculated risks on the basis of such safeguards as prudence demands.

When the Bill comes up for discussion in the Lok Sabha, members may also be told perhaps by the Government as to the extent to which Government will now be agreeable to step up the annual contributions that the Reserve Bank makes to the National Agricultural Credit (Long Term Operations) Fund. It has been felt for a long time that the present level of appropriations to this Fund is highly inadequate to meet the three major demands — for Government share participation, medium-term loans and subscription to debentures of land mortgage banks. Only the last is now proposed to be taken over by the new Corporation. But this will not afford much relief as the demand for medium-term agricultural loans is almost insatiable. Further, the impetus to undertake projects maturing after many years which the Corporation may give by its subscription to debentures as long-dated as 25 years, among other things, will stimulate the demand for medium-term loans for purchase of equipment, etc. True, such loans can also be advanced by the Corporation, but perhaps they had better be handled by the same institution, viz, the Reserve Bank, that is responsible for short-term financing, with which they are closely related. All these are weighty considerations, and it is imperative that the Bill be referred to a Select Committee which can take both a more comprehensive and more forward-looking view.

Selling Indian Bonds Abroad

THE new series of Defence Certificates issued by the Government of India for sale in U K and U S A from December 20 certainly breaks new ground. It is understandably a tentative and hesitant probe but a probe, nevertheless, to tap a new source of foreign exchange, the need for which has been made even more urgent and insistent, if that were possible, by the requirements of defence. In many ways, it is a novel attempt, both imaginative and timely. So far India has not been able to float any loans on her own in foreign capital markets, and all our foreign borrowings have been either on a government to government basis or from international institutions or under the auspices of, or sponsored by, friendly foreign governments. This is the first direct approach to the investor abroad.

The certificates will be issued in denominations of Rs 100, Rs 500 and Rs 1,000, and will be repaid with a premium of 60 per cent ten years after the date of sale. The returns will work out to 6 per cent simple interest or approximately 4.8 per cent compounded over ten years, which would be the more appropriate measure in the present case.

The maturity value of these certificates would be paid in Indian currency but the holders who are resident abroad will have the right to remit the amounts to the countries of their residence. It will be noted that when Indians abroad invest in these certificates, they will be ordinarily repaid in Indian currency and that the premium would be free of Indian income-tax. But since repayment would be guaranteed to foreign investors in their own currency, the latter could also be induced to take up these certificates as a reasonably attractive investment. And apart from whatever attraction the defence certificate may offer as a purely investment proposition, clearly one of the intentions in issuing them is to provide a practical and convenient outlet to the wave of goodwill abroad for India in her present difficult situation. To what extent the foreign investor will respond is naturally uncertain. There is no harm, however, in testing the market for Indian loans abroad in this modest manner. It should be regarded as no more than a probing operation and it would be better not to count the chicken before they are hatched.

The immediate target, however, is the Indian residents abroad. This is obvious from the decision to make the sales of these certificates across the counter of the Indian Embassy in Washington and the High Commission in London. It is not clear whether the sales are to be confin-

The United Commercial Bank Ltd

Head Office : Calcutta

G D Birla
Chairman

Capital Subscribed :	**Rs.**	**4,00,00,000**
„ Paid-up :	**„**	**2,00,00,000**
Reserve Fund :	**„**	**2,35,00,000**

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts at 3% interest. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers Cheques sold and encashed. And other Banking facilities.

S T Sadasivan
General Manager

ed to USA and UK alone. If the Indians abroad are the target, one would naturally think of Africa, East, West and South, as also Mauritius and Fuji, for example, where the Indian community is fairly prosperous. Many of them would not be averse to transferring their capital to India, if they could find a reasonably attractive channel. It is to be presumed, therefore, that if the response is encouraging, arrangements will be made for selling these certificates in the other countries also.

Weekly Notes

Textile Stocks

ONCE again the textile industry is faced with the accumulation of unsold stocks. This is so not only in the case of cotton cloth but also of art-silk and rayon yarn. And it is not only mills in Gujarat, Bombay and West Bengal that have been affected but those in the South as well. The exact magnitude of the problem is not clear because of varying estimates of stocks. The Government's figure of about 5 lakh bales is considered an under-estimate by the industry. And while the Government does not feel that this accumulation is anything to cause alarm, the trade and industry are showing signs of panic. The Minister for International Trade, Shri Manubhai Shah, recently expressed the opinion that though the stocks were slightly higher than the usual quantity held by the mills, they are not "very unusual". Nonetheless, some textile mills temporarily suspended second shifts and laid off workers.

The causes of this are not clear. All that is clear is that the trade channels are not functioning normally. The industry insists that this is principally because of stringency in the money market following the Reserve Bank's severely restrictionary credit policy. The Reserve Bank's decision to supplement its cost-of-credit approach to credit control with an absolute limit on the availability of credit has doubtless given the banks something of a jolt but it does seem a trifle far-fetched to attribute the accumulation of textile stocks to monetary stringency alone. At any rate, the Reserve Bank has not been convinced about this and apparently there is not going to be any immediate change in its policy. The only assurance given so far is that individual banks facing difficulty in meeting the "genuine needs" of the textile trade and industry would be given more liberal accommodation.

The official view, as expressed by Shri Shah, is that the unsettled situation in the country as a result of the political emergency has resulted in reduced off-take of cloth, especially in the north-eastern States. But consumer resistance is not entirely a result of the state of emergency. The cause may well be the cost and quality of the goods offered for sale. It has been reported that a section of the textile trade is also of the opinion that it is the industry that is to blame for its own plight; that some of the varieties produced are not in demand and are hence unsaleable; and that the stamped prices of cloth are frequently highly inflated. The mills are, of course, free to sell below the stamped prices and this could be one way out.

At the moment the industry is looking to the Government to solve its problem. The suggestion has been made more than once in the past fortnight that the Government could lift the accumulated output and create a buffer stock. On its part, the Government has promised "all suitable measures" which may perhaps include buffer stocks also. But a buffer stock of textile goods is yet an extremely vague idea. Do we need such a stock at all? Which agency would maintain it and how would it be administered, without causing disturbance in the market at some future date? And what is to be the composition of this stock?

It is indeed more than a little surprising that an industry so well established and with such long experience is not yet able, or willing, to overcome at least that part of its difficulties which arise from consumer resistance. This is also the reason for the steady decline in our textile exports.

Drug Prices

IN spite of the Government's repeated assurances that the prices of essential commodities will be held, the pharmaceutical and drug industry is today faced with soaring prices of their raw materials. Prices of some of the essential raw materials used by pharmaceutical manufacturers have increased by 100 to 300 per cent in Bombay. The prices of vitamins like niacinamide, for instance, have increased from Rs 75 per kilo to Rs 215 per kilo, of folic acid from Rs 445 to about Rs 750 per kilo, of vitamin C from Rs 35 to Rs 70 per kilo, of Vitamin B_1 from Rs 120 to Rs 220 per kilo, and of vitamin B_2 from Rs 226 to Rs 375 per kilo. Other essential chemicals needed by the industry have also gone up in price. Ephedrine hydrochloride has gone up from Rs 22 to Rs 88 per kilo, calcium gluconate from Rs 3.50 to Rs 11 per kilo, para-amino-salicylic acid from Rs 25 to Rs 45 per kilo, and chloramphenicol from Rs 275 to Rs 450 per kilo. These are only a few instances of the many essential items, the prices of which have gone up sharply. What is more, even with the higher prices, it is difficult to get supplies of these items. Consequently, pharmaceutical manufacturers, especially the smaller units, are facing great difficulty in maintaining their production programmes.

The unusual shortage and soaring prices of raw materials can be traced to many reasons. First, the pharmaceutical industry is still largely dependent on imported raw materials. Indigenous production of raw materials is very limited and it is unable to meet the demand. Although some licenses have been granted for the manufacture of raw materials, very few of the projects have gone into production. The pharmaceutical industry can still be considered only a finishing industry rather than a basic industry. The products are made into their final dosage form of tablets or injections from imported chemicals.

Further, the few items which are being manufactured in India are marketed at very high prices. For instance, Indian-made niacinamide is sold at Rs 80 per kilo whereas the imported price is Rs 22 per kilo. Indian-made vitamin C (though still not available in the market) is quoted at Rs 70 per kilo, whereas the imported price is Rs 22 per kilo. The price of locally-manufactured vitamin B12 is Rs 220 per gram whereas the international price is £5 per gram. The reason is that the processes involved in the manufacture of these items require basic chemicals and intermediates which are not manufactured in India and have to be imported from abroad, paying a high rate of duty (varying from 15 per cent to 30 per cent).

Another reason for the soaring prices of pharmaceutical raw materials is the 50 per cent cut in the import quota of established importers in the last licensing period. Consequently, the materials have become scarce in the market and dealers are charging fancy prices for whatever quantities are available. Further, the Government has not declared its import policy for the current period from October 1962 to March 1963. There have been all sorts of wild rumours in the market about impending cuts in licenses which have made the dealers apprehensive. Consequently, whatever material was in the market has gone underground.

The present situation is extremely disturbing. The small manufacturers (of whom there are more than 700 in Maharashtra alone) will be the worst hit and may even have to stop production because they cannot compete with the large-scale manufacturers, who are registered with the Development Wing and get actual user's licenses from the C C I on the recommendation of the Development Wing. The small manufacturers depend mainly on the local market and the periodic release of raw materials from the State Trading Corporation.

The Maharashtra Health Minister had called a meeting at the end of November to discuss this grave problem. The meeting was attended by representatives of various manufacturers' associations like the Indian Chemical Manufacturers' Association, the All-India Manufacturers' Organisation, etc, representatives of dealers' associations like the Retail Chemists' Association, the Wholesale Chemists' Association, etc, and Government officials including the Drugs Controller and the Secretary to the Ministry of Health. There were lengthy deliberations but till now no effective steps appear to have been taken to check the soaring prices.

Coal Transport

WITH the decision to "postpone" the implementation of the new scheme for distribution of coal, it is clear that yet another half-hearted attempt to change the present wasteful system of moving coal by bits on the railways has come to grief for want of co-operation between the Government and the railways. It is wrong to say, as the Union Minister for Mines and Fuel said, that the new scheme was only "under consideration". A definite announcement had been made that the scheme would come into effect from January 1. In fact, only the other day it was reported that the Gujerat Government was preparing to set up three coal dumps in the State at Ahmedabad, Baroda and Surat.

The announcement that the new scheme would come into effect from January next was accompanied by details of the proposed scheme. It was stated that separate arrangements would be made for supplying coal to large and small consumers. The present system of direct supplies by rail is proposed to be retained in the case of consumers whose demand for coal exceeds 1,500 tonnes per month. This is subject to the condition that coal will be supplied to these consumers in block rakes. Consumers using less than 1,500 tonnes per month will have to get their supplies from coal dumps. The railways will move coal in block rakes to these dumps from where they will have to be transported to individual consumers by road. It is, of course, permissible for a number of consumers to pool their requirements and obtain them directly by rail, provided the total requirements are large enough to be moved by block rakes.

The main criticism of the coal dumps scheme is that it will raise the cost of coal to industry—under the present scheme to those consuming less than 1,500 tonnes per month — because coal would have to be transported by road from the dumps to the factories. This is clearly too narrow a view to take when the alternative to some such arrangement is non-availability of coal due to shortage of railway transport and consequent wastage of industrial capacity. Besides, it needs to be borne in mind that the present railway freight for coal has no relation to the cost of moving coal. Under a more rational freight structure, transport of coal would in any case cost more to the consumers. Finally, the system of moving coal by rail all the way to the innumerable points of consumption is wasteful, particularly in view of the overall shortage of railway capacity in relation to the transport requirements of the economy. Movement of coal by block rakes is intended to achieve better utilisation and speed up the turn-about of wagons.

This is not to say that the setting up of coal dumps will not create any difficulty for the consumers who are long used to the present arrangements. The change-over to the new system will certainly necessitate technical and administrative adjustments which may take time to make. Nor is it denied that the dumps scheme requires adequate preparation by way of nominations of stockists, selection of dump sites, creation of the necessary facilities at these sites, etc.

These problems are not, however, insoluble provided there is co-operation between the railways and the Union and State Governments. It is precisely the lack of such co-operation which has brought to nought all attempts to change the existing system of coal transport. It is not that the Government does not recognise the need for change. Apparently it is as much convinced as the railways that the present system is wasteful. Shri Malaviya, for instance, admitted that "after all, the railways cannot be expected to move our goods on our count and in every direction, according to the unbounded wishes of every one of us". Yet, this uneconomic system has been allowed to continue.

There was a move by the Government about a year ago to curtail direct supplies of coal by rail to industries by setting up coal dumps. Some dumps were actually set up in a few of the States but the scheme was not pursued. It now appears that the latest move is not backed up by any more careful preparation than last year's infructuous attempt.

Nyerere's Return

MR JULIUS NYERERE is one of West's blue-eyed boys in Africa — or was till he suddenly resigned as Prime Minister in January last, within weeks of Tanganyika's independence. Nyerere was the picture of moderation. As unquestioned leader of Tanganyika's only political party, the Tanganyika African National Union, he had guided Tanganyika's evolution towards independence with a firm hand, taking care to spare the British every unnecessary embarrassment. After independence he proclaimed that his Government would follow a policy of non-racialism and of encouraging foreign investment. He ruled out any move to 'nationalise' the civil service overnight. He even appointed Sir Ernest Vassey, a British economist of the pre-Keynesian vintage, as his Finance Minister. The immediate results were not disappointing. Unlike most African countries, Tanganyika did not have to witness the large-scale repatriation of white population and capital on independence. The United States promptly went to its assistance when it faced a famine in the very first year of its independence. The World Bank drew up a three-year plan for the development of its economy. To the West Tanganyika was the model African country, contrasting sharply with the expropriatory socialism and aggressive pan-Africanism ruling the roost elsewhere on the continent.

But underneath the apparent calm and unanimity with which the people of Tanganyika prepared to follow the lead of their mature Prime Minister, there were rumblings which came into the open within weeks, even days, of independence. To many citizens the morrow of independence seemed like an anti-climax. There was disappointment with the continuance of Europeans in the Civil Service and Government; at the Europeans', and to a lesser extent the Asians', continued control over the economy; at the absence of 'dynamic' policies. Nyerere yielded a little at first. He ordered the expulsion of some foreigners, including a few British subjects, who were accused of racial arrogance and discrimination. He retired Sir Ernest Vassey. But that was not enough. The radicals wanted him to go the whole hog.

So Nyerere decided to change his tactics. He announced his resignation as Prime Minister because, he said, he wanted to devote himself to organising and "recharging" the TANU. Leaving the task of administering the country to his successor, Mr Rashidi Kawawa then Vice-President of the TANU, he applied himself to creating a broad base for his policies in the TANU and among the people generally. It was taken for granted — in fact he had himself hinted as much — that he would return to the leadership of the Government when this task was successfully accomplished.

Return he did on Sunday last when he became Tanganyika's first President under the New Republican constitution, his creation. Though the constitution is pledged to maintaining the "sovereignty of parliament" and the rule of law, it confers sweeping powers on the President who is head of the State, the army, the civil service and the only political party.

The near-unanimity with which the people of Tanganyika have returned Nyerere and the TANU to power in the first elections under the new constitution raises hopes that the Nyerere Government will exercise its authoritarian powers with moderation. But will the unanimity last long? Will the people find Nyerere's policies more acceptable now than they did a year ago? Or is Nyerere proposing to pursue policies more in tune with the people's political mood? Irrespective of the answers to these questions, conflicts must emerge sooner or later, for Tanganyika is no more free from the opposition between moderates and radicals than any other country in the African continent. Whether, when these conflicts break out into the open, Nyerere will stop short of authoritarian use of his absolute powers any more than Dr Nkrumah, armed with a similar consitution, has done, remains to be seen.

Research for Peace

A SCIENTIFIC institute to conduct research into the causes and prevention of war with a full-time staff of physical and social scientists is proposed to be established in Canada soon.

The institute has been incorporated as a non-political and non-governmental body for objective study and is headed by internationally known scientists and humanitarians who are convinced that science, which aided mankind to forge the instruments of war, can aid the development of a world at peace.

The Directors of the Institute include Dr Brock Chisholm, former Director-General of the World Health Organization; Dr Hugh L Keenleyside, former Director-General of the United Nations Technical Assistance Administration; Dr Franc R Joubin, Geologist and world authority on uranium mining; and Gerard Pelletier, Editor of *La Presse*, the largest French newspaper in North America.

The venture was proposed by Dr Norman Alcock, a Canadian nuclear physicist, who three years ago abandoned a career in industrial research to arouse public interest in the need for research for peace. Directors of the Institute hope that formation of the Canadian Peace Research Institute will inspire people of other countries to establish similar peace research centres in their own countries for the exchange and mutual use of scientific data towards the prevention of nuclear war.

The programme calls for establishment of both the Canadian Peace Research Institute and an International Peace Research Fund — the latter to effectively encourage establishment of institutes in as many countries as possible. The directors plan to have 25 full-time scientists working at the Canadian establishment in 1963. They hope that 1,000 scientists will be engaged on war elimination research in institutes in many nations by 1965.

"We go on preparing for war with billions of dollars; while we appropriate pennies for peace research . . . . . When man has faced other problems and wanted a solution, he has put intensive effort, money and minds into research; and he usually finds answers. For example, consider the effort which went into conquering polio, making atomic and hydrogen bombs, improving labour-management relations. Organized intellectual effort applied to peace and war could also help us find solutions". This is the inspiration behind the Peace Research Centre.

Our Delhi Letter

Oil and Emergency

SINCE the Cabinet and the Planning Commission still prefer to 'wait and watch' rather than make up their minds, no integrated effort to gear up the economy to serve the requirements of emergency can take shape. Without waiting for the Cabinet and the Planning Commission to make up their minds, some of the individual ministries have started readjusting, or at least are seriously thinking of readjusting, their respective Plans. The Oil Ministry is among them and it has drawn up its tentative Plan to narrow the gap between domestic refining capacity and the estimated demand, both defence and civilian, by the end of the Third Plan. It has now revised its target for refining capacity in the country to 16.75 million tonnes by 1966. Though demand projections, taking fully into account the new situation, have not been made yet, the Ministry has taken as the basis of its revised planning an estimated demand of 17.14 million tonnes for 1966 which was recommended by the Oil Advisory Committee. If this demand figure is to be seriously considered to be the ceiling, the assumption would be implicit in it that any increase in demand for defence will be offset by restraining civilian consumption. This is a matter of some significance, considering that official pronouncement so far has been categorical that no physical controls are in contemplation.

Pressure on Minister

The Minister for Oil, Shri K D Malaviya, has complained that the national emergency is being exploited by 'vested interests' to stampede him into abandoning the basic tenets of his Oil Policy. In other words, he is being pressed to allow the expansion of refineries in the private sector. He has all along opposed such expansion, both on political and economic grounds, and his hands have now been strengthened by considerations of defence. The Ministry of Defence is understood to have advised against further concentration of refining capacity in Bombay. Already such concentration exceeds 6 million tonnes and Bombay is within the bombing range of planes based on India's North-Western and Northern frontiers.

In the Oil Ministry's new programme the private sector refineries will be invited to increase their production by 0.55 million tonnes by maximising their throughputs. Burmah Shell will produce 3.75 million tonnes, Esso 2.75 million tonnes and Caltex 1.25 million tonnes. This will make 7.75 million tonnes. The balance of 9 million tonnes will be refined in the public sector. The capacity of the Gujarat refinery will be 3 million tonnes and of the South Indian refinery 2 million tonnes. Barauni will be expanded from 2 to 3 million tonnes and the Gauhati refinery from 0.75 million tonnes to 1 million tonnes. Malaviyaji is confident that this programme of expansion can be and will be put through within the Third Plan period. The Soviet Union, he is confident, will honour its commitments and will do its best to help execute the programme.

Reliance on Indigenous Crude

Except for the projected South Indian refinery, all other public sector refineries will be based on indigenous crude. However, in the event of emergency, arrangements can be made for importing crude to feed them. The Gujarat refinery is near the Kandla port and it can readily draw on imported crude to the extent necessary. A pipeline is being laid between Barauni and Calcutta which can be utilised for a two-way flow. For the South Indian refinery, negotiations with Phillips, the American firm, have reached an advanced stage.

This is no doubt an impressive programme and the Ministry deserves all the support to enable it to implement it successfully. But if experience is any guide, one can't help asking, is it not too ambitious? National emergency calls for greater realism.

The biggest weakness of Malaviyaji's new policy is the assumption that civilian consumption of petroleum products can be curtailed in order to meet the demands of defence. Kerosene is a case in point. The Minister is convinced that there is enough kerosene in the country and that there is no need of restricting its consumption through legislative or fiscal measures. Whatever economy in the consumption of kerosene is necessary, it can be effected by exhortations to the people. But is he not building his policy on wrong premises? In his broadcast talk on December 10, he said "Most of us do not know that all the kerosene that we need is not imported from abroad. In fact, a major portion of it is produced in the country in our oil refineries." This is not true. While 1.4 million tonnes of kerosene was imported in 1961, according to official statistics, domestic production in that year amounted to no more than 1.04 million tonnes. Thus the oil refineries produce less than 50 per cent of total kerosene consumed in the country. According to the Oil Advisory Committee, the demand of kerosene is expected to increase to 3.6 million tonnes by 1966 from 2.4 million tonnes in 1961.

Kerosene Imports

All agree that every penny of foreign exchange must be saved for defence. Kerosene is now being increasingly used as a household fuel in most urban and even some rural areas. It is a more convenient fuel than coal or wood or most other fuels that are available. This avoidable waste of foreign exchange must be stopped, at least during the period of emergency. If rationing of kerosene is considered to be an impractical proposition — even during the war, rationing was not introduced in villages and a large number of consumers of kerosene are villagers — heavy excise duty should be put on kerosene in order to discourage people from using it as a household fuel in cities. To offset the burden on the villager imposed by the higher price of kerosene, some concession could be offered, for example, a reduction of some local taxes. There is also scope of reducing the consumption

of diesel oil by commercial vehicles by switching over to charcoal gas as was done during the last war.

Bold Policies Required

It is not that Malaviyaji alone is toying with half-hearted measures. The entire economic wing of the Government is yet to rise to the occasion. The Finance Ministry has not received favourably the proposal of the Delhi economists for a supplementary budget to impose new taxes to meet the vastly increased defence expenditure. The Ministry of Economic and Defence Co-ordination and the Planning Commission are still quarreling between themselves over the spheres of their respective jurisdiction. The price policy enunciated by the Planning Minister is woefully inadequate for the emergency. In fact, the same price policy which was drawn up before the Chinese aggression is being made to do for the period of emergency also.

The people have risen as one man to defend the freedom and honour of the country. Inaction in Delhi has begun to affect their enthusiasm. No time should now be wasted, and bold and forthright economic policies should be launched before all this enthusiasm peters out.

In and Around Lok Sabha

The Parting of Ways

FOR a party constituted on the principles of peace and non-violence, the conversion to warlike policies and methods is well-nigh impossible. Hence it is understandable if the older members of the Congress party are reluctant to bear the responsibility of leading into a war. Even at this late stage there is a considerable amount of confused thinking and a tendency to 'laissez faire' with the hope that things will right themselves in due course. In his reply to the Cease-fire Debate in Parliament, last Monday, the Prime Minister said: "We still hope that our peaceful approaches will be agreed to". Later he suggested that once the preliminary condition of the Chinese withdrawing to the position of September 8, 1962 had been satisfied, we would be prepared to refer the border dispute to the International Court of Justice at the Hague. This has created some con fusion in the minds of people. For one thing, China not being a member of the United Nations, would this issue be within the jurisdiction of the International Court? There was a good deal of discussion in Parliament lobbies on this technical point. In any case, it is amply evident that, given a chance, India would like to settle the issue peacefully.

There is, on the other hand, a group of younger members who are at variance with the accepted policies and ways of the Congress party. They emphasise the dangers of adopting conciliatory methods with the Chinese. They would like the Government to follow a so-called "more decisive" policy. A few of them even go to the extent of expressing their views frankly both on the floor of the House and at meetings of the Executive of the Congress Parliamentary Party in Parliament.

Prepared to Negotiate

The debate on the cease-fire was the most important event in Parliament last week. The time allotted was only five hours and as Parliament was to adjourn the following day, there was no question of extending it. It must be said to the credit of M Ps from both sides of the House that a reasonable amount of restraint and moderation was observed by all except a coup.e of Members who have become notorious for their attempts to draw attention on themselves at all times; even the seriousness of the present situation did not deter them from conforming to their usual pattern of behaviour.

The reply to the debate was one of the few occasions in the present session when the Prime Minister spoke from a written speech. Quite clearly, we are not going to shut the door against negotiated settlement. At the same time, we must understand fully the implications of a large scale war. It is not just a question of equipment; it is a question of organisation; of having trained men; of creating a consciousness among the people. For many years, we have been a peace ful nation. To mobilise 450 million people to a disciplined war effort is not something that can be accomplished in a few weeks or a few months: nor is it merely a matter of holding public rallys or addressing meetings.

The visit of some Congressmen to Assam has caused much heart-burning not only in the Congress ranks but among the Opposition groups, particularly in the Swatantra Party. Although Assam is not a closed territory, it is bitterly complained that only selected Congressmen were given facilities of transport and accommodation in Assam and were taken to the front; that such privileges are denied to the less-favoured M Ps.

Penchant for General Debates

The Constitution (Fifteenth Amendment) Bill, 1962, which seeks to raise the retirement age of Judges to 62 and the Working Journalists Bill were among the most popular Bills of the week. It is characteristic of the Members of Parliament that many of the Bills which will have far-reaching effects are ignored while of a less abstract nature are discussed enthusiastically.

At the end of the session, the Price Stabilisation Resolution came up for discussion, and had to be carried over to the next session as a great many M Ps were keen to speak on it. M Ps apparently show a marked preference for de bates which are of a general character rather than for those which concern pure legislation. Thus Planning, Price Stabilisation, the Chinese aggression are the most popular subjects for Parliamentary debates.

Capital View

Getting Earnest

Romesh Thapar

THREATS . . . ultimatums . . alarums. We are back to the ways of peace as understood by the militarist adventurers of Peking, the neo-Trotskyists who imagine that the world can be bullied into submission. While some would have the Prime Minister talk less while pursuing delicate diplomatic moves to isolate the enemy and to expose its fraudulent claims, there are others who believe most firmly that this will not be possible so long as we do not embark on a thorough overhaul of our battered and mutilated domestic and foreign policies.

Unfortunately, the emotion-charged national debate in Parliament and outside has been too concerned with the superficialities of 'pledge-taking' for and against established policy. No individual or group has as yet got down to facing the fundamentals of the new situation. But the stirrings are visible. Witness the initiative of a group of economists who have demanded the immediate formulation of a supplementary budget. Witness also the 'gropings' of the Prime Minister during his visit to Assam when he spoke about the dependence of effective defence on healthy economic and social growth within the country.

Superficial Thinking

But, by and large, there is a reluctance to begin a scientific reassessment which challenges the old and the new dogmas. It is so much easier to speak of peace or war, to adopt idealistic non-aligned postures or to express a fervid interest in commitment, to refuse to acknowledge the deep transformations taking place in international relations or to see the need for subtlety in a politically sophisticated world, to chatter on about 'honour' when it is honour which is sought to be sacrificed. Not without motive are those who demanded the defence of every inch of our sacred soil only too ready to surrender the Valley of Kashmir. Not without motive do those who attacked V K Krishna Menon for the M I G deal now insist that the project must be implemented. And not without motive do the Nehru-baiters call off their campaign and acclaim the Prime Minister as the symbol of resurgent India. These are only some of the symptoms of superficial thinking.

Superficial thinking is dangerous in an hour of crisis. It makes us susceptible to every kind of pressure from within the country and from outside. This obvious truth is at last making an impact on those who are at the helm of affairs or in a position to influence those who are. But this is not enough. The more serious and the more scientific must sift the issues which press upon us, research the facts and evolve a coherent and consistent attitude which alone can sustain us in our effort to defend the gains of 15 years of freedom and to build a secure and viable future on these gains. It is my intention this week to summarise some of the ideas which although formative and tentative, are likely to guide thinking in the uncertain decades ahead.

Estimates of Army Needs

Questions pertaining to national defence naturally provide the starting point of any such discussion. It is generally agreed that in the immediate future we will have to raise and maintain an army of at least a million men, although estimates at the highest circles vary from between a million to two million men. There is, however, no such unanimity about air force expansion; while certain sections have to be developed as a vital support to the ground forces, there is an important section of opinion which does not believe that air power is at all decisive in the kind of operation in which we are likely to be involved. As for the navy, the consensus of opinion is that its strength should be kept at the minimum. However, the moment one goes beyond these broad generalisations, serious differences of opinion arise.

Granted that we will be able to demarcate on the ground our borders with China and Pakistan, there is anxiety about what kind of army we will be able to maintain with our limited resources — resources which must also be spread over minimal economic and social objectives. We have always been aware of this rather uncomfortable choice, but the awareness is much sharper now because China in particular is not just a military adversary but also a powerful political opponent. Any weakening of the economic and social growth of the nation would, in a sense, weaken our defence and, in the event of an invasion, spark political tensions which would disrupt national unity. The fact that this did not happen during the present crisis is a tribute to the faith which the people have gained from the planned progress of the last fifteen years. In other words, it would be short-sighted to rely merely on spontaneous patriotic responses when the enemy is ideologically-equipped to create confusion and to splinter the will to resist. We must create the base for effective defence — namely, a carefully worked out programme of economic and social development.

What Type of Army ?

How is this to be done when considerable funds, normally available for economic and social development, are absorbed 'unproductively' in defending one of the world's longest frontiers? Of course, there is a section which argues that the military aid which we are about to receive will be 'adequate insurance' for at least ten years, a period which we can utilise to produce military equipment within the country. There is a fallacy in this kind of reasoning. First, we are unlikely to receive this 'adequate insurance' unless we accommodate Pakistan in Kashmir and provide guarantees that the re-organised and re-equipped armed forces will broadly serve the strategic and global interests of those who give us the aid. Second, a sizeable portion of our resources will have to be mobilised to maintain the equipment and to service

it; it is well-known that Pakistan has been unable to solve this critical problem.

Military thinking on these problems is terribly limited. There is a natural desire to maintain the normal type of standing army which trains and exercises until it is called upon to defend, but does next to nothing in terms of producing wealth. Such a standing army is favoured generally by the theoreticians of the affluent West who refuse to admit of any other variation on the ground that efficiency and discipline suffer. Certain political groups in our country also favour this classic development of an army, hoping thereby to control this decisive force should it tend to exert an influence on the political life of the country. The givers of aid will also prefer the classic development, despite the fact that it is more costly, because it offers greater chances of direct or indirect control.

Leadership at every level in the country, sooner or later, will have to address itself to this complex task. Apart from the futurists who imagine that we can persuade our friends to establish a missile network to deter China from any adventures, the feeling is growing that we have to establish a defence system at the lowest possible cost which would break the back of a potential invader and make such an adventure a thoroughly useless enterprise. The cost, as I have already stated, is crucial if we want to move forward to the economic and social goals we have set before us. To ignore this aspect is to invite a disastrous collapse on the home front even as the borders are defended. It is a calculation which a militarist, neo-Trotskyist China will always make — and probably made prior to the invasion of October 20.

How then do we proceed? No clarity exists on the subject, but the Prime Minister, thinking aloud in Assam, spoke of the need for a new philosophy for NEFA. Perhaps, the confrontation with militarist China is forcing him to abandon the old policy of protecting tribal interests and culture: he appears to be moving in the direction of a policy which advocates an all-round colonisation of the border areas and their intensive development. But there would be little point in embarking upon such a policy if the purpose were only to open up these areas to greedy traders. However the thought does occur that if an army of some 250,000 soldiers (together with their families) was permanently stationed in NEFA and made to develop the land and live off it, our eastern frontier with China would become far more viable. Such an army would include men recruited from the region, but large numbers would have to be drawn from various parts of the country to do this pioneering. If proper incentives were offered, there is no reason why such a policy should not succeed. Then NEFA armymen would be defending not only a frontier, but their own lands and homes.

More Flexibility Needed

Somewhat similar steps could be taken in Ladakh. Although this region is difficult to colonise, the Ladakhis themselves have shown a solid fighting spirit and could be more fully mobilised. The defence of Ladakh would be part of the responsibility of the army permanently stationed in Kashmir. Only with some such understanding of the need to adopt unorthodox forms of defence along the northern frontier can we hope to meet the costs of an expanded army and the mounting demands for vital internal economic and social growth. In other words, we have to be extremely flexible and ready to accept new concepts of defence if we want to preserve our independent way of life.

Even as we assess the orthodox and unorthodox forms of defence and seek to evolve a system which will not destroy essential economic growth, we have also to take careful note of the possibility that an expanded army might well play a role in politics. Until now we have been fortunate in this respect, but in the present situation we will have to take organisational steps to prevent such a development. A study of the structure of other armies might yield useful and pertinent ideas. It is known that on several occasions the Prime Minister and his close advisers have considered steps which would block the army's entry into politics. This is the time to do deeper thinking on the problem, particularly when fairly consolidated army groups will have to be stationed along widely separated border areas.

In projecting the minimum economic and social tasks, we will have to mobilise every unit of industrial productivity within the country to produce the equipment for a reorganised army. In the long-term, this alone can reduce our dependence on foreign supplies and restore our freedom of action. This was the perspective in the past, but could not be pursued with vigour because of a general reluctance to raise resources for fear that such a policy would slow down economic development and polarise Indian political life. China's invasion has prepared the way for a fuller mobilisation of our resources.

All these and related issues will provide the roots of our foreign policy. We cannot remain static and pontifical in a fast-changing world. Nor can we be made to surrender our sovereignty in the face of pressures mounted by tiny groups which claim to speak in the name of the Indian people. Non-alignment policies have served us well and they will continue to do so if we sharpen these policies, make them more precise and realistic. We will have to conduct energetic and continuous research into the 'climactic changes' of which we are a part.

Politically, it is becoming clearer every day that the Prime Minister will have to bring in new men into the Cabinet to clean up what is now fully exposed as an antiquated administrational set-up. More specialists must be associated with the working out of policies. Sensitive research units and study groups must be formed to pull us out of indecision and confusion. And a wider delegation of responsibility must be worked out to speed up the process of policy implementation. Then, and only then, will the nation feel that there is an end to superficial thinking, personalised politics and development which lacks a realistic perspective.

From the London End

Growth of Industrial Concentration

ONE of the most significant features in the industrial scene in Britain — particularly during the last five years—has been the spate of takeover bids, mergers and amalgamations which have led to the concentration of power in larger and larger units. This trend has been very clearly spotlighted in the statistical study of the British industry by the Board of Trade in its report "Company Assets, Income and Finance in 1960".

This naturally brings up the whole question of the growth of monopolies in Britain and the inadequacy of the present monopoly legislation which was highlighted recently at the time of the I C I's bid for Courtaulds. At present, no merger can be referred to the Monopolies Commission until it is an accomplished fact. One thing the Board of Trade report has brought out quite clearly is the need for somebody outside the companies involved to examine proposed margers before they take place.

The dynamic analysis of the Board of Trade report, which brings out trends in the three years 1957-60, highlights the need for some form of check on this rapid process of concentration.

