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THE ECONOMIC WEEKLY

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Strange Ushers

THE New Year's eve festivities one witnesses in Bombay, Calcutta and other cities are not really a very cheering sight except for the more ardent of the merry-makers. It is not so much the *ersatz* quality about it which is depressing, though the decorated Christmas trees and the cotton wool snow in some of the restaurants and shop-windows may look a little out of place. But the dacron suits, terylene shirts, paper caps, confetti, and the deathly pale lipstick, the latest fashion all over the 'free' world, on the faces of Indian women—fashions travel fast and easily, across the foreign exchange barrier—these one comes to accept like the Spanish or Mexican bandits' garments affected by Indian film-stars, or the twist, or the jazz discs which have invaded our more expensive eating places. There are, of course, some local variations. More of *salwar-kamiz*, styled a tighter fit than the tightest of ski-slacks, more variations in men's dresses and a sprinkling of sherwanis in the North, more of dacron suits in Bombay than woollens, but the same pin-pointed Italian style shoes, gaudy bush-shirts or jerkins. Added zest is imported into the merry-making by prohibition in Bombay, which is never failed to be noticed by the habitues of wet Calcutta's night haunts. What is faintly depressing about all this is the image one gets from it of the New India in the making. What does it reflect of the pattern of society that we are building up?

Not that a socialist society has always to be grim and austere. There are times when men and women should allow themselves respite from the monotony of the days' routine. There is renewal of life in such moments of gay abandon, but the renewal of what sort of life?

Such reflections are unfortunately forced upon one by the hangover from the old year—the spate of learned conferences in which the thought-leaders of the country deliver their orations, and which bring together some of our best minds and the young hopefuls of the coming generation. Of the many conferences the ones that obtrude are those of agricultural economists which met in Vallabh Vidyanagar and the Economic Conference as also the Conference of Labour Economics which met in Baroda. Asoka Mehta delivering the presidential address at the Agricultural Economics Conference chose as his theme 'Agricultural Revolution'. Professor V K R V Rao, who presided over the Labour Economics Conference, took up the 'Role of Industrial Labour in a Socialist Economy' as the subject of his address. The President of the Economics Conference, Dr Lakdawala, however, confined himself modestly to "Aspects of Trade Policy". Even in this limited sphere he had some caustic observations to make on the poor results of import substitution which has been one of the key-notes of our industrial policy. In food, agricultural products and producers goods, our imports had increased more than domestic production over the years 1953-61 and import substitution had played a negative role in the increase in manufacturing output (excluding metal products and other capital goods) which could be entirely attributed to the increases in domestic demand. These may be matters of great import to the economy, but they would not capture public imagination. What would, of course, were the prospects of an agricultural revolution. Asoka Mehta for the first time in his life perhaps spoke in the vein of a technician admini-

strator for a change, as if agricultural revolution was only a matter of the appropriate inputs in adequate quantities, and that all that needed to be done was to make the results of scientific research available at every nook and corner of the countryside by an administrative machinery which was equal to the task. "The real problem is to translate technological feasibility into an administrative certainty". Who says that agriculture cannot be administered? It is all a matter of technical expertise and administration. Of course, it would also call for "reorientation of the human factor in agriculture" but that could be done through continuous education, administration and training as well as through the provision of essential inputs and services to the farmers". Nothing very exciting in all this to bring cheer in the New Year.

Professor Rao, however, is still for hitching his wagon to the stars. Industrial peace is not enough. That even capitalist societies have. But for the construction of a socialist society, the industrial worker has to play a more positive and a more purposive role. He must have the sense of partnership and participation in the process of industrial development, and must not remain only a wage-earner. This has been achieved through the abolition of private ownership of industry in some countries. But Professor Rao suggests a short-cut to making the worker a co-partner. This is the result of a little arithmetical exercise in the proportion which provident funds would form of the industrial capital in the country. To that extent, the worker can be made a shareholder in industry. But for workers' participation in management, there is a snag. The worker has first to acquire skills in management, and how is he going to do it when in the leading sectors of organised industry, more than 72 per cent of the workers are illiterate and the Board of Workers' Education, which does not even concern itself with literacy but only training in trade unionism, does not take care of more than 5 per cent of the industrial working class. A depressing thought, carried over from the Old Year on the top of food shortage and all that, made more poignant by Dr Rao's warning that wage increases must not absorb all the increase in productivity achieved by the worker, for a margin must be left for capital formation, for growth...

True, it is not every day that life is illuminated by a vision nor can people be perpetually made to respond to the call of this or that, whatever may be considered worthwhile at the moment. But the New Year's day is a beginning, a moment in time which is for looking forward.

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Tax Support for New Issues

ALTHOUGH professedly intended to revive the capital market and to restore confidence climate in the country, the tax concessions announced in Parliament last week actually form a mixed bag. A subsidy is offered in the form of tax credit certificates to individuals taking up new issues; there is a small reduction in the rate of income-tax to be charged on individual holders of Government securities; and, third, non-residents maintaining deposit accounts with Indian banks will be exempt from Indian taxation on the interest earned on their deposits. The last is a move to attract foreign exchange deposits, while the other two make investments in new issues and Government securities a little more attractive to the individual investor.

All the three, however, have one feature in common, viz, the deliberate play on interest differentials to influence the flow of investments into desired or preferred channels. This is technically an interesting innovation and deserves both serious attention and commendation. The possibility of influencing the pattern of interest rates so as to vary the attractiveness of investment in different sectors of the economy is a field worth wider exploration.

The exemption from Indian income-tax of the interest earned by non-residents on the deposits maintained by them in Indian banks has been long overdue and is welcome. If the repatriation of these funds together with interest is really allowed freely, it may attract sizeable foreign exchange deposits to India. But is the Finance Minister really sure that the withdrawal of these funds is free and untrammelled by dilatory official procedures? Neither the banks handling them nor non-residents maintaining such accounts will agree. Prior approval has to be obtained from the Reserve Bank for any transfer from non-resident accounts. The applications have to go to the Reserve Bank and they lie waiting for days. No one knows what rules and restrictions apply to them. These are contained in a couple of volumes of Directions to Reserve Bank officials which are secret and are not available even to the banks which handle these accounts. To repeat, if non-residents are allowed to operate their accounts freely, sizeable deposits from them can be confidently expected. Needless to say, even if such deposits increase sizeably, their influence on the volume of remittances to India from Indians abroad would only be marginal.

The promise extracted from Lal Bahadur Shastri by the Federation of British Industries in London that Delhi will try to revive the capital market in India and which was repeated by him subsequently at the annual meeting of the Associated Chambers of Commerce in Calcutta, is now going to be redeemed. This is how the Stock Exchanges have interpreted the tax concessions to investments in new issues announced by the Finance Minister in Parliament last week. The concession will apply to new issues of public limited companies in industries specified in the first schedule to the Industries (Development and Regulation) Act 1951 and in other industries as may be notified by the Central Government from time to time, provided that the ordinary equity capital of the company issued for subscription is not less than Rs 20 lakhs and that the ordinary equity capital is issued for the first time after December 23, 1964.

The concession is to be given in the form of tax credit certificates spread over 4 years at 5 per cent for investment up to Rs 15,000, at 3 per cent for the next Rs 10,000 and 2 per cent for the balance, with a ceiling of Rs 35,000 of investment by an individual during a given year. The tax credit certificates may be used to pay income tax and they will be negotiable for non-investors whose tax liability is small or nil, but only after 12 months from the date of their issue. The amount covered by the tax certificates will be treated as an actual receipt and not added back to income for purposes of taxation. The concession however would be available so long as investors hold on to the new issues for 4 years; if the new issues are transferred or sold, it will no longer be available.

The other concession goes in the opposite direction, insofar as it makes Government securities slightly more attractive for individual investors in that interest on them will no longer pay unearned income surcharge. It will however be liable to surcharge as on earned income.

The Finance Minister has been guided by the assumption that "the investment climate is not there", that while arrangements for loan finance are fairly adequate, there is a lacuna in respect of individual investment in equities and it is this particular area of the capital market that he wants to stimulate. Now, the capital market is so complex and so delicately interlinked, that reviving it would normally mean toning up investment activity in general. When the share market becomes more than ordinarily active and the inflow of investment funds tends to lift share values well above the level at which yields on shares cease to be attractive, there is an overflow of these funds into the new issues. It is this sort of investment climate which is favourable for new floatations.

Today the situation is just the opposite. Profitability of industry has not gone down. On the contrary, it is definitely better compared to what it was in the immediate past and profits as a percentage of the net worth of companies range from 10 to 12. Dividends are also better, but the index of share prices has been dropping with the result that the yield earned on investments at current levels is pretty high—it is higher than what it has been in the past and much higher than yields on the stock exchanges abroad. The new issues floated in the past 2 to 3 years however are in the dumps and are currently quoted at an average discount of 25 per cent or so.

The Finance Minister has not given any analysis of the capital market nor enunciated the hypothesis on which he is acting on the present occasion. All that one says is that "it is generally felt—and this feeling is to a large extent true—that the investment climate if he not there." By investment climate if he means the scope for floating new issues, one would still be puzzled. On the basis of what sort of facts is he acting? It is true new floatations continuously rose from year to year from 1958 to 1963, and declined in 1963, for the first time in four years. But far from being a very bad year for new issues, 1964 had an unprecedented record of new capital issues! Perhaps, as implied by the Finance Minister, the unfavourable state of the capital market has to be judged from the large stock of new issues that underwriters have been left with. The new concessions, however, will not help the underwriters to lighten their burden.

Again, what is the behaviour pattern of new investors that the tax concessions assume? Those who go in for new issues which are professedly risk capital, do they do so primarily to hold on to their investments, or is the primary motive one of capital gain? It is true in recent years the capital gains tax has perhaps influenced investors of new issues to hold on longer to their investments than they would do normally. But to the extent that capital appreciation is the major incentive, will not the present concession fall somewhat flat on subscribers to new issues since it will not be available in the event of sale or transfer?

Revival of the capital market, however, is a much wider issue and the case for it, as it is usually presented, is by no means obvious. Even in the loose sort of planning that we have, the basic desideratum is the creation or generation of a certain volume of saving and its allocation between the public and private sectors at pre-determined proportions. If the maintenance of a proper investment climate in the stock exchanges requires the flow of savings to them at a higher rate than is required under the Plan, the case for it cannot be taken for granted as the Finance Minister seems to have done. On the contrary, such statistics as are readily available would seem to suggest that investments allotted to the private sector in the Third Five Year Plan were realised even by the third year of the Plan. How much the Plan figures have to be inflated because of the subsequent rise of prices and how the resulting magnitudes would look like, whether they tend to strike a balance or not—none of these questions the Finance Minister chose to answer on the present occasion. Without answers to some of these questions, to talk of "investment climate not being there" is not very illuminating.

Why are not adequate investible funds flowing into the stock exchanges? The explanation may be that the volume of these funds has declined—this is behind the argument for the reduction of taxes and implicit in it is the demand for the reallocation of resources between the private and public sectors and an inter-sectoral balance different from that in the Plan. Or, the volume of investible funds may still be adequate but they may find more remunerative lodgment elsewhere—in stocks of commodities, in urban real estate or in other uses. The flow could be directed to the stock exchange if the more attractive forms of investments could be curbed by appropriate action. Which course in the present situation would prove more effective, however, is a matter of judgment. It is the more attractive fields of investments in commodities or real estate—with 'on' prices—which are the more glaring at the moment and at this end also vigorous action is clearly indicated.

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Weekly Notes

Dialogue?

AT the annual general meeting of the Associated Chambers of Commerce and Industry last month Prime Minister Shastri was at his non-combative best. All of the ACCI's expected criticisms of economic policy failed to provoke him to spirited response. A few of the criticisms he conceded, a few others he parried ever so gently, but the majority he avoided altogether. This may have contributed to a general feeling of goodwill, but it hardly made this particular instance of "dialogue between Government and industry"—the great value of which Shastri emphasised towards the end of his speech —particularly fruitful.

Focussing on the sharp rise in prices, the President of the ACCI traced the malaise to the diversion of Government expenditure to non-productive projects, mainly defence, failure of foodgrains production to expand as planned and shortages of power, imports and so on which had slowed down the rate of industrial advance. These were the basic causes, but there was a secondary phase of inflation which the country was in the danger of entering and which was caused by the fear of rising prices among the consumers of all sorts which led to stock-piling, unnecessary shortages, breakdown of the movement of goods and panic.

The solution was two-fold : to reduce "non-productive" expenditure by the Government and to raise industrial and agricultural output. Increasing production meant, within the framework of the ACCI President's thinking, larger incentives for the private sector. In agriculture it called for less haste with the imposition of ceilings on land holdings; in industry for a whole host of concessions to the industrialist ranging from lower taxes, less insistence by the Government on reasonable wages for industrial labour and turning a blind eye to monopoly and the managing agency system. If these requirements were conceded, the enlightened self-interest of the agriculturist and the industrialist would no doubt do the trick.

And how much was the Government prepared to concede? To this question there was no answer. The scale of operation, Shastri granted, does have a bearing on agricultural production, but at the same time, ceilings were necessary for reducing disparities. And the Bonus Commission and the Monopolies Commission, which he most interestingly clubbed together, were unpleasant necessities because of the lack of a sense of social responsibility in industry. If industry showed a proper sense of responsibility "nothing would make the Government happier" than to concentrate on measures to help industry. All that remained was to close with the peroration that "there are very few problems which cannot be resolved by frank and constructive dialogue, between Government and industry, between management and labour and between producers and consumers" !

Sugar Agreement

Our London Correspondent writes :

THE Commonwealth Sugar Agreement has been extended for a further year and will now run to the end of 1972. Also, two new members have been admitted—India and Rhodesia. On December 18 the instrument of accession was signed on behalf of India and she will now be able to sell 25,000 tons at the negotiated prices for Commonwealth suppliers to the U K Sugar Board. In addition, in the Commonwealth preferential markets of the U K and Canada, India will now have an overall quota of 1,25,000 tons. The Indian Sugar Mills Association has taken the responsibility of arranging necessary supplies.

Nearly 90 per cent of U K's sugar imports come from the Commonwealth. The Sugar Board in Britain buys sugar at the Commonwealth price and sells at the world price. One of the most interesting features of the latest Commonwealth Sugar Agreement is that it takes into account the difficulties caused to the less developed countries by the seriously depressed prices of sugar which are likely to continue throughout 1965. Many of them send over 50 per cent of their sugar to the U K and at a time of falling world prices for sugar, the new arrangement under which they will be paid a special price higher than the basic price will help these countries a great deal. Thus, the only Commonwealth country to be paid the basic price will be Australia (which is not a developing country and is a relatively low-cost producer). Australia ships just one-seventh of her crop to the U K and will receive £42 a ton f o b, compared with around £46 10s in 1964, and approximately £46 11s 6d to be paid to the less developed members of the Commonwealth.

Gaps in Housing

ADDRESSING the Conference of State Housing Ministers in Chandigarh on Tuesday, the Union Minister for Works and Housing, Mehr Chand Khanna, noted with satisfaction that among his audience was M S Thacker, Member in charge of housing in the Planning Commission. The Minister took this as proof of the latter's interest in housing and his support for "a sizeable allocation of national resources for housing in the Fourth Plan". However, neither this remark of his, nor one later on in his speech that in the past housing had been regarded as 'non-productive' and had therefore been given a low place in the scheme of priorities, could have been intended by the Minister to be taken to mean that allocation of insufficient finances in the Plans was responsible for the dismal progress of government-sponsored housing schemes.

That the progress of housing has indeed been dismal is obvious enough; and on present indications the prospects are hardly any better. A recent official press release, pointing out that in urban areas alone the shortage of housing expressed as a percentage of the need was about 35 per cent during the decade 1951-61, estimates that even if shortage is to be maintained at this very high rate, it will require the construction of about 17.5 million urban houses, plus another 1.5 million for replacement, or a total of 19 million urban houses from 1961 to 1976. What are the prospects of so many houses being built during the fifteen years? Says the official press note: "It is very unlikely that even under the most favourable circumstances, the investment of funds in housing during the Third, Fourth and Fifth Plans will produce even a fraction of the 19 million dwellings in the urban areas if the Third Plan which envisages the construction of only 1.5 million dwellings is to serve as an indicator."

Compared to the minimum target of 19 million urban houses for the fifteen year period, 1.5 million houses in the Third Plan is indeed a flea-bite, but even this limited task is likely to remain incomplete at the end of the Plan. Here the statistics of expenditure on government-sponsored housing programmes are certainly interesting. According to the Housing Minister's estimates, only 60 per cent of the allocation for housing in the States sector is likely to be utilised in the Third Plan. Taking the Union territories, where performance has been much better, only 80 per cent of the Plan allocation for housing will be spent.

There is an interesting contrast, however. While the States' expenditure on housing lags behind Plan allocation, the utilisation of funds provided to the States by the Life Insurance Corporation for housing has been quite satisfactory. Out of Rs 60 crores earmarked by the LIC for housing in the Third Plan, Rs 45 crores have been drawn by the States in the first four years and the remaining Rs 15 crores are expected to be spent in the final year. In fact, it is known, the States have been pressing the LIC for more funds. The explanation, no doubt, is that funds from the LIC do not form part of the State plans and are given to the State Governments outside the ceilings fixed by the Planning Commission for their annual plans and are available to be used only for housing. Plan funds for housing are, however, available, to be diverted to other uses and this is just what the States have been doing.

This problem of diversion of funds intended for housing to other uses by the States was one of the principal themes of the Union Housing Minister's address to the State Ministers' Conference. In fact, he had as many as three alternative proposals for curbing such diversion. The first of these envisages the transfer of Plan funds earmarked for housing from the States to the Central sector "in order to avoid the pressure of other competing demands in the States". Under the second proposal, these funds would be entrusted to a Central Housing Board which would in turn disburse them to the State Housing Boards according to their requirements. The third proposal is that the Planning Commission should insist on the State Governments providing each year funds for housing in proportion to their overall Plan outlay and utilising these funds only for housing. All thsee proposals are bound to meet with the resistance of the States who have hitherto preferred to keep the administrative arrangements for executing their housing programmes rather amorphous, a number of them still fighting shy of constituting formal housing boards.

It is, of course, in the bigger cities that the failure of housing programmes is most acutely obvious. Master plans have yet to be prepared for many cities and even such plans as have been drawn up remain very much on paper. Surprisingly, this did not find even a mention in the Housing Minister's speech. The Minister's solution to the problem of sky-rocketting prices of land in and near the big cities—the creation of a revolving fund for bulk acquisition and development of land required for housing—takes little note of the factors behind the rise in land prices. Any comprehensive scheme of urban development has to begin by freezing land prices. One, however, hesitates before recommending such a step since it is a fact that the sharp rise in land values have attracted large amounts of private investment into real estate and construction. As a result, private construction has made an important contribution to the provision of residential accommodation in the cities. Unless the State Governments can, and are willing to, shoulder the responsibility adequately, little good can come out of any action which will cause private investment to taper off.

Left Communists in Jail

ASKED for the reason for the mass arrests of left-wing communist leaders all over the country, which began on Wednesday and are continuing at the time of going to press, Home Minister Nanda is reported to have expressed surprise that this question should have been put to him at all. No doubt he was right. The official explanation for the arrests was predictable and should have been taken for granted. Nevertheless, by timing the arrests within days of the adjournment of Parliament, the Government has laid itself open to the charge that it had sought to avoid having to explain its action in Parliament. The criticism is not answered by the somewhat unusual procedure adopted by the Home Minister of inviting a small group—only four MPs went along in fact—of "non-communist" Members to explain the circumstances which had led the Government to make the arrests.

The proximity of the mid-term elections in Kerala, one of the States where the left communists are at their strongest, also lends significance to the timing of the arrests. Nanda has denied that narrow considerations of party advantage in the elections had anything to do with the arrests. This may be the truth. Yet the elections in Kerala may have influenced the Government's decision. It is known that after the all-India Congress at Calcutta in October-November last year, the left communists were just getting down to the task of consolidating their organisational structure and expanding their mass base. In this task a creditable performance in the Kerala elections would have helped very considerably and must have been part of the party's calculations. The arrests of almost all prominent leaders must naturally upset these calculations. Whether the Government will find it necessary to take other steps to incapacitate the left communists further in the Kerala elections remains to be seen.

It is unlikely, however, that the Government would be anxious to remove the left communists completely from the political scene. When the question of banning the party was raised by the MPs who met him on Thursday, the Home Minister is reported to have remained non-committal. Apart from the undoubted strength of the left communists' following in some of the States, the Congress party has much to gain from keeping the communists in the country permanently divided and fighting among themselves.

Meanwhile, the Government may not be able to avoid giving a fuller explanation of the mass arrests and making public some of the evidence of subversive activities by the arrested leaders which it has claimed is in its possession. However, a pointer to the type of evidence that may be produced is already available in Nanda's statement that the arrests of the left communists had not been precipitated by any special development and what threatened the security of the State was their 'line of thinking' and their 'attitude'.

Japan's New Posture

FOR the past decade Japan's foreign policy has been characterized by what can be frankly called timidity. The new Prime Minister, Sato, has given notice that he is out to change this policy and expand Japanese economic and political influence in Asia. Sato, more a product of the "economic miracle" of the Fifties than of the guilt-ridden period directly following the War, can be expected to pursue more aggressive policies in a number of areas. Now that Japan's financial problems of indemnity to various Asian nations for war damage have, at long last, been settled, a major diplomatic difficulty has been solved. Although still limited by its constitution from large scale military forces, the Japanese "self-

defence" forces are no longer an insignificant factor.

Sato has also given notice that Japan will no longer implicitly follow American foreign policy as she has done since 1945. Particularly in its relation with Asian nations, Japan will attempt to pursue a more independent policy, thereby making her influence felt more strongly. Two economic factors are of overriding importance to the Japanese, however, which may make their independent road somewhat more difficult. The United States is the largest market for Japanese goods, from handmade toys to hydro-electric generators, and American economic influence cannot be discounted. Japan's need to import practically all her raw materials and her dependence on exports for economic survival may also limit her political maneuvering.

Japan's unnatural and strained relationship with China also is a source of political and economic problems. Due primarily to American pressure, Japan does not have diplomatic relations with China and its trade has limited to a trickle. Traditionally Japan's largest customer, China has been cut off from Japanese goods since the advent of the Communist government. The entire Japanese left, plus a substantial segment of the conservative business community (which is hungry for the rich Chinese market), have been clamouring for a more liberal policy toward China. Sato, however, has already indicated that he will limit even the few contacts which now exist between China and Japan.

Japan is trying hard to improve its "image" in Asia. Its recent exhibition of machinery in Bombay was an impressive display of industrial strength. The announcement of a Japanese "Peace Corps" and a greatly increased programme of foreign aid will help Japan in Asia. Japan, as the most industrially advanced nation in Asia, should naturally have an important voice in Asian affairs. Yet, her representatives at the United Nations have been totally silent on every issue except nuclear weapons, which Japan is naturally very much opposed to. Japan's subservience to the United States in foreign policy and her recognition of the Taiwan regime have not been helpful in gaining for her an independent foreign policy.

The new government, however, has indicated that much of Japan's past passivity in the international sphere will disappear. The diplomatic and economic offensive has already begun, and Asia can watch with interest as Japan again takes her place as a leading power.

Letter to Editor

Crisis of Leadership

THE resilience and vitality displayed by the Chinese economy — in recent months after the earlier downturn, is indeed something that needs careful analysis. A comparison has to be made if we are not to be left behind in the race. An opinion is expressed in this letter which it is hoped may stimulate a discussion.

The difference in performance of traditional societies of India and China appear to stem from the difference in the political power structures of the two countries. Rapid socio-economic change requires, besides capital investment, a comparably rapid change in social values, habits, attitudes and mores of the bulk of the population. This change appears to be the most difficult aspect of the process of growth and the resistance to it proportional to its degree of incompatibility with tradition and the pace at which it is sought to be introduced. These stresses, when combined with the resentment against restraints on consumption an underdeveloped economy has to adopt for its requirements of capital formation, constitutes the most formidable force against growth.

A political democracy such as we have in India has its roots and sources of political power embeded inside the broad matrix of a deeply traditional and static society. The body-politic of the ruling party with the active co-operation of constructive elements outside itself should provide the main impulse for social change and the impulse has to be strongest and applied most effectively by the lowest stratum of political power. It is at this level and this level alone that significant results are possible. The heat generated as a reaction to such an impulse soon threatens to burn out the very roots of power supported by it and it is therefore the strength of the political power, its faith in national objectives and courage in implementing its decisions that can ensure rapid transition without recourse to totalitarianism and all its ugly ramifications.

This strength and this leadership is strongly conspicuous by its total absence in our country. The well springs of ideology dry up before having travelled very far down into the desert sands of power politics. A political structure such as would be required to translate broad objectives into action at the lowest level, just does not exist today. The nature of the power struggle at the vital base of political power is such that it precludes the entrance of just the type of men needed to implement policies conducive to rapid change. The political leadership, sheltering under the glib talk of democracy, avoids unpleasant or unpopular decision and actions, which may topple the wobbly pyramid of political power on which they themselves are precariously perched. This lack of inherent strength and conviction in national objectives and loyalty to nothing but the stability of the power pyramid, results in what we see all around us today. Stop-gap solutions, evasion, hedging, smoke screens of verbiage, the chase of the shadow for substance, the striving for an image or a front instead of concrete accomplishment, all this and more to the nauseating accompaniment of an unending torrent of meaningless cliche-ridden platitudinous oratory. These are symptoms of nothing but total political impotence.

Is this a malaise that would by the very nature of the situation, plague every traditional society in its hurry to modernise in a democratic manner? If the answer is yes, would it be more prudent to opt for slower rates of growth in preference to the harshness of totalitarian methods? If slower rates of growth are to be accepted would we have the courage to restrict drastically our rates of population growth to prevent the situation deteriorating further? We do not know the answers.

In the meantime, we are content to drift and wishfully try to believe in the truth of our variant of Marxist dogma that causative factors of pure economics provide in entirety the dynamics for socio-economic transition. We fondly wish to believe that all we need is a little tightening of the belt and brisker workmanship with the begging bowl to step up rates of capital investments, and that this alone would ensure for us the rates of growth, crystal gazing economists project, for attainment of a take-off within the next decade.

However, our past experience with regard to poor rates of growth, below those projected earlier, the higher capital/output ratios, failure in agriculture, inflation, unemployment, distorted income distribution and a comparison with the growing Chinese economy force us to pause and wonder whether we are not seriously wrong somewhere in our understanding of the structure, outline and time-scales of socio-economic progress.

A V BRAHME

Dhanbad,
December 22, 1964.

Capital View

Peripheralism

Romesh Thapar

NOTHING is happening, literally nothing. Yes, Gulzarilal Nanda is drafting a so-called resolution on economic policy for the Durgapur Session of the Congress Party, and Swaran Singh is drafting one on foreign policy. Meanwhile, Sanjeeva Reddy and his bureaucratic team handling steel continue deliberately to mislead the country about their betrayal on the designing and engineering of Bokaro. TTK delivers his homilies on the prevailing crisis, always directing his barbs against his 'enemies' in the Cabinet and the party. But these activities are no longer news. The same kind of noises are to be made in 1965. The same kind of apathy is to prevail. And if one is inclined to be impatient, a reference to recent by-election results has a salutary effect; the Congress continues to win.

Intellectuals No Better

Of course, intellectuals can argue that the voting pattern is no pointer to the state of the country. The voter is illiterate. Accustomed to the rule of kings and emperors, and the patient wait for a successor with the semblance of a leader, the illiterate of India keep voting the Congress family to power hoping that it will throw up sons like Gandhi and Nehru. The truth remains that no real alternative to the Congress Party has formed. Why blame the so-called illiterates when the literates are no different although they presumably have the capacity to be.

Nothing stirs the interest of the people. We appear to be able to carry on because over the years we have learned to handle small jobs, small decisions. We seem to be living on this expertise at the moment. Certainly, vitally important files are not moving in the Secretariat. Holidays pile up one on top of the other, paralysing one or the other arm of the GOI. The coffee-drinkers, who boycotted the old coffee house during the price resistance move, jam the new quarters allotted to them by the GOI and succeed in running the most disorganised joint in town. And the shops are full of customers, prices notwithstanding.