Growth Rates

The main facts are as follows. During the years under review, there was a further concentration in British industry. Even by the end of 1957 (which is the starting point of the Report) the 100 largest companies accounted for 51 per cent of total nett assets of all quoted companies; by the end of 1960, the proportion had risen to 54 per cent. Not only have the large companies grown at a faster rate than the small companies, they have also earned a higher return on their assets. The Board of Trade report shows quite clearly that there is a close relationship between the size of a company and its rate of growth, since it is the very large companies which have, in general, expanded more than the very small ones. Another interesting feature is that the faster growing more profitable companies are those relying more on new capital from outside, the slow-

Table 1 *(Per cent)*

Assets	Over £5m	£2.5-4.99m	£1-3.49m	£0.5-0.9m	Under £0.5m
Consruction, distribution and services	+37	+12	— 1	—12	—38
Food, drink, tobacco	0	0	—37	—14	—34
Chemicals	— 7	+12	—33	—21	—26
Metals, engineering	+15	+ 3	— 6	—19	—25
Other manufacturing	+30	+ 1	— 1	—10	—29
Distribution of companies, per cent:					
1957	13	10	23	21	33
1960	17	12	24	21	26

Table 2

	Net Assets end-1960 £m	Net assets end-1960 (beginning 1958=100)	Income 1958-1960 (annual average) £m	Income as % of gross assets 1958-1960
Imperial Chemical Industries	695	111	106	14
Unilever	366	121	66	16
Imperial Tobacco	215	105	34	14
Courtaulds	208	121	25	10
Bowater Paper	188	134	20	10
Steel Co of Wales	184	128	26	13
Guest Keen Nettlefolds	179	130	36	18
Esso Petroleum	176	152	27	14
Associated Electrical	171	143	17	9
Tube Investments	157	154	20	12
Distillers	157	127	34	21
Vickers	143	122	18	11
Ford Motor	128	156	39	27
Dunlop Rubber	128	113	22	12
Stewarts and Lloyds	123	144	19	14
United Steel	117	131	25	19
Great Universal Stores	116	123	26	22
Hawker Siddeley U K	98	180	10	10
British Motor Corporation	93	137	25	22
English Electric	92	122	11	11

Table 3

	Ranking by Net Assets (1960)	Ranking by Income (1958-60)	Income as % of Gross Assets (1958-60)
Esso	8	8	14
Ford	13	3	27
Woolworth	24	7	34
Vauxhall Motors	34	19	22
Assoc Brit Foods	54	28	21
Philips Electrical	66	50	19
Mobil Oil	93	199	6
Monsanto Chemicals	99	98	15
International Nickel Mond	104	77	23
H J Heinz	107	95	22
Hoover	121	42	38
Kodak	123	65	25
Standard Telephones	130	172	9
British United Shoe	135	91	19
Westinghouse	136	158	15
Goodyear	149	191	9
Nestle	162	111	24
Alcan Industries	167	219	11
May and Baker	178	157	21
International Harvester	184	101	31

er growing less profitable companies are typically "self-financing".

The extent of mergers and amalgamations is evidenced by the fact that the total number of companies between 1957 and 1960 fell by about 10 per cent—450 of the companies quoted in 1957 had ceased to be quoted four years later. Of the 2,515 companies in existence throughout the three-year period, about 600 had growth rates within the 10 per cent-19 per cent range; 800 expanded by less than 10 per cent, and, of these, more than 300 were smaller in 1960 than they were in 1958. Engineering and chemical industries showed better earnings from their assets than did service industries and industries making consumer goods, including food, drink and tobacco.

Table 1 shows the change in number of companies by size of asset and type of product.

The survey covers 2,618 companies of which 1,909 had assets of over £ 500,000 and 700 had assets of 'ess. About 2,200 companies recorded increases in net assets over the three-year period. The number of companies with assets of over £ 5 m had risen to 423 by 1960 from 361. At the other end of the scale, the number of small companies had fallen, and it is many of these small companies that have been taken over by the larger firms.

Table 1 brings out quite clearly that there were wide'y different growth rates in different industries. For example, the vehicle, metal manufacturing and electrical engineering industries added to their assets between 1958 and 1960 more than one-third of their 1958 asset value. On the other hand, assets in the chemical industry and distribution rose by less than one-quarter and in textiles by only 15 per cent.

Corporate Leaders

Table 2 lists the top 20 firms in Britain and Table 3 the first 20 non-U K controlled companies. The latter table shows that foreign-controlled companies come out much better than the average on income rating.

The Board of Trade report has highlighted the steady concentration of British industry into fewer and larger units. While it is true that one of the reasons for the smaller companies falling a prey to the larger units through takeover bids and mergers, is the belief, on the part of the big companies that they can make more profitable use of a smaller company's assets; but this cannot conceal the fact that the primary motive for mergers is to eliminate competition. This might well be the way in which big companies elude the Restrictive Practices Court.

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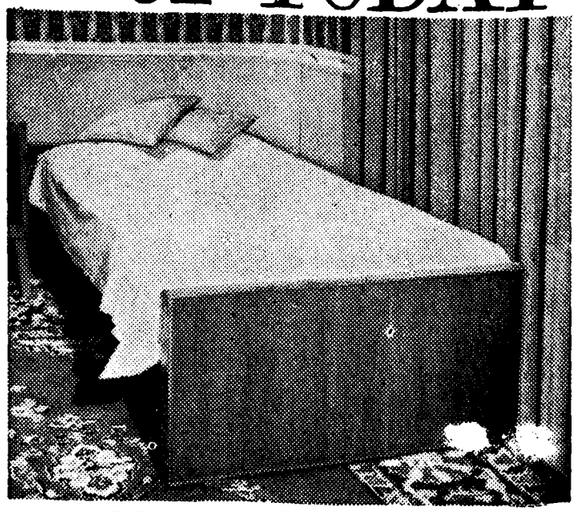

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Official Paper

Protecting the Consumer

Sreelekha Basu

Final Report of the Committee on Consumer Protection, U K, Her Majesty's Stationery Office, London, 1962; pp 331, Price 18s.

THE Committee on Consumer Protection with Mr J T Moloney, Q C, as Chairman, was appointed in the summer of 1959 "to review the working of existing legislation relating to trade marks and to consider and report what changes, if any, in the law and what other measures, if any, are desirable for further protection of the consuming public". The final report of the Committee was published in July 1962. The Report proposes the creation of a 'Consumer Council' as the major organisational reform required and suggests that Local Citizens' Advice Bureaux should act as the direct channel of communication between the Council and the consuming public. Other recommendations include additional protection for hire-purchase, amendment of the Merchandise Marks Act to protect the public against traders who describe their goods in a misleading manner and imposition of compulsory labelling requirements. The Committee also expresses disquiet about modern methods of advertising. It rejects the idea of setting national standards of quality for all consumer goods, but favours standardised forms of informative labelling. The recommendations are numerous and the Committee hopes that, if accepted, these would advance consumer interests to a marked extent.

Laws not Well Enforced

One of the main complaints made to the Committee was that the existing laws for the protection of the consumers were not properly enforced. There are loopholes in the Merchandise Marks Acts, which are intended to ensure honesty and accuracy of trade marks and description of goods, and in the Sale of Goods Acts, relating to breach of contract in the sale of goods. The remedies recommended by the Committee are to fix the responsibility for enforcing the Acts upon the larger local bodies and to arm them with the necessary powers. According to the Committee, "all forms of advertisements should be made subject to Merchandise Marks Law". The Board of Trade and the Ministry of Agriculture, Fisheries and Food should accept the obligation to undertake prosecutions against offending mass circulation advertisements even though they may not catch *every* misleading presentation of the characteristics of goods.

The Committee notes that "the consumer's ignorance of his legal rights and his incapacity to maintain them are marked". The aggrieved consumer needs the help of Citizens' Advice Bureaux which should be established in all uncovered areas, and the National Citizens' Advice Bureaux should be assisted to intensify consumer protection work.

New Organisational Set-Up

The major organisational reform recommended by the Committee is the creation of a Consumer Council, "to ascertain and review the problems experienced by the consumer and to devise and advance the means of resolving them". The Council "should concern itself with the interests of all who 'consume' anything, excluding only those whose purpose is a commercial one. In respect of services, it should confine itself to those linked with the supply or treatment of goods; and its consideration of prices should be merely incidental to its main tasks".

The Report did not consider the question of prices, which is one of the most important objects of concern to all consumers. The Committee was advised to leave alone the question of resale prices. Nevertheless, it felt that the matter was of great importance to the consumer and well within the competence of a Consumer Council. It has suggested stiffer action against restrictive practices and anti-monopoly legislation. The unorganised status of the consumer compared with industry needs correction. "Consumer interest might require an extension and stiffening of the Restrictive Trade Practices Act, 1956. The repeal of its provisions permitting the enforcement of individual resale price might greatly benefit consumers."

The British Government has accepted the recommendation that a Consumer Council should be established. It goes without saying, of course, that the consumer in India is much less informed and less organised than his counterpart in Britain. Consequently he is unable to make intelligent bargains. The purchases he makes are at prices decided by the producers and traders. What is worse he does not realise or resent the way he is at present served. He does not mind paying excessive prices for food, clothing and other essentials. He not only puts up with the indifferent quality of consumer goods but is often threatened that even these goods may not be available to him, as the Government wants to channel them to export. Consumer councils all over the country are, therefore, a much-needed organisational reform in India. These councils should disseminate information on matters of consumer interest through leaflets, pamphlets, magazines and reports. The councils should also recommend the prices for various types of goods. The prices recommended by the councils should be enforced by the Government, if the producers, traders and salesmen fail to maintain them.

Consumer Councils in India

With the Chinese aggression and the general expectation of a prolonged struggle the question of fixing fair prices for a large variety of necessities and durables has come up. Unless the prices of food-grains, oil, textiles, woollens, footwear, medicines, soap, kerosene, etc are held, inflation will definitely beset our economy. A major decision taken by the Board of Trade is to introduce a voluntary system of price display, covering both wholesale and

retail shops, in the main urban areas. The Committee on Fair Trading Practices of the Board of Trade has recommended the adoption of a code of fair trading practices by all Chambers of Commerce, manufacturers, export promotion councils and commodity boards. This committee has also recommended fixation of fair prices for consumer goods to hold the price line and the cost of living. Though voluntary cooperation of producers, distributors and traders is necessary to check profiteering and ensure price stabilisation, the success of price control and the availability of essential consumer goods depend also to a great extent upon the determination of consumers. No statutory controls can check inflation if the consumer does not cooperate. It would be realistic, therefore, to form consumer councils all over the country.

The consumer councils should decide the fair prices of consumer goods and prevail upon the public not to pay higher prices. The proposed net-work of cooperative stores will cover only the metropolitan

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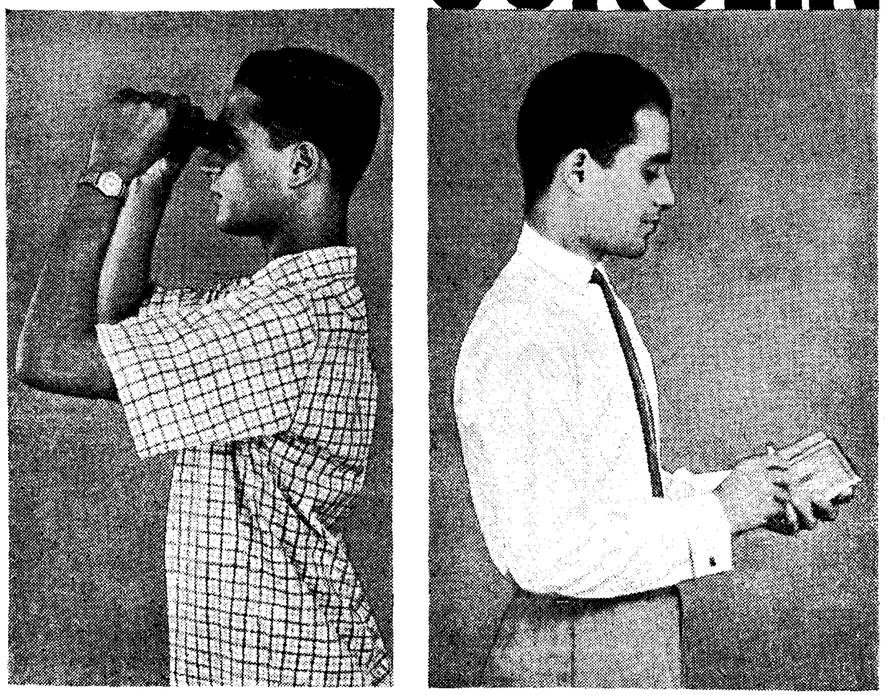

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cities, State capitals and industrial towns and will not touch the bulk of our population which resides in rural areas. Opening of fair price shops will solve the problem to a great extent, but if consumer councils are formed in every small town or every group of villages and in every ward in the bigger towns and cities to educate the public and guide them in their purchases, enlighten them on the existing laws for their protection and help them in enforcing the laws wherever necessary, the Government may save a lot of money and time which it might otherwise have had to spend on enforcing controls all over the country. The councils could also play an important part in preventing the public from hoarding goods. Even during normal times, consumer councils could do immense service to the community in protecting the consumer and in guiding him. In the present situation they are likely to be particularly useful.

Towards a Theory of Indian Politics

A Comment

Wayne A Wilcox

Surindar Suri (The Economic Weekly, *December* 1, 1962) *has set a task for students of Indian politics, and has offered some comments and guide posts for the would-be theorist. Throughout his article he has pointed to the electoral process as the mine in which research gold is to be found, and commends to us all the close study of voting and its relationship with political movements.*

The Third General Elections stimulated similar thoughts on the part of many political scientists, and the forthcoming Agra meetings of the Indian Political Science Association, in which the 1962 *elections are a special topic, will show how productive such studies have been in India.*

While wholeheartedly endorsing Shri Suri's plea for the empirical study of the great democratic laboratory, I would like to counsel both a less ambitious scope of theory and a somewhat broader-based research technique for such partial explanations.

PERHAPS the proper beginning is in an alternative formulation of the problem of a theory. The central question is, "Precisely what is the theory supposed to explain?" Pandit Nehru's popularity? The importance of caste? Federal politics? Panchayati raj? Electoral success? Future trends in party life? The breadth and variety of significant questions posed to a theory together with the often admitted complexity of the political scene in a rapidly changing society seem to point to the need for a delineation of the political arena to be studied. And they certainly suggest a humble, if not cautious, approach to all-inclusive explanations.

Shri Suri's article is the richer for his consciously subjective comments on political negativism, political attitudes and the non-political history of India since the Mutiny, but they point by example to the need for materials which go far outside voting studies. It is particularly important to stress the need, in political analysis, for a sound grounding in sociology and economics and perhaps social psychology not only because of their content, but because of their research methods. Some examples might illustrate both points.

Place of Village Studies

In recent years we have been presented, almost weekly, with a sensitive study of one or more of the thousands of Indian villages complete with a chapter on politics or the power structure. With such a body of solid microcosmic studies of caste politics and change, modernization and sanskritization, panchayati raj and local issues, is it not possible to develop a tentative general theory of local politics and to begin to understand the dimensions of political community for three-quarters of India's population? To be sure, there are regional variations but if, as I believe, such a tentative explanation can be made, does it not rest on the basis of the full spectrum of the social sciences? With one partial theory established, at least for purposes of argument, one may proceed to a higher level of complexity.

To put the problem briefly, how does one explain state politics on the basis of known village political behaviour? If the MLA candidates are not of the caste of the voter, and if local vital interests are not involved, what theory can explain electoral politics? The key problem in any general theory is to answer the questions of how to measure and understand citizen-voter involvement in a world larger than his own, a world run on western parliamentary lines even though the society is Asian.

It is precisely here, in the subtle connections between the layers of Indian political life, that we enter the bog and unfortunately Shri Suri doesn't come fully to our rescue. The study of political parties at the district level (Myron Weiner's just completed research), the solid analysis of communications media and voter empathy (On the model of Daniel Lerner's "The Passing of Traditional Society") and a close look at the role of influential leaders in each community are all means to the end of sharpening our understanding of human reactions to politics. Perhaps the prudent student would do well to search not so completely for the voting result and party stands, but rather to the attitudes of the voters on the basis of education, economic standing and constituency. There simply are too few such studies carried out in depth interviewing which would allow deductive generalizations.

Needless to say these observations concern the urban as well as

the rural voter and it is with despair that one looks for urban voting studies or urban communication surveys. The scanty evidence seems to indicate that the city is a mosaic of traditional and modern life, that mass communications media mirror this dichotomy and even contribute toward it, but that economic and occupational shifts involve a political reorientation. Voting studies short of the thoroughly prepared Baroda East type *(The Economic Weekly*, September 15, 1962) are unlikely to answer the fundamental questions. One must assume, as Shri Suri seems to do, that politics is now firmly channeled into organized stable avenues, to ignore the politics of the street and of anomie.

Broader Research Basis

When the answers to such pressing questions are available, perhaps one can then theorize about the assimilative or repellant nature of western-style politics at the state level. The question of the role of the state apparatus, of the tensions between bureaucrat and politician over the respect or support of the masses, similarly lies outside electoral studies. Although it is almost universally accepted that the conflict is of great importance, we have yet to see adequate studies of the Indian civil servant, his ethos and political behaviour. The same could certainly be said of civil-military relations.

The argument to this point in the article is simply this: too much is unknown to develop broad theories and such theories, if and when they are developed, will need a much broader research basis than electoral studies.

My final point concerns national politics, even more complicated than the lower levels where at least the constituencies are limited. I will not labour my earlier points, but will simply state that a theory must somehow tie the High Command and the leading MPs to a political community from which they draw their strength, their ideas and their followers. This community is clearly not the national electorate except in a mystical sense and it may or may not be B B Misra's "The Indian Middle Classes". Some research on party finance and lobby and pressure groups might be helpful.

By way of a hypothesis to help explain some of the linkages between various levels in Indian political life, would not a proper starting point be the search after the locus of political power, that elusive point which has slipped from the hands of the Congress High Command and is in the process of being garnered by state political bosses and brokers? As Shri Suri has said, this may mean a future political elite with a strong traditionalist flavour. It may also mean, however, a rapid integration of local and parochial interests in the hurly-burly of parliamentary politics which, in my view, would mean that parliamentary government had come to stay in India.

Britain's Rising Unemployment

(From Our London Correspondent)

The greatly increased unemployment, now well over half a million — the highest November figure for 22 years — coupled with the practical certainty that it will rise to over 600,000 in January or February, has pinpointed unemployment as the symptom of the serious and persistent malaise of the British economy.

This exposes the inadequacy of so-called Tory "planning". To deal with a problem of this dimension, something more than the present policy, supplemented by the "heavenly twins", the National Economic Development Council and the National Incomes Committee, is required.

WITH industrial production in Britain still growing only at a modest rate, and Mr Maudling's reflationary measures having little impact on the economy, some serious steps must be taken to stop the rot which, in the past, has been brushed aside mainly as a "local" problem in the worst affected areas. Unemployment in Scotland, Northern Ireland and the North East, is assuming really serious proportions.

It is true that by American standards, the November rate of unemployment of 2.4 per cent in Britain is still low. But as *The Economist* has pointed out, it is concentrated in the Northern regions where the unemployment rate among men has risen above what anybody would think reasonable. And in the development districts as a whole, the rate (for all workers) was 5.4 per cent even by October, and as much as 11.5 per cent in Milford Haven and Pembroke Dock, 7.5 per cent in south-east Tyneside and 6.9 per cent in north Lanarkshire.

The difficulties of one of these hard hit areas, Merseyside, has been highlighted recently by Sir Patrick Hennessy's attack on the unofficial strikers at Halewood, and the anguished local response at the prospect of losing yet more jobs. But everything at Merseyside can be matched by the other hard hit areas, and indeed it could even be matched in quite a few South country blackspots like Sheerness, (where unemployment, at over 7 per cent is almost on the Ulster level), or Falmouth. This is a factor that proponents of the currently-fashionable "divided kingdom" theory tend to forget.

One positive factor at least does emerge, and that is that since the War, with the experience of the 1930s behind them, most people realise the social injustice and waste involved in unemployment, and popular feeling nurtured in the early post-War years on the principle of full employment and the Beveridge Report is still touchy on this subject.

Caused by Increased Productivity ?

With the unemployment figures rising, the General Council of the Trade Union Congress asked for an early meeting with the Chancellor of the Exchequer to discuss ways of halting the rise in unemployment. As wages and standards of living have risen, so the gap between average earnings and unemployment benefits has widened, (from 32 per cent of earnings in 1954 to 19 per cent of earnings in 1961). With the background of the five disastrous by-elections indicating how low is the barometer of Tory popularity, Mr Maudling at once agreed to meet the TUC as soon as possible. In Parliament, the Labour Party has pressed for Government action to create more jobs and has demanded a rise in unemployment benefits.

There have been suggestions that increased productivity is responsible for the use of less labour, but the industries that appear to have been laying off relatively more workers, or not replacing men who have left of their own accord, are the very ones whose production has been falling — shipbuilding and marine engineering, the railways and their specialized suppliers, steel, aircraft, textiles and coal.

Out of all the industries that can be separately identified by the statistics issued by the Government, there are only two where productivity can be said, with some real assurance, to have risen this year, the engineering industry and the chemical industry. The chemical industry has raised its output with a slightly reduced labour force. The capital goods industries—specifically engineering industries making machinery — have been cutting down their payrolls too, even though their current rate of activity has been rising. But even here, the main reason for reduced employment is the threat of chillier times to come — declining order books and the pressures on margins and costs.

There is no getting away from the fact that the best climate for a widespread and substantial improvement in productivity is that of rising production. Economic growth is both a national and a regional problem. But the UK and certainly the present Government, has yet to show the necessary imagination and drive in tackling the problem of growth in those parts of the country like Scotland, Wales, Ulster and the Northern English countries, where this year's recession in steel and the number of engineering industries has added greatly to the more deep-seated problem of structural decay.

Failure of Government Policy

What, in fact, does the Government claim that it has done to meet this urgent social problem? Their case is that they are "guiding industry to the development areas" (called "distressed areas" before the War). Inducements are being offered to firms willing to build new extensions or new enterprises in these areas. The inducements are Government factories, or other commercial buildings for sale or lease on favourable terms, and loans and grants for starting production. The prospect of higher-than-average profit is held out to firms who go to the higher-than-average unemployment areas. This action is reminiscent of the Act of 1934 introduced by the Government of Ramsay MacDonald to deal with the distressed areas, an Act which proved to be futile. And the distressed areas of the 1930s coincide with today's development areas. Once again, it is Scotland, Wales, North and North East England and Merseyside which are feeling the pinch.

INDAL KNOW-HOW HELPS INDUSTRY

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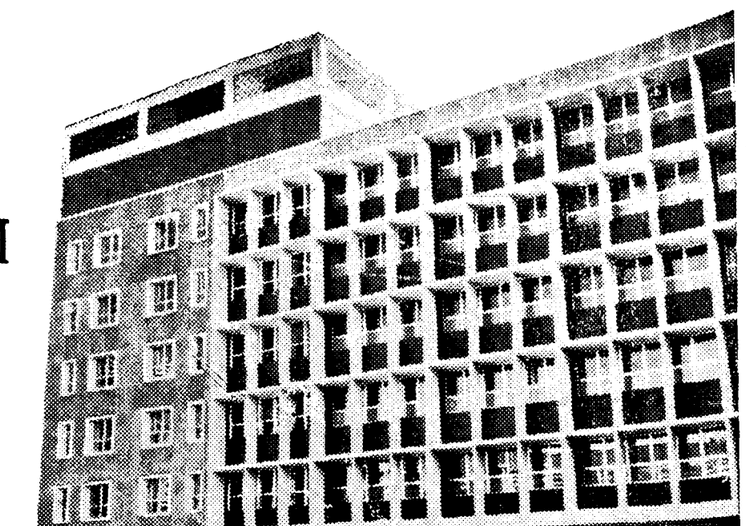
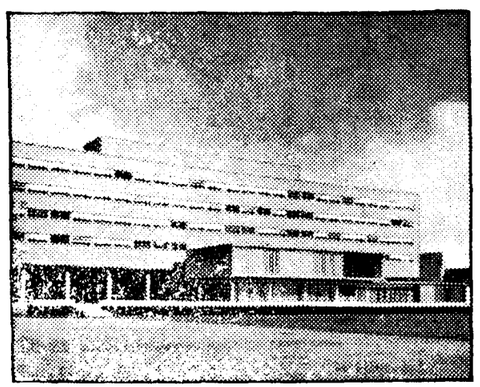


Aluminium is being increasingly used for a variety of purposes in the construction of modern buildings. The All-India Institute of Medical Sciences (above) in New Delhi and the Tata Institute of Fundamental Research (below) in Bombay are but two examples of aluminium's contribution to modern architecture. A substantial tonnage of **INDAL** aluminium in the shape of extruded sections and sheets for windows and louvres has gone into these buildings.



WHY ALUMINIUM?

Aluminium is used in architecture because of its decorative advantages over traditional materials. ■ Anodised aluminium, with its wide range of colour effects, dramatizes the facade or interior of buildings. ■ Aluminium has exceptional durability, and being highly resistant to corrosion needs no special maintenance.

PIONEER IN THE FIELD

The use of aluminium in architecture and for other large-scale industrial applications was developed and promoted in India by INDAL. Since its formation in 1938, INDAL has constantly striven to introduce aluminium in diverse spheres—agriculture, building, packaging and transport. With its vast experience, backed by the know-how of its foreign associates, INDAL is equipping itself to meet the increasing demand for aluminium in various forms.

INDAL
India's first aluminium producer

INDIAN ALUMINIUM COMPANY LIMITED—A CANADIAN-INDIAN ENTERPRISE

JV-TIA 6135A

The areas of highest unemployment depend to an overwhelming extent on 19th century industries — shipbuilding, shipping, steel, coal, jute — which are dying, contracting, changing or in decline. All have been the subject of efforts by the Government, the Board of Trade, the Treasury and local development councils, to reverse the tide that has been draining jobs and prosperity from these areas. New factories have been built and new industries have been encouraged to open up in these areas, but all these measures have proved to be inadequate. No half measures can now deal with this serious problem, and that is why there is a growing demand on all sides, from the T U C to the younger Tories, for an imaginative comprehensive scheme to rethink and reshape the whole social-political-economic pattern of the country.

The tendency to desperately cling on to industries that have passed their prime, is reflected in the bitter criticism by the textile industry of imports from textile producers in the developing countries. This aspect of the problem has been highlighted in all the discussions on British membership of the Common Market, and is yet another indication of the misguided way in which these industries continue to exist, when what is really required is a complete rethinking and reorganisation, and a movement towards the developing industries of the 20th century.

Reorientation of Industrial Development

There is a certain irony in the successive reports by G A T T and — just recently — from the O E C D, which stress the urgent need for accepting manufactured goods from the developing countries in order to counterbalance the decline in their export earnings from primary products, and, incidentally, to guarantee a market for exports from the Western industrialised countries. The futility of pouring in aid and refusing to trade, has been exposed more and more clearly, and yet, when it comes to action, all the countries which sign these resolutions resolutely turn their backs on taking the necessary steps.

All this pinpoints the need for a complete reorganisation of industrial development in the U K. Any plan to cope with the problem of unemployment must be based on a systematic long-term expansion of the areas selected, with a massive but highly discriminating programme of public works designed to provide immediate relief to the unemployed while laying the foudations, in the form of transport facilities, power, water, housing and so forth, for the complex development to come.

Marginal Productivity of Labour in Manufacturing

Estimates for Selected States

V V Bhanoji Rao

An attempt is made below to estimate marginal productivity of labour in manufacturing industries in ten selected Indian States with the help of a simple linear model.

No agreement is found between average productivity and marginal productivity and average wage and marginal productivity. It appears that factor combinations exert a good amount of influence on marginal productivity as they do on the total product.

THE first and foremost obstacle in the way of productivity studies is the difficulty of measurement. The problems that arise in productivity measurements and comparisons have been discussed in detail.[1] The output per person employed or the output per man-hour is sometimes taken as an index of productivity. Here we may distinguish between average productivity and marginal productivity, for, it is actually marginal productivity that is expected to be conveyed by the term "productivity". Average productivity is only a crude indicator and more often than not the pattern indicated by average productivity may not be the same as that indicated by marginal productivity.

In any measure of productivity the important requirement should be that it should give the increase in product due to labour for an increase in labour by one unit. However this is not always possible. The detection of the actual share of each factor in total product is so difficult that it is almost impossible to arrive at a real measure of labour productivity. Productivity is a function of many subjective and objective factors all of which contribute their share and no precise device exists to set apart the share of labour. Thus it is argued by Zobel[2] that labour productivity is not merely a function of product and labour. A productivity function, according to him, has to be regarded as a multivariate function with several variables, and for purposes of classification they may be considered as objective, originating primarily in physical conditions of work, and subjective, stemming mostly from an individual's policies, attitudes etc.

In this paper, a comparative study of labour productivities in some States in India is attempted. The study relates to the manufacturing sector for the year 1957. Due to certain limitations imposed by data, only 10 States are covered. These ten States, however, are the most important from the point of view of industrial development as well as labour productivity.

The Method

The method followed is very simple. Linear relationship is assumed between net product and labour. To arrive at a fairly good estimate of marginal productivity of labour, both the net product and the labour size are deflated by total capital. Also, instead of net output the value added by manufacture is taken and instead of labour, the total wages and salaries are taken. Thus as a measure of productivity we have obtained the increase in the value added by manufacture for an expenditure of one more rupee on labour or a unit addition to the wage bill. Thus we have

L.I.C.
3rd VALUATION RESULTS BONUS

WHOLE LIFE ASSURANCES
Rs. 16.00
per thousand per annum

ENDOWMENT ASSURANCES
Rs. 12.80
per thousand per annum

The Life Insurance Corporation has pleasure in declaring the above rates of bonus as a result of the third Valuation of its liabilities and assets as at 31st December 1961. These bonus rates are applicable to with-profits policies issued by the Corporation and which were in force for full sum assured as at the date of Valuation.

The total sums assured and bonuses under 85,81,367 policies in force on the date of the Valuation amounted to Rs. 2738 crores, and the total amount payable under 10,297 Life Annuities was Rs. 1,09,50,470 per annum. Out of the total profits available for distribution amounting to Rs. 34.45 crores, a sum of Rs. 32.73 crores has been utilised for allotting bonuses at the above rates to the policyholders. Government's share of surplus amounted to Rs. 1.72 crores.

The rates of bonuses on with-profits policies of the erstwhile insurers also remain the same as those declared under the Differential Bonus Scheme on the occasion of the first and second Valuations.

Bonus intimations in respect of the third Valuation will be sent out to the policyholders as soon as possible.

Life Insurance Corporation of India

ASP/LIC-SP-31

$$V/C = a + b\,W/C \quad (1)$$

where V is the value added by manufacture, C the value of total productive capital, W the total wages and salaries and 'a' and 'b' are the parameters. From (1) it follows that the first derivative

$$dV^1/dW^1 = b \quad (2)$$

where $V^1 = V/C$ and $W^1 = W/C$ Thus the regression coefficient 'b' is the measure of marginal productivity.

The Data

The data for the present study are taken from the Report of the Census of Manufacturing Industries for 1957.[3] Ten States are selected for study. The series used for fitting the regression lines are the industrial aggregates. In the case of some industries, the data is not given for each State. These industries have to be deleted from the study. In other words, if a State has 15 industries and if for 12 of them data are given in the form of aggregates but if the remaining 3 are grouped with some other States, then only the 12 industries are considered. It may be noted here that such grouped data accounted for only a minute part. Table 1 shows the extent of coverage in the study for each State.

It can be seen from Table 1 that in all the States except Punjab and Mysore the coverage is 90 per cent or more. Another important point is that the Census of Industries itself has not covered the industries completely because of non-availability of information from some factories. However, there is not much deficiency in data for the recent years. In any case only a few factories are left out.

The definitions of the terms, "value added by manufacture", "value of total productive capital" and "wages", are given in the report of the Census of Industries.

It may be mentioned here that the value of fixed capital as given by the Census is measured at historic prices. Thus the value of fixed capital is an underestimate. What is relevant here is the current replacement cost of the assets concerned. From an examination of the balanced age distribution of capital, Professor Mahalanobis[4] has shown that the replacement cost is nearly equal to twice the book value. The same argument is also advanced by Champernowne and Kahn.[5] The value of productive capital is accordingly adjusted in this study.

The Results

For the ten selected States as well as for India the regression lines are fitted with industrial aggregates. The regression coefficients are tested for significance. The marginal productivities in the descending order of magnitude are presented in Table 2. All the regression coefficients are statistically significant except the one for Mysore State.

Table 1

State	No of Industries Covered	Percentage of Labour Covered
Punjab	13	**72.8**
Bihar	13	**96.9**
West Bengal	24	**98.5**
Mysore	10	**81.5**
Andhra Pradesh	12	**91.0**
Madhya Pradesh	9	**93.3**
Uttar Pradesh	21	**98.1**
Bombay	25	**99.9**
Madras	17	**99.6**
Delhi	10	**90.1**
INDIA	29	**100.0**

Table 2

State	Marginal Productivity	Value of 't'	Coefficient Correlation
Punjab	2.089	9.07	.94
Bihar	1.323	4.60	.81
West Bengal	1.228	3.70	.62
Mysore	1.225	1.33*	.42*
Andhra Pradesh	1.137	7.90	.93
Madhya Pradesh	1.137	2.77	.73
Uttar Pradesh	1.101	4.44	.71
Bombay	0.909	3.25	.56
Madras	0.794	3.03	.62
Delhi	0.788	3.10	.74
INDIA	0.904	3.90	.60

* Not significant at 5 per cent level.

In fact it is very difficult to explain the differences in productivities between States. Some of the newly industrialised States like Andhra Pradesh and Madhya Pradesh are ahead of highly industrialized States like Bombay. Bihar and West Bengal are no doubt highly industrialized, but the case of Punjab is different. To some extent the scale of operation may be responsible — the smaller scale of operation of the industrial units resulting in high labour productivity. However, the productivities may depend much on the nature of the industries; the differences may not be exactly due to inherent efficiency differences of the labourers in each State. Table 3 shows the most important two or three industries for each State (the

Table 3

State	Important Industries	Labour in These Industries as Per Cent of Total Labour
Punjab	Electrical and General Engineering, Cotton Textiles, Sugar and Bicycles	**71.1**
Bihar	Iron and Steel, Electrical and General Engineering and Chemicals and Sugar	**76.2**
West Bengal	Jute Textiles, Electrical and General Engineering and Cotton Textiles	**73.8**
Mysore	Cotton Textiles and Elecrical and General Engineering	**76.8**
Andhra Pradesh	Rice Milling, Vegetable Oils, excluding Edible Hydrogenated Oils, Cotton Textiles and Sugar	**74.1**
Madhya Pradesh	Cotton Textiles and Rice Milling	**76.2**
Uttar Pradesh	Sugar, Cotton Textiles and Electrical and General Engineering	**76.7**
Bombay	Cotton Textiles, Electrical and General Engineering and Chemicals	**86.8**
Madras	Cotton Textiles, Electrical and General Engineering and Matches	**80.5**
Delhi	Cotton Textiles and Electrical and General Engineering	**84.1**

49 years ... not even a scratch

The rate of industrial accidents in India has increased from about 24 per thousand workers in 1938 to about 44 in 1959. Every year, over 93,000 workers are involved in accidents and 25[illegible] lives are lost. Also wasted annually are a million man-hours—enough to produce 170 broad guage locomotives or 700 coaches for the Indian Railways.

Safety has always been Tata Steel's watchword as efficiency is hardly possible without it. 'No-accident month' as an annual feature, safety exhibitions, training in safety, safety awards, safer working conditions, a continuing campaign under the direction of joint councils to turn safety into a habit ... these are some of the means adopted in Jamshedpur to prevent accidents in the Plant.

Safety, however, depends largely on the worker himself because about 75 per cent of industrial accidents are found to be caused by human negligence. This is where men like Jamuna Dube, the oldest employee in Tata Steel, come in. He has worked for 49 years without ever sustaining an injury, not even a scratch.

The importance of safety was one of the first things that Jamshedpur taught Dube when he arrived in the Steel City half-a-century ago ... a city where industry is not merely a source of livelihood but a way of life.

JAMSHEDPUR
THE STEEL CITY

The Tata Iron and Steel Company Limited. JWTTN 6093A

GIVE FREELY TO NATIONAL DEFENCE FUND

most important industries are those which among themselves account for about 70 per cent to the total number of persons engaged in manufacturing in the State).