When we do act, it is in aid of some rather pointless projects. For example, you would think that the Municipal Corporation of this city had plenty to do what with continuing water contamination, electricity breakdowns, deteriorating roads, slummy development and cold wave deaths. On the contrary, our corporators have turned their attention to the names of roads, streets, markets and colonies—not to naming the hundreds which are unnamed and cause endless confusion, but to changing those of the ones which have names! The Ministry of Works and Housing has joined this pleasant pastime.

Here is a sampling of their foolishness. Jehangir Road and Nurjahan Road are to be renamed after some 'historical persons'. Hauz Khas is to change to Raghubir Nagar, Mori Gate to Nehru Gate, Fountain to Bhai Mati Das Chowk, Esplanade Road to Sehdav Malhotra Marg, Dufferin Bridge to Dr Mukerji Pul and Alipur Road to Dr B R Ambedkar Marg. Streets once named after the professions of the people living in them—Basti Bagrian Bazar, Sang Tarashan, Gali Rui, Gali Matkewali, Gali Kababian, Gali Sakkawali and Gali Kumarahan—are to be named after our Saints and revolutionaries. So it goes—Shankar Road to Buddha Marg, Old Rohtak Road to Bhagat Singh Marg, New Pusa Road to Mahatma Gandhi Road, Hamilton Road to Vivekananda Road and Kingsway Road to Lajpat Rai Marg. Even Indraprastha Marg may be renamed again with something inspired by the central revenue buildings! By the time the capital has been given this new look, we will be well on the way to loosing our bearings.

Disorganisation All Round

Peripheral involvements consume our time and energy. The bomb-makers and those who are opposed to them, even as they mouth their slogans, doggedly refuse to subject their theorising to economic, political and military tests or to search out those who have the know-how to provide the answers to our peculiar problems. The protagonists of Hindi thrill to the idea that their favourite language will now adorn government files, but they are as dull as before about what needs to be done at many levels to make the language alive and effective. Socialists of various hues, demanding that the country's capacity for independent economic development be strengthened, hail the Bokaro agreement with the Soviet Union, but fail to fight the loaded 'turn-key' principle embodied in it which, ironically, opens the doors to massive western private capital penetration into the economy and deals a death-blow to our independent designing and engineering of industrial projects. We are content with fairly expert paper work on plans and perspectives, on targetology, but no one moves to clear the obstacles to implementation.

This peripheralism could be ended by a leadership or a party with a sense of direction. But Cabinet meetings, from all accounts, are a bedlam. Parliament, too, finds it hard to maintain a quorum. And the Congress party seems to have become a plaything in the hands of *dadas* and the like. Yes, the bureaucracy, civil and military, maintains some degree of cohesion, but only to project its own very selfish and retrogressive interests which are in conflict with the declared objectives of national policy. Opposition groups, which could have disciplined the ruling party, are themselves in disarray. Witness the Socialists and Communists, or the Swantantras and Jan Sanghis, unable to mount a single campaign of consequence in a period of crisis.

The Dangers

The dangers inherent in this kind of *apparently normal* situation are to be seen not only in the more obvious confusions in our national and foreign policies, but in developments like the Nepal King's decision to address an RSS rally in India, in the Army Chief's involvement in the recent TELCO strike, in our acceptance of Michael Scott's so-called pacification role among the Nagas, in our ambivalent attitudes to the mischief-making of Abdullah and Bakshi in Kashmir, in our surrender to the demand that retired I C S and military officers be handed critical jobs for which they are most unsuited and in our willingness to keep superannuated politicians in harness. These are only a few examples of the practices which help spread demoralisation and are now breaking even the optimism of the incurably optimistic.

I said earlier that nothing is happening in the Capital. This is an exaggeration. Peripheral activity notwithstand-

ing, I find that those who would like to see a drastic change in the present set-up are becoming more vocal. In fact, speculation is fairly widespread about whether Shastri will be able to carry on for long with the team he has assembled. Many who supported him at the time of his rise to prime ministership are now wondering what persuaded them. The truth is that Shastri is safe so long as a viable alternative does not present itself. And nobody has so far been able to spot this alternative.

Threat to Shastri

But it would be shortsighted to assume that a leaderless country can continue to indulge in peripheralism at a time when the economic situation is certainly out of hand. Shastri must either change radically the composition of his government or risk his own continuance. The consensus which brought him to power exists, as I have said, only in the absence of an alternative—and this is unhealthy, to say the least. A new and more dynamic consensus has to be sought if we are to move forward. Will Shastri do the finding or be content to be thrown aside.

The discussions at Durgapur might yet provide us with pertinent evidence of the mood of the ruling party, although there seems not a ripple on the surface at present. Could it be that the rot has gone so deep that only a series of upheavals can shake the party out of its stupor? Many subscribe to this view, but qualify it with the theory that the people of India are tolerant and patient, that much time will elapse before anything resembling an upheaval occurs. That there *is* such speculation underlines the gravity of the political paralysis.

Needless to say, this state of affairs is likely to be seized upon by those influential and interlocked financial interests within this country and without who imagine that India has only to open her doors to private entrepreneurship to usher in an era of plenty. Our own TTK, although he plays the radical on controlled food distribution to make Subramaniam sound tame, has encouraged this kind of thinking among his political colleagues and those bureaucrats through whom he operates. Indeed, the systematic popularisation of 'turn-key' arrangements with foreign collaborators, beginning with Soviet-aided Bokaro and the western-backed fifth steel plant, prepares the way for the entry of foreign capital. Report already has it that US experts in Delhi are hawking the idea of a 40:40:20 equity holding formula; equal shares to be held by our government and the foreign investor (whether private or public) and (the fly in the ointment!) a crucial minority holding to be reserved for the private investor in India (who is expected to 'play ball' because these shares are to be quoted on foreign stock markets!). The technique of divide and rule is being given a new look.

Time to Speak Out

You would think that there are enough people at ministerial and bureaucratic level in the Government of India to see these moves for what they are, but such an assessment would be wide off the mark. Peripheralism breeds precisely the opportunist pragmatism which is used theoretically to justify compacts of this sort. Those who oppose are dismissed as 'wooden', as 'dogmatists' — as if the experience of other nations has no relevance to us, very special creatures. The critics are on the defensive. Strange, for this is the time to speak out.

Yes, there is little doubt now that 1965 will become significant only if the younger elements in our political parties mobilise to break the hold of the aged, exhausted elite which rules today. Judging from the controversies raging within the political parties, the possibilities for new alignments are unlimited. Today's situation cries out for the forging of a catalyst group to spell out the basic issues and to strengthen the Centre to launch the attack on them. Will this group form? Here's hoping that 1965 will offer an answer—and in the affirmative.

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From the Chair

The Associated Cement Companies Limited

Summary Of Chairman's Statement

THE following is a summary of the statement issued to shareholders by Shri Dharamsey M. Khatau, Chairman, The Associated Cement Companies Limited, on the Company's working for the year ended 31st July 1964. The Annual General Meeting of the Company will be held on Friday, the 22nd January 1965 at 4 p.m. at Patkar Hall of S N D T Women's University, 1, Nathibai Thackersey Road, Off Queen's Road, Fort, Bombay.

Hardly had four months elapsed after our last Annual General Meeting when our country was plunged into grief by the death of Pandit Jawaharlal Nehru. At that time your Directors passed the following resolution:

> "The Directors place on record their deepest sense of grief at the sudden passing away on 27th May of India's first Prime Minister — Jawaharlal Nehru. An inexorable fighter for freedom and human dignity everywhere, his unswerving dedication to secularism and democracy consolidated India's freedom, his resolute insistence on planning for rapid development laid the foundation of economic progress, and his passionate advocacy of peace and friendship among nations inspired a new consciousness of civilised international behaviour. Outstanding man of letters with the widest cultural interests, ardent student of nature and powerful supporter of the sciences, loving his people and most beloved of them, Jawaharlal Nehru was the complete civilised man. The death of this, one of the greatest of men, is an irreparable loss to the nation and to men of peace everywhere. The Board extends to Shrimati Indira Gandhi and to other members of his family its sincerest sympathy."

I am sure that you will now desire as shareholders of this Company to associate yourselves with this expression of sorrow.

The destiny of the country is now in the hands of Shri Lal Bahadur Shastri, able and trusted colleague of Jawaharlal, and we must all pledge our fullest support to the Prime Minister.

On our frontiers the stalemate continues. Our rising population and deteriorating food position are also causing great concern. The Government of India is now faced not only with the task of keeping the country prepared to defend itself and protect its frontiers but also of overcoming the food crisis. These problems are receiving the urgent attention of our Prime Minister and his Cabinet and I am sure that each one of us will give his utmost co-operation to Government.

Rise in Costs

Turning to the affairs of your Company, during the year under review, the rise in prices of coal, fuel, gypsum, stores, spares etc, required in the manufacture of cement, has inevitably had its effect on our cost of production. Despite our continuing efforts to peg down costs by improved productivity at every possible stage, the cost of production has gone up as compared with last year, owing to factors entirely beyond the control of your Company.

Although Government announced an increase of Rs 1.25 per tonne in the retention price with effect from 1st July, 1964, this increase, as usual, suffered from the defects of 'too little and too late'. Owing to the delay in granting these meagre reliefs, your Company has in the last three years alone suffered a loss in earnings of nearly Rs 1.50 crores.

The retention price allowed on current levels of cost of production barely allows sufficient earnings of profits to pay a reasonable dividend. There is, therefore, no generation of internal resources, so necessary for expansion and modernisation of factories other than accruing depreciation. Even during the year under review when the net profits are higher than last year, we shall have to draw a small amount from Reserves to be able to maintain the usual modest dividend.

Cement Corporation

The Indian press recently carried news of Government's proposal to form a Cement Corporation whose functions would be to set up several new units in the public sector in an endeavour to achieve the production target set by the 4th Plan.

It is necessary to point out that the private sector in the cement industry has the experience, the know-how and the willingness to increase productive capacity, but it has been handicapped for several years by an uneconomic price which has failed to attract fresh capital for the expansion of the industry. If the incentive of an adequate price, coupled with an expansion allowance and sufficient foreign exchange can be granted to the manufacturers, they can contribute very substantially to the growth of the cement industry.

Suggestions for Improving the Financial Position of the Cement Industry

Although the Finance Act, 1964, contains a few favourable changes, so far as the cement industry is concerned, they do not go far enough. I, therefore, venture to offer the following suggestions for the serious consideration of the Government to improve the financial position of the Indian cement industry and encourage its rapid growth:

(i) an Automatic Escalator clause to meet increases in (a) the pitsmouth price of coal, (b) railway freight and (c) the linking of the dearness allowance to the cost of living indices;

(ii) the inclusion in the price structure of an expansion allowance to be identified and utilised as such;

(iii) the Development Rebate on plant and machinery to be stepped up from 20 to 40 per cent.

Monopolies Enquiry Commission

I must, here, refer briefly to the Monopolies Enquiry Commission which has recently been set up by Government, presumably to allay public apprehension regarding concentration of economic power. There can be no objection to such an enquiry but I do hope that the Commission will go carefully into the criteria to determine what constitutes a monopoly. The fact that an enterprise is relatively large does not in itself constitute a monopoly. One of the main points to determine is whether the enterprise is

acting in the best interests of the country. I make particular mention of this, because your Company has been many times overtly, and sometimes directly, referred to as a monopoly. Both in production and distribution of cement, in which your Company is primarily engaged, you are aware that the price and distribution are rigidly controlled by Government. There can, therefore, be no question of any monopolistic position for anyone in the industry, either big or small.

Coal

Owing to considerable improvement in the transport position, your factories were able to receive their full supplies of coal for the second year in succession. The beneficial effects of such a situation were unfortunately offset by a further deterioration in the quality of the available coal. Due to the introduction by Government of a scheme for the conversion of the units at Dwarka and Madukkarai to oil-firing, it has become possible for your Company to face these difficulties with some measure of success.

Packing

The quarterly packing charge allowed by Government continues to be computed on the basis of utilising second-hand and new bags in the ratio of 1 : 2. As I pointed out last year, this ratio is high and would be more realistic at the level of 1 : 3, if second-hand bags have to be used at all.

Cement Demand and Transport

As the demand for cement in India continues to be in excess of production, the distribution of cement still remains under statutory control in all the States.

The availability of wagons for the transport of cement has shown considerable improvement. Nevertheless, we have continued our efforts for utilising road transport to the maximum extent possible, and have been able to move more than a third of our despatches by road.

Expansion and New Works

Your new plant at Jamul is nearly complete and will soon go into commission. Extension work at Dwarka and construction at Porbandar are also progressing satisfactorily. Letters of Intent have been received from the Government of India in respect of licences which will enable us to establish factories at Wadi in Mysore State and at Durgapur in West Bengal. These schemes are now being pursued.

Other Products

There was an appreciable improvement in the manufacture and sale of Silvicrete, Portland Blast Furnace Cement, Waterproof (Hydrophobic) Cement and Accoproof cement waterproofing additive. The new White Cement Plant at Kymore was completed in August 1964 and is now in production.

Engineering Works, Shahabad

The Machine Shops, Fabrication Shops and Forge Shops at our Engineering Works, Shahabad, have been in production throughout the year. The erection of the Hot-blast Cupola in the Grey Iron Foundry is complete.

Plans are now being made to extend the Machine Shops and Fabrication Shops to cope with anticipated demand for cement-making machinery.

Central Research Station, Thana

I hope the formal opening of the Company' new Central Research Station at Thana will have taken place before our Annual General Meeting Under centrally planned direction, the project will cover all aspects of manufacturing techniques, the evolution of more efficient and economic methods of processing, and also developing diversified products.

There will also be a Technical Service and Development Division of the Institute equipped to carry out comprehensive testing of soils and aggregates for Government, Local Authorities, Architects and private parties, so as to design concrete and soil-cement mixes suitable for various types of constructions. This Division will also keep close liaison with the Indian Standards Institution and allied organisations with a view to help standardization of testing procedures and evolution of new standards for items involving the use of cement and other diversified products of the Company.

Issue of Debentures

In order to finance the construction of our new factories and to meet the costs of expansion of our existing plants, it has been decided to issue First Mortgage Debentures ('D' Series) of Rs 7 crores, redeemable in 1975-79. The issue consists of 70,000 7% Debentures of Rs 1,000 each which will be issued to the general public with preference to shareholders.

Pakistan Factories

The Government of Pakistan have authorised the West Pakistan Industrial Development Corporation to negotiate with us for the purchase of our Pakistan factories. These negotiations are in progress and I hope the deal will go through.

A C C—Vickers—Babcock, limited

Although the turnover of sales and service of ACC - Vickers - Babcock, Limited for the year ended 31st March, 1964, amounted to Rs 5.50 crores, it must be noted that AVB incurred a loss of Rs 15 lakhs on the year's working. From this year onwards, AVB is expected to earn sufficient profits to cover the charge for depreciation.

Bonus Commission's Report

You must be aware that the recommendations of the Bonus Commission have been modified and accepted by the Government. The modification by the Government in the rates of return on capital and reserve was very necessary and should be considered to be fair in the circumstances that prevail today. Nevertheless, the proportion of available surplus which remains to be divided between the industry and the employees, without any deduction for a rehabilitation allowance as a prior charge, and the stipulation of a minimum bonus payable in a profit-sharing bonus scheme even when a company is working at a loss, are, to say the least, unfair to industry.

Lahour-Management Relations

Labour-management relations at our Works were cordial throughout the year. I would like to express on your behalf, the Management's warm appreciation of the loyalty, hard work and whole-hearted co-operation of the Company's employees at the Offices, Works and Collieries.

Bombay, 20th November, 1964.

Note: The above summary is not a document purporting to be a report of the proceedings of the Annual General Meeting.

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From the London End

Labour's First Two Months

AS Parliament dissolves for the Christmas recess it is perhaps time to take stock of the first two months of Labour Government. The sterling crisis of the past five weeks has dominated the picture and, indeed, many believe that in the past month Britain has passed through its gravest financial crisis since 1949. The Government appears now to have gained a respite, and there are signs of a returning confidence in the country for the prospects of the economy. Ministers believe that this will be sufficient for the Government to hold the economy steady until the new long-term plans for economic rehabilitation are put forward. Present indications give promise of a useful rise in exports in the crucial months of early 1965 and it looks as if the import bill will begin to decline. The rumours of an early spring election, therefore, seem unfounded. Labour Ministers give the impression of having every intention of carrying on with their jobs despite the Party's slender majority. Though the general belief in political circles is that an early election would bring Labour back with a greatly increased majority, it does not look, at the moment, as if Wilson will do this.

Genesis of the Crisis

It is interesting to try and enquire into the root causes of the crisis of confidence in sterling. Everyone is agreed that the basic reason why sterling weakened was the large payments deficit which the Labour Party inherited from the Conservatives. In late summer, estimates of the deficit ranged around £ 500 million or slightly higher at £ 600 million (Roy Harrod's). When the Labour Party took office it found that the deficit was more likely to be in the neighbourhood of £ 700 to £ 800 million.

The depressing balance of payments situation was aggravated by certain tactical errors and misunderstandings. The furious reaction of European countries to the 15 per cent import surcharge on which they had not been consulted was aggravated by the fact that the Labour Party had consulted the Americans. Moreover, many European countries felt, despite reassurances to the contrary from the Labour Government, that these surcharges were a preparation for devaluation. Misgivings were further increased when the Labour Party's first budget was announced. The more conservative European banking circles felt that with Britain borrowing money abroad it was hardly the time for the country to raise social benefits. Callaghan's mistimed half disclosures of the tax reforms he proposed to initiate next year caused panic and confusion. This hit the Government securities market very seriously and necessitated a rescue operation by the Government broker. The large-scale institutional investors were confused about the impact of the proposed tax measures on Government securities and life assurance companies, which made them lose confidence in the Government, and there is little doubt that the sterling crisis was really caused by the loss of confidence in the City. The crisis flight from sterling appears to have been more a flight of British than foreign money. It has been estimated that in the month before November 25, when the crisis really broke, between two-thirds and three-quarters of the sterling sold in the market was of United Kingdom origin. However, as Parliament closes, this particular crisis is now under control.

Devaluation Ruled Out

Certain definite facts are now known to replace the doubts which were in the minds of many people when the Labour Party took office. Perhaps the most important one is that the Labour Government has not the slightest intention of devaluing the pound however great the speculative pressure. The proof of this is in the size of the credit that central banks produced to meet the crisis. These loans are given, not to support Britain, but to support sterling as an international currency Even if the Bank of England were forced to draw on a large scale from the $3,000 million loan, it could obtain further funds by approaching I M F or the U S A.

With the sterling crisis no longer monopolising attention, it is possible to take a more sober look at the Government's long-term constructive measures — the incomes policy and the special measures designed to aid exports, the incentives to technological change, the measures for industrial expansion and greater efficiency are all in the process of formation and are making progress. The hopes for 1965 lie in actions on which preliminary steps have already been taken — regional planning, scrutiny of labour useage, export incentives, civil development contracts and the selective use of Government purchasing.

A start has already been made in regional planning. One of the black spots of the British economy is underused capacity in the less favoured areas and much misused capacity in the favoured areas. In this connection, Labour's plan to spread employment better throughout the country are vital.

Long-Term Measures

Many of the long-term measures contemplated by the Labour Party are those which no Government has hitherto attempted, although in their last phase of Government, the Conservatives were beginning to move in this direction. An incomes policy has long been regarded as a method of dealing with inflation. It is hard to judge how successful George Brown's efforts at getting the Trade Unions and employers to sign a declaration together with the Government on productivity and incomes will in reality prove to be.

On the industrial front, the index of production which had remained stagnant at 127 for the first nine months of the year, rose to 129 in October. The trade figures for November, on the other hand, were disappointing especially as imports again showed a rise despite the imposition of the unpopular import surcharge. Of course, it is a little early for these measures to bite, and experience from Canada suggests that surcharges of this nature usually take effect only about the third month after their imposition.

The crux of Britain's economic problems, however, remains the poor export performance. As Sir Geoffrey Crowther put it, the brutal fact remains that Britain is not paying her way. In this connection, Wilson's speech in the House on the Defence debate did a great deal of good by dispelling the illusions of nuclear grandeur. As a *Times* leader put it: "The sooner everyone sheds illusions and Britain stops aping a false grandeur the better. Britain is not going to live by bombs, but by trade".

It is understood that the Government is to produce a new plan for

exports in the new year. The new packet of measures have been drawn up in consultation with industry, and it is known that leaders of the British National Export Council have had several sessions on these export incentives with Labour ministers, includnig Douglas Jay, President of the Board of Trade. Full details of these measures are not yet known, but it is understood that the package of policies, suggestions and ideas that are being put together by the Treasury and the Ministry of Economic Affairs may include the following:

(a) More Government money to be made available to foreign countries in the form of long-term credit for selected business. The system will be jointly supervised by the Board of Trade and the Export Credits Guarantee Department.

(b) The overdraft limits permitted by the Export Credits Guarantee Department might be made easier to give exporters more flexibility. This would help small exporters.

(c) Government money will be provided for research into markets that are now covered by the various Committees of Export Councils.

(d) Financial help may be given for inward and outward missions of businessmen. Exporters of capital equipment are finding that they derive more benefit from entertaining groups of potential foreign customers in England than by heavy spending abroad.

Another proposal which is being discussed is the suggestion that a two-tier interest rate should be adopted to give exporters a fixed interest rate independent of Bank Rate. The Managing Director of Leyland Motor Corporation is said to have urged the Government to set up a special loan scheme which would provide finance for exports "at fixed and reasonable rates of interest which will not leave us at the mercy of a Bank Rate which we appreciate must be charged from time to time". There is certainly a strong case for this demand. In a small way, this is already being done in respect of the large-scale capital goods transactions covered by the Export Credits Guarantee Department scheme for direct guarantees to financial institutions putting up the money. For example, banks which provide the money for the first years under this scheme, do so at the standard rate of 5½ per cent, while the insurance companies who look after the longer periods also operate at a constant, though somewhat higher rate. This practice could well be extended to other classes of export credit business. GATT can hardly object to such a scheme since other signatories actually operate similar systems.

Although the final form of the measures for export promotion are still not known, one very healthy fact is the serious manner in which the Labour Party is approaching what is one of Britain's gravest economic problems. No one measure, no series of exhortations alone are enough. What is required is a basic concerted and comprehensive programme, and this is certainly what the Government is attempting.

December 23, 1964.

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Book Review

The Many Annie Besants

The Last Four Lives of Annie Besant by Arthur H Nethercot; Rupert Hart-Davis, 1963; pp 483; price 42s.

The art of biography
Is different from geography.
Geography is about maps;
Biography is about chaps.

This is no more than a schoolboy jingle but it is possible, if one is so inclined, to wrest some deeper meanings from it. For instance, biography may be considered as a sort of "map" of a "chap"'s life in which geography, in its widest sense, is of crucial significance. If set in a different clime, would a person's life not have assumed vastly different contours? This imponderable question gains piquancy in the case of persons who, out of choice or necessity, shift the geographic setting of their activities in mid-career.

The second volume of Arthur Nethercot's biography of Annie Besant begins with her arrival in India in 1893 at the age of 46 and ends with her death at Madras in 1933. Even before she set foot on Indian soil Mrs Besant, initiated into the occult mysticism of Theosophy by Madam Blavatsky, had begun to remember India as her motherland and Hinduism as her religion from her past incarnations. In the 40 years spent in India, Mrs Besant's personality made its forceful impact on varied aspects of Indian life. At the same time, international renown and fame came her way mainly because of her work for her adopted motherland.

Biographies of this extraordinary Irish woman are numerous, which fact speaks of the range of her interests and the power of her personality. Nethercot's attempt obviously is to present a definitive work, for which task he is ideally suited for at least one reason — that he never knew Annie Besant and never came within the ambit of her influence. This, which could be a serious handicap, is a necessary precondition for objectivity in the case of a controversial figure like Mrs Besant who generally evoked strongly opposing responses in people, fervid loyalty and admiration or bitter antagonism. As Nethercot says "Where Annie Besant was involved, it was usually possible to get completely contradictory views on almost any subject". Also for this reason, the biographer's task has been far from easy and no one who reads this book can fail to be impressed by the amount of work that has gone into it. Nethercot has deftly pieced together his subject's Indian "lives" from various and diverse sources. He mentions with regret that he did not have access to the Theosophical archives and that no one could tell him anything about the diary which Mrs Besant kept or the clipping service she subscribed to. However, he had interviews and correspondence with scores of persons in four continents whose lives had touched that of Annie Besant at one time or the other. The most interesting portions of this book are those that give the substance of this research, often in foot-notes — the personal impressions, recollections, anecdotes and opinions of individuals from diverse walks of life, ranging from Col Prentice, a lapsed Theosphist in Australia, to Jawaharlal Nehru and Digby Besant, Annie's son. Altogether, this volume compresses in its four hundred odd pages material that could well have spilt over into several more in the hands of one less gifted in marshalling and sifting facts.

Martyr with Many Causes

Annie Besant, who meant many things to many people in the course of her long life, moved simultaneously on two vastly different planes. As a Theosophist she was not only a mystic and a spiritual *guru* to a scattered band of believers but an exponent of Hindu philosophy as well. As a fighter for Indian freedom and founder of the Home Rule movement, she stepped into the mundane world of politics. Her original avowed intention was to confine her work to the spiritual plane and steer clear of politics. But her fiery spirit could not resist responding to the challenge of battle. She herself ascribed her entry into politics to the command of the Rishi Agastya, an example of occult preciosity which her biographer rubs in with gleeful relish. But it is a measure of Mrs Besant's versatile genius that she carried the role of leadership in both these worlds easily and simultaneously and also packed in a number of connected activities. She was an inspired educationist and boy scout pioneer; ardent feminist and social reformer; brilliant orator and lawyer; prolific writer and journalist. To each of these varied activities she brought her characteristic energy and intensity, interpreted by some as symptoms of her vanity and dictatorial ruthlessness and by others as humble and selfless service. Altogether, Annie Besant is an enigma. What Nethercot himself considers as the "clue which motivated her mutable career" he selects from her own autobiography which covers the early part of her life. This was her yearning for martyrdom. Nethercot sums up: "She was not to become a martyr without a cause; she was to become a martyr with a whole series of causes". But as with all popular-psychological analyses, this sounds a trifle too pat.

However, Annie Besant was a martyr and the principal concern of this book is the portrayal of her martyrdom in the Theosophical Society and in the Indian Home Rule movement. Mrs Besant's occult experiments, her "discovery" of J Krishnamurthi the long legal battle over his guardianship, his presentation as the New Messiah, his final repudiation of this role and break with the Theosophists have all been recorded more poignantly by others like Lady Emily Lutyens, themselves closely involved in that amazing drama. But here, for the first time, are all the relevant facts presented dispassionately and in perspective. The record is fascinating and Annie Besant clearly emerges as one whose power of influence over others was counterbalanced by her own susceptibility to influence. The story of the Home Rule movement and the rejection of Annie Besant's moderate philosophy for the more radical approach of Gandhi has also been told by others. But here it is presented from the Besant view-point and the drama of her clash with Gandhi — to whom she was the first to apply the title "Mahatma" — the Nehrus and others is one which bears repetition.

Almost throughout the book the personality of the biographer is not allowed to intrude on the narrative. The facts are presented with admirable academic restraint while the documentation is meticulous. It is mainly in the last three chapters that Nethercot gives, by way of summing up, some of his own views on the characters and controversies he has so closely studied. His verdict on Krishnamurthi is worth quoting for its laboured attempt at

fairness: "I should hate to think of him as a charlatan; I prefer to think of him as a sort of schizophrenic or at least as a man of a now permanently divided dual personality". Regarding Mrs Besant's own flamboyant excursions into mysticism, he is rather more generous, on the ground that the nature of the mystical experience is "utterly personal". And as for Annie Besant's contribution to the Indian freedom movement, if only India had followed Mrs Besant's advice in 1929, he says, the country "would probably have attained Dominion Status 17 or so years earlier than it did, it would probably have retained Pakistan and there would have been no Kashmir problem" — a sweeping statement which lightly ignores all the 'ifs' and 'buts' that lie behind the word "probably". And that is not all. Nethercot goes on to analyse the final responsibility for this tragic muddle. "The greatest share", he holds' "must perhaps go to Jawaharlal Nehru through his influence on Gandhi and Motilal Nehru in the 20s, Gandhi being essentially the instrument by which the younger Nehru achieved his ends."