It will be noted from Table 3 that the most important industries are the same in almost all the States. The most common industries in each State are electrical engineering and general engineering and cotton textiles. Thus it appears that to some extent the marginal productivities obtained depict the real efficiencies of labour in each State or more clearly they denote the general industrial efficiency of each State. Some more characteristics are detailed in Table 4.

None of the economic indicators given in Table 4 have a one-to-one correspondence with marginal productivity. The first aspect is the relationship between average and marginal productivities. The relationships are studied in the simplest way by the rank correlation technique.

The rank correlation coefficient (Kendall's Tou) between the value added per rupee wage and the marginal productivity is found to be 0.42 which is fairly good, but not statistically significant. There is not marked correspondence between the measures of average productivity and marginal productivity. Another measure of average productivity namely the value added per person employed is found to have no significant correspondence with the marginal product. This lack of relationship seems quite reasonable as it is well known that average product cannot be treated as an index of marginal product.

Under conditions of perfect competition the average wage is equal to the marginal productivity. In practice this equality can never be observed for two reasons: one is the non-existence of perfect competition and the second is the limitations of the analysis due to its assumptions and approximations. Moreover, in the present study the productivities are not given for a single firm or a single industry but for States. The rank correlation coefficient is almost zero between the average wage and the marginal productivity.

The capital-labour ratio can be broadly termed as an indicator of the nature of operations of the industries in each State. The differences in the factor combinations count much in the explanation of the differences in productivities.[6] The rank correlation coefficient between capital-labour ratio and marginal productivity is 0.55 which is statistically significatnt. Thus the productivity differences observed among the States are to some extent due to the differences in the efficiencies of labour and to some extent due to those in factor combinations.

Conclusion

In some studies the relationships between horse-power per man-hour and product per man-hour, real-hourly wages and output per man-hour and also unit-labour cost in manufacturing and the prices of finished goods have been examined.[7] In fact one may study the relationships between each of the several factors affecting total product and productivity. It may be emphasized here that the cruder the productivity index, the more is the influence of the variables affecting total product on productivity. However such numerous relationships are not attempted here though it can hardly be claimed that the productivity obtained in this paper is free from the influence of those factors influencing the product.

Some of the newly industrialising States have recorded a high level of productivity. In this connection it is felt that a study has to be made of productivity according to size of indusry* and a more detailed examination is necessary to explain the productivity differentials. It is very necessary to know changes in productivity over time in under-developed countries. Needless to say, attempts have to be made to estimate productivity for the entire economy, though estimation for individual sectors is the beginning.

Table 4

State	Value Added Per Unit Wage (Rs)	Average Wage (Rs '000)	Value Added Per Person (Rs '000)	Capital* Labour Ratio
Punjab	2.05	1.2	2.41	7.8
Bihar	2.33	1.8	4.17	11.1
West Bengal	1.74	1.3	2.33	5.8
Mysore	2.06	1.1	2.26	9.7
Andhra Pradesh	1.88	0.8	1.51	10.7
Madhya Pradesh	1.84	1.1	1.97	7.2
Uttar Pradesh	1.84	1.2	1.97	7.2
Bombay	1.52	1.8	2.68	4.4
Madras	1.80	1.2	2.15	6.5
Delhi	1.72	1.7	2.98	3.7
INDIA	1.73	1.4	2.47	6.3

* Capital here is adjusted capital[5]

1 Evans, W D "Recent Productivity Trends and Their Implications", *Journal of the American Statistical Association*, 1947, Vol 42 No 238, pp 211-223.

2 Zobel Sigmund, P "On the Measurement of the Productivity of Labour", *Journal of the American Statistical Association*, 1950, Vol 45, No 250, pp 218-224.

3 "Twelfth Census of Indian Manufactures" 1957, Government of India Department of Statistics (Central Statistical Organization) Calcutta.

4 Mahalanobis, P C "The Approach of Operational Research to Planning in India" *Sankhya*, Vol 16, 1955-56, pp 29-30.

5 Champernowne, D G and Kahn, R F "The Value of Invested Capital" *Review of Economic Studies*, 1953-54, Vol 121, No 55, pp 107-111.

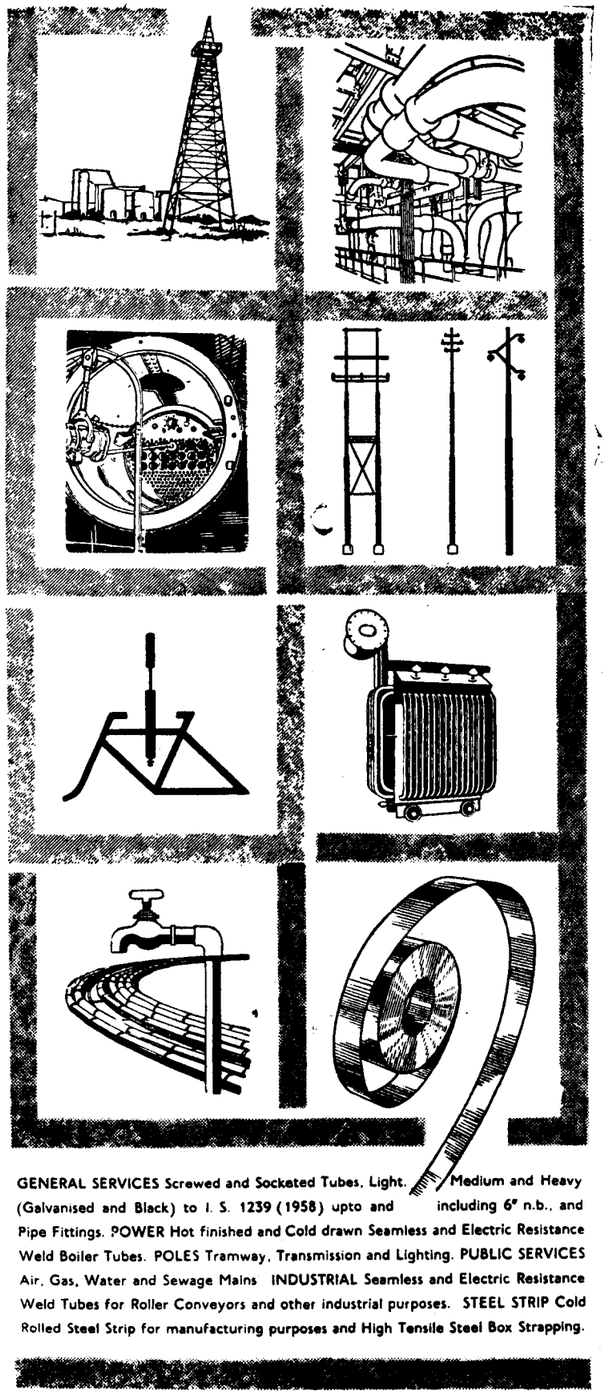
6 Bhanoji Rao, V V "Two Production Functions Estimated for Andhra Pradesh Data" *Artha Vijnana*, Dec 1961, Vol 3, No 4.

7 Young, Charles E "Applications and Problems of Productivity Data", *Journal of the American Statistical Association*, 1946, Vol 41, No 236 pp 421-431

* The author of this paper is attempting a more comprehensive investigation into the problem, trying to study productivity by size of the industry, by States and over time.

Tractors India

TRACTORS (India), Calcutta, has reported higher sales during the year ended June 30, 1962 at Rs 111.98 lakhs (Rs 101.29 lakhs) but due to increase in costs, the gross profit has declined to Rs 39.18 lakhs compared with Rs 39.72 lakhs in the previous year. Usual charges and expenses and depreciation, aggregating Rs 29.02 lakhs (Rs 23.57 lakhs), provided, the Profit and Loss Account shows a net profit of Rs 22.18 lakhs (Rs 27.58 lakhs), which together with Rs 16.37 lakhs brought forward from the previous year and Rs 0.19 lakh, being over-provision for taxation in previous years now written back, amounts to Rs 37.07 lakhs (Rs 41.88 lakhs). From this amount, the appropriations made are: General Reserve, Rs 6.40 lakhs; Dividend Equalisation Reserve, Rs 7.50 lakhs; Development Rebate Reserve, Rs 0.11 lakh; Provision for taxation, Rs 10.25 lakhs.



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INDIAN TUBE

THE INDIAN TUBE COMPANY (1953) LIMITED
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Trend of Mineral Exports, 1951-61

S Narayanaswamy

IN order to obtain a general view of the trend of mineral exports during the years 1951-61, or the First and Second Plan periods, an index of the quantity of exports has been constructed in this paper taking 1951 as the base year. The index covers most of the minerals exported in 1951. The weighted average method, with fixed base 1951, is used in the construction of the index. Weights are assigned to different minerals on the basis of their aggregate value in 1951. Table 1 shows the quantity of exports of minerals during 1951-61 and Table 2 gives the quantity index of minerals exports during this period together with the weights assigned.

It is seen from Table 2 that the index of export of all minerals increased from 100.0 in 1951 to a peak of 137.8 in 1957. The trend was, however, reversed in 1954 and 1955 due to lower exports of manganese and iron ore. The index received a severe set back in 1958 owing to the recession in the steel industry which affected the exports of manganese ore. Exports improved in 1960, the index rising to 132.3. However, in 1961 the index again fell to 119.6.

The overall increase of about 20 per cent in the general index over 1951-61 was largely the result of the increase in exports of metallic minerals, the index in respect of which rose by about 70 points. The increase for non-metallic minerals was by only 8 per cent.

The index for ferrous minerals increased by about 79 per cent

Table 3 : Index of Mineral Production, 1951-61
(*Base* 1951 = 100)

1951	100.0
1952	103.9
1953	106.6
1954	107.6
1955	112.8
1956	116.9
1957	123.7
1958	127.0
1959	126.6
1960	133.2
1961	134.8

Source: 'Mineral Production in India', published by the Indian Bureau of Mines.

Table 1 : Quantity of Mineral Exports, 1951-61
(*Tonnes*)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Coal	2,218,000	3,040,000	2,056,000	1,991,000	1,520,000	1,833,000	1,625,000	1,741,000	1,397,000	1,322,000	942,000
Metallic Minerals											
Chromite	8,253	7,663	15,603	23,727	49,046	42,487	41,823	49,401	81,648	41,195	41,843
Iron Ore	200,157	679,690	1,112,033	1,072,562	1,307,698	2,013,712	2,251,291	1,896,203	2,510,997	3,428,432	3,466,000
Manganese Ore	1,032,751	1,451,967	1,746,473	1,134,125	1,305,977	1,534,625	1,742,452	975,550	985,651	1,160,201	1,013,592
Ilmenite	209,455*	210,213*	203,533	188,115	250,135	287,732	352,767	288,216	281,057	228,916	125,213
Non-Metallic Minerals											
Barytes	6,888	2,343	2,550	8,525	2,614	6,809	14,117	23,489	13,222	24,804	7,335
Kyanite	21,962	27,150	16,000	22,571	27,379	26,989	24,847	19,465	22,962	25,847	31,727
Magnesite	49,870	31,778	43,213	25,768	25,031	35,099	21,786	19,899	27,988	27,620	31,932
Mica	24,916	15,595	12,456	17,008	22,139	21,588	22,376	19,735	23,376	29,717	26,379
Salt	17,942	232,555	265,566	203,394	206,069	260,905	381,388	257,047	346,217	426,856	135,373
Sillimanite	2,397	4,281	3,234	2,453	3,805	5,335	5,714	9,609	4,484	7,831	5,494
Steatite**	7,234	4,125	7,502	6,463	7,995	7,795	7,133	7,215	7,505	7,222	9,636

* Estimated on pro rata basis (exports of Ilmenite were not shown separately prior to 1953)
** Block and powder.

Table 2 : Quantity Index of Mineral Exports, 1951-61
(*Base* 1951 = 100)

	Weight	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
All Minerals	1000.0	100.0	111.5	112.6	97.9	111.2	127.9	137.8	104.9	114.4	136.3	119.6
Metallic Minerals												
Coal	195.7	100.0	132.5	92.7	89.8	68.5	82.6	73.3	78.5	63.0	59.6	42.4
Chromite	2.6	100.0	92.9	189.1	287.5	594.3	514.8	506.8	598.6	989.3	499.2	507.0
Iron Ore	17.3	100.0	339.5	555.6	535.8	653.3	1000.6	1124.8	947.3	1234.5	1712.9	1731.1
Manganese Ore	342.5	100.0	140.6	169.1	109.3	126.5	148.6	168.7	94.5	95.4	112.3	98.1
Total Ferrous	362.4	100.0	149.7	187.7	131.4	155.0	191.9	216.8	138.8	157.2	191.5	179.0
Non-Ferrous												
Ilmenite	29.8	100.0	100.4	97.2	89.8	119.4	137.4	168.4	137.6	134.2	109.3	59.7
Total (Metallic)	392.2	100.0	146.0	180.8	128.3	152.3	187.8	213.1	138.7	155.4	185.3	169.9
Non-Metallic Minerals												
Barytes	2.0	100.0	34.0	37.0	123.8	38.0	98.8	205.0	341.0	191.9	360.1	106.4
Kyanite	12.6	100.0	123.6	72.8	103.6	124.6	122.9	113.1	88.6	104.5	117.6	144.4
Magnesite	12.8	100.0	63.7	86.7	51.7	50.2	70.4	43.7	39.9	56.1	55.4	64.0
Mica	378.0	100.0	62.6	50.0	68.3	88.9	86.6	89.8	79.2	93.8	119.3	105.8
Salt	1.3	100.0	1296.1	1480.1	1133.6	1148.5	1454.2	2125.7	1432.7	1929.6	2379.1	754.5
Sillimanite ..	1.6	100.0	178.6	137.0	102.3	158.7	222.6	238.4	401.0	187.1	326.7	229.1
Steatite	3.8	100.0	57.0	103.7	89.3	110.5	107.8	98.6	99.7	103.7	99.8	133.2
Total (Non-Metallic)	412.1	100.4	68.6	57.1	72.8	92.3	92.3	96.7	85.3	99.7	126.1	108.4

during 1951-61. The index for iron ore increased sharply to 1731.1. The index of exports of manganese ore decreased from a peak of 169.1 in 1953 to 98.1 in 1961. Exports of chromite, however, showed a more than five-fold increase during the period.

Among non-metallic minerals the index for salt showed considerable rise. The index of salt exports was 2379 in 1951-60, but in 1961 it fell to nearly one-third of this figure due to lower purchases by the principal importing countries. The indices for barytes and mica rose by about 6 per cent. Indices for kyanite and steatite, however, rose by more than 30 per cent. To facilitate comparison, Table 3 gives the index of mineral production during 1951-61.

She believed she made a good first impression

An ideal receptionist, attractive, always eager to help—but her carelessness ruined her first impression on the visitor. She wore a lovely outfit, but it seemed ill-fitting, shrunk!

She overlooked the fact that only cottons that bear the label 'Sanforized' would keep their fit even after many washings.

Make certain you get the full measure of value of the material you buy—

Look for

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Around Bombay Markets

Concern over Cotton Prices Unwarranted

Thursday, Morning

COTTON prices suffered a further decline last week. The March contract touched a new low of Rs 669.50 on 11th December but it was up again at Rs 683.50 the next day and at its Wednesday's closing of Rs 682 the hedge contract showed a net loss of only Rs 3 per 3 quintals over the week. Earlier decline was a continuation of the downward movement which has been in evidence for quite some time. The week-end rally is essentially in the nature of a technical recovery brought about by short covering and some replacement buying, though sentiment was also influenced by the Forward Markets Commission's decision fixing the limit for the decline in futures in any week at Rs 10 per 3 quintals — prices can decline further during the week but only in kerb dealings.

The spot cotton market continued to be dull and distinctly subdued. The removal of all restrictions on the movement of cotton and the release of additional quota — the second instalment — of Indian cotton which brings the total quota to 45 per cent for Bombay mills and 60 per cent for upcountry mills have failed to impart steadiness to the market. Nor has there been any improvement in the turnover. This, however, is scarcely surprising. Most mills are already greatly with stocks of cloth and these stocks are mounting up due to continued poor off-take, particularly by the trade. In view of the acute monetary stringency, mills are reluctant to make large purchases of cotton when the supply position is known to be fairly comfortable. Estimates about the new crop are being revised upward to 55/56 lakh bales and the crop movement is gathering momentum.

New Delhi Takes Notice

But much has been made of the recent decline in cotton prices. It has not merely attracted the attention of the Forward Markets Commission but it has also been referred to in the Lok Sabha. This is perhaps the first time that the Forward Markets Commission has shown some concern over a declining trend in prices; instances are many when it took very hasty action quite drastic at times—against bulls in a vain bid to check the rising trend in spot prices. It is true that cotton prices have recorded quite a big decline over the past one-and-a-half months or so. But it is equally true that prices had been pushed up to all-time high-spot cottons were quoted even above the revised ceiling prices. Even at the last week's lowest rate of Rs 669.50, cotton futures stood only Rs 23.50 below the previous season's ceiling prices which had been kept unchanged for nearly a decade. And spot cotton prices have yet to come down to the previous ceiling prices.

Dr Subhag Singh's statement that the Government is considering a suggestion for raising the floor price of cotton is an indication of New Delhi's concern over the declining trend in prices which is not only quite unwarranted but accords ill with the Government's determination — or is it merely an intention—to hold the prices of essential commodities under firm check. The proposal is to raise the floor price by Rs 50 a candy from the present level of Rs 632; the ceiling price for the basic variety is Rs 945 per candy. At a time when the Government and the industry are anxious to augment domestic supply with large imports there is hardly any reason to expect prices to come down anywhere near the floors. What has happened over the past few months to bring about a radical change in the overall assessment of the supply position or the market outlook? If the Government expects cotton prices to record a further big fall the least that it can do is to do away with the widely resented supervisory scheme for the marketing of cotton which has been challenged in the court. It would be ridiculous to suggest that an increase in the floor prices at this juncture will in any way help the growers.

Oilseeds

Futures Recover

AFTER showing further weakness early in the week oilseeds futures staged a brisk recovery, beat a modest retreat and then firmed up again to record the week's highest levels on Wednesday. 12th December. Groundnut January which had been marked down to a new low of Rs 202.12 on 6th December moved irregularly up to Rs 213.50 by the week-end and the closing was a little lower around Rs 211.62. Castor futures recovered from Rs 157.25 to Rs 162.25 and cottonseed futures from Rs 90.50 to Rs 94.25 (per 250 kgs). Linseed March rallied from Rs 35.94 to Rs 37.44 per 50 kgs. Early decline was merely a continuation of the main downward trend which reflected the pronounced weakness in the spot material — groundnut as well as linseed. At one time, groundnut ready, Kanpur bold, was quoted about Rs 12 lower than the futures contract; near the week-end, the discount narrowed to Rs 7 per 250 kgs. Subsequent recovery, though mainly technical, was caused as much by short covering as by fresh bull support. In view of the approaching delivery period, the prevailing big discount on the spot material will check any marked and sustained improvement in groundnut futures. It is doubtful whether the spot material will develop much strength in face of the growing pace of new crop arrivals. The Government's move to import large quantities of soyabean oil from the U S under P L 480 is likely to impart an easier tendency to the market, and oilseeds prices have already reacted in kerb dealings on Wednesday.

Inaugurating the meeting of the Development Council for Oils, Paints, Soaps, Cosmetics and Toiletries in New Delhi on 12th December, Shri Nityanand Kanungo, Union Minister for Industry, revealed that the Government was considering the import of large quantities of soyabeen oil under P L 480 to stabilise the prices of edible oils in the country and to release groundnut oil for export. The move is certainly welcome. Apart from its salutary effect on the general structure of edible oil prices — of course a great deal will depend on

the quantum of imports — the use of cheaper soyabean oil by the vanaspati industry will help to reduce its costs and enable it to push the sale of its goods in foreign markets. Despite the incentive scheme, exports of vanaspati have continued to be very poor, the figure for 1961 being no more than 4,200 tonnes. No indication is yet available about the quantum of soyabean oil to be secured under P L 480. The vanaspati industry has suggested the import of nearly 50,000 tonnes; the industry consumes nearly 3.6 lakh tonnes of groundnut oil at present.

Last week was comparatively quiet so far as exports are concerned. Groundnut extractions were subdued, with the overseas quotation for December shipment marked down to around £ 36-7½ per tonne mainly because of the weakness in Indian groundnut prices. Fresh business put through was reported to be just moderate. Groundnut expellers attracted some attention and small business was reported with the U K at around £ 37-15 per ton. Vanaspati and soap manufacturers made further small purchases in groundnut oil during the week. Castor oil was virtually neglected and stray deals with the U K did not add up to more than a few hundred tonnes. The U K took small quantities of linseed cake and cottonseed cake.

Stock Exchange

The Stalemate Persists

DESPITE the lull on the front since the cease-fire by China, the feeling of despondency continues to pervade the stock market. Business is virtually at a standstill. Barring a few isolated counters, the minimum prices fixed by the stock exchange authorities give the look of ceiling prices because unofficially most shares are quoted below the minimum prices. The stock exchange authorities are not unaware of this fact, nor are they satisfied with the conditions obtaining in the market. Minimum prices have got to be revised gradually to levels where business begins to take place officially. It is difficult to say how far equity prices might move down still further because much depends on the magnitude of the defence effort required to vacate the Chinese aggression.

Having failed to persuade the Life Insurance Corporation and other institutional investors to take up the floating stocks of certain scrips, mainly Tata Steel and Indian Iron, the authorities of the Bombay Stock Exchange secured Government of India's permission to allow fresh forward purchases under certain restrictions. But since fresh sales had been prohibited, permission to make fresh purchases was intended merely to infuse some new blood into the market. It was felt that new buyers might enter the market to relieve the old, tired and badly beaten bulls. But this did not help improve the position because buyers continued to be on strike. Meanwhile a committee of seven members continued to explore the possibilities of placing the floating stocks with institutional buyers. Latest reports suggest that the Life Insurance Corporation has, after a great deal of haggling, purchased about 50,000 shares of Tata Steel from Bombay at Rs 117–Rs 3 below the minimum price fixed by the market authorities. Further purchases of Tata Steel are also considered likely. The Corporation has been criticised for buying shares at below the minimum prices. But why should it not try its utmost to buy shares at the lowest possible price, the more so when it is a question of buying a huge block of shares ?

Once the market is rid of the large volume of floating stocks which has been acting as a big drag on it and has also caused considerable inconvenience to the 'budla' financiers, the authorities are likely to start lowering the minimum prices to bring them to more realistic levels — realistic in the sense that business begins to take place officially. Will the Government permit forward trading in shares if the market authorities are able to prove that they are now starting on a clean slate ?

Bullion

Prices Keep Firm

THE bullion trade has ceased to take any serious notice of the Finance Minister Desai's frequent statements on bringing down the price of gold. The general comment heard in market and business circles is that this is all bark without any bite. Spot gold has been keeping quite firm between Rs 103 and Rs 105 per 10 grams for quite some time now. The trade reports a marked decline in smuggling activity and the bulk of the smuggled stocks are stated to have already been marketed. If supplies do not keep pace with the routine demand for gold, the price must rise. Fear of Government action will, of course, act as a check on a big upward move. If the Finance Minister is really serious about mobilising the country's gold hoards, he must act and act quickly. The present national emergency is just the time when even drastic measures will find support from the general public. With gold futures banned, speculators have turned their fury to silver which has been showing a distinctly firm tendency recently. Last week, the quotation for Magsar delivery improved from Rs 194.40 to Rs 202.40 within just three days.

Madras Rubber Factory

THE main plant of the Madras Rubber Factory having a productive capacity of about 3.6 lakh tyres and tubes per year was commissioned last week. The Company is in collaboration with the famous Mansfield Tire and Rubber Co, USA, in this venture, and is now ready to start, on a large scale, the production of the internationally known Mansfield tyres. The commissioning of this large modern factory within a record time of 15 months from the issue of the licence was made possible by setting up a pilot plant immediately after securing the licence — a unique idea in India — and by the valuable co-operation of the Mansfield organisation. The Pilot Plant helped to train technicians, to test tyres under the hardest and most varied road and climatic conditions, and to perfect the production techniques. The Madras Rubber Factory has modern nylon stretching and treating equipment needed to build improved varieties of tyres.

Company Notes

Scindia Steam

THE operating results of Scindia Steam Navigation Co for the year to June 30, 1962, reflect the depression in the shipping industry. Despite continuous efforts towards rationalisation and economy, decrease in remunerative cargoes and increase in operational costs have affected the Company's working. The 10 per cent increase in the freight rates in the east-bound trade in the U K-Continent Pool effective from October 1, 1961 is only partly reflected in the results. The Directors point out that apart from effecting economy, it is necessary to bring about an improvement in the level of freight rates to compensate the increasing costs.

The operation of the coastal services continued to be unsatisfactory because of reduced draft in the Hoogly, unsatisfactory turn-round of vessels, and strikes at Calcutta port. The Government sanctioned an increase of 15 per cent in all coastal rates, with some exceptions, effective from June 1, 1962.

The total cargo lifted by the Company during 1961-62 amounted to 25.04 lakh tons compared with 25.95 lakh tons in the previous year. Freight and passage money earned is also less at Rs 16.49 crores as against Rs 17.91 crores in the preceding year. The gross profit, however, is higher at Rs 226.92 lakhs (Rs 195.70 lakhs), due to lower expenses under some of the heads such as coal and fuel oil, stevedoring, commissions, interest, etc. A sum of Rs 18.79 lakhs (Rs 5.85 lakhs) being surplus on sale of assets is added to the profit to bring it to Rs 245.71 lakhs (Rs 201.55 lakhs). After deducting Rs 195.38 lakhs (Rs 196.45 lakhs) as normal depreciation, and Rs 1.57 lakhs (Rs 0.50 lakh) as remuneration to the Committee of Directors, the net profit for the year is set at Rs 48.76 lakhs (Rs 4.60 lakhs). After adding Rs 2.83 lakhs, being balance brought forward from the previous year, Rs 7.18 lakhs, being excess provision made in previous years, and Rs 48 lakhs, being the amount transferred from General Reserve, and setting aside Rs 64.50 lakhs as provision for Statutory Development Rebate Reserve and Rs 5.65 lakhs for expenses relating to previous years the amount available for disposal is Rs 36.62 lakhs (Rs 36.62 lakhs). From this amount the Directors propose to pay a dividend at 60 nP per share (seme as last year) absorbing Rs 33.79 lakhs and carry forward the balance of Rs 2.83 lakhs.

It is pointed out by the Directors that the Statutory Development Rebate Reserve required to be provided at 75 per cent on the S D R allowance of Rs 128 lakhs for ships purchased in 1960-61, was Rs 96 lakhs, but this amount could not be fully provided in that year as the assessable income was less than the claimable rebate. Hence a further provision of Rs 64.5 lakhs has been made in this year's accounts. The profit of Rs 14.20 lakhs derived from sale of investments has been transferred to Investment Reserve Account.

Out of the three 17-knott motor vessels of the Mitsubishi type ordered last year from Hindusthan Shipyard, the first is expected to be launched during the current year.

Standard Batteries

THE net profit of Standard Batteries after providing for depreciation, development rebate reserve, taxes and other usual charges has declined substantially to Rs 2.62 lakhs (Rs 8.05 lakhs) for the year ended June 30, 1962. This sharp setback is partly due to lower sales during the year at Rs 115.31 lakhs (Rs 120.84 lakhs) and partly to increase in expenditure, noticeably on establishment and administration. Provision for depreciation is higher at Rs 4.41 lakhs (Rs 3.73 lakhs) while that for taxation has been reduced to Rs 5.60 lakhs (Rs 7.35 lakhs). The disposable amount is brought to Rs 3.90 lakhs by adding to the net profit a sum of Rs 1.15 lakhs transferred from the Dividend Equalisation Fund and the previous year's balance of Rs 0.13 lakh. From this it is proposed to pay a dividend at Rs 10 per share (Rs 15 per share) subject to tax, which will absorb Rs 3.75 lakhs and leave Rs 14.979 for the next year.

The Directors attribute the lower profits to greater competition and exports. The general trend of working for the current year is encouraging. Production of all types of lead acid batteries and special batteries for industrial and other uses has been geared up. The state of the Company's order book is considered satisfactory.

The Company has built machines in its workshop according to its own designs based on its experience and on the advice of technical collaborators in order to make the factory self-sufficient. New and improved type of equipment had also been installed in some departments to step up production.

Structural Engineering

THE Nineteenth Annual Report of Structural Engineering Works for the year to June 30, 1962 states that the disposable profits after taking into account the amounts transferred from Reserves for Contingencies, and Reserves for Gratuities, and after providing depreciation, taxation, Managing Agents' remuneration, and Development Rebate Reserve amounts to Rs 5.77 lakhs (Rs 7.33 lakhs). The Directors have brought in Rs 19,739 being excess provision made for bonus previously and Rs 9,319 being balance from last year's accounts. and appropriated Rs 15,000 towards Reserve for Contingencies, and Rs 10,000 towards Reserve for Gratuities. With the above adjustments, a sum of Rs 5.76 lakhs is left from which the Preference dividend payable will absorb Rs 2.21 lakhs and the Ordinary dividend at Rs 8 per share (proportionate dividend on shares allotted on or after July 1, 1961 on the amount paid up) will amount to Rs 3.51 lakhs leaving Rs 3,713 to be carried forward.

The lower net profits for the year are attributed by the Directors to the higher provision for taxation and provision for Development Rebate Reserve for additional machinery installed. The Company's income from sales and work done has gone down during the year due to keen competition in the structural and fabricating industry. The Company has had to accept works at competitive rates while wages and

other amenities for workmen and staff have risen.

The Company's new schemes are making progress. The factory for the manufacture of pre-stressed concrete pipes that is being set up with a capital outlay of Rs 30 lakhs is expected to be commissioned in the current year. For the Cochran Boilers and Penstocks factory project, which is estimated to cost about Rs 108.45 lakhs, the complete plant and machinery are expected to arrive by June next year. The plant for the fabrication of transmission towers, which entails an investment of Rs 20 lakhs, is expected to go into operation by March next year. The manufacture of reinforced concrete pipes for the Duct Line Project of the Bombay Municipal Corporation has already commenced.

FACT

THE Fertilizers and Chemicals Travancore, Kerala, in which the Union and Madras and Kerala State Governments are interested, has now completed the second stage of its expansion programme costing about Rs 2 crores. An oil gasification plant supplied by the Power-Gas Corporation of U K, one of the world's leading designers and suppliers of chemical plants, was commissioned on Saturday last. This modern plant has replaced the former uneconomic firewood gasification plant, and will employ the 'Texaco Process' of partial oxidation of oil but using light raw naphtha as feedstock. As against the wood gasification plant capacity of 40 tons of ammonia a day, the new plant is designed to supply sufficient hydrogen to make 80 tons of ammonia a day. In addition, an air separation plant of a daily capacity of two-million cubic feet, supplied by British Oxygen, has also been installed. The nitrogen is used for the synthesis of ammonia leading to the manufacture of sulphates and phosphates by direct chemical reaction, while the oxygen is utilized in the oil gasification process.

With the completion of this stage of expansion, the Company's productive capacity has been raised from 10,000 tons to 30,000 tons of nitrogen, and from 10,300 tons to 13,600 tons of phosphorous Pentoxide per annum, the end products being 1,00,000 tons of ammonium sulphate, 33,000 tons of ammonium phosphate, 8,000 tons of ammonium chloride and 44,000 tons of superphosphate.

The process employed by FACT viz. the manufacture of ammonium sulphate utilising gypsum obtained as a by-product in the manufacture of phosphoric acid—is a new one and has attracted the attention of chemical firms abroad, notably the Power-Gas Corporation. It is understood that FACT has entered into an agreement with Power-Gas Corporation under which FACT will receive a royalty on all plants (designed to use the FACT process) supplied by the U K firm anywhere in the world.

FACT has also drawn up the third stage of its expansion programme involving a capital outlay of Rs 11 crores. This programme aims at increasing the capacity of nitrogen from 30,000 tons to 70,000 tons per annum and of phosphorous pentoxide from 13,600 tons to 33,400 tons per annum. The end products will be 2 lakh tons of ammonium sulphate, 1.35 lakh tons of ammonium phosphate, 25,000 tons of ammonium chloride and 44,000 tons of superphosphate. The plans for the third stage are expected to go into operation sometime in 1965. The Union Government has agreed to provide Rs 8 crores to meet a major part of the outlay, Rs 4 crores in equity capital and Rs 4 crores as loan. The Company hopes to meet the balance of Rs 3 crores required from its own resources.

New U S Loans

THE efforts of Hindustan Motors and Tata Engineering and Locomotive Company to secure loans from the U S Agency for International Development have borne fruit. According to an announcement made last week by the U S Ambassador, Mr J K Galbraith, Hindustan Motors will receive 15.8 million dollars (Rs 7.5 crores) and Telco 13.7 million dollars (Rs 6.5 crores), which will enable the companies to increase their lorry production by 7,500 vehicles annually. This will also help to raise the indigenously manufactured content of their vehicles to 90 per cent.

The Government of India will repay the loans over a period of 40 years, the payments beginning after the first ten years. No interest is payable on the loan, but a service charge of three-fourths of one per cent will have to be paid. Hindustan Motors and Telco have to repay the loans to the Union Government over 10 years with interest at 5 3/4 per cent.

The demand for lorries far exceeds the available supply at present. Production in 1960-61 amounted to 28,000 lorries and 600 jeeps. The Third Plan envisages an annual demand of 60,000 tons and 10,000 jeeps by 1965-66. Hindustan Motors will with the US loan, step up its capacity from 9,000 vehicles to 10,500 vehicles per year and raise the indigenous content of its vehicles from 74 to 90 per cent. The loan to Telco will help raise the lorry plant capacity from 12,000 vehicles to 18,000 vehicles a year and increase the indigenous content from 74 to 86 per cent by 1964 and to 90 per cent by 1965.

It may, however, be mentioned that in the case of Telco, the loan will meet the requirements of the Company only for the first stage of its expansion programme, the second stage envisaging the increase of capacity from 18,000 to 24,000 units. The Company, it is understood, had originally made a loan application for 22.89 million dollars (Rs 10.9 crores) to the U S Development Loan Fund (predecessor of the AID) with the concurrence of Government of India but later, owing to the difficult foreign exchange position, the Company, at the express desire of the Government, had to reframe the expansion programme in two stages and had to revise the original loan application accordingly. The Company, however, hopes that the production of commercial vehicles being a high priority element in the country's development and defence plans, Government will find it possible to sanction the second stage of the plan also in time to avoid any break between the two stages of what is really an integrated programme.