But what of the reasons why Annie Besant failed where Gandhi — or perhaps Nehru, the puppeteer — succeeded? Nehru's own interpretation, as discussed with the author and reported earlier in the book, need to be repeated in this context. For Nehru felt that Mrs Besant's political views soon went out of date and proved too slow for the younger generation; that unlike Gandhi, she failed to get down to the masses and exercised influence only on the educated upper classes. If this is admitted as true — and Nethercot reports that Mrs Besant's "loyal entourage" did so — then Nethercot's brave attempt at historical post-mortem seems utterly pointless.

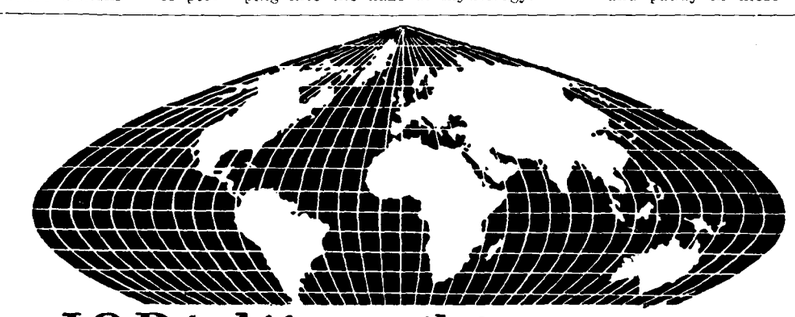
This, however, does not mar the excellence of this book as a biography of a great woman and one of the most striking figures of the century. To its many virtues must be added that of timeliness also. For though several of her associates and antagonists are still alive, the memory of Annie Besant has begun to fade. That the commemoration stamp issued recently in her honour had to be withdrawn because of a factual error may have been the result of just another unfortunate oversight. But it is also symptomatic of the fact that the name of Annie Besant is slipping into the haze of mythology.

New Uses of Jute

THE progress of research in the new uses of jute undertaken in technological research laboratories and review of other schemes relating to jute production will be among the items for consideration at the meetings of the Governing Body of the Indian Central Jute Committee and its Sub-Committees to be held in Calcutta from January 5 to 8.

The annual report of the Technological Research Laboratories of the Indian Central Jute Committee outlines the progress made in the preparation of rayon-grade pulp from jute stick, wall coverings of jute and manufacture of asphalted roofing material and box board from jute stick. The experiments under way or scheduled are directed, among other things, towards improving the method of determination of fibre fineness and production of furnishing fabrics from light jute cloth and non-woven fabrics for cement or fertilizer bags and light hand bags.

During 1963-64, the Economic Research Section of the Indian Central Jute Committee continued its comprehensive survey of 120 villages in West Bengal, Bihar and Assam to study the estimates of cost of production of jute and paddy in these three States.



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Dandakaranya: A Survey of Rehabilitation

I—The State of Agriculture

S K Gupta

The development of Dandakaranya was undertaken to solve an almost intractable human problem—the rehabilitation of a large number of refugees who were uprooted from their homeland in East Pakistan, victims of a political decision to divide the country in which they were not consulted. Vast numbers re-established themselves in West Bengal without help. A sizable fraction did so, fully or partially, with such help as the Ministry of Rehabilitation was prepared to give.

Dandakaranya was expected to provide a home for the residuary refugee population in camps or elsewhere for whom there was supposed to be no more room in West Bengal. More than twenty-two crores of rupees have already been spent and further expenditures are in the offing but barely seven thousand families have been given rehabilitation of a sort in the course of five or six years.

What is the end result of all this expenditure of time and money? What are the prospects? It is time that a proper assessment was made and people saw Dandakaranya without any blinkers.

My ten months at Dandakaranya of which four were largely pre-occupied with the new influx at Mana were not sufficient to allow me to know the facts as thoroughly as I would have liked to, because under the peculiar administrative arrangement of the Dandakaranya Development Authority most matters were dealt with at a lower level and hardly reached the Chairman unless they were regarded as matters of high policy or unless the Chairman specially called for information. There were no annual reports nor any collected body of statistical information covering all aspects of the project and its working up to date.

Even so, what I saw myself and learnt on further enquiry caused me profound disquiet. I have decided to share my disquiet with the public, not to cast reflections or start a polemic, but so that if things are what I believe they are, immediate action may be taken to set things right. Human distress on a large scale is much too serious a matter to be passed over in silence either to feed official complacency or to save reputations. 'A willing suspension of disbelief' may be, as Coleridge thought, a necessary precondition of imaginative writing or literary appreciation, but for the administrator nothing could be more fatal. He must not pull the wool over his own eyes nor over those of others.

Rehabilitation in the wider sense embraces all aspects of life. Here the word is used in the narrower sense of economic rehabilitation. The enquiry is confined to the different ways in which such economic rehabilitation has been sought to be effected and whether they are adequate. Of these ways agriculture, industries and employment and trade are the most important.

THAT the emphasis of the Dandakaranya Development Authority has hitherto been largely, if not exclusively, on agriculture admits of no doubt. Prior to the recent influx which began in February 1964 there were approximately 7,500 families of displaced persons within Dandakaranya of which 7,261 were recorded as agriculturists and moved to village sites by the end of June 1964. By the end of the agricultural season of 1963-64 about 6,286 families had been allotted agricultural land at the rate of roughly 6.5 acres per family and half an acre for homestead and kitchen garden in four widely separated zones of Orissa and Madhya Pradesh, viz, Pharasgaon, Umarkot, Paralkot and Malkangiri. Seven acres are not an inconsiderable area for an agricultural holding on East Bengal standards and one would think that the settler would be fairly well-off. But the result of the experience of the last few years belies any such facile optimism.

The fact of the matter is that it is not the quantity of land but its quality which, together with other factors, determines the yield on which rehabilitation depends. Among these factors, the most important are (1) soil texture and topography, (2) climatic conditions, (3) water (or irrigation), (4) a suitable cropping pattern, (5) good farming practice with improved seeds and implements, and (6) the skill and energy of the individual farmer together with the man-power he can mobilise in his support. Almost all these factors are inter-connected. The soil texture may be good but if rainfall is low or of very short duration, seeds will not germinate or will wilt even if they do, unless there is irrigation. If the soil is porous even heavy showers will prove unavailing in retaining the quantity of moisture which the crops require for growth and maturity; and if the land is sloping, fertilisers will be washed away along with the water. As for good farming practice much depends upon how quickly, under new soil and climatic conditions, the age-old habits of the cultivator and his preference for paddy can be changed in favour of a novel cropping pattern which in its turn depends upon a good agricultural extension service designed to bring new knowledge and technique to the notice of the cultivator. The personal factor includes man-power as well as the skill and energy of the individual farmer. One of the contributory factors for the latter is incentive which comes from the prospect of a good yield in return for input as well as ready marketability of the produce at a reasonable price. Manpower shortage in Dandakaranya during the crucial period of cultivation is a by-word. There is no surplus labour waiting to be employed nor any seasonal influx of such labour. The ordinary settler family has usually only one adult male member for whom it is difficult not only to plough and sow all the 6.5 acres within the short period available, but also to eliminate the fast-growing weeds which are a characteristic feature of lands reclaimed out of the virgin forest during the first few years. Women who, in East Bengal, do not work in the fields have sometimes lent their hand in sowing and weeding but their number is small as household

work could not be completely neglected. There are undoubtedly a few slackers, especially among those who were not traditionally agriculturists, but by and large the cultivators are inherently hard-working when there is at all any prospect of wresting a fair yield even out of reluctant soil. But as the soil scientist of the Project observed in February 1962 with regard to Boregaon and Jugani, you can't expect anybody to go on working hard if the predictable result is a poor yield which would not pay for the cost, far less maintain a family.

Poor Quality Land

The low quality of the soil in the areas released for the refugees is not a new complaint, but was noted by Sukumar Sen more than once and commented upon by the Agricultural Expert Team set up by the Food and Agriculture Ministry at his instance. In fact, the settlers have to make do with the worst lands, hitherto regarded as uncultivable. The local adibasis had, as one would expect, occupied all the fertile low-lying areas in the valleys enriched by silt and moisture. They had even cleared many up-land forests to carry on their peculiar 'padu' cultivation in the slopes and burnt the forest undergrowth every year which deprived the soil of the enrichment it might have received from the decaying forest littler in the course of years. What remained was generally virgin forest land with little humus and with soil depth and texture varying from place to place.

In Boregaon and Jugani (Pharasgaon zone) the soil is generally shallow, sandy loam to loam in texture, acidic in reaction, poor to medium in nitrogen and organic content, and poor in phosphate as well as moisture-holding capacity. The Soil Scientist reported that 6 per cent of plots were basically unfit for agriculture, 32 per cent were poor and submarginal, 53 per cent could be of medium quality if their moisture retention capacity could be improved, and only 9 per cent were of good quality. In the Umarkot region (comprising Umarkot and Raigarh Sub-zones) the soils are somewhat shallow in depth and do not show properties of moisture-retentivity adequate enough for paddy cultivation. They would have to be put under cultivation for several seasons—about 4 or 5 years as Dr Govinda Rajan told me verbally—before moisture-retentivity would improve. The texture varied from sandy loam to loam and in some cases clay loam with heavy-textured soil underlying the surface at places. It is generally acidic in reaction with moderate to poor nitrogen and organic content and poor phosphate content. In 23 villages of the Umarkot Subzone whose lands were subjected to a detailed soil analysis, the soil scientist observed on the basis of their topography and soil texture that out of 8,198 acres about 60 per cent was suitable for paddy while another 15 per cent could be added from the highlands by terracing and field bunding, but that the remaining 25 per cent of light textured high land would never be suitable and it would be foolish to persist with paddy cultivation in these lands instead of trying cash crops.

The soil of Paralkot is closely similar to that of Umarkot area and is expected to behave in the same way under cultivation. In fact, soil survey reports indicate that the soils are fairly deep, generally acidic in reaction, medium in nitrogen and organic content and poor in phosphate. The texture varies from sandy loam to clay loam with underlying heavy textured soil in places and moisture retentivity is not very satisfactory. The picture is different in Malkangiri where the soils vary a great deal in their profile, characters and surface textural properties from that of Umarkot zone. In villages on either side of Malkangiri-Motu road the surface texture varies from sand, loamy sand to loam with sub-surface texture becoming heavier. On such land, according to Govinda Rajan, the suitable crop is not paddy but groundnut, tobacco and mesta. On Malkangiri-Balimela road, however, the soil is darker, deeper and heavier and therefore suitable for paddy. All the lands for the tribal quota have been taken from this region and none from the other.

The primary effect of climate is on rainfall which is important because artificial irrigation is as yet non-existent. Apart from its quantity, the period over which rainfall is spread and the occurrence of occasional bright spells in between are important factors in paddy cultivation which is the staple crop on which the settlers' heart is set. Most of the annual rainfall of 50"-60" takes place usually within a limited period of 100 to 110 days from mid-June to the end of September, starting and closing almost abruptly without pre- or post-monsoon showers. Because of this and the hardness of the soil for lack of moisture during the preceding dry months the settlers cannot start preparing the seed-bed and sowing seed till after the monsoons have started, and since these operations take a minimum period of 2 to 3 weeks the effective period of monsoons left for helping plant growth and formation of grain is barely 90 to 100 days. Under these conditions the paddy which can be grown here must be of the broadcast, rain-fed, short-duration variety since impounding of water is not possible on account of the light texture of the soil and its undulating contour, and there is no irrigation to supplement the rainfall and extend the period. But the shorter the duration of growth the less the yield and the more the susceptibility to diseases like 'blast'. Application of fertilisers on a large scale without artificial irrigation will not help much in increasing the yield because the high nutrient content of the soil will increase the period of vegetative growth of paddy plants, deferring the reproduction phase and making the plants more susceptible to damage for want of soil moisture at the most crucial grain-formation period of the plant life. Moreover, in a short-duration paddy suitable for the agro-climatic conditions mentioned above, the heading stage comes towards the end of September or early in October when vagaries of climate like heavy rains or storms or drought often damage the prospect of a good harvest. Broad-cast paddy requires to be weeded at least twice, but if the sowing starts after the commencement of the monsoons the appropriate time for weeding will coincide with that phase of the monsoons when rainfall is heaviest and most continuous. This adversely affects weeding, even apart from man-power shortage in the family and lack of resources to employ hired labour.

II

The effect of the soil and the climatic conditions in those parts of Dandakaranya area where refugees have been settled is that the lands are not ideally suitable for the production of a satisfactory paddy crop except where the soil is of a heavy texture and low in situation. According to the Director of Agriculture only about 20 per cent of the holdings have an yield of about 15 maunds per acre while 80 per cent have an average not exceeding 8 mds. The Chief Administrator before me would not believe it and held that the yield must be higher, and an obliging subordinate officer of the Agricultural Department dutifully gave him a note in support, but the Director of Agriculture stuck to his view. To the Chief Administrator's statement that at least 60 per cent of the lands given to displaced persons must be yielding 10 mds of paddy per acre if not more he observed that "the lands would then be very good indeed and there would have been no scope for us to find hundreds of acres in this tract unutilised. My view which I had submitted to the Chief Administrator about the potentialities of paddy production still holds good."

Detailed Analysis

A more detailed analysis of the condition of agricultural settlers and the yield from the lands will, therefore, be attempted for each of the four zones though absence of reliable statistics is a great handicap. Selective crop-cutting experiments on 5 per cent sample survey basis generally exaggerate the yield and are highly unreliable. Whether this is due to a natural desire on the part of the agricultural extension officers to justify their existence or encourage complacency in an easily convinced top-level administration it is difficult to say, but most zonal Administrators have been sceptical of crop-cutting figures and relied more on their own comprehensive estimates made by their sevaks by house to house survey under the guidance of Assistant Administrative Officers after the crop is harvested. The difference in respect of some villages is indeed striking. In one Umarkot village, while crop-cutting showed an average of 8.26 mds per acre, house to house survey showed 3.16 mds. In two others while crop-cutting showed an yield of 15.27 mds and 14.8 mds respectively per acre, house to house survey showed 10 mds. In another prosperous village the house to house survey estimate was 14 mds against the crop-cutting result of 17.14 mds. The Agricultural Development Officer's report for 1963-64 shows that only 439 families in Umarkot zone received 30 mds of paddy or less while the Zonal Administrator gives the number of such families as 768. It was because of these discrepancies and the insistence of some villagers that the actuals were even less than what was recorded on house to house survey that I directed a simultaneous comprehensive verification of the entire stock of paddy in settlers' houses to be completed by the end of December 1963 or the beginning of January 1964. The result was startling and will be referred to later in the course of this discussion. True, this verification shows the position three months after harvesting during which, apart from what was consumed, some paddy must have been sold, but the suggestion of the then Chief Administrator that the settlers concealed their paddy in adibasi houses is too absurd and has only to be stated to be disbelieved. It was a snap verification without notice, and in any case there is not so much mutual confidence between the settler and the adibasi as to league them together in a conspiracy of silence.

The figures should therefore be taken with some caution and in case of conflict the house to house survey figures should be preferred. It should be remembered that for the purpose of assessing the nature of rehabilitation correctly averages are not a safe guide as they mask the condition of the economically weakest group. When the declared intention is to start each individual displaced family on the road to rehabilitation by giving all families identical advantages in the shape of equal quantities of land and equal loans or grants or services, success of rehabilitation must be judged by the condition in the lowest bracket. One should ascertain how many people are unable in spite of honest effort to make both ends meet from their agricultural land and other subsidiary pursuits carried on along with agriculture.

We must also have a clear idea as to how much paddy a family needs in order to make both ends meet. A conservative estimate for a family of 4.5 persons puts it at 36 mds for food, 7 mds for seed, and 18 mds for sale to meet his cash expenses—a total of a little over 60 mds per year. Some supplementary items of food may probably be raised in the kitchen garden provided there is a well for watering the garden. Supplementary cottage or small-scale industries may also meet part of the need if favourable conditions for such employment are created. But if industrial employment is whole time with little respite left for ploughing and sowing as is the case with a substantial portion of people in Boregaon and Jugani, it is obviously a failure of agricultural rehabilitation.

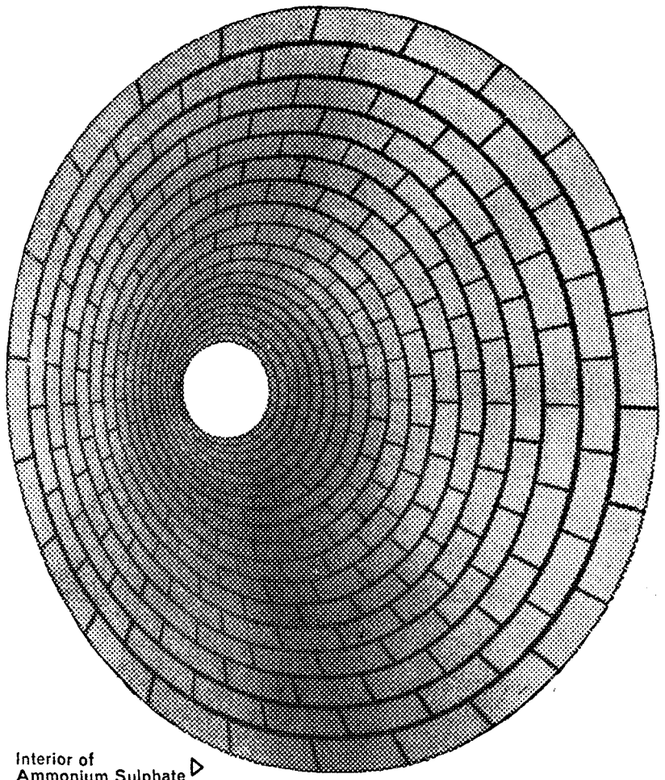
(a) Pharasgaon Zone

Pharasgaon zone comprises three villages: E Boregaon, W Boregaon and Jugani. This is the earliest settlement where 205 agricultural families and 46 non-agricultural small-trader families were moved in 1959. The latest figures suggest that the number of small-trader families has come down to 30 or 34.

In 1961 and the preceding years the yield of paddy was less than 5 mds per acre while the district average was 10. In 1962 an experiment was made on 129 plots to improve the yield by the application of manures and fertilisers (ammonia sulphate, super phosphate, oil cake and green manure) and the conservation of water through proper field bunding. The result, so far as yield was concerned, was encouraging with an average of 11.38 mds per acre, though the Zonal Administrator does not put it higher than 10.5 mds approximately. But the expenditure on manures, fertilisers, seed loan and labour was enormous, and there was no satisfactory supplementary crop. Only 'mesta' and 'til' grew well and 'urid' thrived when it was treated with super-phosphate. Castor, niger, cotton, vegetables and spices did not do well while maize and 'arhar' suffered damage from cattle trespass. In 1963-64 when the experiment of manuring was not repeated and 53 per cent of the area was sown with paddy and 7 per cent with other crops, the yield was again poor, averaging 5.44 mds per acre according to crop-cutting trial and 3.37 mds according to house to house survey. The Zonal Administrator's report shows that out of 1,214 acres as much as 200 acres (32 plots) were unproductive, 131 plots (or families) received upto 30 mds, 16 plots yielded between 31 and 40 mds, 5 plots between 41 and 50 mds, 10 plots between 51 and 60 mds and 11 plots above 60 mds. About 46 persons tried to grow niger but not very successfully. When actual stock verification was made on September 1, 1964, it was found that on that day 193 families had less than 10 mds in their possession and in the remaining 12 families the stock varied from 10 to 19 mds.

What the position will be in 1964-65 I have no means of verifying, but when I left Dandakaranya it was not very encouraging. By the end of July when agricultural operations should have been in full swing, less than a fourth of the agricultural settlers had taken exclusively to cultivation. Thirty settlers of Jugani had not done any cultivation at all, many had sold their bullocks or were thinking of

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doing so, while others who were willing to plough by working night shifts at the Industrial Centre were finding themselves handicapped for want of seed paddy and plough cattle. People relied more on industrial employment in the wood-working centre at Boregaon or on salaried employment. Out of 205 agricultural families 39 had secured regular salaried exployment within or outside this zone, members of 117 familes were working in the industrial centre mostly on daily wages, and 43 were earning their livelihood either by cultivation or by independent trade or business such as grocery, tailoring, sale of fish or milk, plying carts, or by working as masons or petty contractors. Most agricultural families worked night shifts in order to attend to their fields by day, thus cutting down their period of rest; and I have seen a case where husband and wife worked in alternate shifts in the industry and weaving sections at Boregaon in order to take their turn with the baby, the husband driving the plough with the baby on his shoulders. Very little supplementary income could be received from subsidiary cottage industries. In 1963-64, out of 46 persons who received cottage industries loan, only 12 persons earned a moderate income while all the others suffered loss or ate up their capital. But for the Industrial Centre at Boregaon, despite its low rate of wages, most of the agricultural families in these three villages would have starved.

(b) Umarkot Zone

The second area to be taken up for reclamation was Umarkot where there are to-day 48 villages, half in Umarkot sub-zone and half in Raigarh between which there is a broad belt of reserve forest about 20 miles wide.

The uneven distribution of good and bad lands in this zone without regard to whether a family got a reasonable proportion of land on which he could grow paddy is noticeable. The soil scientist found in the course of his survey of Umarkot sub-zone that out of 1,240 families in 23 villages 176 had nothing but high land which was altogether unsuitable for paddy, 51 had only one acre of paddy land each, 107 had 2 acres, 176 had 3 acres, 143 had 4 acres, 117 five acres and 470 six acres or more. Taking the average yield to be 10 mds per acre which is somewhat optimistic, a settler family should have at least 4 acres of paddy land to give him just enough for his food requirements. On this basis more than 41 per cent of the settlers of Umarkot sub-zone are without the required minimum. It is not surprising that for a substantial proportion of the settlers of this zone the minimum needs are not satisfied from the produce of the land.

In 1961-62 when only Umarkot sub-zone was developed and there were 1,265 families in 24 villages, the average yield was 10.55 mds per acre according to crop-cutting experiment. (In the Soil Scientist's report it is given as 10.36 mds). Even so, at least seven villages had a much smaller average varying from 6 to 8 mds per acre and 249 families got less than 35 mds each. The number of families getting between 35 to 70 mds was 807 while the remaining 209 families got more than 70 mds. Two hundred and forty nine families would be about a fifth of the total number and they could not get from the land even their minimum food requirements, not to speak of an extra quantity for satisfying other needs or preserving seed paddy.

In 1962-63 there was a drop in the average yield per acre. The number of villages had by then increased to 47 and the number of families to 2,546. For 24 villages of the Umarkot sub-zone this was the second year of cultivation while for Raigarh sub-zone it was the first year. Paddy was the main crop. The total area under it was 12,134 acres and the total output 115,371 mds yielding an average of 9.50 mds per acre. Out of 2,546 families as many as 1,547 are reported to have got less than 50 mds. But this broad statement does not sufficiently emphasise the distress in some of the worst affected villages. As many as 15 villages had an average yield varying from 3.5 mds to less than 8 mds per acre, 5, 6 or 7 mds being the general rule.

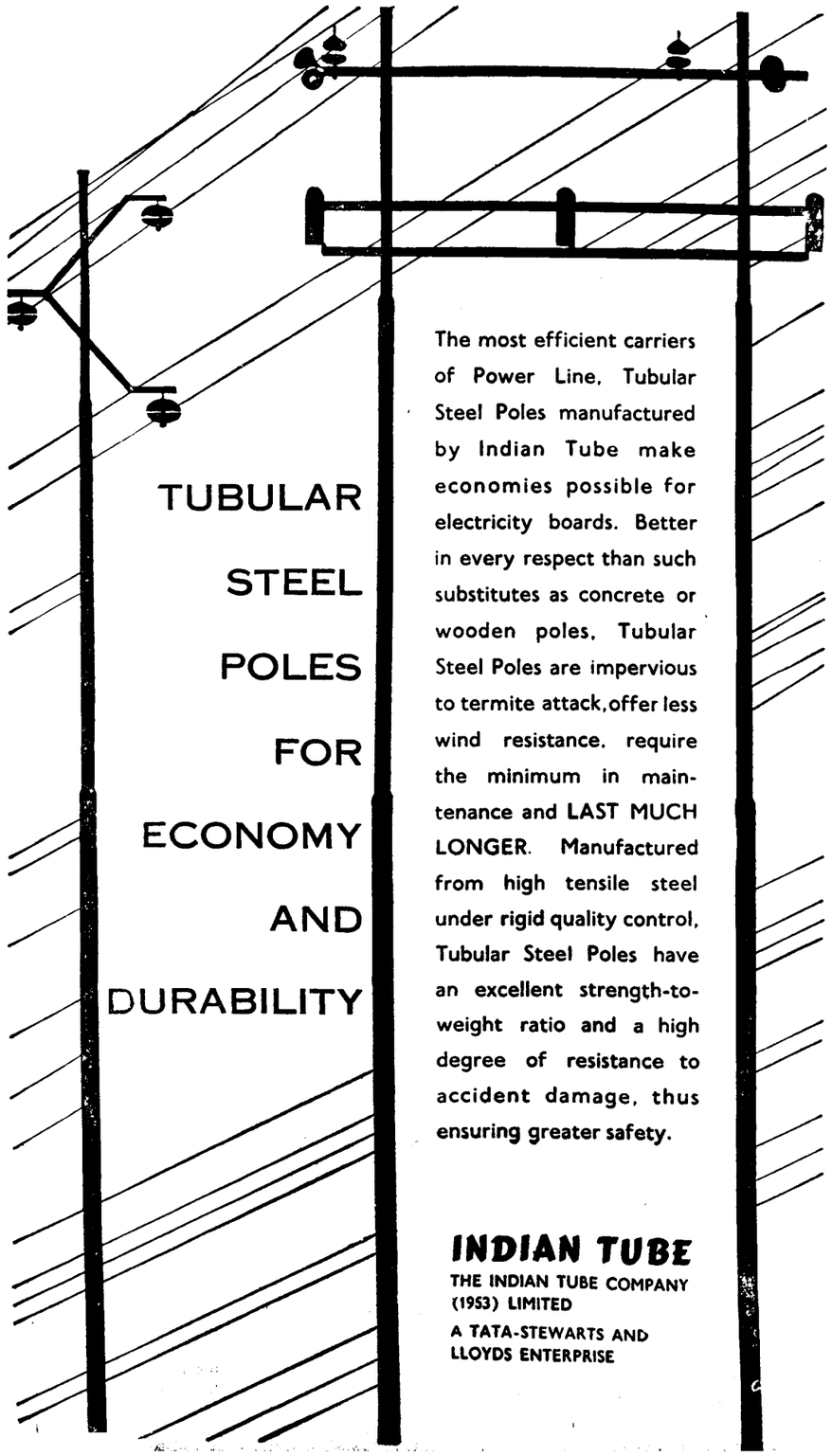
It was in 1963-64 that the accuracy of the figures first came under question. The crop-cutting experiment showed an average yield of 11.35 mds per acre while house to house eye test showed 10.6 mds. The total acreage was 17,397 of which 14,071 or 81 per cent was under paddy and the rest under other crops like niger, urid, mesta, til, mung etc. Sixteen villages, i e, about a third of the total number got less than the zonal average, their yields varying from 3.16 to 9.28 mds per acre. The total number of families reveiving less than 30 mds was 768 and of those getting under 50 mds 1,512.

But actual physical verification of stock carried out between December 27, 1963 and January 4, 1964 showed a very different picture. At that time only 121 families or 4.3 per cent were found to have a stock of 50 mds or above. Then in descending order came 108 families (3.8 per cent) with stock between 40 and 49 mds, 219 families (7.8 per cent) between 30 and 39 mds, 452 families (16.1 per cent) between 20 and 29 mds, 798 families (28.4 per cent) between 10 and 19 mds, and 1119 families (39.7 per cent) less than 10 mds. In the last category there were 121 families who had no stock at all and more than 370 families who had less than 5 mds. Even if allowance is made for the quantity consumed and sold for cash expenses the result of stock verification indicates that crop-cutting experiment figures need drastic modification. To suggest a post harvest spending spree among settlers or concealment of paddy in adibasi houses to account for this wide variation seems to be insufficient.

Supplementary Occupations

It may be said that besides paddy other crops were grown and that besides cultivation other supplementary occupations were available. What is their nature and what effect did they have on the settlers' colony?