CURRENT STATISTICS

BANKING RETURNS

(*Rs crores*)

Reserve Bank	Dec 7	Nov 30	Nov 9	Dec 8 '61
1 Note circulation	2122.59	2071.31	2086.96	1947.89
2 Rupee coin	121.62	124.65	120.32	121.81
3 Deposits				
(a) Central Govt	54.14	57.90	50.43	53.76
(b) Other Govts	21.26	10.23	17.86	10.19
(c) Banks	74.15	70.52	82.79	74.33
(d) Others	165.28	162.07	160.07	147.14
4 Foreign securities	88.08	88.08	88.08	116.86
5 Balance abroad	8.70	5.45	5.92	29.93
6 Rupee securities	1808.29	1753.29	1778.29	1603.83
7 Investments	167.51	213.29	174.23	179.63
8 Loans and advances to Govts	30.91	33.78	33.70	72.10
9 Other loans and advances	178.13	152.02	150.19	132.36
Scheduled Banks	**Nov 30**	**Nov 23**	**Nov 2**	**Dec 1 '61**
1 Aggregate deposits (net)	2035.95	2038.77	2043.57	1813.29
Demand (net)	802.38	803.07	814.63	725.00
Time (net)	1233.57	1235.70	1228.94	1088.30
2 Cash in hand	47.46	48.30	53.31	46.43
3 Balance with Reserve Bank	68.78	78.13	72.73	74.80
4 (2) + (3) as % of (1)	5.71	6.20	6.17	6.69
5 Borrowings from Reserve Bank	5.19	1.59	6.02	3.23
(a) Against usance bills and/or promissory notes	1.55	0.41	4.19	0.20
(b) Others	3.64	1.18	1.83	3.03
6 Advances	1168.03	1148.53	1174.02	1038.51
(a) State Bank	236.84	235.98	255.25	227.65
(b) Others	931.19	912.55	918.77	810.86
7 Bills discounted				
(a) Inland	181.89	159.96	165.09	144.99
(b) Foreign	52.70	54.53	51.13	46.29
(c) Total	204.59	214.49	216.22	191.28
(i) State Bank	18.46	17.27	15.41	16.18
(ii) Others	186.13	197.22	200.81	175.10
8 (6) + (7c) as % of (1)	67.42	66.85	68.03	67.82
9 Investment in Govt Securities	700.26	704.82	693.65	624.73
10 (9) as % of (1)	34.39	34.57	33.94	34.45
Cheque clearance	**250.97**	**231.38**	**211.71**	**226.16**

Bombay Money Rates

(*Per cent per annum*)

	Nov 30	Nov 23	Nov 2	Dec 1 '61
Call money from Banks	2.32	2.26	3.00	3.62
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	Dec 13	Dec 6	Nov 15	Dec 14 '61
Gold (per 10 grams)				
Spot	106.50	101.75	104.50	119.25
Silver (per kilogram)				
Spot	204.25	195.60	215.00	210.55
Forward	206.75	198.10	217.45	212.40

INDEX NUMBER OF WHOLESALE PRICES

(*Base*: 1952-53 = 100)

	WEEK ENDING			
	17.11.62	10.11.62	20.10.62	18.11.61
Food Articles	**130.2**	**130.0**	**129.0**	**120.4**
Cereals	109.9	110.0	108.2	102.8
Pulses	112.8	114.9	116.4	92.6
Fruits & Vegetables	133.6	129.5	124.3	154.9
Milk & Ghee	124.0	124.5	123.6	117.1
Edible Oils	158.1	157.5	156.5	153.8
Fish, Eggs & Meat	143.6	145.5	148.2	133.7
Sugar & Gur	152.0	152.3	159.4	118.1
Others	180.1	177.0	169.1	167.6
Liquor & Tobacco	**99.8**	**100.5**	**100.5**	**97.9**
Tobacco	96.2	97.0	97.0	94.2
Fuel, Power, Light & Lubricants	**125.1**	**125.1**	**124.8**	**121.7**
Industrial Raw Materials	**138.7**	**137.8**	**138.9**	**138.2**
Fibres	131.6	129.0	129.0	126.9
Oilseeds	154.5	154.8	158.2	156.2
Minerals	93.6	93.4	93.4	94.5
Others	125.2	125.6	124.4	128.7
Manufactures	**130.0**	**130.0**	**129.2**	**126.8**
Intermediate Products	**141.6**	**142.6**	**144.9**	**140.2**
Finished Products	**128.0**	**127.9**	**126.6**	**124.6**
Textiles	126.7	126.5	124.6	124.6
Cotton	129.7	129.5	129.6	128.2
Jute	114.0	113.8	105.8	117.5
Woollen	141.3	141.3	141.3	123.1
Silk & Rayon	135.0	135.3	135.3	120.7
Metal Products	161.0	161.0	161.0	151.6
Chemicals	117.2	117.2	117.6	111.6
Oil Cakes	170.6	171.0	168.9	149.4
Machinery & Transport Equipment	117.7	117.7	117.7	116.2
Others	125.6	125.6	125.1	123.3
All Commodities	**130.7**	**130.4**	**129.9**	**124.6**

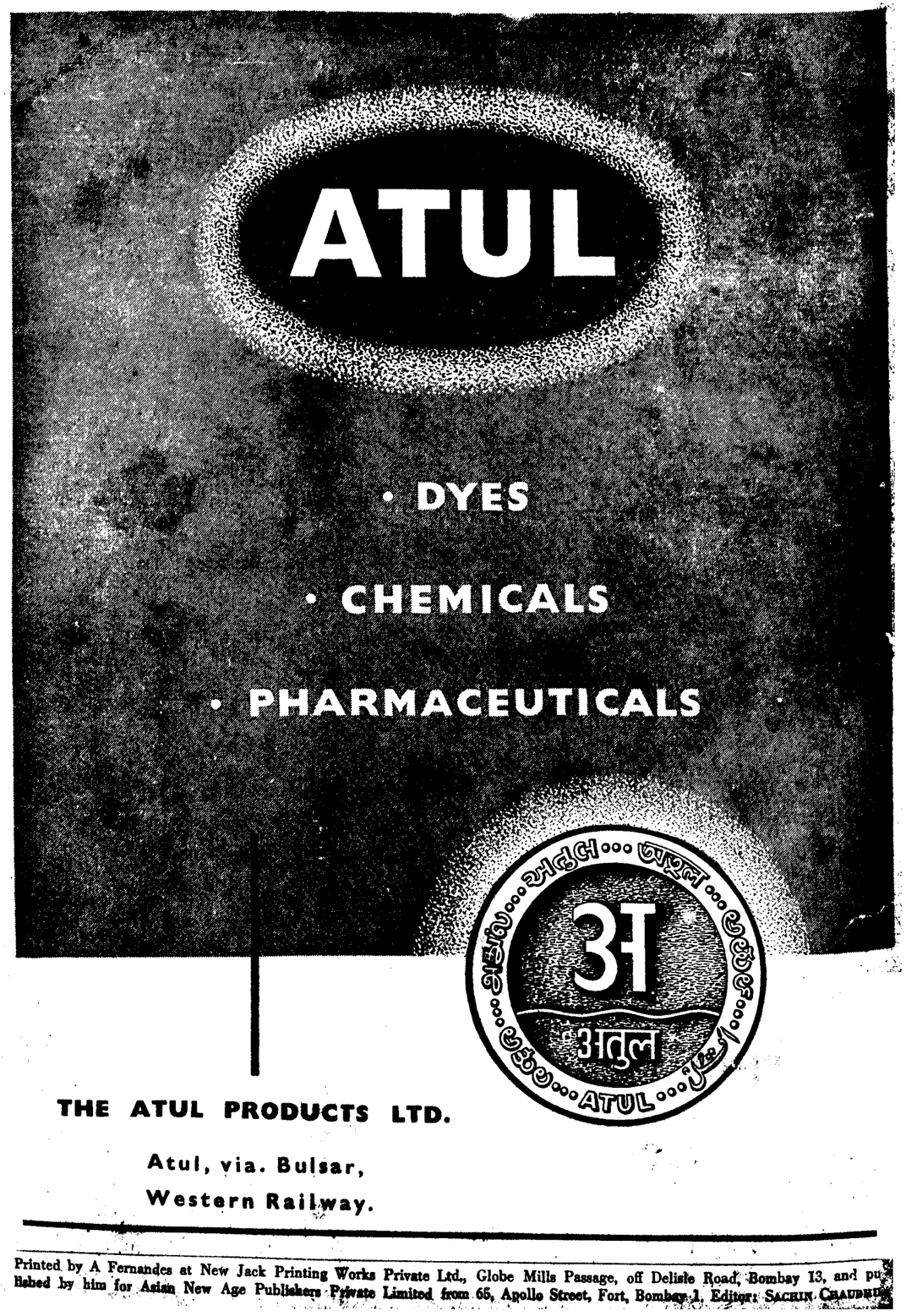
Working Class Cost of Living Index

(*Base adjusted to* 1949 = 100)

		Bombay	Delhi	Calcutta	Kanpur	Madras	All India (Average)
1962:	Aug	148	134	123	111	151	132*
	Jul	146	133	120	108	151	131*
	Jun	146	130	119	106	150	130
	May	144	127	119	103	150	129
1961:	Aug	143	103	118	103	149	128
1960		137	120	113	99	143	124
1959		134	120	110	98	133	121
1958		129	113	110	98	124	116
1957		120	114	105	94	116	111
1956		115	109	98	89	111	105
1955		110	99	92	78	99	96
1951		108	108	104	94	103	105

* Provisional

Source: Central Statistical Organisation, Cabinet Secretariat.



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How Not to Do It

IT was barely a month ago that the people demonstrated that they were not really sunk in apathy and indifference, that in the hour of need, they could rise to a man. The magnificent response of the Indian people to the Chinese aggression lifted a veil from the face of India. "We have had a glimpse of the serene face of India", that was what Pandit Nehru said then, "strong, yet calm and determined". It would be idle to pretend that this high pitch of enthusiasm has been maintained, that there has been no falling off from it. There are distressing symptoms that enthusiasm has not been given a proper lead and that lacking a vigorous purposeful direction, it has been visibly ebbing away.

This, one can see wherever one may care to look. To prepare the people to defend the country calls for systematic effort at all levels which has to be carefully directed and organised. To take one single example, precaution against possible air-raid is one of the elementary measures of civilian defence. This is a task which would be assiduously taken up by the people if they were trusted and properly guided. Instead of that, in Delhi and Calcutta, digging of trenches for air-raid shelters has been entrusted to contractors and competition for contracts has replaced voluntary labour. This is a sorry spectacle indeed. Another elementary measure of such precaution is organisation of first-aid. Instead of people in the cities being told in every ward which doctor they should go to, and emergency provision being made for first-aid in schools and other available public buildings, consternation has been created among the Calcutta public by the notice issued to hospitals, already over-crowded and woefully short of beds, to maintain vacant beds for the emergency. One could go on retailing such examples of how not to do things.

For the mobilisation of resources, direct appeal has been made to the people and it has sometimes taken an effective form as in street-to-street collection of funds by the film stars or the 'Vote for Victory'. There is much cry and little wool. For the mobilisation of hoarded gold, considered to be of such vital importance in view of the crippling shortage of foreign exchange, the appeal to patriotism soon gave place to that of a mixed blend of bribery and illicit gain, with the issue of gold bonds; bribery, because gold-hoarders were offered a little more than the official price, and illicit gain, because an offer was made to convert ill-gotten gains into gold bonds, with the assurance that no questions would be asked. Even so gold bonds have flopped. There was a time when the public would have taken it if the Government were to nationalise all gold hoards, paying for it the official price. One could go on and on.

Finally, the prime mover in organising national effort is the press and other media of communication. Could not the press be enlisted for this supreme task in a more effective manner by setting up Press Advisory Councils, with the representatives of the press, to begin with? Day after day, while the reports went uncontradicted that 'Jawans' had suffered frost-bite because they did not have adequate woollen clothing, the newspapers went on featuring lavish display advertisements of woollen suits, lovely cardigans and sweaters to tempt the public. The

Minister of International Trade shortly came out with the assuring announcement that wool-tops were being imported to meet the requirements of Defence Services. Any kind of restraint on consumption might be *verboten* for the Government but could it not be gently conveyed to the press and the advertisers that it was not in good taste, not decent, that scarce newsprint — which costs foreign exchange — should be wasted like this in the hour of emergency ?

All these go to illustrate the obvious, viz that people can be made to put out their best if proper channels of communication are established with them and their participation is sought at all levels. The glorious opportunity is slipping by day by day.

Britain's 'Independent' Deterrent

Our London Correspondent writes:

THE planks with which the Tories built their platform are collapsing one after another and their policy, now shown to be misguided and unworkable, is exposing them to ridicule. The illusions of grandeur regarding Britain's role in world affairs were cruelly dispelled by Dean Acheson's frank speech at West point, in which he said :

"Great Britain has lost an empire and has not yet found a role: the attempt to play a separate power role is about played out . . . . . Great Britain attempting to work alone and to be a broker between the U S and Russia has seemed to conduct policy as weak as its military power".

The British reaction to this statement has been violent, and in some measure, undignified. Hailsham's exhortation for Britain to "beat the drum" more often, is no substitute for a real policy, and comparing Dean Acheson to Hitler is, at best, a very poor sop to wounded national feelings. Although Dean Acheson is not actually a member of the American administration, it is well known that his speech merely makes explicit what has been implicit in American thinking both inside and outside the administration.

The Americans firmly believe that the whole concept of the Commonwealth as an instrument to reconcile different races and bridge the gap between the 'haves' and 'have nots' is a phoney one, and they are convinced that Britain should be confined to Europe which should be the main theatre of her operations. Hence, the American pressure for Britain to join the Common Market. Many have taken Dean Acheson's speech as a pointed reminder that she should not slacken in her efforts to join the Six as soon as possible.

But it is the blow to the whole concept of the "special relationship" between Britain and America that has caused the Conservatives, and particularly Mr Macmillan, the main architect of this policy, the deepest disappointment. Under Macmillan, the preservation of the "special relationship" has been the main object of British foreign policy. Macmillan became Prime Minister after the Suez debacle, when the emptiness of the old theory of Anglo-American partnership had been exposed. This should have convinced all thinking people that any special relationship was a thing of the past, but Macmillan insisted on fostering this mythical relationship. Every act of British foreign policy was subordinated to this grand strategy, and the exchange of nuclear secrets — a carryover from post-war years — was given an exaggerated emphasis.

When it was made quite clear that the Kennedy administration no longer required Britain to play the role of "honest broker" between the U S A and Russia, Macmillan applied for membership of the Common Market so that he could become the indispensable channel of communication between the U S and Europe. Now it is being made clear that the Europeans themselves do not want a go-between of this sort.

The fiasco over the Skybolt must be extremely bitter to the Conservatives, because Britain sacrificed the Free Trade Area project in order to placate Washington and receive in exchange the missile which would make it possible for Britain to claim she had an independent deterrent. One of the reasons why the Conservatives have insisted on a British deterrent is the claim that it would give to the U K of having a special influence with the U S. The fallacy of this argument is clear for all to see, as one of the chief aims of the present U S administration is to discourage national deterrents ! The Americans have come to the conclusion that the Skybolt missile is "too sophisticated" and in any case much more expensive to produce than had originally been anticipated.

The Conservative Government, is still insisting on an independent nuclear deterrent, even if this means spending an extra £ 300 m a year over Britain's present £ 1,700 m annual armaments budget. And so the entire British nuclear policy is based on obtaining the 1,000-mile Skybolt missile to fit the costly V-bomber force from 1964-65 onwards. The cost of developing the Skybolt was originally estimated at about £ 180 m. The U S Government has already spent nearly this much on it. The cost of the programme has now rocketed to least £ 1,000 m. The British Government is particularly distress because it is understood that the original Skybolt agreement was part of a deal in which the U S obtained use of Scotland's Holy Loch as a Polaris submarine base in exchange for providing Britain with the Skybolt. The British Government claims that until Mr McNamara's visit to London, they had no knowledge about the problems and difficulties into which the Skybolt programme had run.

In an attempt to show, belatedly, that the Government can be tough on this issue, Mr Macmillan told the Commons last week that it was the Government's policy to keep an independent British nuclear deterrent, "if we are able to do so". Moreover official hints have been dropped that Britain might either turn the Americans out of Holy Loch and Fylingdales, or herself pay the whole future cost of Skybolt. Saner opinion in Britain is, however, realising that it would certainly not be worth Britain's while to foot the bill for the doubtful advantage of an independent deterren which, in any case, would not independent in any real sense.

Municipal Finances

THE latest survey by the Reserve Bank of the finances of local authorities relating to the year 1960-61, the results of which have been published in the November issue of the *Bulletin,* covers City Corporations, Port Trusts and Municipalities in towns with a population of more than one lakh, according to the 1951 Census. The surveys are carried out year by year and the results may not be strictly comparable because of the varying coverage, but even after making due allowance for this, the 1960-61 results indicate a deterioration in the finances of the municipal authorities covered under the study. This is disquietening, considering the fast pace of urbanisation in the country despite efforts at dispersal of industries and programmes of rural development. Cities are the centres of creation of wealth; why then are the city corporations unable to collar their due share of it to put back into urban development ?

The disbursements of the municipalities on capital and revenue accounts together are larger than their combined receipts. Although taxes and rates continue to be the mainstay of the resources of local authorities, their relative importance appears to have declined since 1958. On the other hand, loan receipts have gained in importance, their proportion to total receipts being 16 per cent in 1960-61 as against 13 in 1958-59.

Only the port trusts and city corporations borrow from the open market, municipalities having no direct borrowing powers of this type. Even the local authorities who are authorised to float loans, however, show greater reliance on the whole on borrowings from the Government than on market loans.

Since the port trusts borrow entirely from the Central Government and the municipalities from State Governments, the loan receipts of the local authorities, to some extent, are dependent upon the financial positions of the respective lending Governments. Of the total outstanding loans as at the end of March 1961 from Governments, Rs 47 crores represented loans from State Governments and Rs 40 crores from the Centre; more than four-fifths of the Rs 45 crores of outstanding borrowings of the City Corporations was from the State Governments.

The rate of interest on these borrowings varied between 3¾ per cent in the case of three-year loans and 5½ per cent in the case of twenty-five year loans, the usual rate being 4½ per cent. The coupon rate on the loans raised from the market, however, was 4 to 4¼ per cent. Borrowing from the Governments thus imposes greater burden on the budgets of these authorities, who in the face of declining receipts would be obliged to borrow more from the Governments to meet their disbursements including servicing of debt.

The municipal authorities have been borrowing from the Governments as well as investing in their

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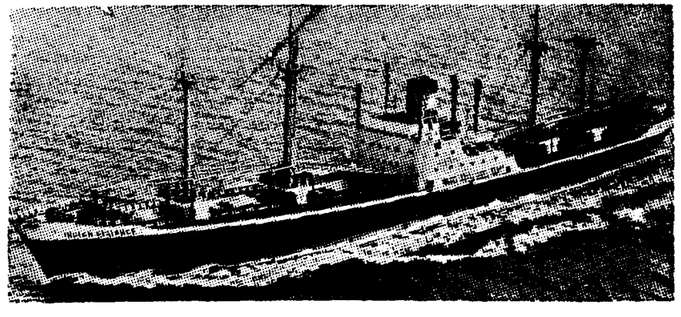

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securities. Over the year, the proportion of investments in Government securities to total investments rose from 32.9 per cent to 34.3 per cent, but that of investments in securities of local authorities remained constant at 33.1 per cent. One can understand their investing in treasury bills the surplus funds pending the finalisation of certain projects for which the funds are made available. But it is difficult to justify the investments by local authorities in Central and State Governments securities since they are faced with shortage of funds for necessary expenses. Would it not be better if they invested in their own securities or used the funds more productively ?

The disbursements of the local authorities at Rs 206 crores in 1960-61 were higher by Rs 50 crores than those in 1959-60, city corporations accounting for the bulk of the increase. Much the larger part of the increase was for public works. The expenditure on public health remained unchanged at around 18 per cent; almost the entire increase in expenditure under public health was on account of city corporations. The expenditure on items like plant and machinery and construction showed a decline on the whole.

There is at present a lot of duplication in respect of public works, health and education between the State Governments and local authorities and if greater efficiency is expected from the resources utilisation, the respective responsibilities will have to be very clearly defined. Similarly, the authorities will have to devote more attention to raising resources from taxes and rates to reduce their dependence on the Governments for funds.

Weekly Notes

West's Choice in Congo

LATE last month President Kennedy met the Belgian Foreign Minister, Paul-Henri Spaak, in Washington to discuss the situation created by the Katanga President Moise Tshombe's obstinate refusal to negotiate on U N Secretary-General U Thant's plan for reunifying Congo. The joint statement issued by the U S President and the Belgian Foreign Minister noted that "voluntary discussion and action (for the reunification of Congo) had not produced the necessary results" and warned Tshombe that "if there is not substantial progress within a very short period of time it will be necessary to execute further phases under the United Nations plan which include severe economic measures".

The U N plan, proposed by U Thant in August, envisages a federal set-up for Congo with equal division of all revenues between the Central Government and Katanga. Tshombe was asked to convey his acceptance of the plan within a "brief time" or face the prospect of having stringent economic sanctions imposed against Katanga, including the blocking of its exports of copper and cobalt.

Since the announcement of the plan, both the U N and the U S have tried, through a series of diplomatic missions to Elisabethville, the Katanga capital, to cajole Tshombe to accept the scheme. Characteristically, the Katanga President has not rejected the plan outright. He has been just evasive and irrelevant. He has received the U S emissaries with effusive cordiality and at the same time told the Katanga people that "the Americans are racists who think they can buy the African with dollars" and encouraged them to stage violent demonstrations, like the one on Thursday, against the U S Consulate in Elisabethville.

Meanwhile, its obvious (though not ununderstandable) failure to do anything to reunify the country has led to growing opposition to Cyrille Adoula's U S-supported Government in Leopoldville. This is not difficult to appreciate if it is realised how non-viable Congo is economically without Katanga. For instance, the Belgian-British Union Miniere of Katanga alone exports minerals worth more than six times the value of the total exports of the rest of Congo and pays over $ 40 million in taxes to the Katanga Government. The Central Government desperately needs a share in Katanga's fabulous revenues to stave off bankruptcy.

The mounting dissatisfaction with the Adoula Government found expression in the no-confidence motion which was brought up against it by the opposition in the Congolese Assembly. Though the motion was defeated as it failed to secure the required two-thirds majority, it got 50 votes against the 47 which the Government could muster against it.

The opposition to the Adoula Government within Congo is something which the Western Governments cannot ignore. For, should the present impasse continue much longer, the prospect of a leftist Government coming to power in Leopoldville cannot be ruled out. Ironically, this is at present the most hopeful portent for the reunification of Congo since it confronts the Western powers, the United States in particular, with a choice between having to countenance a leftist Government in Congo and taking firm action to reunite Katanga. Faced with such a choice it is possible that the Western powers may feel more inclined than hitherto to actively support U Thant's plan which has not a chance of success without such support.

Socialist Unity?

A Correspondent comments on the P S P-Socialist Party merger in the U P Assembly :

THE party system that any country finally evolves is, naturally, shaped by the aims, aspirations and interests of the various groups of people while the groupings themselves go on shifting and changing along with the social and economic changes that go on all the time. Political institutions such as parliamentary government or the party system are, therefore, themselves shaped by the complex inter-relations of forces in the lives of the people. To look to any standard pattern and to expect such a pattern to establish itself is to ignore the basic character of political institutions. There would be a fair consensus of opinion that the parliamentary system has come to stay.

May be it has, but it does not follow —nor does recent experience point that way — that it is going to function some day, if not in the near future, on a broad two-party system.

There has been room for dissent within the Congress and such dissent has sometimes proved effective and has not always been disruptive. Curiously enough, even the severest critics of the Congress within the socialist camp will have to reluctantly concede that what they regard as a genuinely socialist movement received its worst blow from the passing of the Avadi resolution by the Congress. With permissible simplification, one may even say that the Congress may be practising a spurious brand of socialism while theirs is the genuine stuff. However that may be, the fact is that by declaring for all-out socialism and by adopting the establishment of a socialist pattern of society as the aim of the Congres and, therefore, of the Government, they took the wind out of the sails of the socialists. Speculation is usually futile on such matters but one could probably argue that, had the socialists not broken away from the Congress, the Congress and the Government in the subsequent years could have moved more energetically in the direction of socialism and made a better job of it. Where the Government has failed is in implementing the social policies which call for the mass active participation of the people for their implementation. And this where the socialists can come in and fill the breach.

Bank Credit to Small Units

OVER the last few years, the coverage of banking statistics published by the Reserve Bank has been gradually extended. Among other things, the Bank has been conducting a half-yearly survey of scheduled bank loans to small-scale industries and cooperative institutions. Data on scheduled banks' advances to small industries and cooperative institutions for the four half-years in 1960 and 1961 are presented in the November issue of the Reserve Bank *Bulletin*.

Small-scale industrial units are defined as units with gross capital assets, excluding housing for workers, of less than Rs 5 lakhs. According to these surveys, advances to small-scale industries increased by Rs 11.35 crores from Rs 20.73 crores in June 1960 to Rs 32.08 crores in December 1961. Throughout this period, bank credit to small-scale industries showed a rising trend. It is significant that the rate of increase in scheduled bank credit to small-scale industries during this period was higher at 53 per cent than that of total scheduled bank credit which was only 10 per cent. Even the proportion of advances to small industries to total bank credit went up from 1.9 per cent to 3.28 per cent between June 1960 and December 1961.

Yet another important feature revealed by the survey is that the bulk of scheduled bank credit to small-scale industrial units has come from the large banks with deposits of Rs 25 crores and more. The large banks accounted for 66 per cent of the total credit to small industries. More or less the same pattern is reflected in bank credit to cooperative institutions.

While the rising trend in bank credit to small-scale industrial units and co-operative institutions is a matter of gratification, it is not, however, possible to conclude from the results of the surveys that the small banks are not playing an important role in extending credit to small units or the cooperative institutions. Though the major banks were responsible for as much as 66 per cent and 78 per cent of the total credit to small-scale industries and cooperative institutions, respectively, these advances as a proportion of the total loan portfolios of the large banks were insignificant. Bank credit extended by large banks to small industries at the end of December 1961 formed only 2.2 per cent of their total advances. As against this the advances of medium and small banks to small industries formed 3.7 per cent of their total advances. And if the share of small banks alone were considered (which, incidentally, is not shown separately by the Reserve Bank survey) it might form a much higher proportion of the total advances of these banks.

Furthermore, the survey excludes from its scope the small trading firms. This is surprising since it is largely to the small-trading firms that small banks more frequently extend credit. So to appreciate the role of small banks, statistics about bank credit to small trading firms would have been very useful.

We wish all our Readers, Advertisers and Well Wishers a Merry Christmas and a Happy New Year and extend to them the Greetings of the Season.

As the office of *The Economic Weekly* will be closed for Christmas, there will be no issue of the Journal on December 29, 1962.

BUSINESS MANAGER

Consumers' Cooperatives

AN upshot of the concern for holding the prices of essential consumption goods during the coming period of considerably enhanced expenditure on defence has been the upward revision of the Third Plan target for consumers' cooperatives. In his detailed statement on "measures for maintaining prices of essential commodities" to the Lok Sabha last month, the Minister for Planning and Labour and Employment devoted considerable attention to the proposals for setting up a large number of new consumers' stores in urban areas, particularly in all cities with a population of one lakh or more. Consumers' stores are, at least for the time being, thought of as the alternative to statutory regulation of prices and physical control of distribution.

The Third Plan programme for consumers' cooperatives envisaged Government assistance for setting up 50 wholesale and 2,200 retail consumers' cooperative stores. It is a measure of the importance that is attached to the role of consumers' cooperatives in maintaining stable prices of consumers' goods that it is now proposed to set up 200 wholesale and 4,000 retail stores. In addition, departments and agencies of the Central and State Governments, large industrial enterprises and trade unions will be encouraged to set up consumers' cooperatives for Government employees and industrial workers.

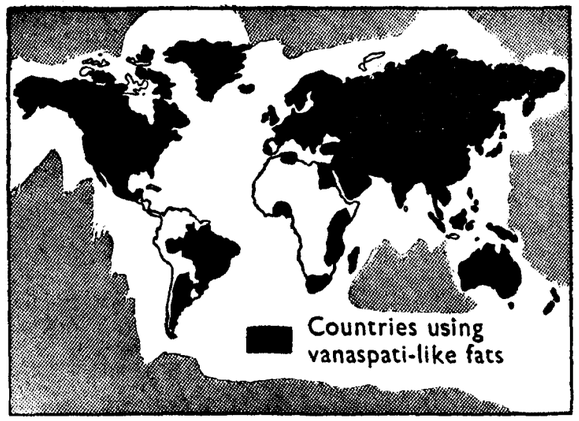
According to the latest Reserve Bank of India review of the co-

operative movement, there were 75 wholesale and 7,058 retail consumers' stores at the end of June 1961. The average ratio of some 95 retail stores to every wholesale store was considered too high, leading to the retail stores having to make a good deal of their purchases from private traders. Moreover, in some of the States there were no wholesale stores at all. Thus Andhra with as many as 489 retail stores had no wholesale store. Bihar, Madhya Pradesh, Mysore, Orissa and Rajasthan also had no wholesale stores. And Maharashtra with the largest number of retail stores, 1,140, had just one wholesale store.

This probably explains the greater emphasis on wholesale stores in the expanded programme for consumers' cooperatives. If the proposed targets are achieved, the number of wholesale stores will be increased by more than 3.5 times over their number at the end of June 1961 and that of retail stores by 1.7 times. Correspondingly, the number of retail stores to every wholesale store will be brought down from 95 to about 40.

In the absence of details, it is difficult to say whether the expanded programme will also redress the uneven progress of consumers' cooperatives in the different States by concentrating on regions where the movement has been hitherto weak. The position at the end of June 1961 was that about one-third of all consumers' stores were in the three States of Maharashtra, Madras and Assam while these States, together with U P, accounted for about half the total membership of all consumers' stores in the country. As for turnover, almost half the sales were made by stores in Madras and Maharashtra. Judged by other indices of strength also — e g the proportion of owned funds to total working capital, etc — consumers' cooperatives, like the cooperative movement in general, showed uneven growth in the different States.

The National Advisory Board for Consumers' Cooperatives which met in Delhi earlier this month gave particular attention to the problem of training personnel for consumers' stores. Past experience has shown that availability of trained personnel is vital for the success of cooperatives and the Board has drawn up a programme for training a large number of personnel of all categories, including salesmen, managers, accountants and executive officers. The Board also emphasised the need for strengthening the links between retail and wholesale stores. To retain the loyalty of the members and for increasing the number of members, the Board has recommended a system of rebate on purchases from the cooperative stores.



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Letters to Editor

Supplementary Budget

SOME of our leading economists have called for a supplementary budget (*The Economic Weekly*, December 8, 1962). "The conclusion concerning additional taxation is both obvious and inescapable" according to them. Their argument is based on the expectation that in the present patriotic mood, the business community will not merely "tolerate" but even "welcome" any measures of taxation. Is this so obvious? Will the business community really pay higher taxes willingly? And, even granting that they will do so, is a policy of higher taxation in the interest of the nation, considering its effects on production, supply and demand relations, and prices?

New taxes on top of the already high levels of taxation, combined with greater restrictions on import of maintenance goods, machinery and raw materials etc, to be used by the private sector, will act as a disincentive to the corporate sector and may even cause a fall in production. On the other hand, increased Government spending, most of which will be on salaries and wages to the expanded military and administrative staff, doctors, nurses and workers in defence-allied industries, against whose services there will be no corresponding increase in the supply of consumables, will increase the demand for goods which will have to be produced by the very industries in the private sector whose production is likely to be hampered by taxes, restrictions on imports etc. This imbalance in the demand for and supply of goods can only lead to inflation. Even the strictest regulatory measures to control prices may not succeed in these conditions.

Many persons have suggested the levy of a special defence tax. But for how long? After all this war threat is not a short-term phenomenon. It sounds superflous to start calling India a 'war economy'. It is just that our attention has been drawn to what we have so far neglected, i e, defence of our borders. This is a permanent responsibility of any economy in the present world. In fact I feel we need to create a sense of responsibility more than a sense of crisis or emergency.

Today more than ever there is need to give extra incentives to industrialists to produce more. There is need not so much for disrupting normal economic activity by diverting resources actively used by the private sector to defence purposes as for activising the idle gold hoards scattered all over the country. The importance of mobilizing gold hoards has been recognised by the Government, but unfortunately the objective has not been pursued with vigour. More important than a few broadcasts by the Finance Minister appealing to the public to buy gold bonds, is a firm and clear statement of the Government's policy regarding gold price. People expect the price of gold to rise. If the Government really intends bringing down the price of gold to anywhere near the international price, then it should either make a statement to that effect or assure the bond-holders that the bonds would be repaid on maturity at the then prevailing price of gold. However, I feel, even sterner action is needed if the inactive gold hoards have to be mobilized. Government should immediately fix the price of gold, and declare the possession of gold above a certain limit illegal. It need not make purchase of gold bonds compulsory. People may buy gold bonds or sell gold to the Government and use funds for investment.

It may be asked, will not the public resist such measures? Perhaps more than taxation. It is also possible that the Government may be confronted with administrative difficulties in the implementation of this scheme. But it is well worth trying. Since it has succeeded in many countries where private hoards are unheard of today. Simultaneously the Government will have to carry on propaganda to educate the public against keeping idle gold hoards.

With the gold thus obtained, the Government can (i) import military equipment on immediate payment instead of accepting loans which will create repayments problem for future, or (ii) import the capital goods, maintenance goods and raw materials required by the private sector to allow it to expand, modernise at a faster rate, reduce costs, improve quality and increase production to meet domestic demand and earn foreign exchange by exporting. At the same time internal loans could be raised by offering attractive rates of interest.

With world-wide sympathy for us more foreign loans will doubtless be available. The relatively unimportant projects in the Plan which can be postponed for some time without disrupting the rate of economic development should be suspended and resources mobilized for defence.

Of course, additional taxes may be imposed wherever possible without adversely affecting production. But if the corporate sector is allowed to expand unobstructed, even with the present tax base and tax rates the total tax revenue of the Government will increase manifold. If still resources fall short of needs, a mild dose of deficit financing, combined with effective price controls and incentives to the private sector to increase production, will certainly not result in inflation.

(MISS) KRISHNA BHASIN

New Delhi,
December 16.

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WHILE there would be no two opinions on the urgent need for a supplementary budget, as candidly demanded by the group of leading economists (*The Economic Weekly*, December 8, 1962), at one point they appear to have been overzealous in suggesting measures of austerity. They say, "economies may be effected in spheres like education by reducing the teacher-pupils ratio for instance". The choice of education for economising and that too by reducing the teacher-pupil ratio is hardly wise. According to the Third Plan, "Education is the most important single factor in achieving rapid economic development and technological progress and in creating a social order founded on the values of freedom, social justice and equal opportunity" (p 573). The progress of education has been far from satisfactory in our country, literacy having increased at an average of 0·8 per cent during 1951-1961. This rate has been rightly termed as "sluggish" in the 1961 Census Report.

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Technical education, in particular, requires re-orientation as part of the preparation for ejecting the invaders from our land. As defence expenditure is progressively stepped up, the demand for engineering and other technical personnel would increase. Adequate measures must be taken to meet this demand in full. The Engineering Personnel Committee of the Planning Commission in its Report (1956) had predicted a "big gap" between demand for and supply of technical graduates by the end of 1960-61. The Ghosh Chanderkant Committee expressed similar fears. The allocation of Rs 142 crores to technical education in the Third Plan, which is just 25 per cent of the total outlay on education, needs to be revised upwards in the present circumstances.

There are fields other than education where ample scope exists for economy. A close examination of the trend of non-development expenditure would reveal what these spheres are. The Prime Minister has hinted that the war with China is likely to be long-drawn and hence what is required is long-term planning and not hasty action.

M A DESHPANDE

Bombay,
December 14.

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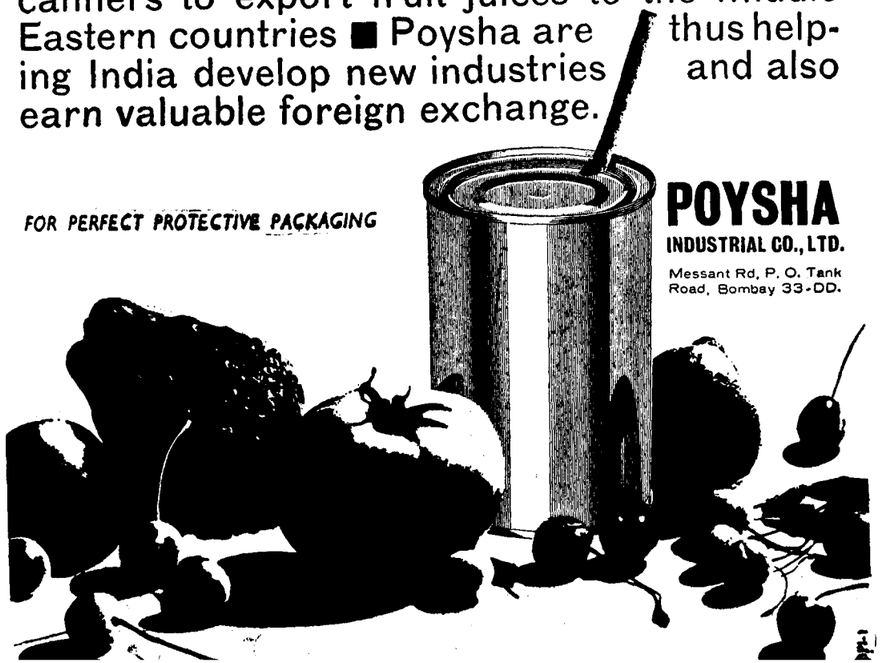


Capital View

A New Phase is Opening

Romesh Thapar

YES, there's no doubt about it we are living in a crazy world. We should be thrilling all over tc the news that Mariner II, America's gold and silver space robot, has passed about 21,000 miles from Venus and 'reported' back to Earth But here, in the Capital, there was anger over Averell Harriman's veiled threat that we will not receive long-term military support unless we 'settle' our problems with Pakistan. Then the mood changed, somewhat, when the text was received of China's open attack on Khrushchov and the Soviet Union — a dramatic pointer to her increasing isolation in the communist world. Now, the feeling is general that perhaps we are not in such a tight spot as we imagined, that the policy of non-alignment is going to pay off. And, as a result, the Prime Minister's position in the Cabinet has strengthened; he is after all, the only one who understands the subtleties of the situation that is unfolding.