Assuming that all the lands were cultivated (about which one cannot be sure) 19 per cent of the allotted lands were sown with other crops, the most important being urid grown on, 1,440 acres, mesta on 526 acres, niger on 760 acres, 'mung' on 224 acres and til on 285 acres. Crops like Arhar, ground nut, ragi and maize were tried on so small a scale that they may be left out of account. Even Mung and til come under this category having regard to the approximate price of the yield. It is only mesta, urid and niger which yielded sizable crops of 4,288 mds, 3,600 mds and 3,040 mds respectively. The settlers' income from these non-paddy crops must however be calculated on the basis of what they would have obtained in the village or in the neighbouring hat and not, as the Agricultural Development Officer had done, of the price obtaining in the distant urban market or at the jute mills. His conclusion that the average income of a settler family in Umarkot was Rs 614 per year in 1963-64 suffers from the fundamental fallacy of taking the ruling price of the distant urban distribution centres as the price which the



farmer obtains in the village. This is obviously not the case, for the middleman must have his cut and the carrier his transport cost. The additional income of Rs 100 supposed to have been received from the kitchen garden is pure guess work and is totally false if supposed to apply universally. Only one man raised a banana orchard and lived on its produce but he did nothing else. Several tried their hand at large-scale kitchen-gardening, but failed because the wells they had dug in their homestead plot collapsed for want of support. By and large kitchen gardens as an additional source of food failed for want of water and no steps have yet been taken, despite a recommendation to that effect, to provide the necessary funds to sink a well. For families whose crops had failed wholly or in part the only means of staving off starvation was casual employment as day labourer either in the Mixed Farm at Umarkot or in earth excavation work at the Bhaskal Dam or in digging head-water tanks in villages under the Agricultural Department, but they could absorb only a fraction of the people affected. The distress in Umarkot last year for a very considerable proportion of families defies description.

What about the prospects of the current agricultural year, 1964-65? The late monsoon and the long gap between the first shower and the next wet spell caused some anxiety but it did not last long. All the settlers have ploughed their lands, including those who had no adult male member in the family. The families who were pauperised by a partial failure of crops in 1963-64 and were supporting themselves by the casual labour mentioned above were maintained by a short-term loan during the three crucial months of the agricultural season. The result is not yet known though the harvesting is over. Some stray reports reaching me from Umarkot about large-scale desertions do not encourage optimism but full facts will be known only if accurate house to house census of stock is taken.

(c) Paralkot Zone

In Paralkot 1960-61 and 1962-63 were years of partial failure of crops, but 1963-64 was supposed to be a good year as there was sufficient rainfall spread over a fairly long period and the settlers of older villages had become acclimatised to the zone. In that year there were 2,239 settlers families spread over 45 villages, but only 2,223 families carried on cultivation as the remaining 16 families were brought to the area too late for taking up agricultural operation. The total area under paddy was over 11,000 acres which meant about 5 acres per family, though all these 5 acres were not wholly suitable for paddy.

From the estimate made by the Zonal Administrator after taking into account the crop-cutting experiment of the Agricultural Department, the sevakas' report, the settler's own statement and the result of the stock verification it appears that the total number of villages in which the average yield per family was less than 40 mds was 18. The number of villages having less than 50 mds per family was as high as 33. Taking the zone as a whole the average yield per family was 43.5 mds but if we break up the number of families into categories having a paddy yield up to 20, 30 or 40 mds the result will be as shown in the Table below.

In other words 1,093 families out of 2,223 or about 50 per cent had received up to 40 mds of paddy which is less than what would be needed for food and other requirements.

What are the causes of this comparatively low yield in a number of villages and in about 50 per cent of the agricultural holdings even in a year of bumper crop? The Zonal Administrator has listed the causes generally as (1) poorness of the soil, (2) pest attack, (3) poor growth due to late ploughing, (4) negligence on the part of the settler, (5) lack of adult male members in the family, (6) bad selection of seed, long-duration, paddy being sown on land suitable for short-duration variety, (7) bad selection of crop, paddy being sown on land suitable only for mesta, arhar or niger, and (8) inadequate field bunding for the conservation of moisture.

Of these factors he thinks that poor soil or its unsuitability for paddy is more important than is generally admitted. As for negligence he thinks that although sometimes wilful, it is more often forced upon settlers by sickness while bad lands or two successive crop failures acted as deterrents to energetic work. Weed growth was prolific which for a one-worker family was difficult to combat in time both for lack of man-power and of suitable implements. His conclusion is that although many of the settlers had come to Dandakaranya after 10 or 12 years of camp life they had generally overcome their camp sluggishness creditably and were doing their best.

This shows that given land which is not sub-marginal and an Administrator who is knowledgable, sympathetic and hardworking, rehabilitation on agricultural land is possible. Supplementary income for about 100 persons was available towards the end of December 1963 in the Industrial Centre started that month in one of the villages, and the number rose steadily till the end of May 1964 when most workers were disbanded in order to attend to cultivation. Almost 50 per cent of the settler families had also received milch cattle which is another source of supplementary food.

(d) Malkangiri Zone

This was the latest zone to be developed where work is still going on though the present indications are that after the lands whose release has been asked for are obtained the possibilities of further extension of Malkangiri will have been exhausted. At the beginning of the last agricultural season (1963-64) only 23 villages could be opened and 1,023 families allotted agricultural land which they cultivated in groups. Since October 1963 more villages have been opened though somewhat gingerly as tubewells could not be sunk quickly

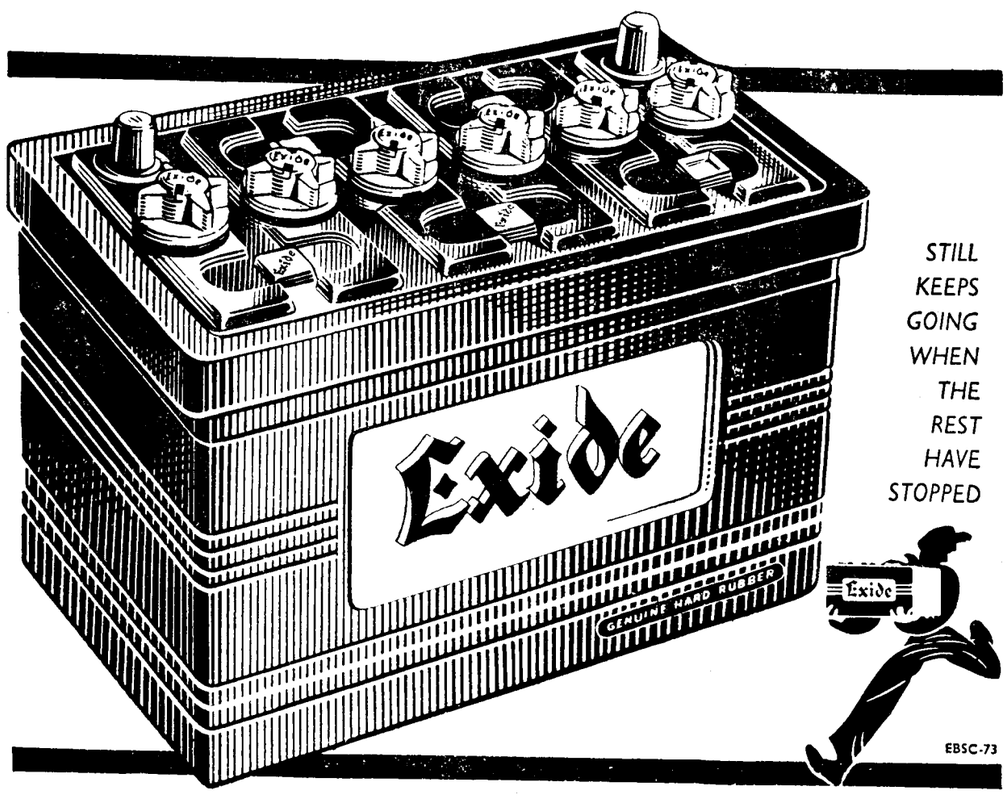
No of Villages	Total No of Families	Families Getting Up To 20 mds	Families Getting Between 21-30 mds	Families Getting Between 31-40 mds
Group I villages (numbering 15)	669	150	139	144
Group II villages (numbering 19)	979	85	126	204
Group III villages (numbering 11)	575	24	58	163
Total (45 villages)	2,223	259	323	511

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enough on account of the underlying rocky strata and the withdrawal of the drilling rigs to Mana after the new influx, but their agricultural potentialities cannot be assessed till the current agricultural season is over. The figures below relate to the agricultural season 1963-64 in these 23 villages.

These families worked in groups during the year. They raised 27,422 mds of paddy on 4,691 acreas, giving an average of 5.85 mds per acre.

The grouping of families according to quantity received works out as follows:

Quantity obtained	Number of families	Percentage
Up to 30 mds	671	*65.6*
Between 31 & 50 mds	180	*17.6*
Between 51 and 60 mds	86	*8.4*
Above 60 mds	86	*8.4*
	1,023	*100.00*

This is sufficiently discouraging but a more detailed break up of the number of families in the lowest brackets shows the position to be worse :

Number of families receiving upto	10 mds of paddy	180
"	from 10 to 15 "	242
"	from 15 to 20 "	209
		631

It is possible that the uneven quantity of the land is responsible for these wide disparities, some receiving only 5 mds while some others received 90 mds, and that the disparities will be partially ironed out when a more discriminating allotment is made at the time of distribution of land to each individual family. Even so, unless the productivity can be increased the maximum that a family could receive on equal distribution out of the yield of 1963-64 could never exceed 27 mds.

The over-all position may be summed up thus on the basis of paddy yield which is a fairly accurate index. In Pharasgaon zone, out of 205 families 26 received above 40 mds of paddy in 1963-64 and 179 below it. In Paralkot, out of 2,223 families 1,130 received above 40 mds and 1,093 below it. In Umarkot, out of 2,834 families 1,993 received above 35 mds and 841 below it. If the dividing line be 50 mds 1,322 families would be above it and 1,512 families below. In Malkangiri zone, out of 1,023 families 352 received above 30 mds and 671 below it. If the dividing line be 50 mds 172 families would be above it and 851 families below. The average yield per acre was 3.37 mds in Pharasgaon, 10.3 mds in Umarkot, 8.35 in Paralkot and 5.85 in Malkangiri. There is no evidence of large scale vegetable gardening which was, in any case, greatly hampered by lack of water and absence of markets. In one zone, agriculture was so poor that people gave it up as a bad business and became workers in the Industrial Centre. Cottage industries started in different zones touched only a fringe of the affected population, and except where the Zonal Administrator was energetic, were either moribund or intermittently active. Where casual labour was available people whose yield was poor eked out a sub-standard living somehow; where it was not, they starved. There is no general policy of giving test relief by providing work where the spectre of famine is in sight, as one finds in the normal administration of a State. Once the full quota of agricultural loan (Rs 850) has been received by the settler for his implements, bullocks, milk cow and seed he has no more claim on the Project Administration for further loans, and whatever further accommodation he may receive is by way of grace which is not always available.

III

Where then do we go from here? Dropping agriculture altogether as a bad business as was once suggested by the Minister would not help. It would mean leaving seven thousand families in the lurch after investing crores of rupees in trying to settle them on land. Apart from the huge waste, no satisfactory alternative for these people can be visualised. Nor would callousness or indifference, such as was shown by an ex-Chief Administrator who, on receipt of a distress signal from a Zonal Administrator, sat over the file for three months and on the eve of transfer recorded a minute 'strongly' objecting to giving any short term loan because it would be "administratively unwise and demoralising". To say that "we should not place any kind of premium on bad husbandry or laziness and should in fact discourage such families by refusing them help and forcing them to stand on their own legs" assumes, wrongly, that poor yield is invariably due to the fault of the settler. And to suggest vaguely that if possible work might be provided overlooks the fact that outside work (assuming it is available) during the crucial three or four months from June to September would leave none to look after cultivation on which the family would have to depend for maintenance for the rest of the year.

Collousness or self delusion of this sort is not the answer. What is needed is a careful and factual analysis of the causes of poor yield in different areas and a determined attempt to remove these causes if possible. Such an analysis was made by the Agricultural Expert Team whose Report, published in the second half of 1963, contains within a short compass a valuable summary of the causes that are retarding agricultural progress in Dandakaranya. For want of space only a brief summary of their findings can be given.

IV

Report of the Agricultural Expert Team

The Team's finding about farm outturn agrees with what has already been stated. An outturn of paddy varying from 2 mds to 7 mds per acre, of mesta about 10 mds, of ground nuts upto 10 mds, of arhar about 5 mds, and of sesamum about 8 mds is a poor enough yield to sustain an agricultural economy even on a minimum level of subsistence. This was not due to 'bad husbandry or laziness' for they found the settler receptive to suggestions and enthusiastic in work though not yet completely adjusted to a new environment and unable to shed the agricultural practices and cropping patterns followed in East Bengal. There should be mixed cropping in Dandakaranya as an insurance against partial failure of either crop and exclusive preference for paddy should be discarded in favour of a new cropping pattern in which the cultivation of maize, arhar, castor, mustard, niger, mesta, tobacco etc all have a place. Leguminous crops like 'dhanicha' could be grown either as a cash crop or as a source of green manure. The Team laid considerable stress on careful selection of seeds suitable to the agro-climatic condition of the locality, and on the need of levelling, terracing and contour-bunding the undulating terrain in which action has 'sadly lagged behind'.

Deficiencies in the physical and chemical properties of the soil are a more formidable obstacle which requires to be tackled by a liberal use of organic and green manure and an adequate

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quantity of fertilisers. The growing of manurial and leguminous plants for restoring to the soil the humus which needs frequent replenishment would require setting apart some portion of the land every year for this purpose. For organic manure cow-dung composts are the best and should be available as fuel is no problem in Dandakaranya, but since one pair of bullocks and an occasional milch cow may not yield enough farm yard manure to cover the settler's land in full, a suggestion is made that dairy farms should be started by groups of settlers in as many villages as possible whose incidental by-product will be a sufficiency of cow-dung manure that the villagers will need. Fertilisers are a more difficult problem. For curing acidity about 2 tons of lime per acre are necessary while an application of 100 lbs of ammonium sulphate has been found to double or treble the yield of paddy in Boregaon and Jugani in 1962. "To the extent that these measures are not adopted in practice by all the settlers through lack of conviction or resources the process of rehabilitating displaced persons as farmers will be delayed". Lack of conviction may be overcome by demonstration held in selected, agricultural holdings in villages, but resources can be augumented only by raising the ceiling of loan or subsidising the price. The amount of loan was fixed *ad hoc* and was too small even when it was fixed but with passing years and the rise of prices it has become utterly inadequate.

Greatest Snag

It should be the duty of the Mixed Farms in different zones to investigate scientifically the problems which face the settler. Experiments must not be an inefficient academic exercise in growing exotic varieties as in the Dumriput Horticultural Farm which is situated far away from any zone but directed particularly to solving local problems that are being faced now or are likely to be faced in future. The Mixed Farms should also serve as units for multiplication and testing of seeds and raising livestock and poultry, and as demonstration and training centres where settlers will work for wages and their younger generation will learn with the help of stipends.

But the greatest snag is lack of irrigation. The Team criticise the DDA's preference for big and costly irrigation schemes and its complete indifference to minor irrigation. More than Rs 5 crores were allotted for three schemes, technically called medium, of which only one at Umarkot, viz, Bhaskal Dam (estimated to cost about a crore) was in operation and likely to be completed in 1965 or 1966. Of the other two, actual dam construction of the Rs 2.02-crore Project on the Sattiguda in Malkangiri—pace the statement made in Parliament—is not likely to be undertaken before 1966, and the Rs 2 crore project in Paralkot has only just come out of its chrysalis after having obtained the necessary imprimatur from the CWPC. When it will be undertaken and completed is anybody's guess. Of the benefits of Bhaskal Dam only a tenth will go to displaced persons while the rest will go to others, for out of a total estimated command area of 11,000 acres, only 1,100 acres will be land belonging to displaced persons. It is said that another 400 acres may probably be added by lift irrigation if additional capital is invested and electricity is available at the Dam site what is yet a far cry. Among minor irrigation schemes only one at Pakhanjor estimated to cost about Rs 7.5 lakhs has so far been undertaken but the quantity of displaced persons lands likely to be irrigated by it is small. Twenty-four minor irrigation schemes have been under investigation for a long time, but either because the head of the Irrigation Department is not interested—he confessed he had no experience of minor irrigation and wanted to be relieved of it—or because the investigating engineers are incompetent and lethargic, little tangible progress has been made.

Yet, as the Expert Team say, the DDA would have been better advised if it had concentrated on minor irrigation which have many advantages over bigger and costlier schemes. The time taken in the construction of such schemes would be much less and the benefit would flow immediately, the initial and recurring cost would also be less, the benefit would be solely conferred on the lands reclaimed for displaced persons and adibasis, and the problem of water distribution and utilisation less difficult of solution. But whatever the method adopted irrigation in Dandakaranya is an absolutely imperative necessity without which any expectation of agricultural rehabilitation in the majority of cases will prove a mirage. The settlers will fight a losing battle against uncertain and short-duration rainfall and reap a harvest which will not last them for more than six or eight months in the year. With irrigation they can switch over from rain-fed broadcast paddy to transplanted paddy whose yield is more. They can have a second or rabi crop which now they are unable to do. They can start field bunding or ploughing earlier with the help of water from big storage reservoirs and irrigate the land at the maturing stage if the rains hold off unaccountably early. Agriculture will not be a 'gamble in the rains' as it now is. A small well in the homestead will also help growing of vegetables in the attached kitchen garden in which the women of the family may work.

Organisation for Marketing

But all this will be partly useless without a proper organisation for marketing. If production had been for home consumption alone this would have mattered less, but on the assumption that improved methods would increase output and that crops other than paddy would a have to be grown in larger quantities organisation of sale becomes a matter of urgent necessity. Even the weekly 'hats' spread over the area are not too close to the newly settled villages and settlers who have invested in carts ply a lucrative carrying business; but the bigger urban markets or distribution centres are too far off for these carts to reach. Middlemen are few and there is no competition among them so that settlers are at their mercy. In 1963-64 when the ruling price of 'mesta' at the Mill site was Rs 22 per md many settlers in Umarkot sold it at half the price till by direct negotiation with the Jute Mill owner one of their middlemen was persuaded to lift the balance at prices varying from Rs 15 to Rs 17. Cases have been reported where settlers brought pumpkins all the way from village to 'hat' but finding no demand dropped them by the way side to avoid the burden of carrying a heavy head-load home. In Malkangiri the Zonal Administrator occasionally utilised returning empty trucks to take the produce of the settlers to Jeypour or Jagadalpur which were a hundred or two hundred miles off, but such casual help is too uncertain to be a dependable substitute for disposing of farm produce at a reasonably good price throughout the year.

Should the farming be individualistic or joint? The Expert Team's feeling is that co-operative or joint farming would solve many of the settlers' difficulties if the problem of dealing with the malingerer and of equitable distribution as between small and large families could be properly tackled. But an even greater difficulty is the instinct of

individual ownership which is strong among farmers almost all the world over. The Team want to meet this by suggesting that while the settler will preserve his right over his individual holding, the pooling of land, manpower and other resources will enable the settlers working as a group to derive the maximum benefit. If the settlers can be persuaded to accept this arrangement it will no doubt be a great step forward though preliminary discussions with the settlers have not proved very encouraging.

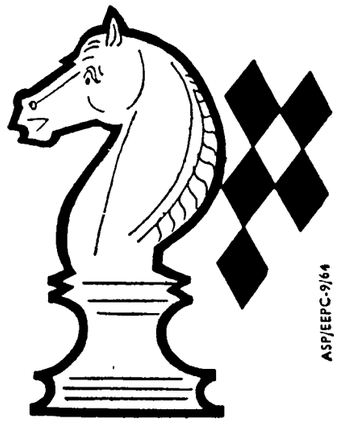
The latest suggestion of the Ministry is however in favour of Collective Farms run directly by the Project in which displaced persons would be employed as labourers and, if possible, allowed a share of the produce. The suggestion has been made not so much because the Ministry is enamoured of the Collective Farm idea as such as because of a feeling that the new migrants were all land-less labourers of East Bengal who are tempted to cross the border by the lure of land obtainable free. In judging how far this scheme is workable I need only refer to the Project's experience with its Mixed Farms at Umarkot and Paralkot which may serve as fair models of the economics of a Collective Farm of that size run by officials with hired labour.

The pro-forma accounts recently drawn up for these two Farms upto March 31, 1963 show that at Umarkot the excess of expenditure over receipt, as a result of about two years' working, was Rs 2.27 lakhs and in Paralkot it was about Rs 92,000 as a result of a year and a half's working. Even if 40 percent is deducted for the experimental part of these Farms and the frozen assets of the horticultural section which would not bear fruit till four years later, the resultant loss would still be high. In both these cases labour was generally paid at the minimum permissible rate and surplus labour was laid off or discharged when the peak agricultural season was over. Obviously the same method of wage payment cannot be adopted in the proposed Collective Farms, for the refugee families inducted into the Farm cannot be cast adrift after the agricultural season is over. The rate of wages must also be such as would enable the family to live. The wide gap between expenditure and receipt now seen in the Mixed Farms will increase rather than decrease when the Farms are collectivised, and the promised share of the produce in addition to wages will remain a futile dream.

The wise course would be to recognise the tenancy rights of the displaced persons (either as individuals or as members of Co-operative Societies) so that self-interest and the sense of property may be harnessed to increase production. The displaced persons have not yet had their tenancy rights secured by the grant of pattas because the Ministry is as yet unable to decide whether the cost of reclamation and development of agricultural land should be charged to the settler. It would be a cruel joke if people up-rooted from East Bengal who have lost all their assets are made to pay for the development of Orissa and Madhya Pradesh.

Even by putting forth one's best energies and the most liberal capital investment for bunding, levelling, terracing, irrigating, manuring and marketing, etc. a sizeable fraction of the holdings will still be unable to provide a living to their owner. What I have attempted to prove is that the number will be much less than they are now, if the steps suggested by the Expert Team are adopted. For the holdings below the margin some alternative means—either mixed farming with an emphasis on dairying, poultry farming, stock breeding and vegetable growing, or industries or a combination of both—may have to be found. As regards mixed farming a lot of leeway has still to be made, for what has been done upto date has not even scratched the surface. When more than 50 percent of the tanks of settler villages, excavated at an average cost of Rs 20,000 or more dry up in summer, pisciculture becomes out of the question except in big State-owned tanks from which the displaced persons derive no benefit. The supply of milch cows has not escaped criticism either, and the Agricultural Expert Team expresses in somewhat guarded language its fear that the cows and heifers which were supplied free under the stray cattle catching scheme in New Delhi were substituted *en route*. As regards industries, the imbalance in the economy of Dandakaranya with its overwhelming emphasis on agriculture which hardly pays its way and the neglect of industries and other urban pursuits which could provide a living wage has long been notorious, but that is a large question which has to be treated separately.

(To be Continued)



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Unemployment Statistics in India

V R K Tilak

This article refers to the various sources of information regarding unemployment in India and examines the estimates that are available from each of these sources. The figures of unemployment are examined particularly with reference to the period 1951-61, the first decade of economic planning.

HOW many persons are unemployed? The answer to this question depends primarily on the concept used in regard to unemployment. Among the various characteristics of human population, it is perhaps the most difficult of measurement. In developing countries where rapid population growth is accompanied by a large number of new entrants to the labour market, the structural unemployment is growing in size. In most of these countries where agriculture is the predominant economic activity, employment is governed by seasonal fluctuations. Even employment in the manufacturing sector is highly sensitive to seasonal changes as it is mostly confined to the processing of agricultural products. Employment in construction activity is also seasonal in character. The seasonal aspect of the problem adds to the difficulties of measurement of unemployment. Experience shows that it is precisely in countries where unemployment is assuming large dimensions, there is no systematic basis for estimating unemployment, while on the other hand, unemployment is measured with more frequency and greater accuracy in countries where the problem is not so acute. In the latter, there are also several sources to check the estimate of unemployment—unemployment insurance records, trade union returns, labour force surveys, Employment Exchanges, etc.

It is the purpose of this paper to refer to the various sources of information regarding unemployment in India and to examine the estimates that are available from each of these sources. The figures of unemployment are examined here particularly with reference to the period 1951 to 1961 which represented the first decade of our economic planning. The number of persons unemployed in our country is provided by the following sources:

(a) Population census;

(b) National Sample Survey;

(c) Employment Exchanges; and,

(d) Plan estimates.

(a) Population Census

A beginning was made in the 1951 census when the optional question left to the discretion of States was devoted to the problem of unemployment in Mysore, U P and Bombay (now Maharashtra). Information was collected regarding age, sex and educational qualifications of the unemployed besides the duration of unemployment and the type of work sought by them. However, in the 1961 census, a total count of the unemployed was made for the first time throughout the country. Unemployed persons were classified into two groups, new entrants to the labour market seeking employment, and persons who were employed before but were out of employment and seeking work at the time of the census.

According to the 1961 census, the number of unemployed persons was 0.57 millions in rural areas and 0.83 millions in urban areas making a total of 1.4 million in the country as a whole. To what extent there has been an increase in the volume of unemployment between 1951 and 1961 is not known for the country as a whole but there is some indication in regard to the States of Mysore, U P and Maharashtra for which figures are available in the 1951 and 1961 census as shown below:

Table 1: Number of Persons Unemployed in Mysore, UP and Maharashtra

State	1951	1961
Mysore	6,376	44,130
U P	33,155	84,472
Maharashtra	80,460*	1,73,281

*This related to the then Bombay State.

It is obvious that the total figure of unemployment obtained from the 1961 census is on the low side mainly because it is not practical in a massive operation like the census to identify all unemployed persons and partly because of the concept used in the census. For the same reason there is no point in comparing the figures of unemployment between 1951 and 1961 even in the States for which information is available. Although it may be too early to think of the next census, it is a matter for consideration in what manner better results could be obtained in the 1971 census in regard to unemployment.

(b) National Sample Survey

The National Sample Survey has provided the proportion of unemployed persons separately in the rural and the urban population in the country as a whole since its fourth round of enquiry in 1952. The following are the estimates of unemployment on the basis of the National Sample Survey rounds of enquiry as applied to the total population interpolated between the period 1951 and 1961 on the assumption of rural-urban composition as observed in 1961:

Table 2: Estimate of Unemployment on the Basis of N S S Data

Year	N S S Round of Enquiry	Estimated unemployment (in millions)
1951	—	Not available
1952	Fourth	0.36
1953	Sixth	2.71
1954	Seventh	1.56
1955	Ninth	2.33
1956	Tenth	4.26
1957	Eleventh & Twelfth	6.44
1958	—	Not available
1959	Fourteenth	6.82
1960	—	Not available
1961	Sixteenth	6.48

From the above table it may be seen that the figure of unemployment has not moved in one direction, but this could be explained by changes in definitions and concepts used in the various rounds of enquiry. However, the number unemployed went up from 4.26 to 6.48 millions between 1956 and 1961. With the standardisation of concepts and definitions of unemployment, it may be expected that the future rounds of enquiry will provide comparable estimates over a period of time. There is, however, need to examine in what direction these concepts could be improved and better adopted to yield more reliable estimates of unemployment.

(c) Employment Exchanges

Another source is provided by the number of applicants seeking work at

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employment exchanges. Although there is no difficulty of concepts or definitions here, the estimate of unemployment provided by the exchanges has to take into consideration a number of factors, most important of which are the proportion of unemployed persons registering at exchanges on the one hand and the proportion of employed persons on the live registers on the other. The following table shows the number of applicants on the Live Register of employment exchanges in the country as a whole at the end of March in each year from 1951 to 1964:

Table 3: Applicants for Jobs on the Live Register of Employment Exchanges

Year	No of Exchanges Functioning	No of Persons on the Live Register (in million)
1951	122	0.33
1952	126	0.34
1953	126	0.42
1954	127	0.52
1955	128	0.59
1956	136	0.70
1957	152	0.74
1958	197	0.93
1959	223	1.21
1960	270	1.38
1961	307	1.56
1962	334	1.85
1963	349	2.48
1964	356	2.45

The above figures indicate a continuous increase in the number of persons remaining unemployed at exchanges, but it is not clear to what extent it is due to an actual increase in unemployment and to what extent it is due to the opening of additional exchanges, increasing popularity of exchanges following the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 and so on. However, it is known that the proportion of unemployed in urban areas who registered at exchanges increased from 27.0 per cent in 1953 to 33.5 per cent in 1951 as observed by the National Sample Survey. It is also known that nearly one-third of the applicants who are registered at exchanges are already employed and are seeking better avenues of employment as revealed by the survey conducted by the State Statistical Bureaux in a number of States. These proportions however require a constant review and uniform practices are required to be followed by exchanges in all the States to keep the live register uptodate.

(d) Plan Estimates

For any estimate of unemployment, the three sources mentioned above provide the raw material which requires to be processed for use in planning. The estimates of unemployment given in different plans are mentioned below:

Table 4: Estimates of Unemployment

Year	At the Beginning of	No Unemployed (in millions)
1951	First Plan	Not available
1956	Second Plan	5.3
1961	Third Plan	9.0 (original)
		8.0 (revised)
1966	Fourth Plan	12.0 (anticipated)

It will be interesting to examine how the procedures in estimating unemployment have been evolved from Plan to Plan partly based on the results available from the various sources and partly on the basis of the "carry forward" effect of the previous plans. To start with, the First Plan did not make any estimate of unemployment. The Second Plan estimated unemployment at 5.3 millions which comprised 2.8 millions in rural areas and 2.5 millions in urban areas, the former on the basis of the findings of Agricultural Labour Enquiry 1950-51 and the latter on the basis of National Sample Survey in 1953. The latter figure was also corroborated by live register of employment exchanges after making due allowance to the proportion of the total unemployed registered at exchanges. At the time of formulating the Third Plan, however, there was no direct reference to the N S S or employment exchange figures; but the backlog of unemployment from the Second Plan (5.3 millions) was carried forward after adding to it 1.7 millions to make up for the under-estimate previously made of the new entrants to the labour market during the plan period and 2 millions for the short fall in the previous plan achievements. Thus the total unemployment at the beginning of the Third Plan was estimated at 9 millions. This figure has been subsequently revised to 8 millions taking into consideration the results of N S S since available and the earlier over-estimate. It is now anticipated that the Fourth Plan will start with a backlog of 12 million unemployed persons which is again obtained by the "carry forward" of 8 million from the Third Plan to which the short-fall of the Plan achievements in relation to the new entrants to the labour market to the extent of 4 million has been added on.

Educated Unemployed

A brief mention may be made here with regard to unemployment among educated persons, i e, those who have passed High School or higher examinations. The Study Group on Educated Unemployed set up by the Planning Commission in 1955 estimated the educated unemployed at 0.5 million in 1956 which was also the figure referred to in the Second Plan. This estimate was based on employment exchange figures after necessary adjustment for the proportion of unemployed registered at exchanges as revealed by the N S S. Subsequently, the Third Plan put this figure at 1.0 million in 1961 on the same basis as that adopted by the Study Group. In this context, it may be relevant to refer to the number of educated applicants remaining on the Live Registers of exchanges.

Table 5: Number of Applicants on the Live Register of Employment Exchanges

Year	*(in millions)*
June 1956	0.25
June 1961	0.56
June 1964	0.80

As already mentioned, the above figures require to be examined taking into consideration *inter alia* the proportion of the total unemployed registering at exchanges. It is known from the National Sample Survey that the proportion of unemployed matriculates and intermediates registered at exchanges went up from 40 per cent in 1953 to 64 per cent in 1961 and of graduates from 22 per cent to 60 per cent during the same period.

Conclusion

The following are some of the broad conclusions that may follow from the above analysis of the sources of information on unemployment and the figures provided by them:

(i) All the three available sources, viz, the Census, National Sample Survey and Employment Exchanges have yielded valuable information on unemployment, but the activities of these agencies require to be co-related and their results analysed to yield firm estimates of unemployment. For this purpose these sources should be strengthened and properly co-ordinated.

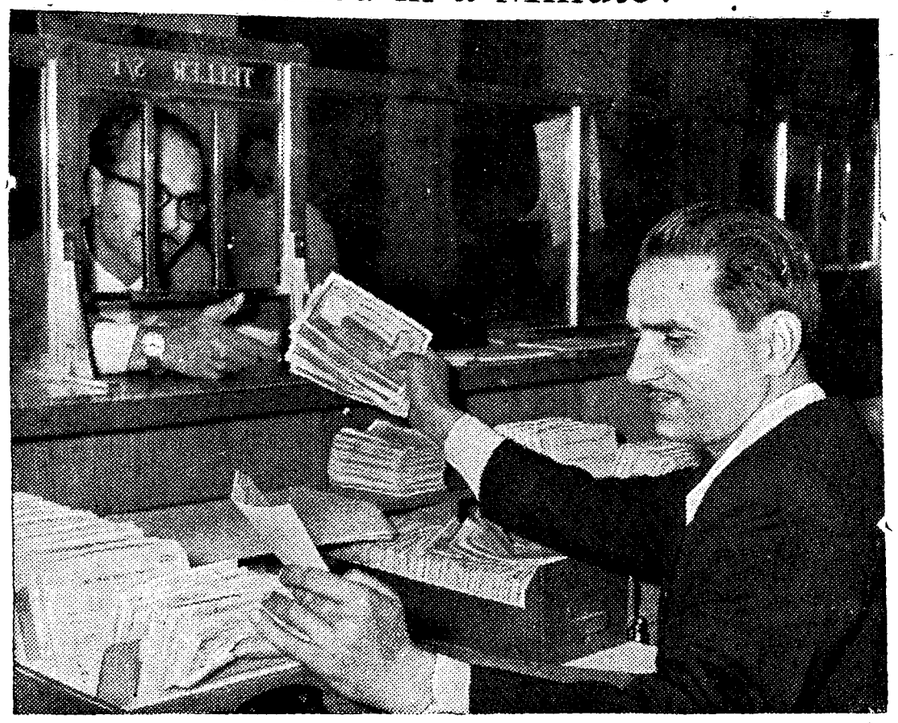
(ii) There is need to make one agency responsible for estimating the figure of unemployment and for reviewing it on a continuous basis at the national level.

(iii) The figures of unemployment now available do not permit a time-series to be developed partly owing to difference in the concepts used by the same agency or by different agencies and partly due to other factors. It is absolutely essential that a series of unemployment estimates is built up as it is one of the most important economic indicators.

(iv) While the plan estimates are based on the best possible judgment of available information at the beginning of each plan, there is need to make more frequent estimates during the course of each plan. This would enable a review of the unemployment situation even before the plan comes to a close in order that remedial action, if any, could be taken in time.

(v) The estimates of unemployment have to be developed not only at the all-India level but also at the State and regional level on a continuing basis.

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Substantive Forces in Indian Administration

A Comment

Donald B Rosenthal

WHILE many of the points which C N Bhalerao makes in his article entitled "Substantive Forces in Indian Administration" *(The Economic Weekly,* October 17, 1964) are unexceptionable, the conclusion which he reaches seem to be in sharp contrast to some of his statements a few pages earlier. Space limitations undoubtedly led the author to rely upon excessively simplistic generalisations, but the internal logic of the argument also appears to be wanting.

First, while it may be true that many under-developed countries have to contend with what Bhalerao calls "semi-feudal" bureaucracies (an unfortunate label at best) this does not really seem to be the problem in India. Indeed, if one is to rely upon a Weberian definition of bureaucracy, the Indian system of administration has for a considerable amount of time (going back to the pre-British period) served effectively, if not always imaginatively in performing system-maintenance functions. The current problem, of course, is to reorient the administrative structure toward an activist role in Indian society. The answer, indeed, seems to be to "debureaucratize" the bureaucracy which is precisely the direction in which the system appears to be headed although the author's position is more than a little ambiguous on this vital point.

More Politics, Not Less

The problem, as Bhalerao later suggests, is one of infusing the bureaucracy with certain organizational goals which lie beyond the maintenance of bureaucratic organization as an end in itself. However, one possible answer to this problem is to introduce *more* politics into the administrative system and not less. This is in no sense a "modern" problem as opposed to a traditional one and thinking about Indian administration in those categories is not very helpful.

This leads me to my second point. Bhalerao seems to have relied upon an old image of the nature of the relationship between politics and administration in developed nations. Or, rather, he tends to attribute a value to the ideal of administration set down in Western textbooks without inspecting the conflicting values which are part of the real functioning of administrative systems in Western countries. This is understandable given the self-glorification which has been attached to politically "neutral" administration in many countries. Bhalerao reflects this position where he remarks:

> "The substantive processes of administration in these countries (i e, the new nations) have a character of their own, not comparable to Western administrative processes, and often bypass the neatly formulated civil service laws and constitutional provisions."

While it is probably true that each nation has its own characteristic way of arranging relationships between administrative and political activities, it is certainly not true in the United States that politicians and politics do not play a significant part in the administrative process. As people dig below the surface rhetortic in other countries, the political biases of administrative systems also become apparent. Political control over the prefectures in France and Italy (or at least the conservative biases which are built into these systems) make administration in every country considerably more than a problem in technical expertise. There is nothing unique about India or other new nations in this respect.

Thirdly, I am not quite sure what the logical connection is that the author attempts to establish between the operation of democratic politics and the development of "dynamic administration". If anything, I have suggested, nothing would be so likely to activate administration as the successful infusion of democratic politics into the overly bureaucratized administrative structure. As the Marwaris have demonstrated, nepotism is not the worst thing that might happen to an organization.

As part of the same sentence (p 1682) refering to the need for "dynamic administration" which is hindered by politicians being in power, the author seems to suggest that left to its own devices the administrative system would be able to "tackle issues in a scientific and thorough manner". What real *evidence* is there for the notion that a self-propelling administration would do so or that a more congenial political leadership would really spur administrators to enterprising activity? In practice much depends on the *quality* of political leadership, but certainly the process of selecting Cabinet members on the basis of political criteria is less important than the existence of a relatively coherent party organization or its absence. The difference between Madras and Maharashtra, on the other hand, and Uttar Pradesh, on the other, is a case in point. No one could prove that selection for membership in the Maharashtra Cabinet is less politically motivated than membership in the UP Cabinet.

Falls into Administrator's Trap

Fourthly, that the Congress party has developed an *effective* political organization in its planning mechanism is highly debatable. It is true that political links exist at all levels through the control of party nominations and that local conflicts may stall the work of the administrators and the application of bureaucratic standards, but frequently the administrator is trying to carry out those standards in a manner which Bhalerao elsewhere in the article describes as "rigid". At the same time, few politicians at the local level are really stimulated to make an important contribution to the planning process.

In general, the author falls into the administrator's trap, while seeming to deny that he is doing so. Is it clear from his argument that the politician can really come out ahead in a game where he is not permitted to interfere in day-to-day administration?

I raise this point because of my recent study of Indian local government in Agra and Poona. Obviously, the role of the corporation Chief Executive Officer is the model which Bhalerao seems to prefer, i e, the politicians are around to complain a little and to perform certain ritual duties at budget time, but ultimate power rests with the administrative head. The politicians are to lay down "general" policies, but in practice the more general the policy, the greater discretion is left to the administrator. If administrators become *politicians* under the present system, that is no worse than their becoming *policy-makers* under the suggested

system. Indeed, the former situation is to be preferred since they will be responding to the real demands which exist in the society and not to their own conceptions of what a public interest should be. The author seems to be suggesting that just such a responsiveness is desirable when he says:

> The test of an effective democratic administration is the extent to which is represents the needs and experience of the different sectors of society and serves as an effective instrument of social change.

But somehow he assumes that the administrator left to his own devices can do this better than if he is under the lead of a politician.

In passing, I might also allude to his complaint about the importance of the dominant castes in various states in selecting civil service appointees. It is debatable whether this actually is a narrower pool to draw from than the previous sources of recruitment to the IAS. Few castes are so thoroughly dominant in any state that they do not require other caste allies and a frequent "payoff" may have to be in the form of jobs and services in the administration.

Admittedly this tends to undermine the position of all-India service, as does the recent discussion about allowing applicants for IAS positions to take examinations in the vernacular, but it is no more inherently unfair than the personality test which has formed part of the civil service examination process in both India and England. There is no need to cite here the recurrent complaints in the United Kingdom that public school types wind up in higher civil services positions because they fit into the self-defined bureaucratic image.

Particularism in Administration

Fifthly, I would suggest that one of the roles of the politician is to bring particularism into the administrative process. In the United States, Congressmen and state legislators perform this function, which is often described as "casework". Some members of the United States Congress build their legislative careers on this. The practice also exists in England and elsewhere.

In a sense, as the forces for increased bureaucratization are in operation in nations demanding significant social and political change, democracy is threatened unless particular and individual interests can also be served. Indeed, Bhalerao seems to be suggesting the need for just such activity when he says: "Administrative decisions are based on too much conformity with established practices, rules and procedures which discourage examination and challenge" (1683). What I am suggesting is that politicians are appropriate element for encouraging that examination and challenge.

Next, I wonder what Bhalerao really means by the *public interest*. Why does he seems to imply that the administrators are inherently better able to serve it than the politicians? Isn't it possible that in some circumstances by acting to "please the higher authorities" the bureaucrats are actually serving the public interest?

The reasons for corruption, which is the next subject, brought up by the author for discussion are rather difficult to establish, but certainly the organizations set up to investigate the problem and lead campaigns against it are not likely to inspire much in the way of change. Both politicians and administrators are guilty in this area, but undoubtedly a considerable part of the corruption which occurs in India is due to the cumbersome nature of the administrative system. A few rupees may speed up the process in moving a document through innumerable channels. To a certain extent the continuance of the present system encourages both the politician and the administrator who milk it to their own advantage, but one solution lies in the development of a more competitive party politics which might help to alleviate this situation by challenging the established communications pattern. Of course, the *bases* of corruption in India (as in any society) go much deeper *than the* complexity of the administrative structure.

Ultimately, I would suggest a prime solution to the present weakness in the Indian political structure must depend upon the development of an effective party system in India where the opposition can *profit* from exploiting the mistakes of the present government. Congress has often revealed its own mistakes, but no one has been able to effectively check this and the process simply continues. The falling vote of Congress in elections, suggests that the public is not completely insensitive to these problems.

Finally, the achievement of those worthy qualities which Bhalerao projects for administration — "flexibility, scope for initiative and an atmosphere which encourages scrutiny and change of traditional forms when they are found unsuited" — require a *greater* infusion of political purpose into the administration of India and not a withdrawal into a modernized version of the pre-Independence district officer.

Thus while I find certain statements in the Bhalerao analysis with which it is easy to agree, I have tried to add a few cautionary notes arising from a somewhat different perspective on the appropriate relationship between politics and administration. I have said very little about the problem of developing high quality politicians who are checked in their actions by an interested public. This remains a considerable problem for every developing society.

Export of Raw Goat-Skins

TO promote and encourage the tanning and finishing of raw skins and hides into tanned and finished leather, the Government of India has decided to reduce the raw goat-skins export quota from 55 per cent to 50 per cent of the basic quota. The minimum quota has been reduced from 1,25,000 pieces to 1,10,000 pieces per shipper. This has been done in the expectation that the tanning industry will expand the existing leather tanning and finishing facilities in all the regions of the country and also establish new tanneries and finishing units so that processing of raw skins in the country can be stepped up and consequently the export of tanned skins and finished leather can be increased in preference to their export in the raw stage. Government have also been giving encouragement to the manufacture of more leather goods which can be exported.

The State Governments have undertaken programmes for assisting, promoting and establishing leather tanning and finishing factories in their States. The Central Government have also requested the State Government concerned to give liberal credit assistance and other facilities to the existing tanning and finishing units and for the establishment of new factories. The Government of India have promised all assistance in the form of import of such machineries and equipment as are not yet indigenously made for establishing more such factories.

Over the past decade, there has been a welcome development in the expansion of leather tanning and finishing industries and it is hoped that in the coming years it will be possible to reduce further the export of raw skins and promote the export of tanned skins, finished leather, shoes and leather goods.

From the Chair

Ashok Leyland Limited

Speech of the Chairman, Sir A Ramaswami Mudaliar

THE following is the Speech delivered by Sir A Ramaswami Mudaliar, KCSI, DCL (Oxon), Chairman, Ashok Leyland Limited, to the Shareholders at the Sixteenth Annual General Meeting of the Company held on 17th December 1964 at Ennore, Madras :

Gentlemen,

I have great pleasure in extending to you a cordial welcome to the Sixteenth Annual General Meeting of your Company.

The Directors' Report, audited balance sheet and profit and loss account for the year ending 30th September 1964 have been circulated to you and, with your permission, I shall take them as read.

As the Profit and Loss Account shows, the sales for the year 1963/64 at nearly Rs 17.38 crores were a little over 59% in excess of the corresponding figure for 1962/63. This result was achieved by an increase in the average output of Comet chassis per month from just over 200 in 1962/63 to 315 in 1963/64; and by a substantial increase in the sale of spare parts, arising partly from a larger allotment of foreign exchange providing for the manufacture of more spare parts in your factory. The surplus available after provision for taxation has enabled your Directors to propose a dividend of 9% subject to deduction of tax and to transfer to general reserve a sum a little in excess of Rs 36 lakhs.

Your Factory's ability to increase its output by over 50% in one year must be accepted as unusual, being in excess of what could normally be expected. In January 1964, in my speech at the last Annual General Meeting, I enumerated the reasons which had made the results for the 1962/63 year disappointing. I also advised you that it was possible to anticipate an improvement with some confidence; and I indicated that the re-establishment of a flow of materials adequate to sustain the Factory's output, the more rapid installation of plant and machinery after a period of delay in machine tool deliveries and other steps which your Company had taken to overcome the difficulties faced during 1962/63 would make 1963/64 a more satisfactory year from the financial point of view. By the end of 1963, production had been re-established at a satisfactory level; and it is to the credit of all concerned that throughout the year which ended on the 30th September 1964 there was a steady improvement.

Smooth Progress

A study of the graph of output from 1954 to 1964 included in the Balance Sheet, will show that a smooth upward curve could be drawn, on which the actual output figures would lie approximately, with the exception of actual output figures for 1961/62 and 1962/63, the former being above the smooth curve and the latter below it. This indicates that in the year 1961/62 we produced more chassis than was justified by the foreign exchange available for imported materials, this fact contributing among others which I have previously enumerated to the very serious drop in production in 1962/63. I would not wish to be over-optimistic on the basis of the 1963/64 results, but it is very satisfactory to note that they indicate a reversion to the previous steady increments in yearly output, the actual 1963/64 output being approximately equal to what the curve would indicate. It is interesting to record that your Company anticipates an output in the 1964/65 year of not less than 4500 "Comet" chassis and that this figure is close to the one which would be obtained from the curve to which I have referred, if it were plotted from an equation satisfying the actual outputs from 1954/55 to 1963/64, excluding the figures for 1961/62 and 1962/63. It is to be noted that if the 1964/65 target is achieved, the increase in production will be approximately 20% in comparison with the 1963/64 year.

It is necessary for me, at this point to emphasise that all forecasts of future developments assume the maintenance of good relations between Management and employees. While, on the whole, these relations have remained cordial since your Company started production in 1954/55, there have recently been indications of some restlessness amongst employees, leading to a regrettable tendency for workmen deliberately to reduce output on several occasions, with a view to induce Management to make concessions. The temporary shortage of rice, which has faced employees with domestic worries, has contributed to some deterioration in their readiness to co-operate in achieving full output from the Factory. It is hoped, however, that better counsels will prevail and that the Company's employees will revert to a tempo of work which will maintain the steady increase in output which must be achieved for economic working.

Expansion Programme

I am happy to be able to inform you that the expansion programme initiated in 1960 with a view to increasing the production of Comet chassis to not less than 5000 per annum, with adequate provision for spare parts manufacture is nearing completion. Within a month or two all the plant and machinery, including jigs and special tooling, will have been installed; and steps taken some time ago to train artisans will make it practicable for full utilisation of the installed capacity to become effective. Based on the output achieved during the 1963/64 year, it is possible to hope that actual production will in due course considerably exceed the planned figure. This arises from the fact that, assuming your employees will work with a will, their efficiency will be at a higher figure than was anticipated, so that in future years it will not be at all impossible to achieve outputs considerably in excess of 5000 per annum without further capitalisation. At the same time, it will become increasingly practicable to produce in your factory spare parts adequate to meet the demand.

I have referred to the production of spare parts as one of your Company's important activities. In recent years, the supply of spare parts to your customers has been, for reasons beyond control, far from satisfactory and too many vehicles have been temporarily unserviceable for prolonged periods because essential replacements parts were not available. In common with other Automobile Manufacturers, your

Company faced the difficulty that insufficient foreign exchange could be made available for the import of spare parts, while factory facilities remained inadequate to provide for the level of output necessary to meet the demand not only for current production but for the servicing of the large number of vehicles already in service. Another disability has been that the ancillary industries, manufacturing in India a wide range of components which manufacturers purchase in the finished condition, were unable to meet the demand for spare parts additional to supplies made to manufacturers for inclusion in the chassis and engine. The position has already greatly improved and will continue to do so. More foreign exchange has been made available for importing spare parts not available from Indian factories; and improved output facilities in the factories is enabling manufacturers increasingly to produce components, additional to those required for chassis manufacture, for sale as spare parts. If the present improvement can be maintained, it is anticipated that your Company will soon be in a position to meet all spare parts demands within a reasonable period from the receipt of orders.

I have referred to the general expansion programme which was inaugurated in 1960. More recently, in 1963, with a view to increasing the indigenous content of the Comet chassis, it was decided to add to components being manufactured in your factory differential wheels, pinions and trunnions; engine cam shafts; and engine timing gears. Your Directors decided that it would be undesirable to risk over capitalisation by making a capital issue to cover the expenditure which would have to be incurred on the import of plant and machinery for the manufacture of these new components. Accordingly, a loan of Rs 60 Lakhs was negotiated with the Commonwealth Development & Finance Company, which became available from August 1964. All the plant and machinery required for this expansion of the Factory's manufacturing facilities is currently being ordered and it is hoped that it will be installed so that actual production will commence in 1965. With the inclusion of this additional range of components to be manufactured in your Factory and your Company's ability to purchase additional bought out finished components, for example brake assemblies, from new manufacturing concerns established more recently in India, it is anticipated that it will be possible to increase the indigenous content of the Comet chassis to 90% before the end of 1965, compared with a figure of 82% at the present time.

New Models

In my speech to you in January 1964, I informed you that the Government of India had approved the inclusion of new models in your Company's range of products, based on the Leyland Beaver chassis; and I enumerated the types of vehicles it was proposed to manufacture. You will be pleased to know that during the 11 months which have elapsed since the last Annual General Meeting, considerable progress has been made with planning for the introduction of the heavier duty chassis. The provision of funds for the construction of new buildings for the first phase of the "BEAVER" project has been included in the Company's 1964/65 Capital Budget. Building plans are nearing completion and work will be commenced in the near future. Provisional estimates have been completed with a view to assessing the expenditure which will have to be incurred on plant and machinery for the new project. These estimates indicate that about Rs 330 Lakhs will be required for the purchase of machine tools, jigs, etc which will have to be imported. Additionally, a sum exceeding Rs 200 Lakhs will be required for building and for plant and machinery to be purchased in India. Your Directors are giving their active consideration to the most advantageous manner in which finance can be made available to meet the very high level of expenditure involved. In this connection, it is with pleasure I am able to inform you that the Leyland Motor Corporation has indicated its readiness to provide the amount of Rs 330 Lakhs (approximately £2.5 million) which will be required for imported plant and machinery, subject to satisfactroy arrangements being approved by the Government of India. Your Company is engaged in ascertaining as closely as possible the amount of money in rupees which will become available from internal resources, so that it will be possible to calculate the balance which will have to be provided by a capital issue. As far as work on this problem is concerned, it appears that it will not be necessary to raise capital to cover the total estimated expenditure of approximately Rs 550 Lakhs (the sum of the amount required for imported plant and machinery and that required for buildings and plant and machinery to be purchased in India). It is probable, therefore, that the necessary finance will be raised partly by a capital issue and partly by a loan from the Leyland Motor Corporation, subject to the Government of India approving such a loan and its terms. Certainly, however, some additional capital will have to be raised and an application to the Controller of Capital Issues has been made for a new issue of Rs 221 Lakhs, of which Leyland Motor Corporation will take approximately Rs 133 Lakhs and the balance be subscribed by Indian shareholders.

Until such time as the heavier duty chassis have 100% indigenous content, it will, of course, be necessary for your Company to obtain an allotment of foreign exchange to cover the import of components from the United Kingdom. It is possible that such an allotment will not be made earlier than the 1st April 1965, so that the first of the heavy duty chassis for sale may not be available until after June 1965. Market surveys indicate that there will be a demand for the heavier duty chassis which will justify your Company's decision to include the new models in its range of products. In this connection, it is anticipated that by 1968 when production of the heavier duty chassis will be fully established, with a high indigenous content such restrictions on gross vehicle weights as might at the present time inhibit sales in a number of States will have been amended, so that it will be practicable for road transport users to take full advantage of the greatly increased payload capacities of the new model.

Ennore Foundries

The increase of your Company's demand on Ennore Foundries Ltd and additionally the increase in the demand for iron and aluminium castings by other manufacturers has necessitated steps being taken to ensure that Ennore Foundries can meet this demand. Plans are nearing completion and orders have already been placed for plant and machinery to enable Ennore Foundries to increase its output to 200 tons per week. Looking to the future, provisional plans are already in train, so that when the demand arises the Foundry output can be increased to something over 400 tons per week.

You will be interested to know that your Company recently prepared a Five-Year Plan with a view to forecasting the probable increase of its turnover, the capital expenditure necessary to achieve it and the likely profitability each year. Calculations made in relation to this Five-Year Plan indicate that by 1967/68 the Company's turnover may reach a figure of about Rs 33 Crores, with a reasonably fair profit on capital employed at that time, after taxation. Data utilised for the preparation of this Plan were conservative, revenue being calculated on the low side and the expenditure on the high. However, the figures must necessarily be treated with reserve because the assumptions on which they have been based may prove incorrect with the passage of time. Any unexpected or abnormal increase in material costs, reductions in foreign exchange available for the Automobile Industry, loss of production due to labour disputes, etc would obviously reduce the turnover and at the same time the Company's profitability. The plan will, nevertheless, be useful, as representing reasonable annual targets at which the Company can aim and indicating that subject to reasonably normal conditions being maintained, output of your Company's products may increase steadily with satisfactory profitability.

I have considered it necessary to give you a fairly detailed account of the programme of expansion which the Board has decided upon and which I trust will have your approval.

Changes in Board and Top Management

Let me now refer to the changes in the constitution of the Board itself and to the changes in the Company's top management. It is with deep regret that I have to report the loss that the company has sustained by the sad demise of Sir Henry Spurrier, Chairman of Leyland Motors, and a Director of your Company since the collaboration agreement was arrived at by the Indian Company with Leyland Motors. Sir Henry took the keenest interest in the development of the Indian company and we were fortunate to have more than one visit from Sir Henry, to your factory and offices. It was his vision which enabled us to undertake the expansion of this company, after its formation as Ashok Leyland Ltd. The Directors have placed on record, their deep sense of loss at the passing away of Sir Henry and I am certain that you as shareholders, will join in expressing your great appreciation of his contribution to the success of the Company and your regret at his demise.

Mr W. West, Chairman and Managing Director, West Yorkshire Foundries Ltd and a Director of Leyland Motors, has been co-opted as a Director in the place of Sir Henry.

I referred to changes in the top management of the Company. Mr A E L Collins, who has been Managing Director of the Company since its reconstitution, is shortly leaving us to take a place in Leyland Motors, London. His services to your Company have been invaluable. His devotion to duty, his concern for the growth and prosperity of your Company, his intimate knowledge of Indian conditions, his suave manners and his tact in dealing with the staff, particularly with the workers in the factory, cannot be exaggerated. Mr Collin has set a pattern of conduct as Managing Director which can be paralleled by only a few examples. As this will be the last meeting of the shareholders which Mr Collins will be attending as Managing Director, I am sure you would like to place on record, a Special Resolution of appreciation of his unique services.

To remove any deep feelings of disappointment at his departure which you may feel at this juncture, I should hasten to state that he will still be available to us for advice and consultations in India over a long period. In the projects that we are undertaking, the expansion that we contemplate, it is essential that Mr Collins, who has been associated in the planning and has such intimate knowledge of it, should be available, particularly in the initial stages. I said that Mr Collins will be joining the Leylard Motor Company in London, but he has kindly agreed to visit our Company at least once a quarter to see the progress we are making and give us the benefit of his advice. We are extremely thankful to Mr Collins for this gesture of his deep interest in our Company — a gesture which entails not a little trouble, labour and time on his part. We are also thankful to Leyland Motors for not merely agreeing to this proposal, but actively supporting it. As you will see from the Notice, Mr Collins will be retiring at the end of March from the services of your Company.