While the secrets of Venus, gathered by Mariner II, are being collated, we are busy trying to probe the silence which surrounds the mediation formula worked out by the Colombo Conference of non-aligned powers. Provocative kite-flying by the daily press to the effect that the proposals of the Conference are weighted in China's favour is based on the theory tha the majority at Colombo is supposed to have been vague and unsympathetic to India's case. However, it is equally true that the UAR was not prepared to play an opportunist role and brought a certain discipline to the others. Broadly it looks very much as if the proposals are designed to find a 'face-saving' formula which will permit India and China to negotiate a settlement.

Not as China Expected

Mrs Bandaranaike's calculated decision to visit Peking first suggests that although the Colombo Conference was called after several 'hints' from China, it assumed a character different from that projected by the Chinese leaders — and they have to be persuaded. Probably, the 'break-through' will be on the extent of the demilitarised zone so as to ensure that the Chinese surrender fully the fruits of their aggression — a point insisted upon by the UAR. Of course, it is common knowledge that we have been somewhat surprised at the lack of knowledge about our case among several non-aligned countries. Yet, there is confidence that the initiative of the Colombo Conference will be more positively in our favour once our vacillating non-aligned friends grasp fully the meaning of the open rift between the Soviet Union and China.

It is still too early to say what the *People's Daily* of Peking, the central organ of the Chinese Communist Party, intended when it charged that the USSR's 'neutrality' in the Sino-Indian conflict was mere pretence, that the Soviets regarded the 'Indian reactionary group' as their kinsmen. Those in our country and in the West who dismiss this charge, and also the indictment of Soviet bloc policies on a variety of international questions, as communist double-talk to get over an embarrassing situation are behaving like the ostrich. It would be more to the point to investigate whether the neo-Trotskyists of Peking are attempting a last desparate bid to dethrone Khrushchov or whether their call for a world meeting of communist parties is aimed at preparing the way for a compromise which will end their present dangerous and damaging isolation.

Pressures on Peking

The fact that the invaders are drawing in their claws and continuing their withdrawal, which is punctuated with the handing over of prisoners-of-war and may be climaxed by a transfer of captured army equipment, indicates that only a compromise with the communist movement will salvage their reputation as Marxists-Leninists. Then again, on February 20, 1963, the economic and military collaboration agreements between Moscow and Peking have to be renewed. If they are not, or if there is a delay, much disorganisation will take place on the mainland of China. We can be fairly certain that in more ways than one February 20, 1963, is a nagging deadline for the Chinese.

Something of the drama which is taking place in the communist world has been brought to the Capital by the Yugoslav Vice-President, Edvard Kardelj. He is one of the foremost students of the aberrations of China's communists and has highlighted their aggressive attitude towards neighbours. His talks with the Prime Minister will help to throw revealing light on China's present-day motivations. Kerdelj might also have a great deal to say about the resolution of our inter-related defence and economic problems. It is usually forgotten that Yugoslavia has considerable experience in these fields. The partisan war in the mountains against the Nazi Army, the ideological battle against Stalinism which could have crippled the economy of the young State, and the dogged determination to preserve a dynamic non-aligned position in a critically polarised world — all these are experiences which an India emerging from a traumatic shock can study in order to fortify herself for the future.

Sabotaging Indo-Pak Talks

And the future that is developing has aspects which are none too healthy. I do not refer to the loose talk of Duncan Sandys or the fatuous statement of Harriman that V K Krishna Menon 'starved' the armed forces or the patronising comments of a US brigadier on the 'professional capabilities' of our new army chief. These aberrations are due to a general failure to respect the sensitivities of another people. What is of grave concern is the studied manner in which the delicate talks between India and Pakistan have been compromised. All kinds of reports have gained currency — that the Valley is to be partitioned, that a scheme of joint sovereignty over Kashmir is being worked out, that there may be a large-scale swop of territory. Bakshi Gulam Mohammad has rightly taken

it upon himself to denounce this kind of talk which could create serious problems in the Valley, but the result has been that the effort to 'rationalise' the cease-fire line in Kashmir as the first step towards better Indo-Pak relations has been nullified. It is now extremely doubtful that anything tangible will emerge from the talks between the two countries.

The threat that we will not get the military aid which we require unless we neutralise Pakistan's fears and accommodate her has soured the friendship with the West which marked the earlier days of the emergency. Everywhere one can hear talk about 'strings', 'pressure tactics' and 'blackmail'. And, not surprisingly, standing ovations are being given to V K Krishna Menon at meetings which he has addressed in quarters which were hostile earlier. Attention is again turning to the Soviet Union. There is wider sympathy for the ideological battle Khrushchov has been waging; the hope is expressed, even in policy-making circles, that he will curb Chinese militancy and so give India vital time to reorganise the defence of her frontiers against any future attack. Now, it is not only the Prime Minister who talks about the efficacy of non-alignment!

Skybolt — Lesson for India

Whether or not the latest clarification concerning the Soviet view of the Sino-Indian conflict makes the U S A more responsive to India's military demands, those planning our defence and economic growth are again stressing the need for an indigenous effort towards self-sufficiency. The British experience over the Skybolt missile which the U S A was to have provided is being quoted; production of the Skybolt has been suddenly suspended and Britain finds herself without a 'deterrent' and without the capacity to create one on her own or in alliance with her European allies. It is now being whispered that the former Defence Minister may have 'starved' the armed forces of modern equipment, but only to save foreign exchange for indigenous armament production which would have become available within three years—that our salvation lies in still giving high priority to this programme.

That little is being done in this direction can be seen from the way in which private sector enterprise is told to halt certain non-essential production but is given no lead as to how its facilities can be switched to defence production. Coordination seems to be non-existent at the moment, despite claims made about T T Krishnamachari's dynamic handling of the problem. It is to this crucial sector of our defence effort that we need to devote more concentrated attention — or else demoralisation will spread on the industrial front. And we also need to work out a careful pricing policy to avoid the charge that certain sections are profiting from the war.

Wasteful Civil Defence

This sparks another thought. In the Capital, elaborate plans are being worked out for air-raid precautions. Trenches are being dug. Black-out drills are planned. There is an uncomfortable feeling in the air that much of this activity in the present situation is designed to provide jobs for contractors. Plans need to be drawn up, but their implementation could be thought out more sensibly. We are about to lose a great deal of money in futile projects enthusiastically sponsored by amateurs. This must be true not only of the Capital, but of many other cities. The National Defence Council and the Citizens' Council, which have been in session this week, need to intervene in this kind of racketeering which puts money into the pockets of contractors. At many levels voluntary work would yield better results — and at hardly any cost.

For this reason, a number of elder statesmen have been urging upon the Prime Minister that he reshuffle his Cabinet and bring in younger men, perhaps to form a government of national unity. The Prime Minister is reluctant to discuss political collaboration with other parties until he has taken certain essential steps to streamline his present set-up. The Defence Ministry, headed by Chavan, is getting priority attention. Now Patnaik from Orissa can be seen around the Capital; there is speculation whether he will grapple with External Affairs or take over Information and Broadcasting. Pratap Singh Kairon is also willing to come to the Centre. Perhaps, Sukhadia too can be persuaded.

But, in the meantime, the Prime Minister will have to search out some of the talent discarded in the course of faction fights within the Congress Party in the States. Only when this process has been completed, will it be possible to strengthen State administrations and prepare the Centre for the massive tasks ahead.

Tailpiece: Some idea of the degree of austerity envisaged for the ruling elite can be had from the announcement that in future Ministers' free electricity expenditure will not go beyond a monthly Rs 250, while Deputy Ministers' will be pegged at Rs 150. If this is austerity, what was non-austerity like?

Asian Industrial Production

THE rates of increase in the manufacturing and mining industries in Asia, (excluding mainland China) from 1958 to the first half of 1962 were the highest among all regions of the world (excluding eastern Europe) according to data compiled by the United Nations. The index of over-all industrial and mineral production for Asia has more than doubled in the last six years. Taking as a base 1958=100, the index was 86 for 1957 and 183 for the period April-June 1962.

Heavy manufacturing, particularly basic metals and metal products is by far the fastest growing segment of industrial activities in Asia. While the index for food, beverages and tobacco was only 114 in the second quarter of this year, the index for metal products is 306. Heavy manufacturing rose ten times in the last 14 years, from 24 in 1048 to 240 in April-June 1962. Nevertheless, the relative weight of heavy manufacturing in Asia in comparison with total world production is only 4.8 per cent.

Other activities showing relatively high rates of increase are paper and paper products, chemicals and petroleum and coal products and non-metallic mineral products. Their indices are, respectively, 175, 162, and 166.

Japan shows the greatest rate of increase in industrial production, which has more than doubled in the last four years and tripled since 1955.

Letter from South

Break the Lull

THE *de facto* cease-fire and Chinese withdrawal are welcomed as a victory for our national unity and national policies, testifying again to the fact that the people here, as elsewhere in the country, are basically anti-chauvinist and for the restoration of the position of India as the symbol of world peace. Naturally enough, the anger against the Chinese aggressors and vigilance continues.

All this is welcome. What is to be put to the debit side, however, is the creeping sense of complacence and signs that in some quarters there is a marked tendency to return to business as usual. The thrill of a nation aroused is, to an extent, giving way to mere routine performance. If this lull is not broken the national leadership will have missed a rare opportunity to weld the people on a higher level of radical democratic cohesion.

One of the more significant straws in the wind is the statement of the Andhra Chief Minister and the counter-statement of his Mysore opposite number on the Gulhati Report. While Sanjeeva Reddy publicly proclaimed that this Report should be put in cold storage, Nijalingappa called for the scrapping of the 1951 agreement and for the immediate discussion and implementation of the Gulhati Commission's recommendations.

Another pointer is the manner in which the Andhra Government pushed through the totally inadequate amendments to its highly controversial Additional Land Levy Act. The opposition parties had rightly called off their widely-supported satyagraha against the Levy. The Government has finally responded to this gesture with paltry concessions and that, too, without even going through the formal courtesy of consulting the opposition.

The Rich Are "Too Poor"

Gathering courage from the lackadaisical attitude of the Government and the more powerful sections of the ruling party, the Nizam had the amazing audacity to declare that he could not accept a voluntary 10 per cent cut of his privy purse as he was "too poor"! Shrewd observers have calculated that the Nizam hopes to collect by way of interest on his investments in the National Defence Bonds exactly the two lakhs he has donated.

Some honourable exceptions apart (notable among them is the patriotism displayed by P V G Raju in offering all the family jewels of Vizianagaram and in investing all the gold in the temples under his control), the richer gold-holding sections of the South have decided not to part with their holdings. This, unfortunately, applies to also those holding very high office in at least one southern State.

The wealthy agricultural interests have also, by and large, not shown any special enthusiasm in the matter of donations or of working out specific schemes for raising production. Nor has the Government in any of the States been doing much beyond exhortations in this sphere. And it is a regrettable fact that only a great deal of pressure compelled the Government in Kerala to issue an ordinance protecting the Kerala Agrarian Relations Act against an adverse High Court judgement. Yet, a step-up in agricultural production is the biggest contribution that the South can make to the national defence effort.

Defeatism on Kashmir

Another significant pointer is the sense of defeatism on the question of Kashmir which pervades the very highest Ministerial circles in Madras and Andhra, at any rate. It is fairly openly expressed in these circles that in order to save some "rocky areas" in Ladakh we might have to give up the Valley of Kashmir. It seems almost to be taken for granted that the only way to preserve the integrity of our borders in Ladakh is to barter away the Kashmir valley. It never seems to strike these topsiders that the whole problem is to generate sufficient will and force to defend both portions of India while at the same time engaging in active diplomacy and honourable negotiations.

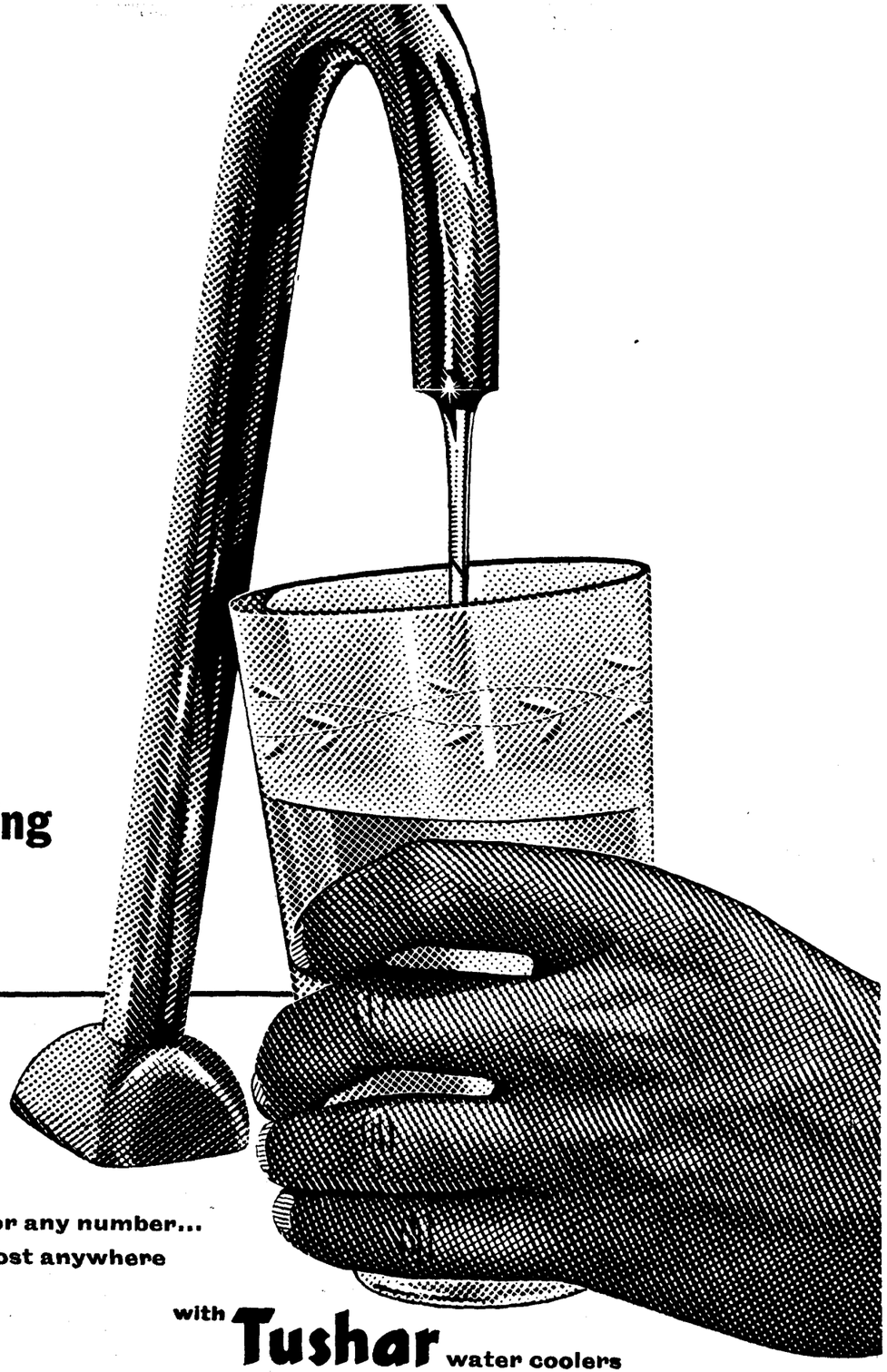
The savagely hostile reaction to the Colombo confabulations in very influential sections of the press in the South and among high official circles, is yet another symptom of the lull. We may perhaps feel disappointed that the neutrals at Colombo did not mention in their communique that aggression had been committed against India (though it is not clear how that would have helped). But the fact should be noted that to the non-aligned Afro-Asian powers non-alignment is coterminus with Afro-Asian solidarity against colonialism. To expect these powers, therefore, to condemn China without the benefit of our traumatic experience is to be unrealistic. Moreover, those who wish to act as conciliators and to pave the way to negotiations obviously cannot at the outset take sides and commit themselves to an antagonistic attitude towards one of the parties involved. Finally, the recent high-power missions apart, next to nothing has been done by our Government to win over the Afro-Asian bloc while Peking's propaganda has been persistent and powerful.

Criticism of Non-aligned Move

The derogatory cartoons and remarks, particularly in the Tamil press, as well as the attitude that the Afro-Asian powers are too weak and undeveloped to be able to do anything significant, can scarcely influence people and win friends in these countries.

A typical remark was made at a convivial gathering of highly placed officers in one of the capitals of the south about the efforts of the neutrals assembled at Colombo. Drawing on their own experience they said that this was like the P As of quarrelling Ministers trying to mediate in the dispute between their masters! Others were even more uncharitable and stated that the position of each neutral Power was determined by the geographical distance between it and China.

All this is scarcely conducive to strengthening India's position on the border question. This, however, is only one side of the medal. There is the side that genuinely glitters. The speech of Sanjeeva Reddy in the Andhra Legislature was a very firm and hard-hitting defence of socialism, non-alignment and the leadership of Pandit Nehru. It rose



to great heights and was packed with facts and arguments rarely heard in this rather parochial assembly. Above all, it was a well administered rebuff to the clamour of the Right. He was admirably backed up by an impressively analytical and militant speech by the Communist leader, Maqdoom Mohinuddin. Despite his broadsides against the Communists, the Chief Minister demonstratively congratulated the Communist leader of the opposition.

Right Retreat

In Madras the other day a great demonstration and meeting were jointly organised by the Congress, Communists and some other parties. What was striking about this meeting was the frontal assault against the Swatantra policies and Rajaji. The latter was rather uncomfortably reminded of the fact that only a few months ago he had backed a resolution calling for India's unilateral disarmament — scarcely the best way of being prepared to repel Chinese aggression. It was almost being taken for granted by the Swatantraites that nobody would have the courage to question the wisdom of its sage. But it was done and to a wildly enthusiastic concourse.

As a result of these moves and counter-moves against the background of a genuine mass sentiment in favour of national mobilisation through radical measures, some sort of a political stalemate appears to have been reached. The Rightists have made political progress but after an initial advance, have been contained. The Left holds its own and is beginning to mount the attack. But the centre, which is the bulk of the Congress leaders and cadres, seems as yet to be content to remain the centre! It is not yielding to the Right but neither is it out to counter it. It snipes at the Left while accepting its support but is by no means ready to forge anything resembling an united front. Basically it just sits tight.

Hence, the lull. Hence, the replacement of impulse and spontaneity by routine and acceptance. And yet for our national regeneration and the final repulse of China nothing is more necessary than to break this lull.

Our Calcutta Letter

Coal Transport

LAST month when Shri K D Malaviya was here on a fund-raising tour, he gave coal producers no inkling of what he had in store for them. On the last day of November, an innocuous looking circular issued from the Coal Controllers' office announced that with effect from January 1, 1963, coal would move only in block rakes — 70 four-wheeler wagons at one time carrying a total of 1500 tons.

This scheme has been in the offing a long time. The railways had given notice that they would not be able to cope with movement from the congested Bengal-Bihar fields unless piece-meal movements were eliminated. Quite simply, locomotives and rolling stock were tied up for much longer than would be the case if point to point movement in full rakes was organised. The railway viewpoint had been accepted both by the planners and the economic ministries. It was as a corollary to movement in full rakes that dumps were supposed to be set up at various points in the country to supply the smaller consumer, it being assumed that the last leg of coal's journey to the consumer would be by road or by some means other than rail.

The planners found the idea of dumps attractive from another viewpoint also. The railways have, as is well-known, a slack season during which wagons go abegging. An attempt was to be made to flatten the seasonal swings by arranging for transport of coal during the slack months and having it stored at the dumps for use during the rest of the year. Making possible fuller and more rational utilisation of carrying capacity, the idea had an undoubted appeal because of the great need to increase the railways' total carrying capacity without additional investment.

Objections to the Scheme

From the start, the idea of dumps met with resistance from all three parties directly affected — the consumers, the producers and the traders. The consumers' objection has been that the delivered cost of coal will rise if coal has to be transported and handled twice over — once to the dumps and again to the consumer. It was also felt that the loading and unloading of coal a number of times will lead to the deterioration of its quality, chiefly the disintegration of bigger pieces into smaller lumps and the crumbling of small lumps into dust. There is substance in both objections. But the concern for delivered quality would have been far less aggressively voiced if the dumps had not threatened to touch the consumers' pockets by imposing on them an additional expense.

The consumers' viewpoint gained added weight from the producers' objections. The latter claimed that their costs would rise if they had to epuip themselves to load block rakes. At most of our 800 odd mines, loading today is manual. Indeed, it cannot be otherwise because the investment required for bunkering and screening facilities will not be economic except where production is about 50,000 tons a month. The number of such mines in the country is not more than 50. But even these have been slow to mechanise coal handling because this has always seemed an avoidable cost despite the firm warning that block rakes and 55-ton box wagons will gradually replace the present piece-meal movement in 22-ton wagons. If pressed, these mine owners will explain their tardiness by arguing that installation of mechanical handling facilities entails expenditure in foreign exchange which has not been available to them even to meet their more pressing maintenance needs. Apart from foreign exchange, bunkering and screening call for fabricated and structural steel. There has never been either an abundance of steel or of fabricating capacity. These shortages explain to some extent the slow progress made by even the large-scale mines to prepare themselves for the increasing quantity of coal they must despatch to fulfil their production targets.

The smaller production units are,

let us face it, relics of the past. Not only in the matter of handling coal despatches, but also in every other sphere, their present pattern of work leaves much to be desired. As they are small, they lack the wherewithal to effect improvements and, at the same time, the lack of modern equipment and facilities hinders their progress. Here is a vicious circle which it is not possible to break through except by merging smaller production units into bigger and viable combines, and rationalising their operations. This has been tacitly accepted both by the industry and Government for a long time, but as is well known, little progress has been made. To make the block rake scheme feasible in relation to small mines, it is proposed to distribute the 70 wagons over a number of units served by the same coal pilot — the locomotive which hauls wagons to depots where they are assembled for the onward journey.

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In essence, this is not different from what happens today except that the producers anticipate placement of larger number of wagons at a time by the railways for loading. At this point starts a very involved argument between the railways and the producers, the latter claiming that the wagons are never placed on schedule. The implication is that a good deal of labour hired for loading in anticipation of wagon supplies is kept idle till the wagons materialise many hours later. The idle time has to be paid for by the producers — that is so now and will continue, it is alleged, on a larger scale in the future if more wagons have to be loaded at a time On their part, the railways say tha if collieries fulfil their obligations to load within the five-hour limit, and wagon detentions are minimised, the pilots can maintain their schedules, without difficulty. It is claimed that movement in block rakes will help to augment the railways' effective locomotive capacity, and will, therefore, improve their punctuality. There is some truth in both these viewpoints; it is comparatively unimportant, however, to determine who is more to blame for the present difficulties since the logic of block rake movement is not vitiated by these admittedly minor difficulties.

But before 100 per cent movement of coal by block rakes can become possible, the essential task of opening dumps around the country must be completed. Here the task had been entrusted to the State Governments who have failed lamentably to carry it out except in Gujerat, Punjab and, possibly, Mysore. Other states have been content to show in their returns "notional" dumps. This official euphemism means no more than the location where a dump is supposed to operate but where, in fact, nothing exists so far. Block rakes move to these locations but the coal does not go into stock. It is taken away by consumers direct from wagons as soon as these arrive. This amounts more or less to the pooling of demand by consumers, a feeble alternative to the basic idea of holding local stocks and meeting demand from it.

At the time of writing, there are persistent reports that some State Governments are still in two minds about coal dumps. They are presumably under pressure from local consumers whose antipathy to the scheme is easily understood. It seems a pity that even in the present emergency old habits of thought should persist without apparently any concern for the larger issues involved. In the attitudes struck by the various interests concerned, there is no indication of any thought having been given to national interest in facilitating railway movements in the vital eastern area. Admittedly, the presentation of the scheme by the Union Ministry of Mines and Fuel has been conspicuously inept. Shri Malaviya, whose intuitive feel for the right strategy is known, seems to have missed the opportunity of putting the opponents of his scheme on the defensive by establishing in the public mind a link between the new scheme and defence requirements. If this had been done, State Governments would have found it difficult to drag their feet.

Or is it that Shri Malaviya is not pushing the scheme as hard as he may otherwise have done because it is said to originate from the Ministry of Economic and Defence Coordination? By the time this appears in print, a conference will have been held in New Delhi to review the objections to the scheme. All interests concerned will be represented at this conference including the Ministry of Economic Coordination. The outcome is difficult to predict because the issue may have become one of prestige between one Ministry and another. But in the absence of the necessary preparatory work in the States, at the mines, and finally at the consumers' end, it is difficult to envisage how 100 per cent block rake movement can be achieved.

New Forces of Town Gas

UNTIL recent years most of the town gas manufactured and distributed in Europe was derived from coal or products obtained by various methods from coal or petroleum. However, the increasing amount of auto-consumption by steel mills of the gas produced in their integrated or affiliated coke ovens, as well as the gradual disappearance of good quality coking coal in some producing countries and the repeated rises in coal prices, gradually led the gas producing industry to seek other methods of manufacture. The most important and popular of such methods have been those that use petroleum products as raw materials, in particular, liquefied petroleum gases, which have been found to be highly suitable for this purpose.

According to a study just published by the Secretariat of the United Nations Economic Commission for Europe, liquefied petroleum gases have become available in increasing amounts in Europe, and the development of their transport in that state in containers or steel bottles by tank, lorry and by pipeline has made it possible to extend sales widely, especially as the prices of these products have remained relatively stable. As a result of these developments, the competitive position of such gases in energy markets has improved and they can be distributed quite easily; in particular, these gases have become especially suitable for the gas industry in respect of certain parts of its production.

The market for refinery tail gases, on the other hand, obviously differs in a number of ways from that for liquefied petroleum gases. Increased refinery construction in Europe during the past few years has increased availabilities of these gases in proportions greater than the increase in refining capacity, since many of the auxiliary petroleum refining methods produce various amount of tail gases, which the refiners find more advantageous to sell to outside consumers rather than to consume themselves.

Generally speaking, whereas refinery tail gases may be regarded as supplementary sources of supply for the gas industry, liquefied petroleum gases, except in the case of one or more large consumers, possess a market if their own, and may, depending on circumstances, either help the gas industry to boost production or to capture markets, or compete directly with that industry. These two considerations tend to affect the economy of the use, by the gas industry, of those gases which originally came from sources outside the industry.

Book Review

Pageant of Infamy

F F Clairmonte

The Rise and Fall of the Third Reich : A History of Nazi Germany, William L Shirer, Simon and Schuster, New York, 1960.

"NOTHING is more certain than that every trace of Hitler's footsteps, every taint of his infected and corroding fingers will be sponged and, if need be, blasted from the surface of the earth . . . . He may turn and trample this way and that through tortured Europe. He will find no peace, no rest, no halting space, no parley".

The words were Sir Winston Churchill's: the year 1941. Yet perhaps the 'infected and corroding fingers' of Hitler's thousand year Reich are still with us as the dramatic rearmament of Western Germany bears witness. And in some minds at least the question might arise whether the warlords have not found their niche in Western Germany.

It is unfortunate that the bulk of the captured documents that fell as spoils of war to the American army of occupation, and which the author marshalls with such effect, have now been returned to the Bonn Government. Indeed, a study committee has been set up to 'edit' these precious documents—in plain parlance — to falsify some and destroy others which may incriminate many of the elite of the Adenauer era. To wade through this staggering mass of documents is really beyond the powers of a single researcher and the author himself admits this. Yet in this penetrating *tour de force*, vetern liberal correspondent William L Shirer has given us a brilliant synthesis of the social, political and military forces that injected the demoniac virus of Nazidom into the body politic of European, German and world history. He has recorded the pulsebeat of an era in a work that, for many years, will be a definitive one.

While there is a great deal of merit in the claim that the historian needs perspective for dispassionate judgment, he should be wary of accepting this claim in its entirety. For Shirer could well say as did Thucydides, the father of modern historiography, who wrote in his imperishable "History of the Pelopennesian War": "I lived through the whole war, being of an age to comprehend events and giving my attention to them in order to know the exact truth about them".

Social Roots of Nazism

From its genesis, Nazidom was a counter-revolutionary monstrosity discreetely veiled for electoral and power political reasons under the misnomer of 'national socialism'. What were the social roots of this party? How and why did it strike roots in the birthplace of Marx and Engels, a land that also saw the birth and later stupendous growth of mass working-class parties?

Unfortunately, Shirer does not give us a complete picture of the conflicts between the K P D (communist) and the S P D (social democrat) that facilitated the upsurge of Nazism in the late twenties. The conflict that gripped and tore asunder the labour movement were in part imputable to the deep cleavage that resulted in the break-up of the second international; to the disillusionment spawned by the Weimar inflation, the disordered post-war chaos, and the loss of fortune and prestige by that middle-class that had been the key-stone of Imperial Germany.

The virulent squabbling of the two large proletarian parties — revolutionary and reformist — were to pave the way for the disintegration of both. Deep inroads had been made by Nazis with their mesmeric appeals to the middle-class and other *declasse* elements. Nor did the corporate elite remain aloof from this movement. Hitler proclaimed, in no uncertain terms, that the 'socialism' he envisaged was to be national in character. And it was made palatable to the German workers — largely abetted by the feuds and betrayals among their leaders.

Yet the Nazi upheaval could not have succeeded but for the architect of the Third Reich, who ruled it so ruthlessly and often with uncommon unshrewdness, who led it to such dizzy heights and to such a sorry end. And it was equally true that this maniacal genius found in the German people, as history and a mysterious Providence had molded them, a chosen instrument which he was able to shape to his own ends.

Yet, it would be historically naive to attribute any original 'sin' to the German people. Their complicity was unparallelled in history. But fascism as a wider social phenomenon — Nazism one of its variants — was and is the end product of capitalism in crisis.

Original Programme Discarded

As the Nazification of Germany moved apace from that fateful day of January 30, 1933, it became clear that the goals of the N S D A P were incompatible with the original party programme that had been so skillfully carpentered to suit all classes. Despite the grovellings of right wing-trade unionists to "collaborate" with the nation's new masters, they were incarcerated, their unions bludgeoned and their funds confiscated.

Earlier Robert Ley, alcoholic boss of Hitler's labour front, had pharisaically proclaimed: "Workers. Your institutions are sacred to us national socialists . . . . I know the exploitation of anonymous capitalism. Workers. I swear to you, we will not only keep everything that exists, we will build up the protection and the rights of the workers still further". And in the disciplined labour movement there were workers and trade unionists who were incredulously swept along into the maelstrom of the huckster's grab bag.

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The lavish handouts of the corporate, banking and industrial elite, that bankrolled Hitler's rise to power, had to be rewarded. As Shirer says: "The party had to play both sides of the tracks. It had to allow Strasser, Goebells and the crank Feder to beguile the masses with the cry that the National Socialists were truly 'socialists' and against the money barons. On the other hand, money to keep the party going had to be wheedled out of those who had an ample supply of it".

The harvest proved lavish. The grandest names in German industry stepped forward to fill the party's coffers: Emil Kirdorf, the union-baiting coal baron; Fritz Thyssen, the head of the steel trust; Albert Voegler, a tycoon of the Vereinigte Stahlwerke; Georg von Schnitzler of I G Farben; August Rosterg and August Diehn of the potash industry; Cuno of the Hamburg-Amerika line; Otto Wolf, the great Cologne industrialist and carteliser; Siemens, and the prince of munitions makers, Krupp von Bohlen und Halbach. There were also the great banks and investment houses with extensive ramifications in the world of international finance; the Deutsche Bank, the Commerz und Private Bank, the Dresdner Bank, the Deutsche Kredit Gesellschaft and the largest insurance enterprise — the Allianz

Indeed, it was in the Bechstein mansion owned by a large manufacturer that Hitler met many of the corporate and Army elite, and it was here that "some of the decisive meetings took place which led him finally to the chancellorship". These meetings served to hinge that grim alliance described by Eisenhower, with reference to the United States, as the industrial-military complex.

Nazi-Financial Elite Link

Dr Schacht, the financial wizard, who reliquished his post of Presidency of the Reichsbank in 1930 because of his opposition to the Young Plan, met Goering and Hitler in 1931 and devoted the next two crucial years to bringing together the Nazi leaders and the industrial and financial elite. Schacht helped in pushing the Fuhrer one step nearer the chancellorship. To his Fuhrer Schacht wrote: "I have no doubt that present development of things can only lead to your becoming Chancellor . . . . Your movement is carried internally by so strong a truth and necessity that victory cannot elude you long . . . . you can always count on me as your loyal supporter". Such was the "truth and necessity" as glimpsed by what Hitler deferentially called "my men of substance".

I should have liked to have seen a more exhaustive treatment of this aspect of the role of the financial elite that catapulted Hitler to power. Much research remains to be done on this subject along the same lines of C Wright Mills "The Power Elite" and R Palme Dutt's pioneer contributions, "Fascism and the Social Revolution" written in the early thirties, and which is so conspicuously absent from the author's inadequate bibliography.

The economics of Nazi Germany was seen in its true focus on Hitler's *prise de pouvoir*. Several of the non-evolues Nazi 'radicals' who had taken at face value the N S D A P's programme urging confiscatory policies, were jettisoned. The 'natural leadership' of the Ruhr baronage was restored to the pristine pre-war heights, from which it had fallen in the Weimar Republic. Both the working-class and the middle-class were now to feel the whiplash of national 'socialism'. The Combat League for Middle Class Trades People, which had been a thorn in the flesh of the large corporations and department stores, was dissolved.

Dr Karl Schmitt, director general of Allianz with his invaluable American contacts, now Minister of Economics, lost no time — as Shirer states — "in putting an end to the schemes of the national socialists who had been naive enough to take their party programme seriously".

The industrial power elite could not have seized power without the support of the Wehrmacht. Nor was Hitler unmindful of this support. In his Nuremberg speech he emphasised the army's key role. "On this day we should particularly remember the part played by our Army, for we all know full well that if, in the days of our revolution, the army had not stood on our side, then we should not be standing here today. We can assure the Army that we shall never forget this, that we see in them the bearers of the tradition of our glorious old Army, and that with all our heart and all our powers, we will support the spirit of this Army".

Anglo-French Impotence

The Nuremberg laws framed by Dr Globke, until recently Adenauer's personal adviser, were now destined to elevate racialism into a law of life. Although the Nuremberg laws led directly to the crematoria, it must not be obscured that the doctrine of the Herrenvolk, even with its specific Hitlerian twist, was merely a carbon copy of the code of conduct that underpinned imperialism and colonialism. The Nuremberg laws were the first instalment of Nazidom's intentions.

The Fuhrer's plans were not restricted to the German scene. His appetite was now whetted and grew on what it fed: climaxed by the reoccupation of the Rhineland in 1936, Austria in 1938, the grab of the Sudetenland in the same year and swiftly followed the year after by the conquest and dissolution of the Czech Republic — and this thanks to the complicity and impotence of Anglo-French diplomacy.

It is in this context that the next fateful moves on the European political chessboard should be viewed. For after the rape of Czechoslovakia, the Soviet Union had become convinced that France and Britain did not desire a binding alliance with her, but, that the objective of the Chamberlain Government was to direct the Fuhrer's gluttony to the eastern territories. We now know how Soviet apprehensions were justified. The degeneration of Anglo-French diplomacy culminating in the Munich sell-out is too summarily treated by the author and the reader will find a more comprehensive analysis in Andrew Rothstein's erudite study, "Munich".

Everything that occurred in the West in the previous two years had buttressed Stalin's fears: the rejection by Chamberlain of Soviet pro-

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posals after the Anschluss; Chamberlain's appeasement of Hitler at Munich, from which the USSR had been sedulously excluded and the reluctance of the Tory leader to negotiate a defensive alliance against Germany as the summer of 1939 ended.

Yet this vacillation had an irrefragable logic of its own: was it not the normal concomitant of a policy which saw in Hitler's image the bulwark of the *status quo?* Did not the anti-communist cavortings of Nazidom find a familiar echo in Western capitals? "I will not have the gruesome Communist international dictator of hate descend upon the German people", thundered Hitler. "This destructive Asiatic *Weltanschauung* strikes at all values. I tremble for Europe at the thought of what would happen should this destructive Asiatic conception of life, this chaos of the Bolshevist revolution, prove successful".

And thus the ignominy of Munich led to the other great climacteric —the German-Soviet pact and World War II. "If Chamberlain was right and honourable in appeasing Hitler in September 1938 by sacrificing Czechoslovakia", writes Shirer, "was Stalin wrong and dishonourable in appeasing the Fuhrer a year later at the expense of Poland, which had shunned Soviet help anyway ?"

Stalin's Smugness

History leaves little room for moralising. The two-year interlude before the Nazis struck Russia were not used adequately in mobilising Soviet power — yet it offered some respite. The Soviet archives, like the American and British archives, are not yet open. Official Soviet histories on this tortured period are reasoned apologetics, makeshifts composed according to a preconceived party line.

Despite his apprehensions, Stalin failed to see the writing on the wall, for he genuinely believed in the integrity of the Nazi signature to the non-aggression pact. From captured German archives we can see the monstrous blunders of Soviet leadership both before and after Munich — disclosures that have been inadequately amplified at the recent 22nd Congress by Khrushchev. Many leading strategists of the Soviet General staff had been physically eliminated, notably the brilliant Marshall Tuchachevsky whose execution was the outcome of a frame-up by the Nazi intelligence service.

There is little doubt that Stalin was sincere when he stated to Sir Stafford Cripps, who had warned him of Hitler's aspirations — as if any warning was necessary —, that he had not discovered any desire on Hitler's part to engulf European countries. Stalin, Cripps reported, was not of the opinion that German military successes menaced the Soviet Union and "her friendly relations with Germany".

This is astonishing fatuity; the Russian dictator was more than an ignoramus : he was smug. And Shirer comments : "Such staggering smugness, such abysmal ignorance leaves one breathless. The Russian tyrant did not know, of course, the secrets of Hitler's mind, but the Fuhrer's past behaviour, his known ambitions and the unexpectedly rapid Nazi conquests ought to have been enough to warn him of the dire danger the Soviet Union was now in".

Even as the Battle of Britain raged, the Fuhrer's generals were planning the onslaught on Russia that was to crystallise in Directive No 21 of December 18, 1940 — operation Barbarossa. It is to be hoped that the Soviet Government will now throw open its archives on this decisive period of Russo-German relations). On hearing the news of the German invasion of Soviet territory Molotov pathetically whimpered : "What have we done to deserve this". Such were the depths of illusion and mystification to which Soviet diplomacy had plummeted.

Yet in spite of Stalin's smugness, a socialist order was constructed and proved viable in mobilising the nation's resources — albeit belatedly — to repel the Nazi onslaught and it later bore the brunt, in Churchill's words, of "tearing the guts out of the German army".

Hitler's Plans for Russia

The most informative chapter of this work deals with Hitler's predatory plans for Russia. With remarkable lucidity the Economic Staff in their directive of May 23, 1941 declared : "The German administration in these territories may well attempt to mitigate the consequences of the famine which, undoubtedly, will take place . . . . However, these measures will not avert famine. Any attempt to save the population there from death by starvation by importing surpluses from the black soil zone would be at the expense of supplies to Europe. It would reduce Germany's staying power in the war, and would undermine Germany's power to resist the blockade. This must be clearly and absolutely understood". The earlier Memorandum of May 2 read : "There is no doubt that as a result many millions of persons will be starved to death if we take out of the country the things necessary for us".

There was nothing to deplore in this awesome vision, for was not the Wehrmacht bringing in its wake a superior social order conceived by the Herrenvolk ?

"What happens to a Russian, to a Czech does not interest me in the slightest", said Heinrich Himmler in October 1943. "What nations can offer in the way of good blood of our type, we will take, if necessary by kidnapping their children and raising them here with us. Whether nations live in prosperity or starve to death like cattle interests me only in so far as we need them as slaves to our *Kultur;* otherwise, it is of no interest to me. Whether 10,000 Russian females fall down from exhaustion while digging an anti-tank ditch interests me only in so far as the anti-tank ditch for Germany is finished. . . ."

In this scheme of infamy so relentlessly pressed home, Soviet resistance rose. Even those elements in the population who had first mistaken Hitler's hands for those of a liberator now came to recognise it for what it was — "The Slaves are to work for us", noted Rosenberg. "In so far we don't need them, they may die".

Global extermination had become the order of the day. In a confidential report circulated on October 25, 1942, Dr Otto Brautigam, a career diplomat and deputy leader of the Political Department of Rosenberg's Ministry for the Occupied Eastern territories explained : "It is no longer a secret from friend

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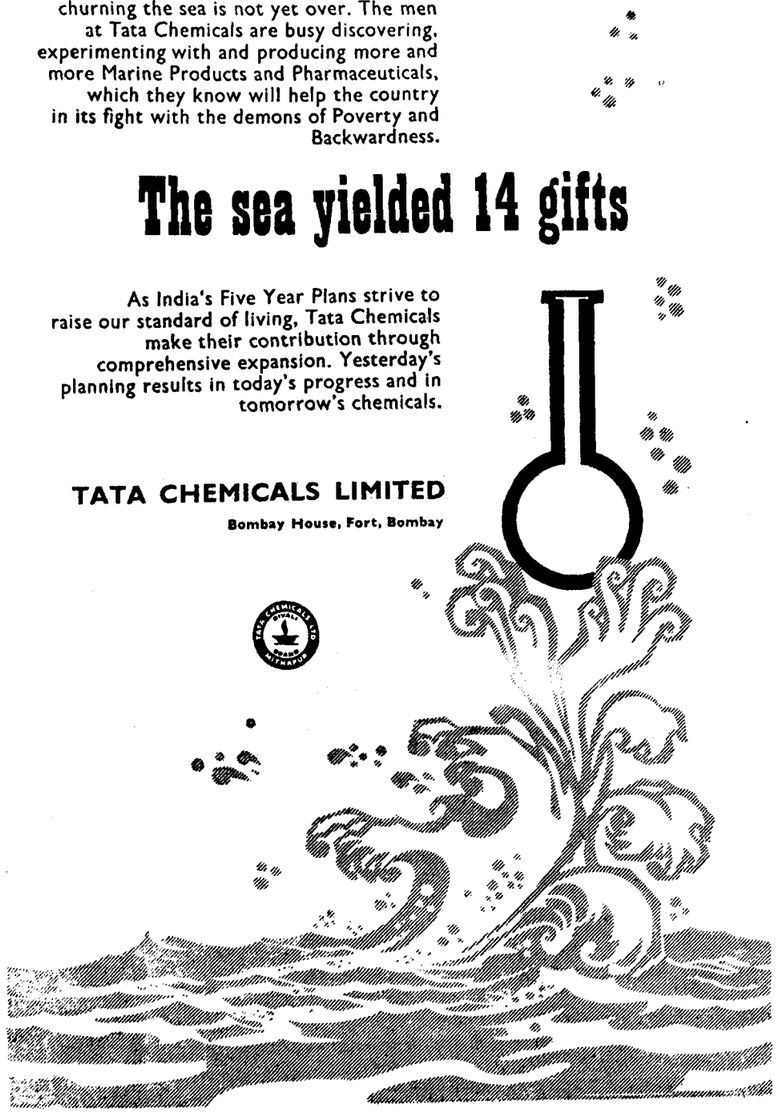

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or foe that hundreds of thousands of Russian prisoners of war have died of hunger or cold in our camps . . . . We now experience the grotesque picture of having to recruit millions of labourers from the occupied Eastern territories after prisoners of war have died of hunger like flies . . . . In the prevailing limitless abuse of the Slavs, recruiting methods were used which probably have their origin only in the blackest periods of the slave trade. A regular man hunt was inaugurated. Without consideration of health or age the people were shipped to Germany. . .'

Stalingrad

The greatest defeat of German arms ever, at Stalingrad, proved to be the decisive turning-point of the war, coinciding almost to a month with the tenth anniversary of Hitler's ascendancy. Annihilation of Paulus's crack sixth army had destroyed the myths of German invincibility and revealed the vitality and prowess of Soviet field commanders as well as the fruits of the five year plans. The Nazi juggernaut had been out-gunned, out-manoeuvred, out-fought.

Shirer's evaluation of the contribution of allied bombing of Germany's cities to victory is perfunctory. It was assumed that German morale would crack under withering air attacks; in fact, it did not, and proved as resilient, if not more, as British morale during the pounding of 1940. Since this work was completed, the official history of the R A F bomber command has been written and here the ineffectiveness of these raids can be gauged. German industrial productivity and production continued to rise until 1944 and, as Galbraith has shown in his "Affluent Society", the upshot of these mass attacks, however paradoxical it may first appear, was that they contributed to boost German productivity by eliminating much of the tertiary sector.

If these mass air attacks were of dubious value in curtailing Germany's war potential, why was a second front delayed until mid-1944? This mosaic is yet to be completed by objective historical research. At the time of the Normandy invasion, the Fuhrer's troops were already reeling under the attack of the Soviet army over a front stretching from Murmansk to the Carpathians.

What was the basis of the Soviet claim, now solidified into an article of faith, that the western powers did not desire an all out attack on the Continent because they wanted to weaken Soviet power? Shirer's narrative does not shed any light on this question. Even on the 24th of June 1941 the then Senator from Missouri, Harry Truman, had declared: "If we see that Germany is winning we ought to help Russia, and if Russia is winning we ought to help Germany and that way let them kill as many as possible". This was the reasoning that dominated the Chancelleries of Europe in the inter-war period, and which was shared by some in the State Department and the Pentagon.

The Delayed Second Front

In all, there were 230 German and satellite divisions in May 1943 on the Russian front. The bitterness of the Soviet reaction to the delays in opening a second front was understandable. "The opening of the second front in western Europe", declared a Soviet diplomatic note in 1943, "is now being put off again, this time till the spring of 1944. Your decision creates exceptional difficulties for the Soviet Union, which, straining all of its resources for the past two years, has been engaged against the main forces of Germany . . . and leaves the Soviet Army, which is fighting not only for its country, but also for its Allies, to do the fighting alone, almost single-handed, against an enemy that is still very strong and formidable. As for the Soviet Government, it cannot align itself with this decision, which, moreover, was adopted without its participation and without any attempt at a joint discussion of this highly-important matter and which may gravely affect the subsequent course of the war".

The aged Lloyd George summed up the conflicting theses at a luncheon at the Foreign Office on January 13, 1944. During the luncheon Mr Anthony Eden remarked: "We are fighting against a common enemy and have agreed with the Russians to continue the struggle until Germany." Lloyd George whipped back: "The Russians, and not we, are fighting the enemy. The Russians alone fought the Germans in 1942, they continued to fight in 1943 and are now beating the Germans without our help. Why did we not open a second front in 1942? By April 1942, British and American military resources were at approximately the same level as in the summer of 1918; if account is taken of the fact that a large number of German divisions were tied down on a vast front in Russia in the summer of 1942 at a great distance from Germany, it is absolutely clear that we did not take advantage of a favourable situation to land troops on the Continent".

Western *realpolitik*, it seems, had triumphed over what was strategically and militarily feasible. Perhaps the collapse of Hitler's *prion empire* may have come earlier. As it was, the contribution of the Allies to total victory was peripheral. Stemming from the delays in triggering a second front, the seeds of dissension were sown.

Khrushchev's harsh indictment remains to be refuted. "And just at this moment", he recently declared, "when the entire course of the second world war changed radically, when events shaped for the western powers so that had they been late with opening a second front, the Soviet forces could have reached not only Berlin but Paris as well, then our Allies began to act in great haste. It was only then that a second front was established. It looked as though our Allies hastened to open it in order not to give the peoples of Western Europe the chance themselves, with the help of the Soviet army, to defeat the troops of the invaders. Such was the situation as regards the fulfilment of their Allied obligations by our partners in the anti-Hitler coalition".

Hitlerism Continues

The Thousand Year Reich crumbled in little over a decade. Yet even in its death it succeeded in sowing the evil seeds of discord between our heroic wartime ally and ourselves. Disintegration of the Reich led to the creation of two Germanies with differing and opposed ideological formations, and with it the still festering sore of Berlin. It may well be that no Western statesman genuinely desires a reunified Germany; this is equally true of the Soviet Union,

all for various and not too complex *raisons d'Etat*.

Once again we are confronted with the spectacle of a resurgent militarised West Germany, many of whose leaders like erstwhile Defence Minister Strauss, call for a revision of frontiers that would extend the tentacles of the Federal Republic to embrace not only the D D R, but also the Oder-Neisse territories and Alsace Lorraine. The eloquently articulated territorial ambitions of others are more grandiose.

Sixteen years after the cessation of hostilities, a peace treaty has not so far been signed. Yet the wheel has come full circle, for, although Hitler's strategists are once again at the helm, this time with a NATO armband in place of the dreaded Swastika, the strategic constellation is different.

Gromyko's reminder cannot be fobbed off in the era of the multi-megaton monster: "If the West German fanatics were to unleash another war, she will be turned into an atomic grave-yard in less than half an hour; and this time there will be no grave-diggers to bury the dead". Be that as it may, but, unfortunately, it will not only be Strauss's Germany that will face the agonizing fire winds, but the entire universe.

Hitler is dead — but the Hitlerian *zeitgeist* still prevails. The eleventh hour has already struck; but we can take succour, for remedial action, from the meaningful words of George Santayana that is the epigraph to Shirer's great work: "Those who do not remember the past are condemned to relive it".

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Nepal-Pakistan Trade Relations

Y P Pant

The signing of the Trade Agreement between Nepal and Pakistan in October this year was a major step towards strengthening trade relations between the two countries.

In this article the author examines the implications of the Agreement for the future development of Nepal-Pakistan trade.

While the author expects trade between the two countries to rapidly expand and diversify, he also sees an important role for economic aid from Pakistan in Nepal's industrial development.

[The views expressed in this article are those of the author and have nothing to do with his official position as Secretary in the Ministry of Finance, His Majesty's Government of Nepal.]

THOUGH Nepal is a land-locked country bordered on the West, South and East by India and on the North by the Tibet region of China, her frontiers are not very far from East Pakistan, being at a distance of about 18 miles at the closest point at Dinajpur in Radhapur station. While trade routes to India and further overseas through India are quite convenient, transport is a handicap to trade with China, and trade, if any, with Pakistan can be maintained only by transit through India. Efforts to establish trade relations between Nepal and Pakistan began when diplomatic relations between His Majesty's Government of Nepal and the Government of Pakistan were established in March 1960. Discussions were then initiated to open trade relations between the two countries. This was a part of the process of establishing diplomatic and economic relations with an increasing number of countries and the diversification of the pattern of foreign trade, with the objective of overcoming the effects of long isolation in matters of ideas, in trade and in commerce and in other spheres.

In his last budget (1962-63) speech Nepal's Finance Minister said, "The Government is quite anxious to increase exports by increasing industrial production and is considering entering into barter agreements with other countries. The Government has also adopted some measures for the diversification of foreign trade in other countries." Trade talks have been going on with countries like the Philippines, West Germany and Pakistan during the last two years. However, the first practical step in the direction of increasing trade with Pakistan was the signing of the trade agreement on October 19, 1962 which, among other things, provides for a grant of the 'most favoured nation' treatment by one country to the other in matters of commerce. The agreement seeks to diverify Nepal's trade with Pakistan in a systematic way. It will open avenues for closer relations and collaboration between the two countries.

Trade Agreement

According to the Agreement, the value of trade between Pakistan and Nepal will be initially about one crore of rupees on either side, though, given favourable conditions, the value of total trade on either side may grow in future. Nepal which has emerged as a developing country into the international sphere from her centuries-old isolation has been experiencing difficulties in the supply of some consumers' goods. Some of these goods Pakistan might now supply. Article VI of the Agreement contains lists of items to be imported or exported in the beginning. Pakistan in turn needs certain raw materials for processing and manufacturing which Nepal can supply. As shown in the appendices at the end, imports from Pakistan will include cotton and woollen textiles, newsprint, plastic goods, rock salt, leather goods, etc, while exports to Pakistan will include hides and skins, wool, oil-seeds, mica, copper, iron ore, etc.

Since Nepal is a land-locked country not only has she no seaport, but also she is sandwitched between India, on three sides, and the Tibet part of China on the fourth. As a consequence she does not have direct access to any country other than India and China even by land. In the case of trade with Pakistan it is thus necessary that goods are transported through India. However, Article VII of the treaty of trade and transit between Nepal and India provides for the safe transit of goods through India from any third country for Nepal and *vice versa*.[1]

The agreement with Pakistan is for two years, after which on the basis of the experiences of both the countries another, and more comprehensive agreement might be concluded.

Under the Agreement, the Governments of Pakistan and Nepal have also undertaken to grant facilities for the holding of trade fairs and exhibitions as also for the exchange of goodwill visits by businessmen and trade delegations. This will, undoubtedly, further the economic and commercial relations between the two countries at the non-governmental level.

Special Payments Arrangement

Along with the Agreement, a Protocol has also been signed regarding special payments arrangement which will govern the exchange of certain specified goods. It has been agreed that the two Governments will facilitate, on a self-balancing basis, the exchange of commodities and goods. There is also a provision for six-monthly review of the working of the arrangement and any problems arising therefrom and comparing

[1] Article VII of the agreement on trade and transit between his Majesty's Government of Nepal and the Government of India (November 1960) reads, "Goods intended for import into or export from the territories of either contracting party from or to a third country shall be accorded freedom of transit through the territories of the other party ....."

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the debits and credits on either side to devise such measures as may be mutually agreed upon to rectify the imbalance, if any. Such periodic review would throw useful light on various aspects of trade and commerce between the two countries.

Though in the original Agreement it is stipulated (Article V) that payments in connection with trade in goods as well as other payments between the two countries shall be made in convertible pounds sterling unless otherwise agreed to by the Governments of the two countries, for the sake of convenience all payments in respect of the sale and purchase of goods and commodities can be accounted for in Pakistan rupees until any other agreement in regard to payment is made. Of course, this is a beginning which will have to be improved upon in due course on the basis of the practical problems which arise and the experiences gained. It is seen from the procedure of trade and payments and the quantum of trade that every effort has been made to keep the trade relations between the two countries as simplified as possible.

Economic Aid from Pakistan

Nepal has been receiving aid both on a bilateral basis from individual countries under the Colombo Plan and also from the international organisations like the United Nations and its specialized agencies. However, with the exception of India, no aid from Nepal's close neighbours has been made available so far. It is in this context that the question of aid from Pakistan will have to be approached. Both Nepal and Pakistan are members of the Colombo Plan and their mutual economic relations extend beyond general trade and commerce. It is possible, therefore, to visualize large-scale industrial aid from Pakistan along with trade supplies in future. According to present indications, such aid may take the form of joint Nepal-Pakistani ventures for the establishment of new industries. The type of manufacturing industries in which Pakistan is willing to invest and for which she will offer technical collaboration will have to be specified through negotiations. The leader of the Nepalese trade delegation which visited Pakistan in October 1962 urged Pakistani industrialists to invest Pak capital in Nepal. He wholeheartedly welcomed capital investment by Pakistanis in Nepal for establishing new industries. The industrial policy of His Majesty's Government has been revised recently to give more accommodation in regard to foreign exchange for such ventures. Provision for more physical facilities has been added in the new policy which is designed to provide both initiative and encouragement to private capital — foreign and local. Therefore, aid from Pakistan together with Pakistani private capital can play a useful role in the economic development of Nepal at this stage.

In view of the fact that East Pakistan is nearer to Nepal, it is natural that the greater volume of trade will be with this wing. It is proposed, therefore, to set up in the near future a trade liason office in Dacca. Trade with East Pakistan will be helpful not only for Nepal, but also for Pakistan in various ways. This should be clear from the course of Pakistan's economic development after the Partition. In 1947 both the western and eastern wings of Pakistan were very backward in terms of industrial development, each depending mainly on the production of agricultural commodities based on their peculiar climatic conditions and soil characteristics. The pattern of development of economic activities in the two wings since independence reveals a number of characteristics relevant to the composition of inter-wing trade. East Pakistan is relatively less industrialised than west Pakistan. East Pakistan had 18 per cent of the total number of the industrial establishments covered in the census in 1957 and accounted for about 30 per cent of the average daily industrial employment and 26 per cent of the gross value of industrial products. Again, the location of a number of industries is raw material-oriented — e g, cotton textiles and certain metal products in West Pakistan and paper products and jute goods in East Pakistan. Some of the industries set up in East Pakistan could consume, the raw materials of agricultural origin imported from Nepal.

Overcoming Isolation

Close relations between Nepal and Pakistan are bound to be of advantage to both the countries and should not remain confined to trade and commerce alone but must be extended to cover the social and educational fields as well. The growth of economic groupings of developed countries, like the European Economic Community, makes it necessary for the underdeveloped countries to divert trade into channels other than the traditional and to establish closer contact among themselves. Closer collaboration in matters of trade and commerce among developing countries has thus become imperative in the changing context of world trade. Some time in December a trade delegation will be coming from Pakistan to conclude a transit trade agreement with Nepal.

Of course, the present value of trade with Pakistan is less than even 3 per cent of Nepal's total trade of which about 95 per cent is still with India[2]. But the increased volume of trade and the diversification of the direction of trade implies greater ability to withstand and overcome competition of other countries. Of course, the process of diversification will be very much dependent on the development of an adequate net-work of transport facilities in the country and also the

[2] The Table shows that the direction of Nepal's foreign trade has been very slowly changing in recent years, total trade gradually dropping with India, and that with Tibet and overseas countries going up.

Direction of Nepal's Foreign Trade *

(In Per Cent)

	Imports		Exports		Total Trade	
	1958-59	1959-60	1958-59	1959-60	1958-59	1959-60
India	97.69	93.88	98.95	99.02	98.12	95.49
Tibet	.60	.98	1.05	.98	.76	.98
Overseas	1.71	5.14	—	—	1.12	3.53
	100.00	100.00	100.00	100.00	100.00	100.00

* Excluding invisibles.

establishment of trade routes with different countries.

The effect of a century of isolation under the rule of the Ranas, in matters of trade and commerce have been far-reaching. Speaking on the occasion of the U N day on October 24, 1962, Nepal's Foreign Minister said:

> "That Nepal cannot develop under isolationalism has been too clearly established by the Ranas. It is for this reason that we are working to the best of our ability to minimise the effects of isolation by putting a particularly heavy emphasis on the development of transport and complementary outlets to the world markets wherever possible. We have entered into a treaty of trade and transit with India .... We have been examining the possibility of developing trade with Pakistan and Tibet."

The signing of the trade treaty with Pakistan is an important step in His Majesty's Government's wise policy of diversifying diplomatic and trade relations with other countries.

ANNEX

Schedule 'A'

Exports from Pakistan to Nepal

1. Cotton piecegoods
2. Cotton yarn
3. Hosiery
4. Readymade garments
5. Handloom saries
6. Sewing thread
7. Newar, cottor
8. Cotton and woollen blankets
9. Woollen textiles
10. Rock salt
11. Newsprint
12. Paper
13. Tea
14. Betel nut
15. Confectionery and biscuits
16. Medicinal and pharmaceutical products
17. Soap
18. Toilet requisites
19. Leather goods
20. Shoes
21. Paints and Varnishes
22. Pencils and Stationery
23. Fountain Pens
24. Cigarettes
25. Hurricane lanterns and lamps including pressure lamps
26. Plastic goods
27. Rubber goods including cycle tyres & tubes
28. Umbrellas
29. Glass, including sheet glass, and glassware
30. Cement
31. Asbestos sheets
32. Electrical goods, including electric fans
33. Brass and aluminium utensils
34. Cutlery and hardware
35. Bulbs, electric
36. Gas mantles
37. Straw board
38. Razor blades
39. Coir and Coir products
40. Jute carpets
41. Fertilizers
42. Sports goods
43. Canvas goods
44. Cinematographic films, exposed
45. Spectacle frames and sun glasses
46. Jute cuttings
47. Books and publications.

Schedule 'B'

Exports from Nepal to Pakistan

1. Timber and Wood
2. Pulses
3. Oilseeds
4. Medicinal herbs
5. Linseeds
6. Potato seeds
7. Boulders, Shingles
8. Cheese, ghee
9. Hides & Skins, sun dry
10. Wool
11. Rice
12. Musk, Cardamom
13. Tanning materials
14. Wattle bark.

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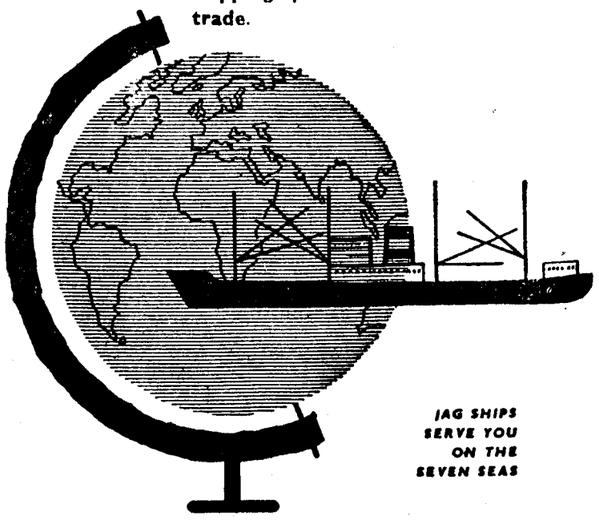

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India and the International Coffee Agreement

J B Monteiro

The increase in our output and exports of coffee in recent years, particularly the very high level of exports reached in 1961, and the ambitious targets set in the Third Plan would lead one to expect that the pegging of exports to a particular level which is implied in our joining the International Coffee Agreement will adversely affect our coffee industry.

An attempt has been made in this article to examine the implications of joining the Coffee Agreement for India's exports of coffee and foreign exchange earnings from coffee. The author argues that as a result of joining the Agreement, Indian coffee will benefit from joint propaganda, more open markets, possible reduction in import duties and stabilisation of prices.

AFTER some vacillation India has decided to join the new International Coffee Agreement drawn up by the World Conference on Coffee convened by the U N. The Agreement is valid for a five-year period. Behind the U N move in convening the conference was the disturbing fact of a growing imbalance between world production and consumption of coffee. Between 1953 and 1960 consumption rose from 43 to 53 million bags (of 60 kilos each) while production rose from 40 to 75 million bags. At present there are surplus stocks of coffee sufficient to satisfy world demand for eighteen months. It has been estimated that if no restraints are placed on production and if demand does not grow much more vigorously than at present, excess stocks are likely to be around 125 million bags in 1964-65 and around 180 million bags in 1969.

Accumulation of surplus stocks of this magnitude cannot but push down world coffee prices which are a vital factor in the development of many Latin American, African and Asian countries. Even as it is, prices have been falling steadily over the last few years as can be seen from Table 1.

Purpose of Agreement

The purpose of the International Coffee Agreement is to control exports and ensure stable and reasonable prices for coffee in the world market. This is sought to be done by restricting exports through a system of basic quotas for each exporting country. The basic quotas add up in all to 41.17 million bags, of which 32.65 million bags have been assigned to producing territories in Latin America and 12.92 million bags to producers in Africa and Asia. India has been allotted a quota of 3.6 lakh bags (about 20,000 tonnes).

The present Agreement replaces the International Coffee Agreement signed in September 1958 by 15 Latin American countries which account for 93 per cent of the world's exportable production. In an attempt to broaden the 1958 agreement the Latin American countries have been wooing the coffee producing countries of Africa and Asia to join in a more comprehensive world agreement. Many African producers had joined the Agreement but India had resisted the overtures, arguing that it produced mainly for the domestic market and that in any case its production was less than 2 per cent of world production. In the light of the Indian Government's decision to reverse its earlier stand and join the Agreement, it is worth examining whether India's participation in the Agreement is consistent with its interests.

Growth of Coffee Industry

The recent growth of India's coffee economy has been remarkable; its future plans are ambitious and by no means unrealistic. India's coffee exports have increased from 4,000 tonnes to 34,000 tonnes between 1950 and 1961. By the end of the Third Plan, with the coming of 30,000 more acres under coffee, the total coffee acreage will stand at 3,00,000 and production at an estimated 80,000 tonnes. By 1965-66, home consumption is likely to be 35,000 tonnes and exports 45,000 tonnes. At current price levels, earnings from coffee exports, which is at present about Rs 8 to 9 crores, is expected to go up to Rs 15 crores by 1965-66.

It would seem at first sight, therefore, that any agreement that restricts the expansion of our exports will be inconsistent with the Plan targets for coffee and our efforts to earn more foreign exchange. However, closer examination shows that this need not be so.

The record exports of 628,000 cwt in 1961 are not representative of the trend in our exports. They were almost double the 1960 exports of 321,000 cwt. And in the first five months of this year, exports have just reached 157,000 cwt. Thus to judge the basic export quota allocated to us under the Agreement on the basis of the 1961 exports will not be proper. Our quota of about 21,000 tonnes is not so low if it is viewed against our customary exports of 18-20 thousand tonnes. Moreover, it should be remembered that the quota applies only to our traditional markets leaving the "new" markets—eg the Sino-Soviet bloc, Middle East, South Africa Japan, etc — free for exploitation

Table 1 : Coffee Prices, 1953-57 to 1961
(U S Cents per Lb)

Quality	1953-57* (Average)	1958	1959	1960	1961 (Preliminary)
Brazil, Santos 4	57.5	48.4	37.0	36.6	36.0
Colombia, Mams	65.7	52.3	45.2	44.9	43.6
Ivory Coast, Courant	39.5**	36.5	27.0	19.5	18.7
Uganda, Native 10	38.6	37.6	28.7	20.2	18.5

* Excludes 1954, a year of unusually high prices.
** 1955-57.

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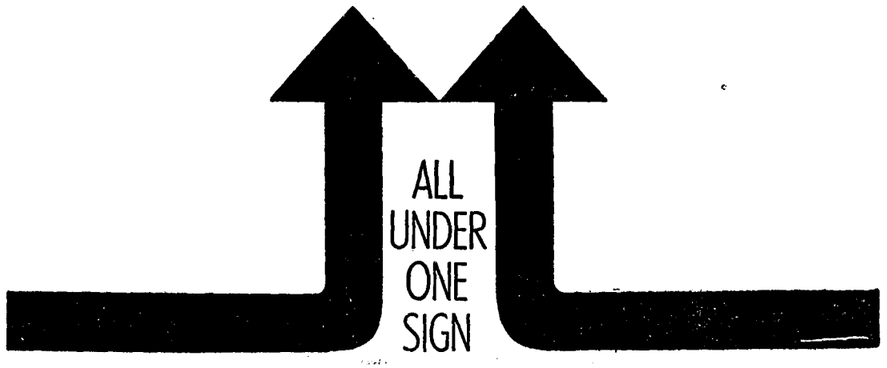

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As for the Plan target of exports, the quota allocated to us will be adequate to achieve the target in terms of value. For, the Agreement seeks to ensure stable and reasonable prices to the producing countries. What a big difference stable prices would make to our exchange earnings from coffee exports can be seen from Table 2 which shows the decline in the price realised by Indian coffee in the export market. The quantum of foreign exchange earned from exports is not a function of the quantity alone. With a rise in prices India can earn substantially more foreign exchange from coffee than before without increasing the quantum of exports.

Another direction in which India stands to gain from joining the Agreement is from the expected increase in world consumption of coffee as a result of the concerted propaganda of the producing countries. The current rate of increase in world coffee consumption of about 2 per cent per year is clearly disappointing considering the increase in population and the performance of competing commodities. Promotional work for coffee has hitherto been inhibited by the fears of the larger producers that the money spent by them on development of foreign markets actually benefitted the small producers who spent nothing at all. Under the Coffee Agreement when world consumption rises in response to the joint propaganda of the exporting countries, the export quotas will be revised for all exporters.

Besides, some of the important coffee drinking countries of Western Europe now afford preferential treatment to their Associated Territories. During the International Coffee Conference, in the face of protests from Latin American producers, the Western European countries promised to review the present arrangement. As a result Indian coffee will find these markets more competitive vis-a-vis coffee from African countries.

In western Europe high taxes on coffee have been holding down consumption. The incidence of these taxes can be seen from Table 3. It has been estimated by the F A O that a total abolition of the special taxes and duties in Finland, France, Western Germany and Italy would increase coffee consumption by 67,000 tonnes. By exerting concerted pressure on these countries the present Agreement is expected to tackle this question to the benefit of all producers. The benefit of this will be shared by India along with other members of the Agreement.

Could India Have Stayed Out ?

What would have been India's prospects outside the agreement ? The present agreement envisages control by consuming countries of imports from non-member countries. This would have prevented us from expanding exports to some of the large and fast-growing markets. The importance of some of these markets for our future coffee exports can be seen from Table 4. It will be seen from the Table that any restrictive action by the U S and the Western European countries, which together account for nearly 80 per cent of world imports, can seriously affect our export plans.

It has been suggested that we can make up for the loss in the traditional markets by concentrating on the new markets, especially the communist block. Greater attention to the new markets is certainly justified and necessary but these countries cannot be a substitute for the established markets. Moreover, trade with the communist countries is yet to stabilise itself. This can be seen from Table 5 which shows the unsteady trend of our coffee exports to the Soviet Union.

What is essential if Indian coffee is to hold its own in the world markets is improvement in quality. Table 1 shows that the better quality Colombian coffees are sold at a premium compared to other coffees. In the thirties our coffees were considered second only to Costa Rica's in respect of quality. This is indicated by the fact that while the price of Brazilian coffees fell by 48 per cent between 1925 and 1930, the prices of Indian coffees fell by only 38 per cent. On the other

Table 2 : Average Price Secured for Coffee Sold for export
(In Rs per 50 kgs)

Year	Plantation 'A'	Arabica Cherry	Robusta Cherry
1954	369.49	228.51	200.40
1958	242.01	183.71	153.32
1959	236.99	184.94	125.62
1962*	164.00	149.50	79.50

* Till the end of June 1962

Table 3 : Special Taxes and Import Duties on Coffee in Selected Countries in 1958
(U S $ per kg)

Country	Total Import Duties & Special Taxes	Retail Price	Percentage of 2 to 3
West Germany	1.10	4.62	28
Italy	0.90	3.64	30
France	0.61	2.50	30
Spain	0.82	2.74	36

Table 6
(Shillings per cwt)

	'Plantation' Indian	Kenya 'A'
1925	140	131.5
1926	138	115.6
1929	127	115.6
1930	86	77.6

Table 4 : Trends of Imports in E E C, U S and the Rest of the World
(In Million $)

	1951-1955 (Average)	1958-60 (Average)	% Increase Between 1951-55 and 1958-60	1958-60 Value in (Average)
E E C	381.7	566.5	48	512.0
U S	1169.3	1287.5	10	1091.0
Rest of the World	365.0	545.0	49	547.0
Total	1916.0	2399.0	25	2150.0

Table 5 : Imports of Coffee into the Soviet Union

	1956	1957	1958	1959	1960	1961
India	10.0	20.0	14.9	61.1	44.1	39.4
Brazil	36.5	—	4.6	89.7	232.3	456.7
Yemen	—	10.8	10.9	11.1	27.4	30.5
Total Imports	65.0	100.4	80.7	261.8	376.0	584.6

hand, today India is losing ground to coffees from Kenya, Colombia, Mexico etc. Thus, for instance, last year while Kenya 'A' landed in London fetched Rs 243 to Rs 428 per cwt, Indian coffee was sold at Rs 196 per cwt. Before the war the position was quite different as can be seen from Table 6.