From the notice of the Meeting before you, you would have seen that the Board of Directors has decided to appoint Mr J C Watson as Managing Director of the Company for a period of five years from the 1st April 1965. Mr Watson has been the Factory Manager from the 1st October 1963. His work has been quite satisfactory and much of the credit for the improved production in the factory during 63/64 is largely due to him. The Directors have no hesitation in recommending to you, for approval, the resolution which is before you, to appoint him as Managing Director for the period mentioned therein. With your approval, the Company will approach the Government for its sanction.

Thanks

It only remains for me now to thank the Management, Officers, Clerical Staff and the Workers at the Factory for their enthusiastic co-operation which has helped the Company to progress steadily during the years. I trust that this co-operation on the part of the workers, particularly, will continue in the future and even as they are proud of the place that Ashok Leyland occupies in the automobile industry in India now, they will be even more proud in the near future, of its position—a position which will be due in no small measure to the co-operation of Officers, Staff and Workers.

I should like to thank both the Central Government and the State Government for the advice, help and assistance that we have received from them.

Finally, I should like to thank you all — the Shareholders of the Company for the continued support that you have extended to us, which has enabled the Board to go confidently forward with its plans for enlarging the scope of your Factory.

NOTE :— This does not purport to be a record of the proceedings of the Annual General Meeting.

New Companies

DURING November 1964, 99 new companies were registered with an authorised capital of Rs 108 crores. In the preceding month 74 new companies were registered with an authorised capital of Rs 11 crores. During November 1963, 121 companies were registered with an authorised capital of Rs 15 crores.

During November 1964 the largest number of companies was registered in Maharashtra. The Union Territory of Delhi was second with 20 new registrations. In the States of West Bengal and Madras 19 and 11 companies were registered respectively. In the remaining States 23 companies were registered. During the month 18 big companies with an authorised capital of Rs 50 lakhs and above were registered.

Around Bombay Markets

Dalal Street in Good Mood

DALAL STREET has been having a holiday for the past one week and there are still a few more days to go before it reopens for official trading. The market sentiment in kerb dealings holds out the hope of a fairly promising start for the New Year. Equities have staged quite an impressive recovery from their December low levels and several counters are now quoted around the highest levels for many weeks. National Rayon which had been marked down to Rs 326—the lowest for 1964—early in December, have recovered to Rs 374; Century have come up from Rs 549 to Rs 584, Tata Steel from Rs 142.75 to Rs 148, Indian Iron from Rs 25 to Rs 26.20, Standard Mills from Rs 553 to Rs 614, Hindustan Motors from Rs 16.08 to Rs 17 and Tata Locomotive from Rs 258 to Rs 275.

The market had been declining for several weeks without any worthwhile rally even though the corporate news had been fairly encouraging. By about the beginning of December, it had come down to within a striking distance of its 1964 low, with quite a few scrips establishing altogether new low levels for the year. Technical considerations alone could have easily produced a recovery of the order that has now taken place and it could be easily extended farther without indicating any change in the underlying trend. It is too early to say whether the current rally would mark the beginning of a new major upward move. It could and much would depend on the coming February Budget.

There has, however, been an appreciable change in the mood of the market in recent weeks in that it is now inclined to respond to favourable news. The Prime Minister's assurance at the annual meeting of the Associated Chambers of Commerce, Calcutta, that the Government is giving serious attention to measures needed to revive the capital market has been a source of great comfort to the stock market. The tax concessions announced by the Finance Minister recently, though limited in their scope, have strengthened the market's belief that the Government means business. Tax credit ranging from 2 to 5 per cent on new equity investment in specified industries, up to a ceiling of Rs 35,000 tax relief on funds transferred from abroad and the removal of two per cent surcharge on interest on Government securities do not add up to much and they are unlikely to have any important impact on the capital market. But the significance of these measures lies not so much in the amount of actual relief that they provide as in that they serve to indicate more clearly the Government's anxiety to tone up the capital market which has been in an awfully bad shape since long. Several first class issues are at present quoted at a discount. If individual savings are to be mobilised for industrial development, the cult of equity will need to be firmly re-established—re-established because equity prices in India have been declining despite increasing inflationary pressures on the economy with the result that individual savings are now being increasingly employed in commodity markets.

Cotton

Prices Above Ceilings

THERE has been no material change in recent weeks in the situation obtaining in the cotton market. Spot prices remain well above the ceilings though there has been a slight setback from the highest levels recorded about a fortnight ago. Official activity in futures has been at a standstill for several weeks as the hedge contract has been quoted above its operational ceiling of Rs 775 (per 3 quintals); in kerb dealings, the contract has been bid up to around Rs 783 which is only Rs 15 below the statutory ceiling of Rs 798. That business in futures should be allowed to be transacted above the ceiling prescribed for the pre-delivery period shows that the East India Cotton Association has no control over the activities of its members. The Forward Markets Commission has prescribed a margin of Rs 15,000 per 100 bales on all 'long' positions when the hedge contract rises above Rs 775. But since the contract cannot be officially quoted above Rs 775 during the pre-delivery period the bulls are not liable to pay any margin as yet even though the March contract has been quoted (unofficially of course) above Rs 775 for over a month.

If the market authorities had really meant business they should have enforced the margin long ago. There is no

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sense in waiting for the commencement of the delivery period. And the technical hitch could be easily overcome by making the margin applicable at any rate below Rs 775. If the bulls had been called upon to deposit the margin without being able to receive any payment at above Rs 775 this would certainly have created an impact on the market and restrained bullish fervour in the future market. It is surprising that the market authorities should not have bothered to take any stern action to check bull manipulation. It may be that the authorities have developed a greater sense of respect for the sanctity of the contract. But it seems more probable that they are unwilling to take any action which might harm the interest of bulls. That certainly is the general market opinion.

Why Inaction

What happens to the fortunes of bulls and bears does not really matter much. It is the spot material which really counts and it is here that the situation is most disturbing. It is some two months ago that spot cotton prices pierced the ceilings thereby reducing cotton control to a farce. All that the Government has done and that too only very recently is to announce the introduction of quality and *vatietal* survey at the point of delivery to the mills and the fixing of the last date for ginning and pressing of cotton in certain States. While survey is intended to prevent transactions in cotton at above the ceiling rates, the last dates for ginning and pressing are being fixed in order to accelerate the movement of cotton. Both these steps are in the right direction but, by themselves, they cannot be expected to achieve much. Survey has its limitations, depending on how honestly and efficiently it is carried out. As for the measure, it is pertinent to ask what the Government is going to do in case the cotton growers and 'kapas' merchants do not take all their 'kapas' to the ginning factories within the prescribed period. It is really amazing that the Government should not have resorted to requisitioning of cotton on a large scale when prices are known to have pierced the ceilings in a big way. Requisitioning is by far most important feature of any scheme of price control; it gains particular significance when prices are believed to have flared up despite a fairly satisfactory supply poistion. If the Government does not have the administrative ability to enforce price control then the control should be done away with, which, of course, would be a counsel of despair.

Much has been heard recently about the controversy that has been provoked by the Indian Cotton Mills' Federation's draft scheme envisaging the purchase of all cotton needed by mills by one single agency. The scheme provides that all existing contracts for cotton purchase made by the individual mills will have to be registered with the Federation. Cotton deliveries to mills under these contracts will be permitted only if the Federation is satisfied that the purchase prices are within the prescribed ceilings. Individual mill's requirements of cotton will have to be registered with the Federation and in no case they shall be for more than 1/12th of the mill's annual cotton quotas. Mills will not be permitted to make purchases through their normal channels, unless on an understanding that the contracts are provisional and are subject to confirmation by the Federation's buying agents. The respective payments will be made through the Federation's buying agents. If the Federation feels that purchases are being made by any mill in violation of the terms laid down in its scheme and at prices above the ceilings, then it will be with the Federation to recommend to the Government to requisition the cotton stocks of the mill concerned and to make them over at controlled prices to the Federation's buying agents. If cotton prices continue to rule above the ceilings, despite these steps, the Federation's buying agents will refrain from buying even if it means closure of mills for some time and payment of lay-off compensation to labour as a sequel.

Futile Controversy

The scheme is plausible and by no means impracticable. And there can be little doubt that, if properly implemented, it would have a significant impact on cotton prices, especially when the supply position is far from being uncomfortable. But the scheme has evoked strong protests from cotton growers and traders which is scarcely surprising because the proposed monopoly purchase of cotton by the Federation will directly affect the interests of traders and growers. And from the manner some of the prominent mills are reported to have effected purchases of cotton after the formulation of the draft scheme one wonders whether the scheme carries the support of all the member mills and whether the Federation is really earnest about implementing the scheme. In his presidential speech at the annual meeting of the Cotton Buyers' Association, Shri Madanmohan R Ruia has expressed the view that "nothing should be done to disturb or, for that matter, eliminate normal trade channels from the marketing of the country's crop in any scheme of things that may be contemplated or actually adopted, either now or in future." And he adds that "this view is shared by the Government and the Indian Cotton Mills' Federation alike with the result that a joint effort is being made to arrive at a solution satisfactory to all the interests concerned." Apparently, the Federation is not very keen on pushing through its scheme of centralised purchase of cotton.

It is really amazing that such a great fuss should be made over cotton when the supply position is known to be reasonably satisfactory. Nobody seriously disputes the view that there is sufficient cotton to take care of the industry's increased requirements. If market arrivals of cotton have continued to be on the low side despite a fairly good crop it is mainly because growers are sitting tight on their stocks in the firm belief that the Government will not take any action which would adversely affect their interests mainly due to political considerations. That cotton prices should continue to remain well above the ceilings clearly indicates that the Government is either unwilling to take proper action to make price control a success or it is unable to administer control. In either case, it reflects poorly on the Government. It is shocking that the situation in the cotton market should have been allowed to deteriorate to its present position when it is easily possible to keep prices within the ceiling only if the Government is willing to take appropriate measures. Compulsory survey and the fixing of the last dates for ginning and pressing must be reinforced by requisitioning on a large scale, increase in margins against cotton and ceilings on bank advances and restriction on holding of stocks in excess of prescribed limits at all levels. The market authorities would be well-advised to impose heavy margin on 'bull' positions when the hedge contract keeps above Rs 760 or so.

Oilseeds

Prices Hit New Highs

OILSEEDS prices continue to soar. On Wednesday, December 30, groundnut ready (Khandesh) in Bombay were quoted around Rs 65, linseed around Rs 70, castorseed at Rs 44 and cottonseed around Rs 33; all these prices are per 50 kilograms. Groundnut oil ready was traded at Rs 24.25 (per 10 kilograms), linseed oil at Rs 29.50 and castor oil at Rs 19. While groundnut ready had recorded a much higher price of about Rs 76 last season, though only towards the fag-end, castor and linseed prices are the highest for about a decade. Very rarely has linseed oil been known to have fetched a price higher than that of groundnut oil which is the situation obtaining in the market at present. The situation is much worse in respect of oilcakes which have been bid up to all-time high levels. Groundnut expeller cake is quoted around Rs 520 as against Rs 380 (per tonne) a year ago. Linseed cake is quoted around Rs 560 against Rs 320, cottonseed cake at Rs 450 against Rs 300 and mustard at Rs 650 against Rs 310. Even at these exorbitant prices current demand remains unsatisfied. It is not that there has been some unexpected increase in demand but the market is bare of supplies.

Current record high prices suggest as if the country is passing through a serious oilseeds famine. But strange as it might appear, the overall supply of edible oils this season promises to be much better than in the previous season. Oilseeds prices have continued to soar despite prospects of a larger supply from domestic sources, anticipated import of 75,000 tons of soyabean oil, ban on export of groundnut oil and ban on the use of edible oils for non-edible purposes. It is really shocking that the Government should find itself unable to do anything to check the runaway boom in oilseeds. It is one thing if measures aimed at keeping prices under check fail to yield the desired results; that is bad enough. But when the authorities deliberately avoid taking proper measures to contain prices, it is a different matter and that is far more disturbing. The price pattern of oilseeds, oils and oilcakes has been greatly distorted by the actions taken by different States and district authorities within States to restrict the movements of oilseeds, oils and oilcakes outside the States and the districts. New Delhi's decision to ban

the exports of groundnut HPS with effect from January 1 within a few weeks of the Commerce Minister's spirited defence of his earlier decision to allow exports about a month ago, is to some extent a reflection of the chaotic condition prevailing in the oilseeds markets in the country. Out of the 15,000-ton export quota that the Government had intended to allow for export upto the end of December not even 50 tons are reported to have been shipped. If the Government has banned the export of groundnut HPS it is not because it has come round to the view that even small exports have a disproportionate effect on pushing up domestic prices which are already standing at extraordinarily high levels. Informed sources feel that New Delhi has been obliged to take this decision because it could not persuade the Government of Gujarat — the main source of supply of groundnut HPS — to permit the movement of groundnut outside the State even for export purposes. If this be true, it is a very disturbing development. The State Governments cannot be allowed to set at naught the Union Government's decision on vital issues.

Futures At Stand Still

Official trading in oilseeds futures has continued to be virtually at a standstill for many weeks. All the outstanding positions in groundnut, castorseed and linseed were squared-up about a fortnight ago at rates which clearly favoured the bulls. Futures have shot up to new high levels and the rise has been really spectacular in the case of linseed March which has moved up form Rs 46 to Rs 55 (per 50 kgs) within a fortnight, the heavy margin at above Rs 50 notwithstanding. All the business that has been put through in castor and linseed futures in recent weeks had been only in kerb as the hedge contracts have been all the time quoted higher than the prescribed weekly limits. Neither the market authorities nor the Forward Markets Commission seem able to do anything to check kerb dealings. If the authorities can do nothing in the matter then why continue all sorts of restrictions on official transactions. The forward market had better be closed down if it is to function only in kerb.

Export activity in recent weeks has been virtually confined to groundnut extractions which have been doing extremely well. Inquiries with the trade indicate that India has sold nearly all its production of groundnut extractions upto February. Business in cottonseed decorticated has been becoming increasingly difficult because of the spurt in domestic prices. Even after allowing for the export incentives, current cottonseed cake prices are out of parity with world prices. Exporters of groundnut HPS have been unable to meet their commitments which run into several thousand tons. The settlement of outstanding contracts is likely to cause serious hardship to the shippers because of the spurt in overseas prices. To a considerable extent exporters of groundnut have been put in an awkward position because of the Gujarat Government's refusal to permit movement of goods outside the State even for export.

Money Market

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DEMAND has been firm in the short-term money market during the past week. The inter-bank call money, which had been wavering between 5.5 per cent and 5 per cent almost throughout December, was perched at 6 per cent on Wednesday, the last working day of the year. Year-closing demands, conventionally described as 'window-dressing' demands, found the market short of supplies with big leaders keeping away. This has partially accounted for the stringency in the market and the hardening of the rate.

That there is an overall shrinkage in the flow of funds into the call loan market is evident from the weekly returns of the scheduled banks. The volume of 'money at call and short notice' which stood at a peak level of Rs 80.10 crores as on November 20, has gradually come down to Rs 61.08 crores on December 18, and it is not unlikely that the flow would have still further diminished by the end of the month.

Apart from the temporary phase of year-end requirements which straightened up the call money rate, the pick up of the busy season has also forced up the demand. Except during the first week, bank credit throughout November last did not move up and was not, therefore, a factor activising the call loan market which was almost dormant with call money available for a major part of the month at 1 per cent. The position turned out to be different in December. During the three weeks ended December 18, bank credit soared up by Rs 79.48 crores (Rs 63.88 crores in the corresponding period last year) accompanied by a net fall of Rs 14.24 crores in aggregate deposits. As a result borrowings from Reserve Bank which stood Rs 1.31 crores on November 27, rose to Rs 22.42 crores on December 18 (scheduled banks' return) and to Rs 35.35 crores on December 25 (Reserve Bank's return). Cash in hand and balances with Reserve Bank shrank by Rs 2.68 crores while investments fell by Rs 72.58 crores. These facts establish that the busy also had its impact on the short-term money market and accentuated demand.

The rise in the call money rate over the Bank Rate does not appear to be an unusual phenomenon, as even last year year-end dealings took place at 5 to 5.5 per cent against the then Bank Rate of 4.5 per cent. The current rate of 6 per cent being one per cent above the Bank Rate, is hardly surprising, viewed in the context of the revised restricted loan policy of the Reserve Bank.

Latest scheduled bank's statement as on December 18, reflects the more or less steady and comfortable conditions that featured the short-term money market during that week, call money being easily available at 5 or 5.5 per cent. Bank credit expanded by Rs 12.85 crores, but at the same time aggregate deposits were higher by Rs 11.57 crores which must have helped to relieve the pressure on the market with the result that borrowings from Reserve Bank were hardly Rs 43 lakhs and investments were not affected beyond Rs 82 lakhs, although cash and balances contracted by Rs 6.04 crores which became inevitable as market supplies of funds were less by about Rs 5.09 crores.

Reserve Bank's statement for the week ended December 25, reveals a contraction in active notes by Rs 1.97 crores. The contraction during the past two weeks hardly amounted Rs 5.04 crores against an expansion of Rs 88.07 crores that occurred during the preceding two weeks ending December 11. To this extent, the rising phase in the demand for funds is evident and reflects the growing impact of the busy season. The small additional note issue of Rs 61 lakhs and the return of Rs 1.97 crores of notes from active circulation have swelled the notes in the Banking Department by Rs 2.57 crores. Foreign securities have continued at the previous level of Rs 85.46 crores but foreign balances have declined by Rs 13 lakhs. Government deposits, both of the Centre and the States, are slightly lower by Rs 1.85 crores while their loans have marginally increased by Rs 1.31 crores. The only significant change is the increased borrowings of scheduled banks, aggregating Rs 12.54 crores thereby raising the total borrowings till December 25 to Rs 35.35 crores compared with Rs 8.08 crores as on December 27, 1963.

Business Notes

Associated Cement

ASSOCIATED Cement's working results during the year ended July 31, 1964 have showed a satisfactory improvement. The profit after meeting all expenses of operation and management and after providing for depreciation Rs 281 lakhs, (Rs 243 lakhs), for development rebate reserve Rs 36 lakhs (Rs 21.57 lakhs), and for taxation Rs 249 lakhs (Rs 298 lakhs), has risen from Rs 180.28 lakhs to Rs 213.83 lakhs, i e, by about 18 per cent. A sum of Rs 1.62 lakhs (Rs 1.63 lakhs), has been transferred to Amortisation Reserve to provide for the amortisation of quarry and factory lands, and another sum of Rs 212 lakhs (Rs 179 lakhs) to General Reserve. The Company has no sur-tax liability. The Directors have recommended the payment of a dividend at the rate of Rs 12 per share of Rs 100 (same as in the previous year) amounting to Rs 228.90 lakhs to be paid out of the General Reserve. This would mean that the General Reserve will be drawn this year to the extent of Rs 16.90 lakhs (Rs 49.90 lakhs drawn last year) for maintaining the dividend.

There has been an improvement in production both in India and Pakistan —the output amounted to 38.1 lakh tonnes (37.6 lakh tonnes) in India and 3.9 lakh tonnes (3.8 lakh tonnes) in Pakistan. Despatches from Indian factories improved by 1.1 lakh tonnes at 38.7 lakh tonnes, but those from factories in Pakistan dropped by 0.4 lakh tonnes at 3.9 lakh tonnes. On the whole, production and despatches were slightly higher than in the previous year, being 95.2 per cent and 96.6 per cent respectively of rated capacity as against 94.4 per cent and 95.4 per cent last year. These small increases do not mean much, as the Company admits, in the context of an acute shortage of cement in the country, particularly when large allotments are made for State purposes and priority projects, and supply to the general public is greatly reduced. What is required is additional productive capacity.

Sales turnover was also higher, the overall realisations from cement and other sources being Rs 39.21 crores as against Rs 37.45 crores representing a rise of about 4.7 per cent. Apart from the improvement in the turnover of grey cement including Portland and Blast Furnace cement, there was an appreciable increase in the turnover of other products such as special cements, refractories and waterproofing compounds. Sale of coal to outside parties also increased. The net profit margin has improved from 4.9 per cent to 5.5 per cent though the gross profit margin has shown a slight fall from 21.5 per cent to 21.0 per cent.

This has been achieved through continuous efforts to improve utilisation of men, materials and money with a view to check rising costs of production. The Company, however, complains that cost of production has risen due to higher coal prices and railway freight rates, enhanced electricity duty, higher dearness allowances to employees, increase in the prices of stones, spares, etc. The increase of Rs 1.25 per tonne in the retention price granted by Government effective July 1, 1964, did not fully cover the increase in the cost and was, according to the Chairman, "too little and too late".

ACC's Progress, 1961-64

	1961-62	1962-63	1963-64
Production (in lakh tonnes)	40.5	41.5	42.0
Rated capacity utilised (p c)	*93.1*	*94.4*	*95.2*
Turnover excluding excise duty (in lakhs of Rs)	34.37	36.67	38.49
Taxes, duties, etc (in lakhs of Rs)	372	432	385
Balance profit (in lakhs of Rs)	193	180	214
Net profit margin (p c)	*5.6*	*4.9*	*5.5*
Payments to Provision for employees (in lakhs of Rs)	574	654	686
Dividends (in lakhs of Rs)	229	229	229
Rate of Dividend (p c)	*12*	*12*	*12*

Owing to the delay in granting even this meagre relief, the Company suffered a loss of nearly Rs 1.50 crores during the last 3 years. The Chairman states that the retention price allowed to the industry on current levels of production barely allows sufficient earnings to pay a reasonable dividend. No internal resources are generated for expansion and modernisation of factories. The Chairman is of the view that the stringent controls on price and distribution accentuated by procedural delays in release of foreign exchange and licensing, the raising of Bank Rate and the consequential check on credit facilities have all acted as disincentives in the matter of attracting fresh capital to the cement industry.

As regards expansion and new works, the new plant at Jamul will soon be commissioned. Extnesion of the works at Dwarka and construction at Porbunder are also progressing satisfactorily. Letters of intent in respect of licences to establish factories at Wadi in Mysore and Durgapur in West Bengal have been received. The white cement plant at Kymore has now started production. The engineering works at Shahabad manufactured 2,500 tonnes of cement machinery, a major portion of which was supplied to Panyam Cements and Mineral Industries. ACC is giving technical and consultative services to parties interested in establishing cement factories. Its services are now being made available as an older and well-established manufacturer to newcomers like Assam Cement, the proposed Maharashtra Cement Industries, Chettinad Cement Corporation, Panyam Cement, etc.

Central India Spg

IN his statement circulated to the shareholders, Naval Tata, Chairman of the Central India Spg Wvg & Mfg, referring to the prevailing inflationary trend in the country, has stressed the need for well-planned concerted action to step up the agricultural yield in order to hold the price line in foodgrains and to avoid the perennial dependence on large-scale imports of food a part of which costs foreign exchange.

Tata is critical about the present wage policy of the Government of India vis-a-vis their efforts to combat the raging inflation inasmuch as wages are chasing prices conspicuously. Speaking about his own Mill, he points out that the increase of Rs 8 per month granted to a textile worker in

Nagpur by the Wage Board, the grant of Rs 6 per month by way of dearness allowance, the raising of the employer's contribution to Provident Fund from 6.25 per cent to 8 per cent from December, 1963, the doubling of employer's contribution to the State Insurance Fund from 1.25 per cent to 2.5 per cent, have all added to the annual wage bill by about Rs 16 lakhs. During the year 1963-64 the increase in dearness allowance has added another Rs 8.60 lakhs approximately. The recommendation of the Bonus Commission will cost the Company a further Rs 7.50 lakhs. The average monthly earnings of a cotton mill worker is thus raised from Rs 149 in 1960 to Rs 190 in the current year without taking into account the impending impost of minimum bonus. A higher wage bill, unless accompanied by higher productivity, only adds fuel to the fire of inflation, contends Tata.

In sharp contrast with the laxity in the control of wages, prices of cloth manufactured by the organised mill sector are severely controlled, leaving outside control power loom and handloom cloth. Control of cloth prices should be accompanied by a simultaneous control of the prices of important raw materials that go to make up the price of cloth. Government's policy in respect of cotton prices, he states, is directed by political considerations of appeasing the agriculturists.

The taxation policy of Government is another conspicuous instance which accounts for a steep rise in prices. For instance incidence of taxation in the price of cloth is 15 to 36 p c, kerosene 45 p c, sugar 23 p c, vanaspati 11 p c, electricity 30 p c, cigarettes 50 p c. In cloth he has quoted the instance of Empress Mills which has paid in 1963-64 by way of cotton cess, sales tax on cotton, stores, coal, etc, electricity duty, excise duty on cloth and yarn, import duty, octroi and Municipal taxes, water tax, vehicle tax an amount of Rs 125.63 lakhs which works out to 19 per cent of the ex-mill value of cloth produced by the Mill.

Referring to the price control on about 50 per cent of the output of mills from October 20, 1964, Tata does not find such rigorous control necessary when there is no shortage of cloth in the country. The output of cloth from the three sectors has been steadily growing from 7,615 million yards in 1962 to 7,981 yards in 1963 and to 8,256 million yards in 1964. Why should mill cloth alone be regulated? he asks. He pinpoints the need for more production and continuous flow of cloth to the consumer to prevent any attempt on the part of the trade to exploit shortages. He stresses the importance of utilising to the utmost our existing textile plants in terms of production and employment potential. But this is possible only if the output of cotton is increased to bridge the existing gap.

Mysore Sugar

MYSORE Sugar has earned during the year ended June 30, 1964 a pre-tax profit of Rs 12.68 lakhs as against Rs 1.57 lakhs in the previous year. This higher profit has accrued in spite of a drop of Rs 61.79 lakhs in the sales of sugar at Rs 3.04 crores countered by a small improvement in the realisations from distillery products by Rs 2.19 lakhs at Rs 13.15 lakhs. Net surplus from both the sugar and distillery trading accounts, however, turned out to be better at Rs 34.64 lakhs (Rs 29.58 lakhs).

Fall in the sales of sugar is a sequel to lower production. 201,103 tonnes of cane were crushed yielding a production of 22,091 tonnes of sugar as against 259,654 tonnes of cane crushed in the preceding year yielding 27,390 tonnes of sugar. The recovery obtained was, however, slightly higher at 10.98 per cent compared with 10.57 per cent in the previous season. The distillery also functioned for a shorter period owing to the shortage of molasses. Even so, the Company's profit turned out to be higher and the result would have been still better had the crushing season been normal. A sum of Rs 6.6 lakhs paid to workers during the year on account of 1962-63 also diminished the profits.

Out of the profits taxation absorbed Rs 7.37 lakhs (Rs 70,000) and Reserve for development rebate Rs 2.70 lakhs (Rs 81,000) leaving barely Rs 2.61 lakhs. The Directors have withdrawn Rs 5.04 lakhs from Dividend Equalisation Reserve and other Reserves to propose a dividend at 15 per cent on the increased capital of Rs 43.16 lakhs as against 30 per cent in the previous year on Rs 21.79 lakhs. Total dividend will amount to Rs 6.47 lakhs (Rs 6.54 lakhs). The expansion programme for increasing the capacity of the sugar factory and doubling that of the distillery factory is under way. A licence for manufacture of Acetic Acid has been obtained; foreign credit of Rs 23 lakhs has been finalised and plant and machinery have been ordered for.

Cotton Agents' Sugar Group

THE four sugar mills managed by the Cotton Agents have all recorded satisfactory progress during the year ended June 30, 1964. Upper Ganges Sugar Mills, the biggest of the group has made a pre-tax profit of Rs 53.79 lakhs compared with Rs 39.44 lakhs in the previous year, a rise of 36 per cent over the year, though sales realisations were slightly lower at Rs 442.75 lakhs (Rs 454.22 lakhs). Crushing season was slightly shorter for the Mills but nevertheless cane crushed was more at 367,030 tonnes (285,383 tonnes) and recovery also was higher at 9.84 per cent (9.76 per cent). After transferring a larger amount of Rs 15.12 lakhs (Rs 5.75 lakhs) to miscellaneous reserves, the Company has maintained the equity dividend.

New India Sugar Mills earned a pre-tax profit of Rs 29.79 lakhs (Rs 10.75 lakhs) showing a rise of about 177 per cent following a higher sales turnover of Rs 195.75 lakhs (Rs 175.20 lakhs). Unlike Upper Ganges, crushing season in the case of this mill was longer, but cane crushed was lower at 112,971 tonnes (124,343 tonnes). The recovery, however, was the highest in the group at 10.47 per cent (9.92 per cent). Higher profit attracted a larger taxation provision at Rs 19.50 lakhs (Rs 6.00 lakhs), and at the same time transfers to miscellaneous reserves also were raised to Rs 6.82 lakhs (Rs 1.23 lakhs). Dividend on equity shares was maintained at Rs 3.65 per share of Rs 10.

The per cent increase in Gobind Sugar Mills' pre-tax profit has by far exceeded those of other mills. Profit amounted to Rs 31.00 lakhs during the year as against Rs 5.87 lakhs in the previous year, the increase being 428 per cent. There was a sharp rise in sales from Rs 155.11 lakhs to Rs 255.53 lakhs. Cane crushed exceeded that of the previous year by 27,799 tonnes at 144,379 tonnes in a longer crushing season, though the recovery was less at 9.87 per cent (10.38 per cent). Even with a larger provision for taxation at Rs 20.00 lakhs (Rs 3.70 lakhs) and an increased allocation of Rs 2.77 lakhs (Rs 0.83 lakh) to miscellaneous reserves the Company has stepped up the dividend from Rs 2.00 to Rs 2.25 per share.

Bharat Sugar Mills, a comparatively small unit in the group, also made higher profit at Rs 10.82 lakhs (Rs 5.98 lakhs), a rise of about 80 per cent, despite a slight setback in sales turnover at Rs 101.21 lakhs (Rs 109.52 lakhs). Crushing season in this case also was longer and cane crushed amounted to 68,621 tonnes (57,608 tonnes). Even after transferring to miscellaneous reserves a larger amount of Rs 42,815 (Rs 19,768) it was possible for the Company to raise the dividend from Rs 1.50 per share to Rs 2.00 per share of Rs 10.

The Directors state that the rebate of 50 per cent on the basic excise duty which was allowed on additional production during October-November 1964 as compared with the corresponding months of 1962, should have been allowed to production during the entire season as that would have been greater incentive for efforts to achieve maximum production in the sugar industry. The production of sugar industry for the season amounted to only 25.71 lakh tonnes as against the target of 33 lakh tonnes of sugar fixed by the Government.

Goodyear India

AS previously proposed by the Directors, shareholders of Goodyear India have now authorised the Directors to offer 640,000 new shares to the existing shareholders at the rate of 8 new shares to every 5 existing shares held, at a premium of Rs 7 per share. The additional finance that will be raised by the issue will be used to expand the production capacity of the Company's factory at Ballabgarh (New Delhi) from 210,000 to 310,000 tyres per year (i e from 750 tyres to 1,000 tyres per day), i e, by about 50 per cent. The additional capacity is expected to be achieved before end of 1965. The Company has got its overall industrial licence extended upto 1968 to manufacture 510,000 tyres and tubes a year. In the new issue the parent Company, namely, Goodyear Tire and Rubber Co of Akron (U S A) is not participating but will provide foreign exchange in dollars to the value of Rs 80 lakhs as a long-term loan to purchase abroad the specialised plant and machinery needed for the proposed expansion.

Trading results for the eleven months ending November 1964 available now show encouraging progress. Gross sales aggregated Rs 10.6 crores compared with Rs 8.4 crores during the corresponding period last year. Net profit is of the order of Rs 30 lakhs as against a loss of Rs 53 lakhs in the same period in 1963. At this rate the year's profit is expected to exceed Rs 40 lakhs.

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The Programme Director
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Indian Institute of Management, Calcutta
"Emerald Bower"
56-A, Barrackpore Trunk Road, Calcutta-50

CURRENT STATISTICS

OUTPUT OF MAJOR INDUSTRIAL PRODUCTS IN EASTERN EUROPE AND THE SOVIET UNION, 1961-63

Country and Product	Unit	1961	1962	1963 Plan	1963 Actual
Albania					
Crude petroleum	mn tons	0.77	0.79	—	—
Petroleum products		0.38	0.41	—	—
Coal		0.29	0.30	—	—
Chrome ore		0.23	0.25	—	—
Ferro-Nickel ore	th tons	358	425	—	—
Copper ore		80	135	—	—
Electric power	mn kWh	227	242	—	—
Bricks	mn	119	122	—	—
Cotton fabrics	mn metres	26.0	27.1	—	—
Sawn timber	th cu m	166	167	—	—
Bulgaria					
Coal	mn tons	18.6	20.8	23.7	21.9
Electric power	mn Mwh	5.4	6.0	7.4	7.2
Crude steel	mn tons	0.34	0.42	0.47	0.46
Rolled steel	mn tons	0.27	0.33	0.36	0.35
Lead	th tons	41	44	—	51
Nitrogenous fertilisers (N)	th tons	88	94	—	101
Phosphate fertilisers (P_2O_5)	th tons	56	70	—	71
Sulphuric acid	th tons	192	247	—	269
Plastics	th tons	10.0	—	—	19.0
Cement	mn tons	1.75	1.89	2.26	2.21
Cotton fabrics	mn metres	227	243	245	250
Woollen fabrics	mn metres	17.0	18.1	18.6	19
Silk fabrics	mn metres	10.2	11.4	12.2	13.0
Footwear	mn pairs	9.3	11.9	13.3	13
Radios	Thousand	146	175	230	204
Television sets	Thousand	6.0	15.3	30.0	29.1
Meat	th tons	171	180	—	165
Sugar	th tons	235	141	—	143
Edible oil	th tons	96	96	—	101
Tobacco products	th tons	15.3	17.1	—	18.9
Czechoslovakia					
Hard coal	mn tons	26.2	27.2	27.8	28.3
Brown coal and lignite	mn tons	65.3	69.5	71.0	72.5
Electric power	mn Mwh	27.0	28.7	31.4	29.9
Iron ore	mn tons	3.29	3.48	—	—
Pig iron	mn tons	4.97	5.18	—	5.25
Crude steel	mn tons	7.04	7.64	8	7.60
Rolled steel	mn tons	4.67	5.07	5.4	5.11
Nitrogenous fertilisers (N)	th tons	146	154	178	154
Phosphate fertilisers (P_2O_5)	th tons	167	180	195	203
Sulphuric acid	th tons	599	643	—	725
Artificial fibres	th tons	69.0	74.3	74.6	75.4
Plastics	th tons	82.0	96.5	103.6	94.0
Cement	mn tons	5.34	5.71	6.0	5.18
Bricks	Billion	2.47	2.07	—	1.68
Prefabricated building parts	mn cu m	2.08	2.36	—	2.29
Cotton fabrics	mn metres	484	496	—	467
Woollen fabrics	mn metres	47.6	48.1	—	46.8
Silk fabrics	mn metres	73.3	75.1	—	—
Rubber footwear	mn pairs	38.1	37.0	—	31.1
Leather footwear	mn pairs	46.5	48.0	—	45.3
Television sets	thousand	334	307	260	235
Domestic refrigerators	th	157	182	220	221
Motor cars	th	58.8	64.3	54	56.5
Tractors	th	27.8	32.4	29	28.4
Eastern Germany					
Brown coal and lignite	mn tons	236.9	247.0	250	254
Electric power	mn Mwh	42.5	45.1	47.9	47.7
Pig iron	mn tons	2.03	2.08	—	—
Crude steel	mn tons	3.44	3.62	—	—
Rolled products	mn tons	2.70	2.80	—	—
Phosphate fertilisers (P_2O_5)	th tons	172	181	—	—
Sulphuric acid (SO_3)	th tons	668	703	—	—
Calcined soda (Na_2CO_3)	th tons	599	646	—	—
Calcium carbide	th tons	951	1013	—	—
Cement	mn tons	5.28	5.43	—	—
Paper	th tons	564	583	—	—
Cotton fabrics	mn sq in	263	289	—	—
Woollen fabrics	mn sq in	23.8	22.7	—	—
Leather footwear	mn pairs	26.4	28.3	—	—
Television sets	th	374	461	—	580
Domestic refrigerators	th	166	192	—	245
Domestic washing machines	th	160	196	—	256
Meat	th tons	697	613	—	—
Butter	th tons	178	160	—	—
Hungary					
Coal	mn tons	28.2	28.7	29.4	30.5
Crude petroleum	mn tons	1.46	1.64	1.75	1.76
Electric power	mn Mwh	8.38	9.12	9.6	9.66
Crude steel	mn tons	2.05	2.33	—	2.37
Hot rolled steel	mn tons	1.45	1.61	—	1.69
Bauxite	mn tons	1.37	1.47	—	1.36
Crude aluminium	th tons	51.1	52.7	—	55.5
Turret lathes	th	2.69	2.84	—	2.58
Motor-lorries	th	3.40	3.67	4.64	3.69
Motor buses	th	1.96	2.35	—	2.38
Nitrogenous fertilisers	th tons	330	353	390	387
Phosphate fertilisers	th tons	327	424	530	513
Sulphuric acid	th tons	189	212	260	267
Cement	mn tons	1.60	1.73	1.92	1.80
Cotton fabrics	mn sq m	255	273	287	283
Woollen fabrics	mn sq m	33.8	34.1	—	34.5
Leather footwear	mn pairs	23.2	22.8	—	23.8
Television sets	th	178	210	—	249
Domestic washing machines	th	124.6	132.1	—	168.3
Domestic refrigerators	th	12.0	17.0	—	36.1
Meat	th tons	197	223	—	212
Butter	th tons	15.5	14.6	15.5	17.7
Sugar	th tons	434	358	—	375
Sunflower seed oil	th tons	28.7	31.4	—	36.5
Poland					
Hard coal	mn tons	106.6	109.6	111.0	113.2
Electric power	mn Mwh	32.2	35.4	37.6	37.0
Iron ore	mn tons	2.4	2.4	2.6	—
Pig iron	mn tons	4.77	5.31	5.45	5.40
Crude steel	mn tons	7.23	7.68	7.96	8.00
Rolled products	mn tons	4.82	5.24	5.4	5.46
Nitrogenous fertilisers (N)	th tons	282	308	364	330
Phosphate fertilisers (L_2O_5)	th tons	235	265	285	271
Sulphuric acid	th tons	794	852	909	888
Calcined soda (98 per cent)	th tons	536	540	580	543
Caustic soda (96 per cent)		186	196	205	200
Cement	mn tons	7.4	7.5	8.2	7.7
Bricks	billion	3.4	3.1	5.3	4.8
Paper	th tons	542	560	590	587
Cotton fabrics	mn metres	710	693	685	695
Woollen fabrics	mn metres	77.7	82.6	83.5	84.0
Leather footwear	mn pairs	39.2	42.9	43.0	43.3
Radio sets	th	589	654	500	487
Television sets	th	231	299	350	366
Motor-cycles and scooters	th	134	147	156	155
Motor-cars	th	14.4	16.1	17.3	18.2
Tractors (two axles)	th	10.6	12.6	16.8	17.0
Sugar (in the season)	th tons	1508	1222	1526	1309
Meat	th tons	1105	1147	1120	1060
Butter	th tons	94.8	91.1	95.0	81.3
Rumania					
Coal	mn tons	8.70	9.59	—	10.27
Crude petroleum	mn tons	11.58	11.86	—	12.23
Methane gas	mn cu m	7.20	8.84	—	10.10
Electric power	mn Mwh	8.66	10.09	—	11.66
Iron ore	mn tons	1.74	1.74	—	2.29
Pig iron	mn tons	1.10	1.51	—	1.71
Crude steel	mn tons	2.13	2.45	—	2.70
Rolled steel	mn tons	1.52	1.67	—	1.92
Tractors	th	20.0	21.5	—	13.3
Motor vehicles	th	14.9	15.0	—	20.17
Fertilisers	th	86	131	—	185
Sulphuric acid	th tons	248	326	—	343
Caustic soda	th tons	129	160	—	170
Cement	mn tons	3.31	3.49	—	4.37
Cellulose	th tons	114	153	—	196
Cotton fabrics	mn sq m	282	296	—	301
Woollen fabrics	mn sq m	37	34	—	38
Footwear	mn pairs	31.1	32.4	—	34.4
Radios	th	211	251	—	240
Television sets	th	14.8	41.4	—	68.1
Meat	th tons	265	297	—	267
Vegetable oil	th tons	125	162	—	160
Soviet Union					
Coal	mn tons	510	517	522	532
Crude petroleum	mn tons	166	186	205	206
Natural gas	mn cu m	60.9	75.2	88	91.5
Electric power	mn Mwh	328	369	408	412
Iron ore	mn tons	118	128	135	137
Pig iron	mn tons	50.9	55.3	59.0	58.7
Crude steel	mn tons	70.8	76.3	80.0	80.2
Rolled steel	mn tons	55.3	59.3	62.0	62.4
Tractors	th	264	287	325	325
Turbines	mn kWh	10.7	11.9	—	11.9
Electric engines	th	22.9	26.0	—	27.5
Metal-working lathes	th	166	177	180	183
Excavators	th	16.0	17.1	—	17.9
Chemical fertilisers	mn tons	15.3	17.3	20.1	19.9
Artificial and synthetic fibres	th tons	250	277	316	308
Synthetic resins and plastics	th tons	404	473	594	589
Tyres	mn	19.0	20.8	22.5	22.6
Cement	mn tons	50.9	57.3	63.0	61.0
Prefabricated building structures and parts	mn cu m	38.9	45.7	44.0	45
Cotton fabrics	mn sq m	4.9	4.9	5.0	5.1
Woollen fabrics	mn sq m	0.45	0.47	0.47	0.47
Linen fabrics	mn sq m	0.49	0.49	0.48	0.51
Silk fabrics	mn sq m	0.68	0.79	0.79	0.80
Leather footwear	mn pairs	443	456	460	463
Radios	mn	4.23	4.25	4.70	4.80
Television sets	mn	1.95	2.17	2.40	2.50
Domestic refrigerators	mn	0.69	0.84	0.91	0.91
Domestic washing machines	mn	1.29	1.80	2.22	2.30
Meat	mn tons	8.7	9.5	—	10.2
Fish and sea animals	mn tons	3.7	4.2	4.2	4.7
Butter	mn tons	0.89	0.94	1.00	0.87
Dairy products	mn tons	9.1	9.3	—	9.5
Canned foods	mn cans	5.55	5.91	6.30	6.40

Source: "Economic Survey of Europe in 1963", United Nations.

GROWTH OF GROSS NATIONAL PRODUCT, FIXED CAPITAL FORMATION AND CONSUMPTION IN SELECTED WESTERN EUROPEAN COUNTRIES, 1961-64

(Per cent)

	1961	1962	1963	1964
Austria				
Gross national product	5.2	2.3	4.4	4.5
Gross domestic fixed capital formation	8.1	−2.1	0.5	2.0
Private consumption	6.5	5.8	5.5	5.5
Public consumption	2.7	1.4	—	—
Belgium				
Gross national product	3.2	3.9	4.0	4.0
Gross domestic fixed capital formation	3.1	1.5	3.0	5.0
Private consumption	3.1	4.0	4.0	3.5
Public consumption	1.1	6.2	5.5	2.0
Denmark				
Gross national product	5.5	5.0	1.6	—
Gross domestic fixed capital formation	9.2	7.3	−2.3	—
Private consumption	6.9	6.0	0.1	—
Public consumption	7.1	7.1	5.6	—
Finland				
Gross national product	7.0	2.9	3.0	3.5
Gross domestic fixed capital formation	9.5	−0.6	—	—
Private consumption	6.7	3.9	4.0	—
Public consumption	6.0	7.4	5.0	—
France				
Gross national product	4.5	6.3	4.7	4.0
Gross domestic fixed capital formation	10.0	7.4	5.7	4.5
Private consumption	5.4	6.8	6.1	4.5
Public consumption	3.7	5.7	7.9	5.0
West Germany				
Gross national product	5.4	4.2	3.2	5.5
Gross domestic fixed capital formation	9.3	5.5	1.9	7.5
Private consumption	6.9	5.8	2.7	3.5
Public consumption	8.3	11.8	6.3	5.0
Ireland				
Gross national product	4.8	3.3	4.0	—
Gross domestic fixed capital formation	15.3	10.4	12.6	—
Private consumption	4.2	3.5	4.2	—
Public consumption	0.9	6.2	3.7	—
Italy				
Gross national product	8.3	12.3	7.7	4.9
Gross domestic fixed capital formation	6.0	8.9	6.7	4.5
Private consumption	4.8	5.5	9.2	5.2
Public consumption	5.0	6.0	6.5	4.0
Netherlands				
Gross national product	3.1	2.7	4.3	5.0
Gross domestic fixed capital formation	6.1	4.2	6.0	11.0
Private consumption	4.7	4.2	5.9	6.5
Public consumption	3.8	6.3	3.1	1.0
Norway				
Gross national product	5.6	3.3	5.0	4 to 4.5
Gross domestic fixed capital formation	9.4	6.1	6.5	1.5
Private consumption	5.4	3.6	4.2	3.0
Public consumption	5.7	6.6	7.1	6.0
Sweden				
Gross national product	5.8	3.3	3.7	5.5
Gross domestic fixed capital formation	6.5	4.9	4.0	5.5
Private consumption	4.8	3.5	4.7	3.5
Public consumption	5.6	5.7	6.6	6.5
United Kingdom				
Gross national product	3.3	0.2	2.9	6.0
Gross domestic fixed capital formation	8.7	2.3	0.7	13.5
Private consumption	2.0	1.4	3.6	4.5
Public consumption	5.4	2.3	2.5	3.5
EEC				
Gross national product	5.3	5.0	4.0	5.0
Gross domestic fixed capital formation	9.5	6.3	4.0	6.5
Private consumption	6.2	6.1	5.0	5.0
Public consumption	5.6	6.7	4.5	3.5

Source: "Economic Survey of Europe in 1963", United Nations.

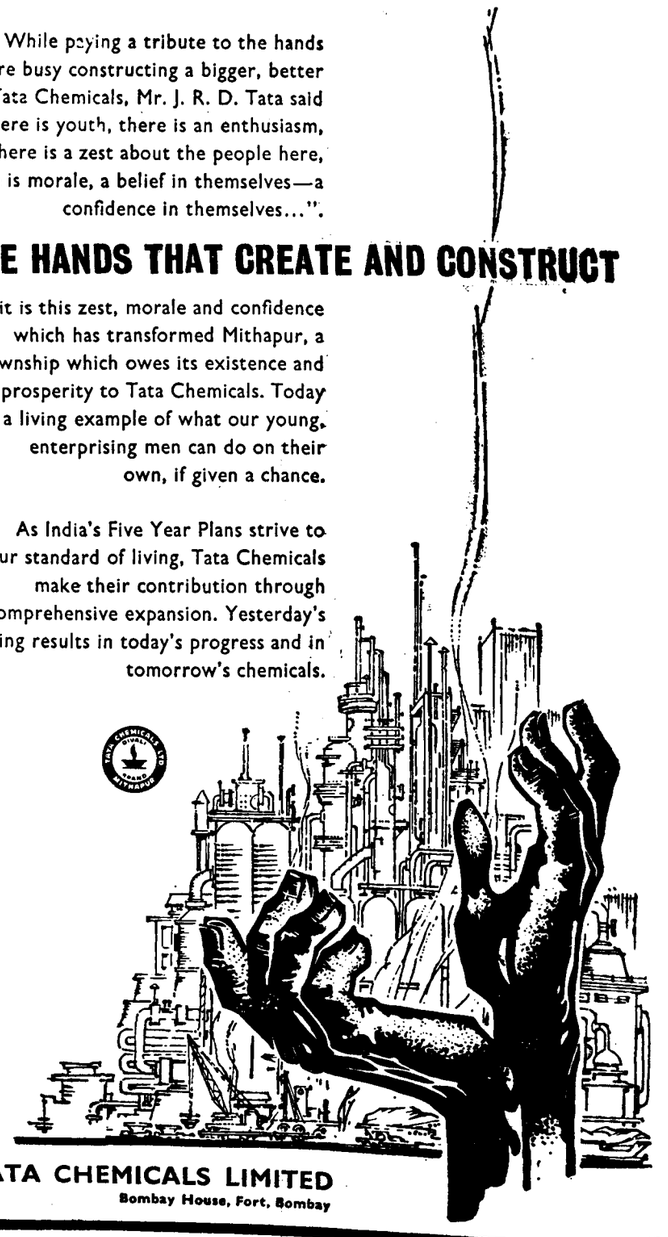
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Diversions at Durgapur

FROM past experience one has come to accept an open session of the Congress as something between a jamboree and a command performance. At the end of it whatever resolutions the High Command may put before it are passed intact without amendment. True, there are grumblings, some airing of views and sometimes, but not often, a little horse trading behind the scenes to meet the views of dissenters when they are lucky enough to catch the ear of or find supporters among the influential members of the Working Committee. At Durgapur some correspondents seem to have noticed a difference. With the coming of collective leadership, it is reported, there is a much greater assertion of individual views and also a change of attitudes. Members no longer accept without question whatever is put before them. They ask embarrassing questions, they argue and press their respective points of view with an insistence which was unthinkable in the earlier days.

Whether the actual proceedings justify this interpretation, it is difficult to judge from a distance. The dominating figure at the Durgapur session, Atulya Ghosh, did not accept a single amendment to his key resolution on the task before the Congress. On the contrary, he brushed aside all timorous questioners and flayed the critics of the Congress within the party. He accused them of being frustrated in not realising their ambition to hold office. The resolution stated that the youth of the country had to be infused with a sense of purpose and participation in the development of the country, that Congressmen should undertake the responsibility in mobilising agricultural labour in the constructive tasks of development, etc. It also called for a well-co-ordinated youth programme. But it did not say who was to mobilise agricultural labour and for what purpose and how it was to be yoked to the task of developing the economy. Neither unemployed youth nor agricultural labour would decline any opportunities of useful activity, squeezed as they are between diminishing employment on the land and rising food prices.

On two specific points criticism was loudest, viz, that there was no reference to corruption among Congressmen and farmers holding back foodgrains from the market. The first received no mention at all, Atulya Ghosh dismissing as loose talk all allegations within the party that the Congress had degenerated after taking over the country's administration. The second point about farmers holding foodgrains was slurred over with the pious injunction that "it should be possible for Congress workers to impress upon the farmers individually that it is essential in the national interest to make available the entire marketable surplus of foodgrains to the community". There was nothing of Socialism at all in the resolution; it called upon the party to be united, to make the party organisation more broad-based, to come in close contact with the people and asked for greater co-operation between the party and the Government.

The very sane and sensible resolution on foreign policy, reaffirming the country's resolve not to depart from peaceful use of atomic energy and hold steadfast to non-alignment and peaceful co-existence does not seem to have encountered much opposition except from a handful of members from Bihar

and U P who wanted the country to plump for the atom bomb. In fact, there was no reference in the resolution to the dispute with China at all, for as the mover of the resolution explained, the general formula of non-aggression and peaceful co-existence covered the case of Chinese aggression.

The Working Committee discussed what further measures had to be taken to curb the activities of the Left Communists though no evidence was produced to give any substance to the scare that was being worked up. Press reports end on the cryptic note that the question whether the Left Communist Party should be made illegal would be examined by the Home Ministry.

The raids for unearthing black money and unaccounted assets received honourable mention in the resolution on Economic Policy. While the drive against black money should help to rehabilitate the Congress in the public eye if it is fearlessly pursued and not slackened under pressure and also followed up by bold, realistic measures to win over the stragglers among the business community, except perhaps the hardened, incorrigible ones, to honest business practices, what can be the design and purpose behind the deliberate scare of Left conspiracy? Does the Cabinet seriously believe that with some raids on black money, as a sop, the danger of a possible threat to the country will divert the attention of the people from the hardships of spiralling prices and food shortage or at least make the attendant misery less unbearable?

This worked up suspicion of danger in the air considerably enfeebled the spirit of Bhubaneshwar which had revived the demand for a definite socialistic orientation to Congress policies. That spirit was hardly evident in Durgapur at all. This became clear when the demand that a definite assessment be made of the steps taken by the Congress to implement the Bhubaneshwar resolution failed to gain support. Even such a pointed question as that about the nationalisation of rice mills, which had been accepted at Bhubaneshwar and not acted upon subsequently, did not have to be answered in the Economic Policy resolution. The latter, while reaffirming its faith in the basic concepts and programmes accepted at Bhubaneshwar pleads that "during the months which have lapsed since then, the nation has been grappling with serious difficulties and tasks relating to the current situation."

On two points, however, the resolution is specific. One is the definite commitment that the land reforms should be completed before the end of the Third Plan. The other is the stress on the role of 'technological self-reliance' in the field of industry and the clear statement that Indian science and technology should be given the greatest possible support in the programmes for national reconstruction.

The resolution, however, loses itself in platitudes when it should come to brass tacks:

> "Advance towards socialism based on the principles of democracy must necessarily involve millions in the country as well as popular institutions in processes and activities which are designed to achieve rapid economic progress and social justice."

But how is this to be achieved? What are the operational steps and the changes in organisation and institutions that they call for? On all these questions, the Congress is as delightfully vague as ever.

Pakistan: Change Nevertheless

AYUB KHAN's election to a second term as President of Pakistan was predictable, it now seems in retrospect. Yet the highly enthusiastic response that the opposition candidate, Miss Fatima Jinnah, drew during the election campaign did hold out the prospect of a very close fight, if not an upset. Miss Jinnah and the opposition parties have now alleged that the election was rigged and that there was, besides, official intimidation of Basic Democrats intending to vote against Ayub Khan. Whatever the element of truth in this allegation, it cannot be denied that there were many factors which tended to exaggerate the apparent support for Miss Jinnah. The most important of these was that her support came largely from the highly vocal intelligentsia in the cities. In these areas she did indeed do well in the election. The rural votes, on the other hand, went to Ayub Khan, overwhelmingly in West Pakistan and only slightly less so in the eastern wing of the country.

This urban-rural split of the vote is explained mainly by Miss Jinnah's election manifesto. Almost the only positive programme on which the five parties backing her could apparently agree was the revocation of the 1962 Constitution promulgated by Ayub Khan and the introduction of popular democracy with universal adult franchise. Tagged on to this was the general promise of more democratic freedom of all types. Understandably the appeal of all this was far more to the urban intelligentsia, which had borne the brunt of the restrictions imposed by Ayub Khan, than the rural voters who, consequently, remained apathetic to the opposition parties' campaign. In any case, the promise of democracy must have had less than the expected attractiveness in a country whose experience of democracy has been as unhappy as Pakistan's has been.

The absence of any programme in Miss Jinnah's manifesto was inevitable considering the distances separating the parties supporting her. These ranged all the way from the progressive leftist Awami National Party to the fundamentalist Islamic Jamaat-i-Islami and Nizame Islam. Even the idea of a woman aspiring to the presidentship of the country was repugnant to the latter two parties to begin with. Ultimately they extracted their pound of flesh by getting a commitment to whittle down the Muslim Family Laws Ordinance, promulgated in 1961, written into Miss Jinnah's programme. This progressive law discourages polygamy, makes divorce less easy and in the event of divorce provides for the maintenance of the wife and children, makes registration of all marriages obligatory and fixes the minimum age of marriage for men and women.

Miss Jinnah's defeat may be no great loss, not even for the cause of democracy. For, considering the heterogeneous character of her support, her victory would have scarcely guaranteed an orderly transition to democracy. More likely, the combined opposition would have splintered, taking the country back to the chaos of pre-Ayub years. The Combined Opposition and Miss Jinnah, it would appear, have done what they could for democracy in Pakistan. They could have hardly added to their contribution if they had won, and might well have reduced it. The candidature of an esteemed personality like Miss Jinnah, the vigorous election campaign conducted by the Combined Opposition, the relative relaxation of restrictions and the re-emergence of the intelligentsia in active politics have given a new turn to Pakistan's politics which Ayub, even though he has been elected by a handsome margin, will not find it easy to reverse.

Capital View

The Hunt for 'Left' Communists

Romesh Thapar

WHO persuaded the Home Minister, Gulzarilal Nanda, to launch his new-year's-eve police action against the 'left' communists? The moody Central Intelligence Bureau? The ambitious R S S chief, Golwalkar? The uncertain Lal Bahadur Shastri? The so-called collective that is the Cabinet? Or the astrologers and soothsayers who are fast becoming the advisers to the 'sons of the nation' on future political prospects? These questions are being raised everywhere in the Capital. There is embarrassment at all levels, even among normally conformist editors and pressmen, although there are those specimens who would like to see the total illegalisation of communist activity.