Joining the International Coffee Agreement thus cannot adversely affect our production plans or export targets. On the countrary, Indian coffee is likely to benefit from joint propaganda, more open markets, possible reduction in import duties and stabilisation of prices.

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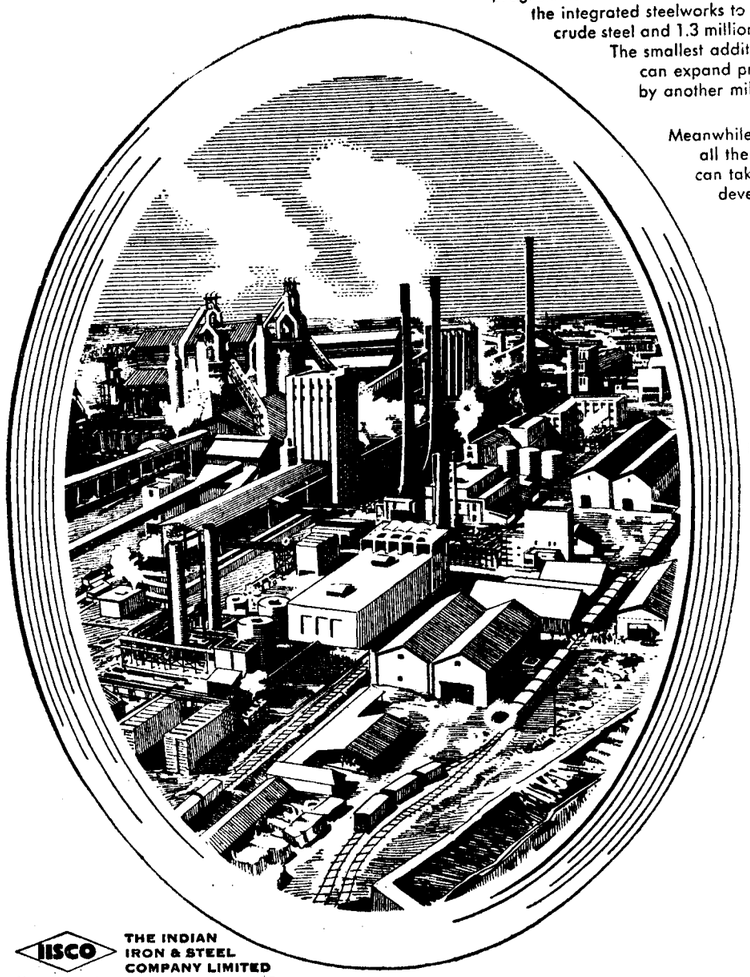

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Agricultural Underemployment in Uttar Pradesh

A Qayum

Three basic characteristics of employment in the agricultural sector in India and other underdeveloped countries are:

(1) *A large number of persons who keep continually attached to their farm or land remain idle for most of the year;*

(2) *A substantial number of even those who do not appear to be idle and keep themselves apparently busy in some work or the other contribute little to the net production; and,*

(3) *Yet another substantial number of persons, who do contribute to the net production with the existing methods and organisation of production, are likely to become redundant, if advanced methods of production involving larger capital per person are introduced.*

These three types of employment situations may be described as characterised by visible, disguised and potential under-employment. Another important characteristic of employment in agriculture is that the work is not uniformly spread all the year round resulting in seasonal un- or under-employment.

An attempt is made below to estimate the various types of underemployment in agriculture in Uttar Pradesh.

WHILE there cannot be any difference of opinion about definition of visible under-employment, more than one definition can be given to disguised and potential under-employment. For the last two, therefore, we have adopted definitions which are authoritative[1] as well as most suitable to quantitative estimation. Moreover alternative definitions of these terms which have been given by other authorities and agencies can be interpreted in terms of those adopted here with slight modifications.

The estimates relate to the year 1950-51. As no major change in the techniques of production has taken place since then, nor has any significant shift of workers occurred from agricultural to non-agricultural sectors, these estimates are relevant even to-day and perhaps the proportions of various types of under-employment will remain more or less the same in the next decade or so. The estimates are based on information collected from numerous official and non-official reports and surveys.

Visible Underemployment

The degree of visible underemployment is the ratio of the difference between the total amount of labour-days which the labour force in agriculture is willing and able to supply and the total amount of labour-days for which the labour force is actually engaged to the total supply of labour-days.

In estimating the total labour-days available, the following considerations have been taken into account:

(1) Agricultural working class covers the first three agricultural classes of the Census of 1951 i e, it excludes owners of land, agricultural rent recivers and their dependents.

(2) All males between 15-55 have been taken as workers.

(3) The number of labour-days that a male worker can put in is 350, making allowance for off days on account of festivals, illness and bad weather, etc.

(4) Only that percentage of females has been taken as workers that has been recorded in 'Rural Man-power and Occupational Structure'[2], as workers, that is earners and helpers.

(5) Labour-days put in by boys and girls have also been taken into account. The proportion of such boys and girls has been based on the data given in the 'Rural Man-power and Occupational structure'[3].

(6) It has been assumed that each female worker can work for 300 days in a year.

(7) It has been assumed that each boy and girl participating in agriculture works for 239 days per year. This is based on the estimate of the 'Agricultural Labour Enquiry, Vol II, North India'[4].

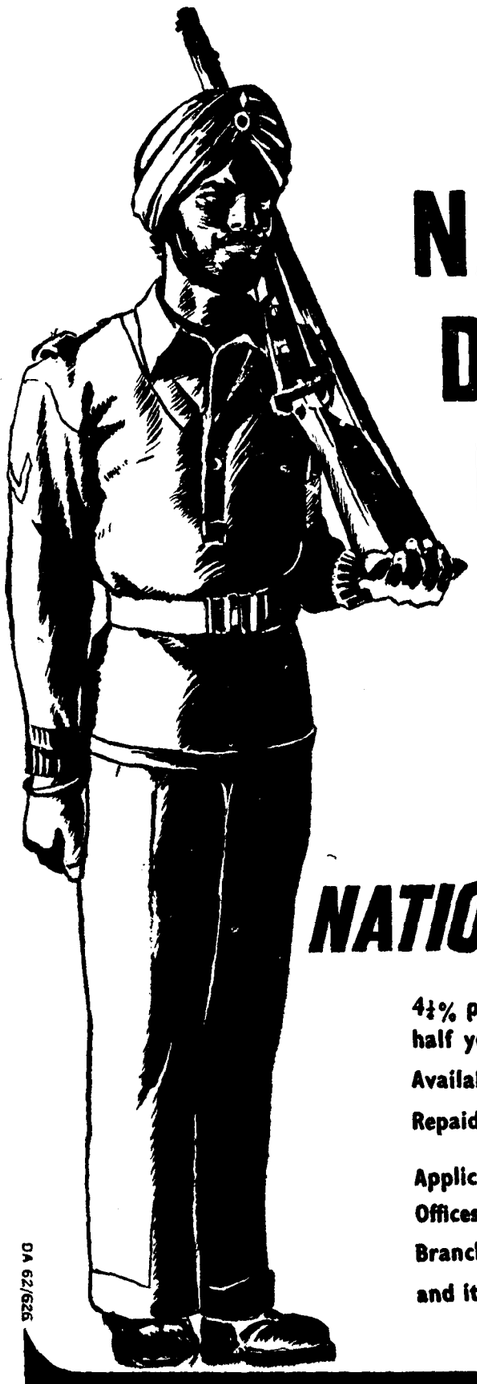
Table 1 shows the number of males, females and boys and girls working in agriculture and the total labour-days available in Uttar Pradesh in 1950-51.

There appears to be only one way of estimating the labour-time spent in agriculture. This is, first, to find out the average or normal labour-days that are utilised to grow a crop under the existing conditions of production; by multiplying then the total acreage under this crop by the average number of labour-days required to produce it, we

Table 1: Employment of Workers and Total Labour-Days Available in U P in 1950-51 by Natural Divisions

Natural Divisions	Male Workers	Female Workers	Boy Workers	Girl Workers	Total Labour Days (in 000)
(1)	(2)	(3)	(4)	(5)	(6)
Himalayan	507148	465777	17838	17838	325761
East Plain	1738133	1470832	308875	102958	1848025
Central Plain	3285689	1584386	214415	50030	1688479
West Plain	4301393	810565	235801	44213	1815581
Hills and Plateau	787996	404423	20221	17332	406101
Uttar Pradesh	12620359	4735883	797150	232371	6083947

Source: Census of India 1951, Vol II, Uttar Pradesh, Part I-A. Column (5) has been derived as stated in the text.



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can estimate the total number of labour-days utilized in producing this particular crop in a certain region. Finally, by adding together the totals of labour-days that are utilised in producing all individual crops in a region, the total number of labour-days utilised in growing crops can be estimated.

Apart from growing main agricultural crops, there are other productive activities connected, first, with growing and looking after fruit trees, timber and firewood, fodder and grass etc, and, second with the up-keep and maintenance of draught, milch and other cattle of the household. Thus the total number of days worked by agricultural workers can be broadly classified in three categories:

(1) Days worked for growing main agricultural crops.

(2) Days worked for growing other plants, fruits fodder, etc[5].

(3. Days worked for the up-keep and maintenance of cattle[6].

The total labour-days worked in agriculture in 1950-51 have been calculated on the following basis:

(1) Labour days required per acre for producing various agricultural crops were calculated on the basis of data supplied by NSS, 5th, 6th and 7th rounds.

(2) Labour-days required per acre for producing various crops were multiplied by the number of acres under the respective crops in 1950-51. Their aggregate gives the total number of labour-days worked in the production of main crops.

(3) Labour-days worked in the production of other crops were derived from 5th and 6th round NSS schedule 2.1 rural — by taking an average of the two estimates.

(4) Labour days utilised for the up-keep and maintenance of draught cattle were calculated on the basis of 2½ hours per day per draught cattle. In case of Himalayan Division, only 1½ hours per draught cattle per day have been allowed as it has 2½ acres of pasture per bullock against 1/3 acre in Gangetic Plain and I acre in Hills and Plateau.

Table 2 gives the total labour-days worked in agriculture of U P in 1950-51

After calculating the total labour-days available and the total labour-days worked in U P in 1950-51, we can estimate the visible under-employment in U P and its natural divisions as given in Table 3.

Table 3 shows that about 26.7 per cent of the total labour-time available remains unutilised visibly in agriculture in Uttar Pradesh under the existing conditions of production. It means that an agricultural worker works for about 5.8 hours per day (of 8 hours) on an average. During peak seasons, the extent of employment may go up to 12 or more hours per day but during the off seasons, employment may be far lower.

Disguised Agricultural Underemployment

Disguised under-employment is determined by measuring the proportion of labour-time spent in agricultural activity but without contributing anything to the total agricultural product. In other words it measures the proportion of labour-time utilised in agriculture which can be released from land without reducing total agricultural output. This can be done in a number of ways by raising the intensity of work per hour by introducing simple labour saving devices requiring no addition of capital outlay, no change in the institutional framework and no alteration in the size of holdings.

Farming consists of a number of operations that are required in varying amounts for growing various crops. Most of these improvements can be performed in lesser amount of labour-time, if improved techniques are applied to farming.

Table 2 : Total Labour-Days Worked in U P in 1950-51

Natural Divisions	Labour-Days Worked			Total Labour-Days Worked (000)
	Main Crops (000)	Other Crops (000)	Cattle Services (000)	
Himalayan	107,497	140,947	36,459	284,902
East Plain	565,413	438,777	418,393	1,422,588
Central Plain	460,237	241,036	402,090	1,103,365
West Plain	739,168	144,503	467,954	1,351,625
Hill and Plateau	162,273	21,178	116,095	295,546
U P	2,034,593	986,441	1,440,990	4,462,024

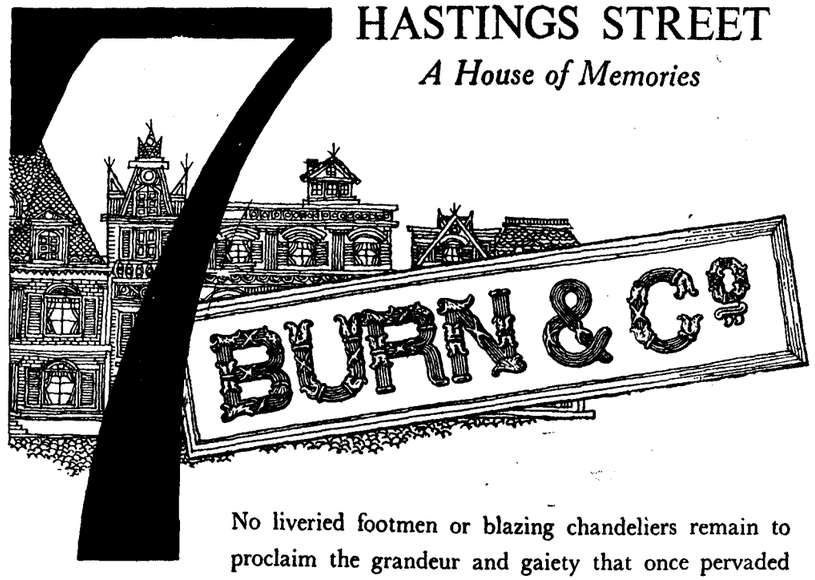
Source : Derived as described above.

Table 3 : Visible Agricultural Underemployment in U P in 1950-51

Natural Divisions	Total Labour-Days Worked	Total Labour-Days Available	Magnitude of Visible Under-employment	Degree of Visible Under-employment
	(1)	(2)	(3)=(1)—(2)	(4)=(3)÷(1)
Himalayan	325,761	284,902	40,859	.125
East Plain	1,848,025	1,422,583	425,442	.230
Central Plain	1,688,479	1,103,363	585,116	.347
West Plain	1,815,581	1,351,625	463,956	.256
Hill and Plateau	406,101	299,546	106,555	.262
U P	6,083,947	4,446,024	1,637,923	.267

Table 4 : Release of Labour-Days Due to Improved Implements

Crop Operations	Wheat	Barley	Gram & Pea	Rice	Maize	Jowar	Sugarcane	Cotton	Rest	Improved Implements
Soil Preparation	8	6	2	2	3	1	4	3	1	Modern Plough of Western Type
Sowing	1.5	1.5	—	—	2	1	—	2	—	Seeding Machine or Seed Drills
Weeding Harvesting and	5	—	—	—	12	6	20	12	—	Cultivators & Triangular Harrow
Threshing	4.5	4.5	—	4	—	—	—	—	—	Reapers & Threshers
	19	12	2	6	17	8	24	17	1	



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Labour-days that can be released due to use of improved implements and tools in growing one acre of various crops have been summarised in Table 4.

The use of improved tools and implements may appear to involve a net addition of capital outlay. A careful analysis reveals that it is not so. The introduction of improved techniques does not only release human labour but also cattle labour; and the cost of the latter almost equals the cost of new implements and tools mentioned above.

Even conceding that some of the operations, such as carting, pulling water, crushing of sugarcane etc, may have to be performed as they are done today and also that indigenous ploughs may be retained for some purposes, we can safely assume that if improved implements are introduced the number of bullocks needed will be at least halved.

The saving of bullock-power will accrue to those farmers only who have at least two pairs of bullocks. In some cases, it may accrue to farmers with one pair of bullocks, provided that two such farmers agree to combine ploughing and other agricultural operations and purchase the implements in combination. Households with still smaller holdings can avail of the economies of improved techniques only if they agree to cooperative farming.

The cost of a pair of average bullocks varies from Rs 400 to 700 and the average life of a pair of bullocks is 10 years. The rough calculations that have been made show that the depreciation cost of all implements including even the Persian wheels (which are not required in all canal-irrigated areas and in areas where water is more easily available from sources other than wells) amounts to about Rs 41.7 to 61.9. It means that the introduction of improved implements does not involve any net additional capital outlay of appreciable size.

The release of bullock-power will not only allow the purchase of improved implements involving more or less the same capital outlay but would also result in saving of human-labour spent on the up-keep and maintenance of draught bullocks. It has been estimated on the basis of surveys in some villages and on a few Government agricultural farms that about 2½ human hours are spent per day per bullock for its maintenance. It has been calculated from the figures of

Table 6 : Labour-Hours Required Per Acre for Various Operations under Non-Mechanised Farming

Crops/ Operations	Wheat	Barley	Paddy	Jower, Bajra, Maize	Sugarcane
Ploughing	120	80	70	30	130
Sowing	40	40	40	30	110
Weeding and Interculture	20	20	80	40	190
Harvesting	100	100	100	50	100
Threshing	160	60	100	40	—
	440	300	390	190	530

Table 7 : Labour-Hours Required for Various Operations at the Jahangirabad Niblet Farm

Crops/ Operations	Wheat	Barley	Paddy	Jower, Bajra, Maize	Sugarcane
Ploughing	5 (15)	5 (15)	5 (15)	5 (15)	5.5 (16.5)
Sowing	1 (3)	1 (3)	40	4 (12)	21
Weeding and Interculture	20	20	80	40	155
Harvesting	31	31	31	—	—
Threshing	41	41	41	90	100
	35 (45)	35 (45)	132 (142)	139 (157)	281.5 (297.5)

Note : Unbracketed figures relate to big tractors of 40 to 60 H P. Bracketed figures relate to Medium tractors of 20 to 30 H P.

Table 8 : Release of Labour-Hours for Various Grops
(In Per Cent)

Crops	Acreage	Release of Labour-Hours with Big Tractor in Use	Release of Labour-Hours with medium Tractor in Use
Wheat	7727123	**92.50**	**89.77**
Barley	4591035	**89.00**	**85.00**
Paddy	9113327	**65.15**	**63.60**
Maize/Jower	4907207	**26.84**	**17.37**
Sugarcane	2504541	**46.89**	**44.81**

Table 5 : Disguised Agricultural Underemployment in Uttar Pradesh By Natural Divisions

Natural Division	Total Labour-Days Worked in 1950-51 (in 000)	Labour-Days Released from Farming Operations on all Holdings	Labour-Days Released from Farming Operations on Holdings of 10 or More Acres	Labour-Days Released from Cattle-Services on All Holdings	Labour-Days Released from Farming Operations on Holdings of 10 or More Acres	Disguised Underemployment (All Holdings)	Disguised Underemployment (Holdings of 10 or More Acres)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Himalayan	284,902	18,720,786	8,574,120	18,228,770	8,339,940	12.97	5.94
East Plain	1,422,588	104,492,842	30,093,938	209,196,270	60,222,780	22.05	6.35
Central Plain	1,103,363	85,233,423	25,996,105	201,044,814	61,412,256	25.95	7.92
West Plain	1,351,625	172,643,637	54,555,389	233,977,077	73,765,524	30.08	9.91
Hills and Plateau	299,546	32,608,261	21,130,135	58,047,432	37,653,256	30,26	19.62
U P	4,462,024	413,698,949	140,349,687	720,494,363	241,383,756	25.41	8.71

draught cattle and the acreage under cultivation in each natural division of North India in 1950-51 that a farmer with 10 or more acres has at least two pairs of bullocks. On this basis, the release of human labour-days from draught cattle-service may be estimated.

In Table 5 Col (2) gives the total number of labour-days worked in agriculture in 1950-51 by natural divisions; Col (3) gives the number of labour-days released from farming operations on all holdings; and Col (4) from holdings greater than 10 acres, due to introduction of improved implements. These estimates have been obtained by adding together the total acreage under various crops multiplied by the number of labour-days released per acre for growing respective crops. Col (5) shows the number of labour-days released from cattle services when improved implements are applied to all holdings which is possible when small holders start cooperative farming. The estimates are based on the assumption that one pair of draught bullocks will be released on each 10 acres of land under cultivation due to the adoption of new techniques. Col (6) gives the same figures for holdings which are at present of 10 or more acres. Finally, Col (7) shows the degree of disguised agricultural under-employment in 1950-61, by natural divisions, on the assumption that all holdings are brought under improved farming directly or through cooperatives. This has been arrived at by adding together Cols (3) and (5) and dividing by the corresponding number in the Col (2). Col (8) shows the degree of disguised underemployment on holdings of 10 or more acres. This has been arrived at, as before, by adding together corresponding figures in Cols (4) and (6) and dividing by those in Col (2). The above preliminary survey shows that there prevails disguised agricultural underemployment as defined earlier, of the order of about 9 per cent on holdings of 10 or more acres, and of 25.5 per cent if all holdings are taken into consideration.

Potential Underemployment

The term potential underemployment is used to describe the amount of labour-time that will be released by introducing more fundamental changes than those described in connection with disguised underemployment, viz, by changing the method of production to a degree that involves a substantial change in the capital-output ratio and/or the scale of production. The problem of labour requirements per acre under mechanised farming was studied at the Jahangirabad — Niblet State Mechanised Farm, Barabanki, in 1956. The farm is not totally mechanised. It had two tractors and maintained 12 bullocks, one horse and some revenue producing livestock. One of the two tractors was a H D Allischalmer 60 H P and the other a small farm tractor, Fordson 25 H P. Tables 6, 7 and 8 give the labour-hour requirements per acre for growing major crops under non-mechanised farming and under mechanised farming in Jahangirabad. Data relating to non-mechanised farming is based on the normal working hours per acre for various operations as fixed by the office of the Director of Seeds and Farms, Government of Uttar Pradesh.

Jahangirabad Niblet Farm, as stated above, had an Allischalmer 60 H P and a Fordson 25 H P. The unbracketed figures in Table 7 pertain to the Allischalmer except in case of paddy where transplanting has got to be done by hand and in case of sugarcane where the Fordson alone could be used. Table 8 gives the release of labour-hours in percentages for various crops.

The weighted percentage release of labour-hours works out to 69.14 in the farming operations when big tractors like Allischalmer are used and 64.43 in case of tractors with 20-30 H P. In addition, there will be a substantial release of labour-hours spent on the maintenance of draught cattle. It will amount to about 90 per cent of the total human labour spent at the present, in view of the fact that one pair of bullocks will have to be kept per 100 acres, even when complete mechanisation has been introduced for making trenches and for other tasks in case of emergency. Labour requirements under mechanised farming may differ from region to region and from one pattern of crop combination to another. But there is no doubt that the release of labour power will not amount to less than 60 per cent of total human labour-time utilised in agriculture at the present. The prospects of such a high proportion of labour power being absorbed in agriculture or in other industries are very remote and hence large-scale mechanisation of agriculture cannot be envisaged at the present.

1 Cf Chiang Hsieh, "Underemployment in Asia", *International Labour Review*, June 1952, p 706.
2 Ministry of Labour, Government of India, 1954.
3 *Ibid*, p 160.
4 *Ibid*, p 24.
5 The items included in other crops are: 1-Mango, 2-citrus, 3-banana, 4-other fruits, 5-coconut, 6-arecanut, 7-other nuts, 8-betel leaves, 9-bamboo, 10-cane hogla, 11-other reads, 12-fuel wood, 13-timber, 14-soft wood, 15-fodder, 16-grass, 17-flowers, 18-others.
6 This includes besides regular services on cattle, other services such as watching crops as well as cattle, work-time spent on repairs and maintenance of tools.
7 This table has been vetted by a number of persons having a life-long experience of agricultural industry. Among them, the following may be mentioned: Shri Ratan Singh, Farm Superintendent, Kalai, Govt Agricultural Farm, Aligarh; Shri Habibullah Khan, Retired Agricultural Officer, U P, and in-charge of Muslim University Aligarh Agricultural Farm; Shri Shyam Pd Sharma, Supdt, Jehangirabad Niblet State Mechanized Farm, Barakanki; and Shri Ali Khan, Agricultural Officer, Lucknow.

Tata Engineering

TATA Engineering and Locomotive Co has applied to the Controller of Capital Issues for sanctioning a rights issue of 2 lacs ordinary shares of Rs 100 each at a premium of Rs 50 per share or at such premium as the C C I may fix. It is proposed to offer the rights shares in the ratio of one share for every four shares held. The Company will seek the approval of the shareholders for increasing the authorised capital and for the issue of these rights shares as soon as Government's consent is obtained.

It may be recalled that the Company had sometime before a proposal to issue convertible debentures of the value Rs 5 crores which has since been abandoned, as the shareholders did not see eye to eye with the proposal at the informal discussions. The premium proposed for the rights issue would appear to be reasonable and the issue would be welcomed by the shareholders. But in view of the present depressed condition of the market the new issue, it is hoped, will be properly timed.

Company Meeting

The Associated Cement Companies Limited

Summary of Chairman's Statement

THE following is a summary of the statement which has been issued to shareholders by Shri Dharamsey M Khatau, Chairman, The Associated Cement Companies Limited, dealing with the Company's working for the year ended 31st July 1962. The Annual General Meeting of the Company will be held on Friday, the 18th January 1963 at 4 p m at the Sunderbai Hall, off Queen's Road, Bombay 1.

We are today under a grave national crisis caused by unprovoked aggression. Our policy and all actions affecting each of us as individuals and our business must therefore be governed by the overall consideration of the great and urgent task of repelling the invader. The Company's factories, collieries and engineering workshops will naturally be utilised to the fullest extent in the service of the country. Your Company has already donated Rs 10 lakhs to the National Defence Fund and I am proud to say that the employees of the Company, numbering many thousands, are solidly behind the Government.

If, against this background, I appear somewhat critical of certain Government policies, I want to make it clear that such criticism is made both in view of the urgent need to stimulate the growth of the cement industry — a vital industry both in times of peace and war — and of the part which your Company can play in this great emergency.

During the year the most important event was the recommendation of the Tariff Commission for an upward revision in the retention price of cement and Government's action thereon. The Directors' report has mentioned the difficulties — operational and other — which prevented the Company from achieving better results than were actually obtained and why, despite higher profits it has not been possible to recommend a higher dividend.

PROSPECTS FOR THE FUTURE

Pricing and Industrial Policy of Government

As regards the profit-earning capacity of the Company and its future prospects, these are so largely dependent on the retention prices and Government's industrial policy and action, that there is very little I can say. I can only assure you that our efforts in increasing production and reducing costs are being ceaselessly pursued. As you are aware, Government arbitrarily scaled down the increase in price which the Tariff Commission had recommended. The retention price allowed to your Company was inadequate even by the Tariff Commission's standards; and in the absence of automatic escalator clauses, the relief afforded by such price increase is being rapidly reduced, since prompt adjustments to cover subsequent increases in the price of fuel and power, railway freight rates etc, are unfortunately not forthcoming.

It is a matter of deep regret that the Government should ignore the recommendations of a statutory body like the Tariff Commission — an independent body consisting of people, known for their capacity and judgment, who make their recommendations after scrutiny of all relevant facts and giving weight to all affected interests. It is therefore most disturbing that there is a tendency to dub this body as 'outmoded'. In the absence of an independent organisation of this kind, one fears that fixation of prices by Government could be completely arbitrary.

The incidence of the enhanced Tax on Corporations from 45 to 50 per cent is substantial. The heavy financial burden imposed by these and other charges has further reduced the profit element. One of the recommendations of the Tariff Commission was that the retention price should be revised if and when adjustments become necessary owing to increases in costs due to governmental action. A representation has been made to the Government through the Cement Manufacturers' Association.

Cement Industry in the National Economy

Cement is a key industry whose continued progress and prosperity are vital to the economic development of the country. The measure of work to be done can be seen from the fact that the target of installed capacity at the end of the third five-year plan, fixed at 15 million tonnes, has been considered inadequate, and it has been mentioned in authoritative circles that the figure should be 18 million tonnes. Even against a target of 15 million tonnes, the current capacity is only 10 million tonnes. The rate of growth is thus certainly not as vigorous as might be expected. Even conceding that numerous difficulties exist, it is difficult to escape the conclusion that this slow growth is largely due to lack of incentives, through the imposition of rigid Government controls on price, distribution and in the manner of licensing of new factories.

The Role of ACC

I would like to remind you of the role which ACC has played in building a sound cement industry and in developing a demand for cement in the country. ACC has a proud record of pioneering during the past quarter of a century. To serve consumer as also national interests, it has dispersed its factories carefully and has put to good use even substandard raw materials by employing beneficiation processes. The wisdom of such planned dispersal must be evident to the S T C which, I have reason to believe, is deriving considerable monetary advantage by low freight leads on despatches from ACC factories, which helps it to subsidise the higher freights on cement despatched from factories belonging to other interests. ACC has been a pioneer in employing new processes and producing new products. The dry process of cement manufacture, the manufacture of white cement, blast furnace slag cement, oil-well cement, water-repellent cements, low-heat cement etc, have all been introduced by ACC after much study, research and development. The credit for manufacturing cement-making machinery at its

own workshops and thus helping to lay the foundations of a sound heavy engineering industry in our country must also go to ACC. Our Engineering Works at Shahabad and the AVB Heavy Engineering Works at Durgapur, established in collaboration with Vickers and Babcock & Wilcox, will not only meet ACC's own requirements, but also serve the needs of the cement industry as a whole, thus helping India to conserve a great deal of foreign exchange.

Much foresight, money and effort have gone into these projects and products. ACC has therefore paved the way for other manufacturers to share in the benefits of its pioneering and developmental efforts. Far from discouraging new entrants in the field, ACC has, on several occasions, lent a helping hand to them.

I have dwelt on this somewhat pointedly as there appears to be a tendency, especially in licensing new factories, to consider a Company like yours as a monopoly, for which reason it must take a lower place in the queue !

During the year your Company's contribution towards the National and State finances was Rs 27 crores in the form of Income-tax, Corporation Tax, Excise and other Duties, Sales Tax, Railway Freight, Import Duty etc.

These direct and indirect contributions to the national revenues, and the Company's record of progress and service are impressive. All this can continue to be harnessed to good use and I sincerely hope that Government will not stifle this by a doctrinaire approach. I believe that the 'know-how' we possess and our organisational vigour can help to expedite the expansion of the cement industry and make it easier to hold the price line.

Coal and Packing Material

Coal supplies continued to cause some anxiety in the early part of the year though, with special arrangements for the allocation and movement of coal introduced by Government, the position has considerably improved. The Company has also been able to draw about 30 per cent of its coal requirements from its own collieries. With increasing emphasis laid on regionalisation of the supply and movement of coal, the importance and utility of our two collieries have grown.

In the matter of packing materials the industry was looking forward to a continuance of the satisfactory position permitting the rational use of second-hand bags in reasonable proportions. However, its hopes were rudely shaken by Government's decision from the last quarter of 1962, insisting that producers pack 50 per cent of their production in second-hand bags — a condition physically impossible to fulfil in view of the limited availability of second-hand bags of serviceable quality. The jute bag is a wasting commodity and cannot be re-used beyond a certain point. From the point of view of the consumers it is likely adversely to affect the standard of packing and will result in loss of cement by seepage by repeated use. The industry has made representations to Government to restore the *status quo ante* in this respect.

Cement Demand and Transport

Demand for cement in the country is in excess of availability. Transport difficulties have aggravated the situation, creating artificial scarcity in some localities. Your Company has endeavoured to gear road transport to meet the situation. Substantial quantities of our cement were moved by road during the year.

Expansion and Rehabilitation

The Company's planned programme of expansion and rehabilitation has made satisfactory progress. Your Board has taken the decision to resume work on the construction of a new factory at Porbandar.

ACC-Vickers-Babcock Ltd

The Heavy Engineering Plant of ACC-Vickers-Babcock Limited at Durgapur, inaugurated in February last, has commenced production and has received orders for boiler plant, cement-making machinery etc. Full production will be reached by the end of 1963.

Labour-Management Relations

The labour situation at our Cement Works continued to be peaceful. At the Katni Firebricks plant and Okhla Bulk Depot where the Wage Board's Recommendations did not apply, we entered into comprehensive wage settlements. The only factory, Madukkarai, where it was not possible to implement the Wage Board's Recommendations has also been brought into line and the settlement of implementation was signed on 31st July 1962.

The question of bonus, unfortunately, continues to trouble us as it is troubling all industries, in spite of the fact that it has been the policy of the Directors to pay bonus to employees even though strictly according to the Labour Appellate Tribunal Formula no bonus may have been payable. We have four bonus disputes before Tribunals — National and Industrial. These proceedings cost a great deal of money, and drain away the time, energy and attention of personnel, including workers, from the productive side of the enterprise.

Here again, there are hopeful signs in the shape of the appointment of the Bonus Commission by the Government of India. It is earnestly hoped that the Commission will be able to arrive at an acceptable formula which will once for all bring peace in this sphere of industrial relations.

At our Collieries there was one major stoppage and quite a number of lesser dislocations — lightning strikes, go-slow, conciliation and adjudication. Kotma Colliery was closed for 133 days on account of a strike followed by closure. This strike was called on a completely extraneous non-industrial issue, and continued despite the advice of concerned Government Authorities, and was accompanied by violence.

The appointment of the Wage Board for the coal industry during the year to determine 'fair' wages, I hope, will bring peace and improvement in production in this sorely troubled industry.

Appreciation

I would like to express on your behalf our warm appreciation of the sustained hard work and wholehearted co-operation of your employees.

Bombay, 30th November 1962.

The above summary is not a document purporting to be a report of the proceedings of the Annual General Meeting.

Around Bombay Markets

Confidence Returning to Stock Market

Thursday, Morning

THE gradual withdrawal of the occupied Indian territory and the continued lull on the frontiers have brought about a welcome change in the mood of the stock market. The recent large purchases of Tata Steel and certain other scrips by the Life Insurance Corporation have also contributed in no small measure to the turn in market sentiment. Equity prices have recorded an all-round improvement from their recent panicky lows and the rise has been quite substantial in certain counters. Quite a large number of shares, both in the cash and forward list, are now quoted above the mimimum prices fixed by the stock exchange authorities. Not much importance can perhaps be attached to the improvement in prices of cleared securities because of the artificial nature of the market; short sales are banned while restricted fresh purchases are permitted. Improvement in cash shares also is due mainly to scarcity of offerings but there have been reports of some revival of investment inquiry. Interest continues to be extremely selective, with automobile and engineering shares virtually monopolising attention on the argument that these industries will benefit the most from the increased defence effort.

The revival of investment inquiry, though still very modest, recovery in equity prices and the decline in floating stocks of shares which had been acting as a drag on the market have raised hopes of an early resumption of forward dealings. Informed sources believe that the Government will not hesitate to withdraw the ban of forward transactions in shares if the market authorities can convince the Finance Ministry that they have got over all the old troubles. It is difficult to say how the market will behave in the foreseeable future because much depends on the political situation and how the Finance Minister mobilises the resources for the defence effort. Equity prices might not decline below their recent lows if India and China can reach a negotiated settlement of the border dispute. Political uncertainty continues to be the single biggest factor influencing the outlook for equities.

Bullion

Prices Flare Up

THE Finance Minister Desai's dream of pushing down the price of gold to Rs 60 per 10 grams (Rs 70 a tola) through appeals and threats has been completely shattered. Spot gold which had been sold down to Rs 85 (per 10 grams) on 24th November was up again at Rs 119 on 19th December which brings it very close to the level obtaining at the time of the announcment of Gold Bonds on 3rd November. But the recent recovery is much less intriguing than the preceding steep falls because the Government has yet to take positive action which restricts the demand for gold. The fall might not have really materialised but for the nervousness which followed the Finance Minister's statement that the Government was considering further steps to bring down the price and that its ultimate aim was to fall in line with other countries where private possession of gold in large quantities was not allowed. Gold Bonds have been an utter flop; the issue has been on tap for quite some time now but the response has been extremely disappointing. This should have convinced the Finance Minister that he will have to resort to other measures to attract the country's vast gold hoards. If the price of gold keeps well above Rs 100 per 10 grams it is doubtful whether even smuggling activity will be checked greatly.

The recent improvement in the price of gold is attributed to increased upcountry off-take and the marked decline in floating stocks in the market. The week-end setback from Rs 119 to Rs 112.75 was mainly a normal technical correction of the preceding sharp rise though some selling was also induced by renewed rumours that the Government would perhaps soon take some action to bring down prices. Silver has also recorded an impressive rise since the last week of November when the spot quotation had touched a low of Rs 189.10 per kilogram. Last week, spot silver was marked up to Rs 215.50 (17th December) though later it receded to Rs 208.70. The steep rise in futures led to the enforcement of a heavier margin and a special clearing.

The recent wide swings in silver futures have attracted the attention of the Forward Markets Commission. The Bombay Bullion Association held an urgent meeting on 19th December to consider measures to enforce stricter discipline on the market. The Association has suggested a limit of Rs 7 for weekly fluctuations either side in addition to tighter margins. The margin will be Rs 300 per bar (10 kilograms) when the price exceeds Rs 215, Rs 600 when the rises above Rs 220 and the margin will be Rs 1,000 when the price exceeds Rs 225. The scheme has been forwarded to the Forward Markets Commission for its blessings. The quotation for Fagun delivery was marked up last week from Rs 202.40 to Rs 214 but it receded to Rs 210.20 at the week-end on corrective profit-taking.

Cotton

Futures Rally, React

COTTON futures (March contract) which had been marked down to Rs 669.50 on 11th December recovered to Rs 693.25 by the 18th but were down again to Rs 683.75 the next day and over the week, the contract showed a net gain of Rs 4 at Rs 686 per 3 quintals. The recent recovery is essentially in the nature of a technical correction of the preceding steep decline. The technical rally might not have spent all its force yet but prospects of a further marked and sustained recovery cannot be considered encouraging in face of the increasing flow of new crop arrivals and continued depressed conditions

in the cotton piecegoods market. The up and down movements in prices apart, there has come about a marked increase in the volume of speculative activity in the cotton market. The ban on forward trading in shares and gold and a few other commodities has diverted speculators' attention to Kalbadevi which is now having quite an exciting time; rarely in the past few years has the cotton futures market presented such a lively appearance.

The spot cotton market showed very little of the excitement of the futures market. Cloth stocks with mills are gradually piling up and the November-end figure of 492,100 bales (of 1500 yards each) shows an increase of 60,200 bales over the previous month. The position is reported to have worsened further in December. With their funds tied up in cloth stocks and the off-take still unencouraging, mills continue to restrict their purchases of cotton to their barest minimum. The market remains dull and subdued. Only Khandesh 197/3 has been attracting a lot of inquiry recently and it has recorded a rise of about Rs 25 per candy from its recent low level. Bengal Deshi cotton has been fairly steady due to satisfactory export demand. Though sales registered up to 15th December are placed around 78,000 bales, the total business is said to exceed one lakh bales. The bulk of business has been, as usual, with Japan.

Discussions between the Japan Cotton Traders' Association and the East India Cotton Association in regard to the formulation of a standard open contract for Bengal Deshi cotton have not been in vain. The question of arbitration which was the main hurdle in the finalisation of the contract has been settled with the E I C A agreeing to arbitration being held in Osaka and appeals in Bombay. The agreement is subject to the approval of the general body of cotton shippers in India. With the preliminary details virtually thrashed out, the contract is expected to be finalised before April.

Oilseeds

Groundnut Subdued

ONLY groundnut futures were unable to improve upon their previous week's high and were actually down over the week. Castor, linseed and cottonseed touched new high levels in the recent recovery phase and showed small net gains despite the week-end setback. Castor appeared to have stolen the lead from groundnut and the March contract which had recovered from Rs 157.25 to Rs 162.25 in the previous week advanced further to Rs 167.50 by 17th December before winding up the week at Rs 164 per 250 kgs. Improvement in castor futures was attributed to short covering and bull support induced by the sustained shipper demand for oil which was said to be mainly against the recent large sales to Russia. Cottonseed rose from Rs 94 to Rs 97.50 and later eased to Rs 96.50. Linseed March were marked up from Rs 37.12 to Rs 38.12 but reached near the week-end to Rs 37.69 (per 50 kgs). Groundnut January which had recorded a high of Rs 213.50 in the previous week moved irregularly between Rs 209 and Rs 212.50 most of the time but moved down to Rs 206.75 at the week-end though the closing was a little better at Rs 208.12. Trading in new contracts was allowed from 14th December but activity was virtually confined to groundnut, with the distant April contract fetching a premium varying from Rs 5 to Rs 8 per 250 kgs. The June contract in castor was quoted about a rupee higher than the March position.

The overall trading pattern of groundnut futures suggests that after necessary technical adjustment which lifted the January contract from Rs 202 to Rs 213.50, groundnut futures have resumed the downward move. How the new trend will progress is difficult to say, but considering the heavy discount on the spot material — Kanpur bold is quoted around Rs 201.25 per 250 kgs and the high premium enjoyed by the distant April contract, it is not unlikely that the January contract might soon strike a new low level. The crop is normal and the movement very satisfactory. Traders are reluctant to build stocks, partly because of the monetary stringency and partly due to political uncertainty. Growers also appear anxious to dispose of their goods.

Export Performance

Apart from the continued weakness in the spot material, fresh business put through in groundnut extractions was too small to cheer the bulls. Neither U K nor the Continent evinced any keen interest in Indian extractions and overseas quotations were more or less unchanged around the previous week's levels, with December shipment quoted around £ 36-15, January £ 36 and February £ 35-10 per ton. In view of the approaching Christmas holidays, groundnut extraction market is likely to remain quiet and subdued for some time. The export quota of 26,500 tons of groundnut expellers announced recently has been exhausted and fairly good business is reported to have been put through in groundnut oil after the extension of the export incentive scheme to edible oils. The export trade is pleased with the Government's decision to license freely the export of H P S groundnut. Though the news has failed to produce any noticeable effect on the market, export houses take a reasonably optimistic view of the outlook for this commodity. Prospects of selling fairly large quantities of H P S groundnut to Communist countries are said to be encouraging. The latest U K quotations for January-February shipment are mentioned around £ 83 per ton for Bold and £ 85 for Java variety. Export houses did not mention any important fresh business in linseed cake and cottonseed cake.

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Company Notes

Scindia Steam

SOME of the important issues facing the Indian shipping companies in general and Scindia in particular are pin-pointed by Shri D M Khatau, Chairman of the Scindia Steam Navigation, in his statement circulated to the shareholders. Although rationalisation of services in some of the trades coupled with a 10 p c increase in the freight rate in east-bound U K-Continent services from October 1961 have resulted in additional earnings from overseas trade, the improvement is not sufficient to cover the increasing cost of operations without an upward revision in the west-bound rates also. Instead, in the west-bound services, there is a constant pressure to bring down the rates on important commodities to uneconomic levels ignoring the cost of maintaining Liner services by fast modern ships. Shri Khatau counts upon Government's support to bring about a better understanding between shippers and shipping companies to enable the latter to operate their services effectively and economically.

In respect of coastal shipping, Shri Khatau points out, the industry has not been granted adequate freight rates to cover increased costs and provide a fair and reasonable return on the capital employed. The demand of the industry for a 37 p c increase in the rate was only partially met by the grant of a 15 p c increase from June 1, 1962. Besides, the freight rate on coal carried from Calcutta to ports upto Cochin — which form quite a substantial volume of cargo — was increased only by 10 p c. In any case, this increase, according to Shri Khatau, will not benefit the industry inasmuch as the meagre advantage derived will be offset on the one hand by higher costs resulting from delays and on the other by reduced cargoes consequent upon deteriorating drafts. As a measure of immediate assistance, Shri Khatau urges that the 5 p c concession in freight on coal should be abolished.

The Scindia Chairman supports the request of the shipping industry for an enquiry into its position by the Tariff Commission. He is doubtful about the maintenance of coastal steamer tonnage at the level required to meet expanding national needs, unless early steps are taken to put the industry on an economic footing.

As for the future prospects of the Company, Shri Khatau states that with the downward trend in the quantum of freightable cargoes, with no increase in west-bound cargo rates and with pressure to cut down rates on important commodities, it is difficult to visualise any improvement in freight earnings sufficient to cover the costs and provide a reasonable return on capital. The Company is, however, continuing its efforts at rationalisation and economy in its operations and is working in conjunction with other interests to bring about an improvement in the level of freight rates.

Associated Cement

STEEL is not the only industry in which producers have complaints about the Government's modification of Tariff Commission-suggested prices. In his statement to the shareholders of the Associated Cement Companies, the Chairman Shri D M Khatau has criticised the arbitrary manner in which the Government has scaled down the increase in retention price of cement recommended by the Tariff Commission. According to Shri Khatau, even the prices recommended by the Tariff Commission were not adequate to meet the recent increases in costs and taxes. As such the reduction in these prices by the Government cannot but hamper the progress of the cement industry. A representation has been made through the Cement Manufacturers' Association for a revision of the retention prices, according to Shri Khatau.

Shri Khatau is frankly disappointed with the progress of the cement industry. At present the industry's capacity is about 10 million tons as against the target of 15 million tons for 1965-66. Even this target Shri Khatau considers insufficient to meet the likely demand.

Reminding the shareholders of the role of ACC as a pioneer in the cement industry and of its proud record of achievements during the past quarter of a century, Shri Khatau has drawn pointed attention to the manufacture of cement-making machinery at the Company's workshops at Shahabad and at the AVB Heavy Engineering Works at Durgapur established in collaboration with Vickers and Babcock and Wilcor which will not only meet the Company's own requirements but also those of the cement industry and thus conserve much foreign exchange.

West Coast Paper

DURING the year ended June 30, 1962 sales of paper of West Coast Paper Mills have gone down by Rs 23 lakhs to Rs 3.61 crores, and that together with a rise in manufacturing costs and expenses, has led to the decline in gross profit by Rs 13.50 lakhs to Rs 92.27 lakhs. However, as the provisions for Depreciation and Development Rebate Reserve are lowered to Rs 39.12 lakhs (Rs 47.33 lakhs) and Rs 25 lakhs (Rs 40 lakhs) respectively, the net profit is higher at Rs 28.16 lakhs compared with Rs 18.44 lakhs in the previous year. After transferring a sum of Rs 7 lakhs to General Reserve, the Directors propose to utilize Rs 7.02 lakhs for payment of Preference dividend and Rs 12 lakhs for payment of a taxable dividend of Rs 8 per share of Rs 100 (Rs 7.50 per share in the previous year) on Ordinary shares and carry forward the balance of Rs 2.84 lakhs to the next account.

Despite a strike in the Mills for a duration of about three weeks, production has been almost maintained at 25,604 tonnes (25,771 tonnes). Since the prices fixed by the Tariff Commission proved to be unremunerative, Government has sanctioned an *ad hoc* increase of Rs 60 per ton in the price of all varieties of paper as from June last, but has withdrawn the rebate of Rs 40 per ton on paper in reels. The Directors state that due to a rise in the prices of raw materials, chemicals, stores, freight, electricity, etc, the production costs of paper have been rising. The Company is negotiating with the Mysore Government for additional

areas of forest ranges for bamboo and, in order to augment supplies of raw materials, has started a plantation programme of eucalyptus, paper mulberry and other species of hardwoods and bamboos.

The Company has repaid during the current year a sum of Rs 6 lakhs as first instalment against its borrowings from the Industrial Finance Corporation. Out of 149,993 Ordinary shares of Rs 100 each (f p) in the Company, 75,492 shares are held by Shree Digvijay Cement Co, Sikka, as the holding company.

Gammon India

THE Report and Accounts of Gammon India (converted into a public limited company in April 1962) for the year ended March 31, 1962 (its fortieth year) reveal that the value of contracts completed by the Company was higher at Rs 432.20 lakhs compared with Rs 322.58 lakhs in the previous year, while the works in progress stood lower at Rs 558.56 lakhs (Rs 570.09 lakhs). The Gross Profit before providing depreciation has receded to Rs 41.46 lakhs from Rs 41.95 lakhs. Taking into account Rs 0.55 lakh, being the net profit of its Colcrete Department in the previous year, and Rs 6.48 lakhs which is the balance brought from the last account, the total disposable amount works out to Rs 48.50 lakhs from which the following allocations are made : Depreciation, Rs 9.20 lakhs (Rs 8.36 lakhs); Taxation provision, Rs 17.25 lakhs (Rs 13.50 lakhs); Development Rebate Reserve, Rs 2.18 lakhs (Rs 3.48 lakhs); and Transfer to General Reserve, Rs 6.00 lakhs (same). The Directors have proposed a taxable dividend of Rs 1.60 per share of Rs 10 which will absorb Rs 8.80 lakhs (Rs 10.50 lakhs). The balance of Rs 5.07 lakhs (Rs 6.48 lakhs) is carried over to the next account.

The capital of the Company which was raised from Rs 30 lakhs to Rs 55 lakhs during the year by capitalising the Reserves and issuing bonus shares, has been further expanded during the current year by the issue of 6 lakhs Equity shares of Rs 10 each at a premium of Rs 7 per share bringing the total capital of the Company to Rs 115 lakhs. The new shareholders are not participating in the dividend just announced, which has been restricted to the minimum amount which the Company has to pay as a private company.

Despite the setback in the net profits from Rs 20.09 lakhs to Rs 15.01 lakhs, the Chairman in his review, is optimistic about the future outlook of the Company. In addition to large works pending in hand, the Company has secured new contracts of the value of Rs 12 crores. Some of the major works undertaken will take two to four years to complete and yield results, and hence the Company will be obliged to revise its previous policy of bringing jobs into account only after they are completed. However, the Board considers that since the benefit of the major contracts will not be available to the Company's accounts for sometime to come, they will have to adopt a conservative dividend policy even though they hope to maintain profits in the coming years.

The additional capital will be helpful to the Company to acquire equipment of new plants and to rehabilitate the existing plants with a view to providing most modern mechanical devices for its new works. No further increase in the capital will be made, but any additional finance required will be met from bank borrowings.

The Company has an important shareholding in Gammon (Malaya) 1959 and Gammon Nigeria. The former is operating successfully while the latter is encountering difficulties which are, however, expected to ease. As regards the subsidiary, Freyssinet Prestressed Concrete, its past losses are now wiped out and, with order books full, its future profits will be satisfactory. Gamsha Pipes, a company in which Gammon India holds one-half of the issued capital of Rs 4 lakhs, is manufacturing reinforced concrete pipes at Delhi.

Kamani Metals

THE seventeenth annual report of the Directors of Kamani Metals and Alloys for the year to June 30 1962 shows that the Company's turnover has increased from Rs 2.14 crores to Rs 2.32 crores. The profit during the year, after providing for depreciation (Rs 5.66 lakhs as against Rs 4.99 lakhs), and Managing Agents' remuneration (Rs 1.97 lakhs as against Rs 96,000) but before making provision for taxation, has more than doubled at Rs 26.87 lakhs (Rs 13.11 lakhs). Allocations made are : additional depreciation for 3 years to June 30, 1961, Rs 0.43 lakh; provision for taxes, Rs 15.75 lakhs (Rs 6.05 lakhs); Development Rebate Reserve, Rs 0.50 lakh (Rs 0.50 lakh); and General Reserve Rs 3.70 lakhs (Rs 0.40 lakh). Out of the disposable balance, the Preference dividend will absorb Rs 91.575 and the Ordinary dividend which has been stepped up from 7.5 p c to 28 p c (ie Rs 2.80 per share of Rs 10) will require Rs 5.60 lakhs (Rs 1.50 lakhs) leaving Rs 6,046 for the next year.

The Company has concentrated on production of industrial sheets, strips and coils, keeping pace with the demand during the year. The raw material position has remained unchanged and further allocation of raw materials is under consideration of Government. The Company, having carried out considerable research and experiments with favourable results, intends manufacturing nickel-silver strips and spring brass which are imported at present. Production of copper plates used for photo-engraving could not be increased to meet the demand due to shortage of raw materials. The Company has developed new export markets for its products like rolled sheets and circles, cold rolled brass and copper strips and hopes to book substantial orders for its old and new products. Out of 7,00,000 equity shares of Rs 10 each, 1,36,259 equity shares are held by the holding company.

Cotton Agents' Sugar Group

OF the four sugar units managed by Cotton Agents Private, viz New India Sugar Mills, Upper Ganges Sugar Mills, Bharat Sugar Mills and Gobind Sugar Mills, three have reported satisfactory working results during the year ended June 30, 1962. New India has increased its sales by about 44 p c from Rs 111.41 lakhs to Rs 159.91 lakhs, Bharat by 34 p c to Rs 92.28 lakhs (Rs 68.58 lakhs), and Upper Ganges by 9 p c to Rs 397.95 lakhs (Rs 363.69 lakhs). Gobind's sales, however, have dropped by 13 p c from Rs 147.89 lakhs to Rs 128.50 lakhs. The profit of New India before providing for depreciation and Development Rebate Reserve has likewise gone up from Rs 6.60 lakhs to Rs 10.78 lakhs by about 63 p c. Upper Ganges' profit is higher by 29 p c at Rs 46.28 lakhs (Rs 35.93 lakhs.) An increase of 19 p c is recorded in Bharat's profit at Rs 8.02 lakhs (Rs 6.74 lakhs). Gobind's profit has shrunk by 48 p c to Rs 10.44 lakhs (Rs 20.24 lakhs).

For Depreciation and Development Reserve, New India has set aside Rs 2.62 lakhs (Rs 2.82 lakhs), Upper Ganges Rs 10.13 lakhs (Rs 11.89 lakhs), Bharat Rs 1.13 lakhs (Rs 0.94 lakh) and Gobind Rs 3.01 lakhs (Rs 5.20 lakhs). The net profit of New India has been worked out at Rs 8.16 lakhs (Rs 3.78 lakhs), of Upper Ganges at Rs 36.15 lakhs (Rs 24.04 lakhs), of Bharat at Rs 6.89 lakhs (Rs 5.80 lakhs) and of Gobind at Rs 7.43 lakhs (Rs 15.04 lakhs).

New India has substantially increased its provision for taxation from Rs 45,000 to Rs 4.62 lakhs, Upper Ganges from Rs 8.92 lakhs to Rs 17.80 lakhs, Bharat from Rs 1.25 lakhs to Rs 3.94 lakhs. Gobind's provision is less at Rs 4.57 lakhs (Rs 6.98 lakhs). Upper Ganges has transferred a substantial amount of Rs 11 lakhs (Rs 7.50 lakhs) from its profit to General Reserve, and Gobind also has allocated to General Reserve Rs 1.50 lakhs (Rs 5.25 lakhs). No allocations are made to General Reserve by New India and Bharat.

From the balance available after making the above adjustments and meeting the preference dividends as before, dividends on ordinary shares have been maintained by all the companies at the same rates as in the previous year, New India proposing Rs 3.65 per share of Rs 10, Upper Ganges Rs 7.25 per share of Rs 10, Bharat Rs 1.50 per share of Rs 10, and Gobind Rs 2 per share of Rs 10.

New India and Bharat set up new records in crushing cane during the year. New India crushed 1.98 lakh tons (1.97 lakh tons) and Bharat 1.17 lakh tons (1.12 lakh tons). Cane crushed by Bharat and Gobind went down to 4.35 lakh tons (4.68 lakh tons) and 1.52 lakh tons (1.69 lakh tons) respectively. The recovery of sugar in all cases was lower — in common with other sugar mills in North Bihar. New India achieved 9.03 p c (9.11 p c), Upper Ganges 9.64 p c (9.65 p c), Bharat 9.58 p c (9.80 p c) and Gobind 9.64 p c (9.66 p c). The lower recovery was attributed in general to unfavourable climatic conditions, and in the case of New India and Bharat to the longer duration of the season also. New India operated for 192 days (180 days) and Bharat for 216 days (194 days). For Upper Ganges and Gobind the crushing season was shorter at 167 (193) and 180 (203) days, respectively.

Production of sugar during the year was restricted under the Sugar (Regulation of Production) Ordinance 1961, by 10 p c compared to the previous year's production in the case of Upper Ganges and Gobind, but New India and Bharat were permitted to crush the available sugarcane in the area. Besides, the Government of Bihar extended further concessions to New India and Bharat by way of a reduction in the sugarcane price and a rebate in cane cess in order to offset the lower recovery of sugar.

No restriction is imposed on sugar production in the current season, but owing to the cut imposed last year, the acreage under sugarcane has gone down and in some areas the standing cane crop has been damaged by heavy rains and adverse weather conditions. Hence the mills expect lower crushing this season.

THE PRICE LINE

The price line must be held. This is as much the responsibility of the State as of every citizen. Idle money, in the form of cash in hand, is the devil in the price spiral.

Money put in a bank, remains active in the service of production and distribution of goods and facilities keeping the price line under control.

Use less cash; make your money transactions through your bank account. You will thus make a direct contribution to the effort in holding the prices under check.

United Bank of India Ltd.

REGD. OFFICE : 4, CLIVE GHAT STREET, CALCUTTA

CURRENT STATISTICS

BANKING RETURNS

(*Rs crores*)

Reserve Bank	Dec 14	Dec 7	Nov 16	Dec 15 '61
1 Note circulation	2125.28	2122.59	2077.26	1947.78
2 Rupee coin	121.92	121.62	121.97	122.00
3 Deposits				
(a) Central Govt	51.21	54.14	60.77	51.31
(b) Other Govts	13.48	21.26	7.06	27.32
(c) Banks	79.73	74.15	92.89	77.43
(d) Others	160.46	165.28	162.36	147.18
4 Foreign securities	88.08	88.08	88.08	116.86
5 Balance abroad	8.93	8.70	5.14	31.58
6 Rupee securities	1808.29	1808.29	1763.29	1603.81
7 Investments	183.59	167.51	194.12	209.74
8 Loans and advances to Govts	36.71	30.91	43.79	64.66
9 Other loans and advances	167.91	178.13	148.97	135.31
Scheduled Banks	**Dec 7**	**Nov 30**	**Nov 9**	**Dec 8 '61**
1 Aggregate deposits (net)	2011.33	2035.95	2044.08	1811.21
Demand (net)	789.59	802.38	810.19	720.95
Time (net)	1221.74	1233.57	1233.88	1090.26
2 Cash in hand	49.38	47.46	50.61	47.04
3 Balance with Reserve Bank	72.42	68.78	76.84	73.03
4 (2) + (3) as % of (1)	6.06	5.71	6.24	6.63
5 Borrowings from Reserve Bank	30.00	5.19	3.96	4.02
(a) Against usance bills and/or promissory notes	18.06	1.55	2.32	0.70
(b) Others	11.94	3.64	1.64	3.32
6 Advances	1189.78	1168.03	1172.63	1049.19
(a) State Bank	246.30	236.84	252.87	228.14
(b) Others	943.48	931.19	919.76	821.05
7 Bills discounted				
(a) Inland	154.18	151.89	163.86	139.44
(b) Foreign	49.69	52.70	53.51	44.10
(c) Total	203.87	204.59	217.37	183.54
(i) State Bank	18.45	18.46	16.69	16.37
(ii) Others	185.42	186.13	200.68	167.17
8 (6) + (7c) as % of (1)	69.29	67.42	68.00	68.06
9 Investment in Govt Securities	665.72	700.26	683.61	611.76
10 (9) as % of (1)	33.10	34.39	33.44	33.78
Cheque clearance	**258.69**	**250.97**	**241.27**	**232.33**

Bombay Money Rates

(*Per cent per annum*)

	Dec 7	Nov 30	Nov 9	Dec 8 '61
Call money from Banks	4.99	2.32	3.77	3.50
Deposits				
Seven days	3.00	3.00	3.00	3.00
Three months	—	—	—	—
Six months	3.75	3.75	3.75	3.75

Bombay Bullion

(*Rs and nP*)

	Dec 20	Dec 13	Nov 22	Dec 21 '61
Gold (per 10 grams)				
Spot	112.75	106.50	94.25	118.00
Silver (per kilogram)				
Spot	210.15	204.25	197.00	209.75
Forward	211.65	206.75	201.00	211.25

INDEX NUMBER OF WHOLESALE PRICES

(*Base* : 1952-53 = 100)

	November 1962	October 1962	November 1961
Food Articles	**129.6**	**129.0**	**120.3**
Cereals	109.4	108.5	102.7
Pulses	113.2	115.0	93.1
Fruits & Vegetables	131.9	127.6	149.4
Milk & Ghee	122.3	123.9	116.5
Edible Oils	157.5	156.7	152.2
Fish, Eggs, & Meat	146.0	149.1	134.7
Others	178.0	168.5	168.3
Liquor and Tobacco	**100.2**	**100.3**	**98.3**
Tobacco	96.6	96.8	94.7
Fuel, Power, Light & Lubricants	**125.1**	**124.8**	**121.7**
Industrial Raw Materials	**137.8**	**138.8**	**137.1**
Fibres	129.5	129.1	126.2
Oilseeds	154.6	157.7	153.7
Minerals	93.5	93.4	94.9
Others	125.2	124.6	129.3
Manufactures	**129.9**	**129.4**	**126.6**
Intermediate Products	**142.2**	**144.2**	**140.1**
Finished Products	**127.9**	**127.0**	**124.4**
Textiles	126.5	125.3	124.3
Cotton	130.0	129.6	128.2
Jute	112.8	108.9	116.4
Woollen	141.3	141.3	123.1
Silk & Rayon	134.4	134.7	120.6
Metal Products	161.0	161.0	151.6
Chemicals	117.2	117.2	111.5
Machinery & Transport Equipment	117.7	117.7	116.2
Others	125.6	125.2	123.4
All Commodities	**130.2**	**129.9**	**124.3**

COAL PRODUCTION AND DESPATCHES

(Monthly Averages or Calendar Months)

('000 *Metric Tons*)

	Raisings	Despatches	Stock at pit head †
1962 : Aug *	4,957	4,720	3,299
Jul *	4,857	4,587	3,558
Jun	4,835	4,360	3,840
May	5,127	4,441	3,869
1961 : Aug	4,369	4,415	4,025
Jul	4,160	4,166	4,581
1962	4,995	4,373	3,299
1961	4,675	4,190	3,290
1960	4,384	3,860	3,458
1959	3,984	3,522	2,729
1958	3,838	3,415	2,808
1957	3,683	3,190	2,331
1956	3,338	2,959	2,810
1955	3,236	2,789	3,685
1951	2,915	2,473	2,824

* Excludes despatches by rail from Assam coal fields.

† At or about the end of each period.

Source : Coal Controller, Ministry of Steel, Mines and Fuel, Government of India.

EMPLOYMENT EXCHANGES

(*In '000 **)

	Aug '62	Jul '62	Aug '61	Average (1961)
No of employment exchanges	342	342	312	325
No of registrations	356.4	387.7	307.2	269.2
No of vacancies notified	63.5	71.4	56.8	59.0
No of applicants placed in employment	40.1	41.9	38.2	33.7
No of employers using exchanges	12.1	12.1	10.8	10.4
No of applicants on live registers‡	2211.5	2147.0	1880.7	1832.7

* Except number of employment exchanges

‡ At the end of the period

Source : Ministry of Labour and Employment.

PROGRESS OF COOPERATIVE MOVEMENT IN 1960-61

(*All amounts in Rs lakhs*)

State	No of societies	Membership of primary societies*	Working Capital								Loans from								Share Capital paid up		Reserve and other funds		Loans outstanding		Loans overdue		Average amount advanced per member (*Rs*)
			'000		(Lakh)		Total				Central financing agencies				Reserve Bank		Government		Other sources								
	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60			1960-61	1959-60			1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	
Andhra	26.7	23.6	33.3	30.4	130.67	110.52	19.61	17.26			6.71	5.78			5.92	2.85			20.00	14.30	13.64	6.70					
Assam	8.9	6.2	5.0	4.3	16.04	13.35	2.32	2.04			1.80	1.16			1.65	1.78			3.86	3.30	1.72	1.49					
Bihar	29.7	27.5	17.2	14.0	26.09	22.64	4.94	4.20			3.81	1.82			1.82	1.31			7.34	6.76	2.14	1.79					
Gujarat	14.0	13.1	17.8	13.7	158.31	125.77	24.34	19.49			4.52	3.82			16.72	16.35			61.61	53.61	4.76	6.00					
Maharashtra	31.5	29.0	40.8	35.1	290.79	237.75	52.54	42.34			6.59	7.29			25.63	27.40			53.00	49.00	49.00	39.00					
Jammu and Kashmir	2.1	2.1	2.9	2.8	5.03	4.31	.68	.57			.72	.59			.62	.53			1.71	1.39	.97	.85					
Kerala	7.0	6.5	17.1	15.4	25.85	22.04	5.33	4.53			2.35	2.16			1.71	1.39			9.86	8.63	2.42	2.16					
Madhya Pradesh	25.9	25.1	12.5	11.0	70.78	57.77	9.86	8.61			2.94	2.16			8.31	7.08			21.14	17.25	13.58	11.53					
Madras	16.4	16.8	41.7	36.1	161.86	128.12	21.14	17.46			9.56	8.31			3.34	6.51			4.44	4.04	14.57	7.13					
Mysore	15.0	13.7	24.2	21.2	104.15	84.54	17.46	14.44			4.44	3.34			6.51	2.57			1.87	3.68	1.35	1.06					
Orissa	11.2	10.8	12.0	10.8	25.58	20.60	4.44	3.65			1.99	1.67			2.57	2.45			5.08	12.91	3.82	3.29					
Punjab	32.2	29.8	19.9	—	68.23	59.11	14.55	12.91			2.07	2.45			6.65	5.08			4.60	4.60	82	70					
Rajasthan	16.9	14.7	9.1	7.2	31.69	24.33	5.99	4.60			3.79	1.66			1.37	1.27			1.00	23.06	12.05	10.58					
Uttar Pradesh	65.1	70.5	66.7	60.3	132.75	109.94	26.96	23.06			4.98	3.79			8.01	9.66			8.63	8.12	5.59	5.54					
West Bengal	19.3	20.1	18.4	17.7	54.91	50.53	8.74	8.12			11.97	8.80			8.12	1.88			1.58	2.07	1.64	1.64					
Andaman and Nicobar Islands	0.1	0.1	0.07	0.02	19	12	5	2			2.30	1.64			2.07	1.37			—	—	—	—					
Delhi	2.0	1.9	1.8	1.5	9.70	7.93	1.57	1.30			—	—			0.60	—			—	—	—	—					
Himachal Pradesh	1.0	1.0	0.8	0.7	1.68	1.80	38	39			—	—			19	18			2	4.41	3.49	3.76					
Manipur	0.6	0.5	0.4	0.2	62	44	17	13			—	—			12	12			1	1	16	13					
Pondicherry	0.1	0.1	0.3	0.2	95	77	20	17			4	10			11	2			2	3	3	3					
Tripura	0.6	0.5	0.7	0.6	1.21	1.09	27	23			—	—			8	0.5			6	6	6	6					
TOTAL	332.5	313.5	342.4	303.1	1312.09	1083.47	221.56	185.38			95.71	81.94			393.62	312.64	113.82	85.21	60.60	54.19	94.37	85.16					

State	No. of members of primary societies per 1,000 inhabitants		Working Capital—*Contd*						Loan transactions of all primary societies								Average amount advanced per member (*Rs*)
			Deposits from						Loans advanced				Loans outstanding		Loans overdue		
			Central societies		Primary societies		Individuals and other sources										
	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60									
Andhra	61	60	1.72	1.49	3.38	2.69	63.07	52.12	203.80	174.46	36.53	30.98	1975	1974	58.51	50.78	111	107
Assam	1.72	1.49	29	17	71	56	4.45	3.61									
Bihar	29	17	2.14	1.79	1.47	1.86	5.70	4.83									
Gujarat	2.14	1.79	4.76	6	8.25	10.57	23.59	19.99	10.39	5.36	1.42	1.42	5.77	229	239		
Maharashtra	49	5.76	22.34	12,90	53.02	45.38	6.33	11.33	231	199							
Jammu and Kashmir	3		29	18	34	30	27	32	49	36							
Kerala	43	17	1.88	1.41	3.86	3.24	1.33	1.30	46	45							
Madhya Pradesh	1.51	1.70	2.66	2.04	9.02	7.73	3.85	3.54	171	146							
Madras	3.61	2.03	6.74	6.68	21.24	16.25	4.55	3.20	122	110							
Mysore	3.82	3.86	5.02	3.56	13.18	10.98	7.05	6.02	124	132							
Orissa	69	67	2.23	1.87	3.30	4.05	1.97	1.32	45	38							
Punjab	2.22	1.11	1.86	1.65	12.53	10.33	4.96	4.51	70	80							
Rajasthan	66	53	1.44	1.08	2.32	2.04	2.15	1.04	77	93							
Uttar Pradesh	7.66	5.23	2.69	2.32	12.77	11.04	3.77	2.60	64	70							
West Bengal	81	63	1.54	1.54	26.43	24.77	2.04	2.25	132	129							
Andaman and Nicobar Islands	8	—	—	—	0.3	—	0.5	—	6	26							
Delhi	6	0.3	33	31	2.02	1.67	20	20	143	136							
Himachal Pradesh	0.1	2	6	4	60	62	11	9	14	20							
Manipur		1	4	3	4	3		1	38	39							
Pondicherry			2	3	10	10	0.3		176	172							
Tripura	0.5	0.8	12	11	6	9	1	1	29	21							
TOTAL	28.98	25.28	63.07	52.12	203.80	174.46	36.53	30.98	1975	1974	58.51	50.78	111	107			

Source: Agricultural Credit Department, Reserve Bank of India.

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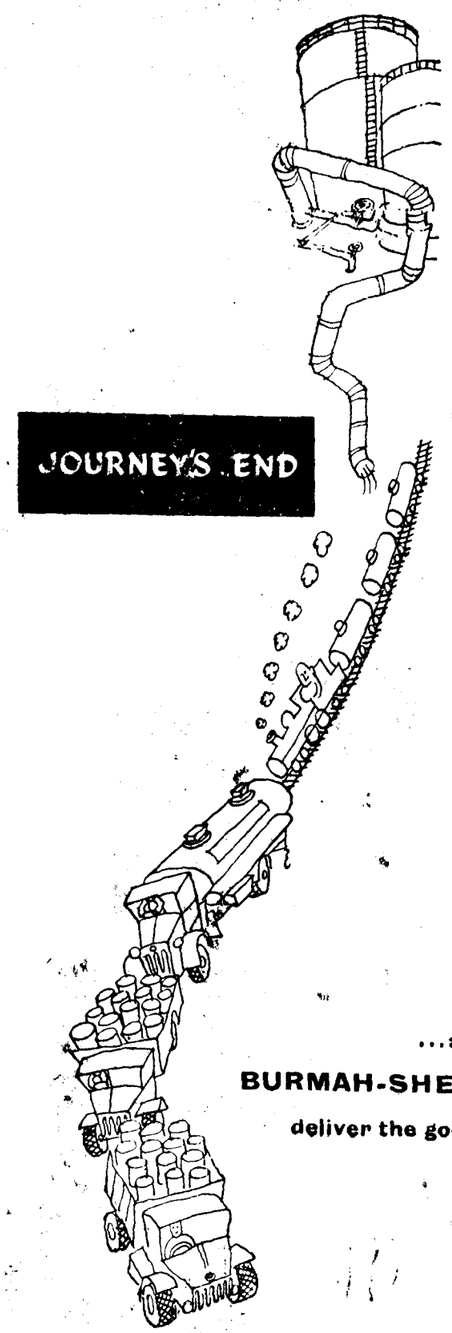
Regd. No. B 5489



❝ The provision of sufficient quantities of the required products in the right place and at the right time often produces serious problems and to solve these necessitates a careful but flexible organization, an elaborate system of transportation, storage and distribution. There are more than 3,000 Burmah-Shell petrol dealerships and over 1,600 kerosine agencies, besides nearly half a lakh kerosine sub-dealers in India's 5½ lakh villages ❞

...and

BURMAH-SHELL

deliver the goods

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