We are obviously developing a democratic conscience, for there is a marked reluctance to accept Nanda's assurance that the GOI possesses considerable evidence to prove that the 'left' communists planned subversion on a national scale and in the interests of China. These elements are, after all, insignificant in their influence. And if such evidence is available, why is it not made public? A proper trial is demanded. Only then can such elements be isolated and fought. Nanda's incompetent approach only helps them emerge as fearless opponents of the Congress juggernaut. Hence, the very pertinent attempt to link the arrests with the forthcoming Kerala mid-term elections.

The representatives of friendly countries, including the communist countries, have been assured privately that the arrests do not in any way mark a shift in India's internal and external political alignments. The assurance is fatuous. If a proper trial is not held, and if Nanda's ministry continues to sit tight on the evidence it is supposed to possess, it will not be long before the 'right' communists are compelled sharply to radicalise their recently-adopted programme in order to prove to their close supporters that they are not the 'collaborators' and 'revisionists' that they have been made out to be. Then, an attack on the entire communist movement will be on Nanda's agenda, particularly if the present economic crisis continues to mount. This kind of development would certainly influence India's general political posture.

The reaction abroad is revealing. The opinion is widespread that the round-up of the 'left' communists under emergency powers reflects the casual interest Jawaharlal Nehru's heirs have in democratic procedure. Some point knowingly to the attempt being made to entice foreign capital into India. Others show concern about the interest Shastri and Nanda appear to be showing in winning over the Hindu elements organised under the banner of the R S S. In other words, there is little doubt that India's democratic image is now being tarnished.

An open trial, or the publication of conclusive and documented evidence could be tolerated. A 'white paper' is 'promised', but this has not been released yet. Meanwhile, to maintain that emergency powers give the GOI the right to take this kind of action, is to make a mockery of our Parliamentary Government. There are laws to deal with the sort of threat that the Home Minister has said exists. Proper legal procedures would help isolate the real culprits and break the alleged conspiracy. Anything less will defeat the purposes which Nanda is presumably supposed to have in mind.

The very general accusations against the 'left' communists which Nanda tried to spell out in the course of a talk over the AIR are similar to those mentioned against a section of the CPI at the time of the Chinese attack in NEFA. Much of this evidence is apparently based upon the demented polemics of individual adventurers who imagine that they can establish 'liberated', Yenan-like bases contiguous to Chinese territory along the Himalayas. Can such lunatic outpourings be used against the entire communist 'left'? No court would uphold such a case. Nanda must, therefore, produce more plausible evidence of conspiracy and subversion —and place it before the nation.

When even psychopathic anti-communists in the West are beginning to take note of the far-reaching changes taking place within the international communist movement, changes which are bound ultimately to compel each communist party to think for itself, it would be the height of folly for political leadership in India to assume attitudes which are antiquated and reminiscent of that brand of thinking of which we believed we had purged ourselves. Whatever the aberrations communists in India still suffer from, it can no longer be denied that now in many ways they lead the battle within the communist movement for independent expression. These significant developments need to be more fully understood by non-communists.

Democratic functioning is integral to the unity and viability of a sub-continental, multi-communal, federal State like India which embraces many apparently conflicting interests and culture patterns. A damaging compromise here or there could certainly create those authoritarian tendencies which generate regional revolts and pose a challenge to the unity of the State. Nehru understood this though he allowed himself to be pushed into extremist actions on occasions. But today the flouting of legal procedures is becoming a habit. There is grave danger in this for the Centre.

For the moment, the swoop on the communist 'left' is linked with next month's elections in Kerala. Tomorrow, the conviction will spread that when Congress power is threatened, free and fair elections are not possible. The day after, a whole region will become responsive to slogans rooted in determined opposition to the Centre, to slogans of revolt. The ouster of the communists from power in Kerala in 1959 almost wrecked the democratic system in India. Then, fortunately, good sense prevailed. But a repetition, with variations, could prove to be the last straw.

There seems to be no logic in the attitudes of the GOI. Opportunistically, the intrigues of Abdullah and company in Kashmir are tolerated even to the extent of tying the hands of Sadiq. In the East, among the Nagas, we are officially involved in a debate with secessionists on the degree of independence to be granted. Yet, on what appears to be the flimsiest of evidence, Nanda is permitted to lock up a whole section of the Indian Left on the plea that it is 'anti-national'. These are the antics of a Government which does not quite know what it is doing—unless, of course, the astrologers and soothsayers have taken over the reins.

Our unhealthy political state is underlined by the heavy silence of the so-called leftists in the Congress Party, the inhibitions of the communists who do not approve of their erstwhile comrades and the quiet retreat of those accustomed to chattering about freedom and liberty. Only a few enlightened voices are heard demanding that no one be condemned until proved guilty. The militants of the Jan Sangh and the RSS approve of Nanda's action. So do the Swatantra bigwigs. If there had been genuine institutions in support of democratic processes, in defence of dissent, it would not have been possible to lock up people without trial.

It remains to be seen whether the Durgapur Session of the Congress Party (for which the entire resources of the West Bengal Government have been mobilised full time for the past several weeks!) will face these issues squarely or rest content with rubber-stamping the meanderings of the GOI. Congressmen should have enough time to face these issues—for, Gulzarilal Nanda has even cancelled the scheduled meeting of the Congress Socialist Forum. But, alas, who will lead them in the debate? Peripheralism breeds political pipsqueaks.

Weekly Notes

Official Farewell

THE Government of India has adopted the right and fair procedure in appointing a Committee to inquire into the desirability of abolishing the managing agency system. This is the procedure laid down under Section 324 read with Rule 11 of the Companies Act. Earlier, the Government's apparent intention was to act under Section 326, under which the Government can reject applications for approval of managing agency agreements on the ground that the proposed managing agent is not a fit and proper person. The use of Section 326, which was meant to deal with individual cases of delinquency, to abolish a system of management in certain established industries would have been a clear abuse of statutory and administrative powers.

The five-member committee headed by I G Patel consists wholly of officials; in fact, three of the five are from the Finance Ministry. Considering the views which the Finance Minister has already expressed, it can be taken for granted that the Committee will recommend abolition of the managing agency system in certain industries and businesses. The question then is which industries and businesses will be closed to managing agents—and when. A large number of managing agency agreements, it is known, are due to come up for approval this year but the exact number is not disclosed. The first appointments of managing agents under the Companies Act 1956 took place in 1960 but how many of them were for five years is not known; the Company Law Administration has never published the "maturity pattern" of approved agreements even though their number does not exceed 1,500 and all the necessary data are in its possession.

Under Rule 11, the Committee that may be appointed to report on the enforcement of Section 324 can have the powers of a commission of inquiry. It can "examine such representatives of the management, investors and other interests concerned with the working of the units engaged in the industry or business concerned as the Committee may in its discretion select for the purpose". The Rule requires the Committee to make specific inquiries in regard to

(a) the importance of the industry or business to the national economy;

(b) the number of companies engaged in the industry or business and their financial and managerial performance;

(c) the capital structure and form of management of such companies;

(d) the capital structure of the managing agencies and the extent of their interest in managerial companies;

(e) the total remuneration received by managing agents acting as such or in other capacities;

(f) the extent to which managing agents have been responsible for the promotion, development and finance of managed companies; and

(g) whether in the light of various considerations, other forms of management could be of greater advantage to the shareholders and the general public.

The report of the committee may or may not be published. Data on all these matters, except (g) which is after all a matter of conjecture, are already available with Government. The test of the Government's earnestness, therefore, is the speed with which the Committee reports back. No useful purpose would be served by asking for memoranda and oral evidence. The question has been debated so long (with so little facts, though) that nothing new can be uncovered now to support the indefinite continuance of the managing agency system. The so-called substitute of management, by secretaries and treasurers is and should be deemed as no different from managing agents.

There is one problem which though only procedural requires immediate attention. That is the question of the guarantees which banks and most financial institutions require from managing agents (or failing them, one or two directors) for loans to managed companies even when the loans are fully secured (by_mortgage, pledge or hypothecation) against good and conventional collateral. In concrete terms, these guarantees are meaningless for they can never be honoured in event of default. ICICI has never insisted on such guarantees while the Industrial Finance Corporation announced its intention to give up the insistence only in 1964; SFC's and banks are still slaves of the old tradition. Severe transitional difficulties would be created in the industrial credit structure with the phased abolition of the managing agency system if adequate arrangements are not worked out in advance. Banks must be directed in the near future not to insist on such guarantees and the state-owned banking system (i e, the State Bank of India and its subsidiaries) must set the example on its own.

As for other transitional problems, private managements will have to do some fresh thinking on the creation of a rational and efficient system of management. In fact as distinct from law, the abolition of managing agents will not make a drastic change in the system of top management but it would imply fixation and assignation of individual responsibility and more work by less prestigious and younger boards of directors.

Confrontation: Another Step

IT seems to have gone relatively unnoticed that Indonesia had a full year's warning of Malaysia's election to the UN Security Council. It was last year that Czechoslovakia and Malaysia agreed to split the usual two-year term of non-permanent members to end a voting stalemate. Clearly, therefore, President Sukarno is not leaving the UN in a huff, suddenly angered by Indonesia's enemy's elevation. The withdrawal is the latest step in Confrontation which is now the sheet anchor of Sukarno's external and internal policies.

What does Sukarno expect to achieve by his dramatic act? Indonesia has set a precedent which other disgruntled countries could follow to express their dissatisfaction with the world organisation. Speculative reports have already appeared that Pakistan may follow suit if the UN does not act according to her dictates on the Kashmir question. In principle, therefore, Indonesia's exit detracts from the UN's prestige and authority. In actual fact, however, it is unlikely to have much impact.

Nor will Sukarno's withdrawal in any way make Malaysia more vulnerable to his threats. Formally, Malaysia's defences are well taken care of by her treaty with the United Kingdom. Besides, it is known, the US too has offered military assistance. On the other hand, Sukarno's internal and foreign policies have firmly put him out of favour with the western bloc. This by itself is sufficient to ensure that he can launch no large-scale military offensive against Malaysia with any hope of success. His principal allies today, People's China and the Soviet Union, are divided and are competing for influence over him. The Soviet Union, while verbally sharing Sukarno's views on the colonialist character of Malaysia, has discreetly refused to get too involved in Confrontation; she has been equally cautious in her response to Sukarno's withdrawal from the UN. Only People's China and Albania have seemed to go the whole hog with Indonesia on Malaysia, while Sukarno sought to impose an economic blockade of Malaysia, China sold her 250 million Malayan dollars worth of goods in the first ten months of 1964 and in the process built up a thumping trade surplus which must have come in very handy for financing her growing imports from the non-communist world. As for the non-aligned countries, few, if any, have supported confrontation even on paper, though Sukarno continues to be one of the pillars of non-alignment.

The theory that Indonesia's withdrawal from the UN is the precursor to a large-scale armed attack on Malaysia or even a marked intensification of the military aspects of Confrontation, therefore, has to be discounted. Yet it is part of Confrontation. To expect it to be followed by any serious action is to misunderstand Sukarno's policy. The Indonesian President has talked freely of "crushing" Malaysia and had even set a deadline for the achievement which has come and gone. But from the way he has actually implemented Confrontation it should be clear that what he expects to achieve is far less spectacular than the immediate military destruction of Malaysia. For the most part, he has been content to keep the Malaysia issue alive. The world-wide attention which his withdrawal from the UN has commanded subserves this objective admirably. More concretely, there has been a sharp step up of the British military build-up in Malaysia. British troops in and around Malaysia have been vastly strengthened, reinforcements have been rushed to the naval base in Singapore and a new air command has been formed. Malaysia herself had earlier ordered conscription. If heightening of tension was Sukarno's objective, the British and Tunku Abdul Rehman have co-operated admirably; they had no choice in the matter.

On Malaysia itself Confrontation has begun to leave not a few scars. There have been the inevitable fissures created by the large presence of foreign troops and military advisers. On the economic front, Malaysia's trade declined by one-sixth in 1964 and the Budget for 1965 presented by Finance Minister Tan Siew Sin in November last showed a deficit of M$853 million, double that in 1964—the result of burgeoning defence spending. The Indonesians may be too poor to be hurt by Confrontation, but Malaysia's prosperous business, mainly Chinese, and her comfortably-off middle classes are not likely to bear the burden as stoically.

More important, after the successful struggle against the Dutch for West Irian, Confrontation has become the principal prop of Sukarno's popularity at home. The prop has apparently served well so far. While the Indonesian Communist Party as well as forces opposed to it, mainly the army, have grown vastly in influence under his rule, they still vie with ea to win his favour. Recently w right-wing elements were alarn the inclusion of the Communist Chairman and two other comm leaders in Sukarno's Cabinet sought to close their ranks, the or nisation that they set up was calle the "Body for Supporting Sukarnoism". The fact that inspite of keeping his country in a continuous state of economic ruin for years, Sukarno can still confidently stay away from the country for long periods is evidence enough that, from Sukarno's point of view at least, the success of Confrontation is not to be judged by the very, very unfortunate fate of the few dozen guerillas he has sent forth to 'liberate' Malaysia.

Not Enough Fish

INDIA ranked tenth among the countries of the world in its output of fish in 1963 with a catch of 1.05 million tonnes, according to figures recently published by the *Bulletin of Fishery Statistics* from New York. This was an improvement over the previous year's catch of 0.97 million tonnes but that is by no means the whole story. If we consider the length of our coastline, our inland water resources, and the number of fishermen and fishing craft involved, the achievement is immediately cut down to size. Actually, our average fish production in the sixties has been below the level attained in 1959 and even in 1963 it was much less than the Second Plan target of 1.45 million tonnes. Between 1957 and 1962 world production went up from 31.14 million tonnes to 44.72 million tonnes; Japan increased hers from 5.4 million tonnes to 6.9 million tonnes and Peru hers from 0.48 million tonnes to 6.82 million tonnes. In contrast India's production during the same period decreased substantially.

It was pointed out in the Third Plan that a large increase in fish production was necessary so as to make available a minimum protein diet to the people. The Third Plan programme for fisheries was framed with this objective in view. Current consumption of fish in India is as low as 2 kgs per capita per year compared to 52 kgs in Norway, 50 kgs in Iceland and 45 kgs in Portugal. According to an F A O expert, if we could increase our per capita consumption of fish to half of the per capita consumption in Portugal, it would mean an eight per cent increase in our total food consumption. Our annual requirements of fish have been estimated at four million tonnes. And yet the fin-

location for fisheries in the [illegible]ns taken together has been 42 crores.

[illegible]'s neglect explains our failure. [illegible], though she has been excluded [illegible] some of the richest fishing areas [illegible] the war, now produces nearly 7 [illegible]n tons compared to half that quantity in the mid-fifties; Peru's production has shot up from 0.48 million tonnes in 1957 to 6.9 million tons in 1963, making her the number one fishing nation in the world. This achievement was made possible mainly by mechanisation of fishing craft and modernisation of nets. Between 1957 and 1962 Peru's tonnage of mechanised boats increased seven fold. Japan has 190,000 machanised craft with a tonnage of 1.6 million. In contrast India has only about 3,000 boats mechanised out of a total of 80,000. Of the mechanised crafts most are concentrated in Maharashtra. Similarly, our fishermen still use cotton or flax fibre nets; even though in the tropics the fibre rots quickly and so maintenance is quite costly. The wider use of nylon nets would bring many advantages. They are stronger, finer, almost invisible, require less maintenance and generally last three times as long as cotton nets. One of the obstacles to their wider use is that the synthetic fibre for nets has to be imported. Foreign exchange is the obstacle in the way of mechanisation also.

As a result most of our boats operate within 20 miles of the shore and fishing is suspended between June and September. With mechanisation we could exploit the deep sea potential as well as eliminate the seasonal character of the fishing industry.

North vs South in Nigeria

BECAUSE of its large population and important resources, Nigeria is one of Africa's key nations. Its position as the leading exponent of parliamentary democracy in Africa makes it doubly important. Thus, when Nigeria is faced with a major political crisis which threatens to destroy the nation, it is a matter of concern internationally. Although the crisis caused by the recent election seems to have been settled, at least for the time being, by a coalition of all of the major parties, the roots of the crisis remain.

Like many of the new states of Africa, Nigeria is a creation of its former colonial rulers. Nigeria is a confederation of major tribal groups linked by a British-imposed federal constitution. When Nigeria gained its independence in 1960, a delicate balance of power between the three main tribal groups managed to cement national unity. During the past five years, however, political tensions have mounted until they reached a breaking point just prior to the recent election. Indeed, one of the major political parties boycotted the elections, claiming that the ruling party had manipulated the electoral machinery.

With only token opposition, the dominant Nigerian National Alliance, consisting almost entirely of northerners, won an overwhelming victory. The opposition United Progressive Grand Alliance (acually a coalition of the southern tribes of Ibo and Yoruba) did not contest that election, although it is clear that it has the support of the majority of people in the South. Thus an impasse was reached when the southerners refused to accept the results of the election and threatened to secede from the Nigerian union. For the time being at least, a political settlement has been reached which has preserved Nigeria as a national entity without solving any of the basic problems.

The roots of the problems are all too familiar to many nations of Asia and Africa. Nigeria is roughly divided between north and south. The North is controlled by feudal Muslim emigrates, and remains essentially autocratic in everything but name. Education and "modernization" generally are at a relatively low level, and the whole region was virtually ignored by the British, who were content to leave the traditional social structure intact. The South, which is itself divided, is predominantly Christian or pagan and has taken to industry and trade vigorously. Education is at a high level, and most of the Nigerian civil service and virtually all of the employees of European firms are Southerners. The North, however, contains more than half of Nigeria's population, and therefore is in a position of political domination. Furthermore, it is easier to control the North because of its high illiteracy rate and still strong traditional social structure. Language problems further muddy the waters, and English has been officially adopted as Nigeria's national language. Thus, religious, tribal, and linguistic animosity has provided a powerful barrier to national unity in Nigeria.

It remains to be seen what the solution of Nigeria's problems will be. The North realizes that it would be the greatest loser in any split of the nation. Not only would it be cut off from the sea, but the Southern regions are wealthier and more advanced and could therefore speed Northern development. The Southern groups, on the other hand, are adamant in their demands for fuller regional autonomy and are opposed to Northern domination of any kind. The compromise patched together by the popular president Dr Azikiwe should be sufficient to "hold the line" for the present. Nigeria's future as a nation is, however, in doubt.

Agricultural Price Policy, at Last?

IT is heartening to be able to say that for once the Government has appointed a committee with the right terms of reference. The recently announced Agricultural Prices Commission will be concerned with the prices of not just (the superior and inferior) foodgrains but also those of sugarcane, oilseeds, cotton and jute. It had been argued on the basis of some revealing empirical data by agricultural experts (particularly by Professor M L Dantwala whose appointment as Chairman of the Commission, though yet to be announced, is taken for granted) that agricultural price incentives which are confined to only *some* of the agricultural products (e g foodgrains) do not have the desired impact on yields per acre because such partial price support creates the incentive for farmers to switch crops. Of course, the price mechanism needs to be used for achieving planned changes in the crop pattern, but this presupposes a planned price structure covering all agricultural products which has not so far existed.

Though an increase in output of foodgrains is important for obvious reasons, commercial crops are no less important both for meeting the increasing domestic demand and for earning greater foreign exchange. The rather obvious need, not to confine agricultural price support to a narrow range of products seemed to have been overlooked in the earlier discussions on the subject and in the advice given to the Central Government by some foreign experts. It is to the credit of those who were opposed to this short-sighted approach that they argued the case for a co-ordinated price support policy for most agricultural products with sufficient force for it to have been adopted before the other policy has had time to do too much damage.

The terms of reference of the Agricultural Prices Commission are sufficiently broad. While determining the relative price structure for agricultural commodities, it has to keep in view its effects on such things as the cost of living, level of wages and the industrial cost structure, etc. However, its precise relationship with the Food Corporation of India has not been clarified yet. There is obvious need for defining that relationship carefully in advance if the two bodies are not to find themselves working at cross-purposes. Again, it has not yet become clear that the minimum prices which will be offered to the cultivators will be guaranteed for something like five years; there is every reason to believe that unless some such guarantee is published, the incentive effects of minimum prices will be too weak to have an impact on yields.

Further, though an integrated system of price support for the major agricultural projects is in all probability a necessary condition for increasing yields per acre, nobody has ever seriously argued that in the Indian conditions it is likely also to prove a sufficient condition; the need to augment the supplies of inputs like irrigation (through minor projects), fertilizers and pesticides, etc, will remain as great as ever.

Lastly, the declared aims of Government regarding agricultural products include not only price support of the farmers but also a price ceiling for the consumer. Unfortunately, regarding this latter aim, there is no evidence yet of meaningful action by the Government. Without the power to force the surplus States to make their surpluses available to the deficit States, without rationing in the cities and without a crash programme to build the warehouses to stock about six million tons of foodgrains, it is still difficult to see how the Food Corporation can ensure a ceiling on foodgrain prices for the consumer.

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Letter from South

Election Tactics in Kerala

THE sudden swoop on the Left Communists has further tangled the already extraordinarily complicated electoral scene in Kerala. The arrests have enthused not any section of public opinion in the State and, if anything, they have further downgraded the political standing of the Congress. No evidence has been presented to prove the charge that some kind of armed insurrection was immediately on the agenda of the Left Communists. In Kerala at any rate the entire Left Communist organisation was being geared up for the elections which are a bare six weeks away; the battle for which it was preparing was of the ballot and nobody was bothering about bullets. The ease with which the entire Left Communist leadership was arrested and the refusal of any of those arrested later to go underground hardly substantiate the accusation that they were preparing to challenge the Indian State in any ultra-revolutionary way.

The arrests will not prevent the Left Communists from going ahead with their election campaign. If anything, it will only provide further impetus to their campaign and give some of their candidates, who have been arrested, additional glamour and prestige.

Coming to the Kerala elections, it is strange then that so experienced a politician as Namboodiripad should try one ingenious formula after another to keep alive the chance of some sort of understanding with the Muslim League. The latest one is that independents sponsored by the Muslim League should be supported by the Left Front as the price for the Left Communists joining it. This is rather baffling, to say the least. The League is not going to give up its official candidates in its strongholds, even if it agrees to sponsor "independents" in some marginal constituencies. And in those strongholds in Malabar there pockets of Communist influence. What is to be the directive to these Communists and their supporters? For whom are they to vote? Above all, what happens to the struggle against communalism, which everybody agrees, has spread like a cancer in Kerala's body politic?

What the Left Communists seem to be overlooking is that a very big section of those who had formerly voted for the Congress are now looking for an alternative. One of the main reasons for their disgust with the Congress is precisely the opportunism with which it allied with the forces of Nair, Catholic, and Muslim communalism, until it reduced itself to a gathering of communal chieftains. This section will certainly not regard the Left Front as a reasonable alternative if it also goes in for the same sort of game as the Congress. The electorate might have been prepared to condone opportunism for some time as far as the Congress was concerned, out of a sense of past loyalty and from reverence to its idols, but certainly no transference of support can be expected if the Left Front also treads this primrose path.

Besides, there is the question of stability. Except for the brief 28 months when the Namboodiripad Ministry was in control, Kerala's experience has been that any compromise with the forces of communalism inevitably generates squabbles and internecine strife that bring alliances and Ministries crashing to the ground. What hope, then, can there be of stability when the Left Front, already heterogeneous enough, goes in for alliance or adjustment with the League?

In addition, there is another danger of which the more enlightened sections of the Kerala electorate cannot but be aware. The State has known the existence of a minority Ministry—the RSP government had only some quarter of the seats in the Assembly. Now the League is allied or is very likely to ally with the dissident Congress, which is an alliance of the more powerful segments of Catholic and Nair communalists. If, with the help of the Left Communists or Left Front, the League and its partners are able to emerge as a powerful minority force, or even as the largest single force, there is no reason to doubt that it will make a bid at Ministry-making. The contingency could even arise that it would emerge as the alternative which both the Congress and the Left Front would be asked to support as otherwise Kerala would have no Ministry at all, since neither the Congress nor the Left Front would tolerate each other's minority Ministry. The prospect opens up of endless confusion and instability. Principles apart, sheer expediency would seem to dictate utmost to prevent such an outcome.

At the time of writing, however, it does not appear as if the Left Communists are going to abandon adjustments with the Muslim League. In addition, they may come to some sort of understanding with a section of the SSP. What the reaction of the other constituents of the Left Front is going to be is not clear. It is possible that the Right Communists may try to build an alliance with the RSP and prominent independents and then decide whether or not to support individual Left Communists or SSP candidates in certain constituencies and leave it to the Left Communists and the SSP to do likewise.

From the London End

New Look for Aid Programme

THE forthcoming visit of Mrs Barbara Castle to India and Pakistan prompts reflections on the new Ministry for Overseas Development set up by the Labour Party. The merging of the various Government Departments which, in the past, were concerned with technical and financial aid was something which should have been done a long time ago. Before the new Ministry was created, responsibility for the aid programme was divided among several Government Departments—the Treasury, the Department of Technical Co-operation, the Board of Trade, the Colonial Office, the Commonwealth Relations Office, the Central Africa Office and the Foreign Office. No single Minister was responsible for all aid. In view of the generally recognised importance of aid to developing countries, it was essential that a single department with a Cabinet Minister in charge of the administration of British aid should be set up if any system and coherence was to be given to this all important subject. It is interesting to note that, apart from Holland, no other European country has a Cabinet Minister for aid, and there is no doubt that Mrs Barbara Castle certainly takes her job very seriously indeed.

Shortly after taking office, Mrs Castle promised a full review of the aid programme, the main object of which would be to see that the UK gives value for the money and technical assistance she pumps out in aid. Hitherto British aid to developing countries has not accounted for a large proportion of her gross national product. The latest figures indicate that the percentage is only 0.7 per cent as compared with 1.7 per cent for France. The drastic overhaul of the Department and the weight that is being given to the provision of technical assistance as well as financial aid, are moves in the right direction. The new Ministry is hoping to recruit 30 economists under the direction of Dudley Seers, and four of the eight main administrative divisions are directly concerned with technical assistance. Many of the recipients of British aid in future will be given greater help in planning their economic development, and Sir Andrew Cohen's appointment as Permanent Secretary will ensure that technical assistance is given due weight. Sir Andrew was Director of the now-defunct Department of Technical Co-operation.

The recent sterling crisis in Britain has prompted thoughts in the minds of some people as to whether Britain, with her unhappy balance of payments position, was not spending too much on aid to developing countries, and whether in this field, as in that of defence, Britain was not trying to do too much. Indeed, Enoch Powell recently claimed that current policies of aid to under-developed or newly developing countries were both "futile" and "harmful" to the receiving nations.

Impact of Payments Deficit

There is, of course, no doubt that what Britain is able to do in the field of aid will depend largely upon the state of Britain's balance of payments. This highlights the need for a really critical examination of the whole problem of international liquidity. With sufficient reserves to fall back upon, donor countries would no longer jeopardise their balance of payments position by providing aid in their national currencies (which are, in the main, convertible) to the developing countries. One lesson that has emerged quite clearly from the recent sterling crisis is that the new central bankers' collaboration techniques have not provided the complete answer to the problem and that a more reliable solution must be sought. In recent years, there has been no dearth of suggestions on how to improve international liquidity. So far, these schemes have invariably been turned down, mainly as a result of pressure from the more orthodox European countries who believe that there is really no need, at present, to increase international liquidity.

In view of the prevailing international climate and Britain's own balance of payments difficulties, the new Ministry will have to cut its coat according to its cloth. This means that in the near future there is little likelihood of British aid increasing above the level of approximately £150 million a year; it also means that Britain will have to continue to provide "tied" loans, ie, loans which have to be spent by the recipient countries in the donor country. This system causes the minimum of strain on the donor country's balance of payments. It is to be hoped, however, that the new Ministry will take a fresh look at it with a view to making the tying of loans less onerous for the recipient country. To begin with, more of this tied aid should be for maintenance imports instead of being tied to specific projects. Again, if the aid is to be really effective, some provision must be made to cover local costs. In many cases the provision of the foreign exchange cost alone is not sufficient to get the project moving. While it is understandable that loans are tied to prevent the money from being spent on purchase of equipment from third countries, there is no valid reason for failing to provide local costs.

Much can also be done to improve the terms on which a country like Britain provides loans to the developing world. In its aid programme to independent countries in the Commonwealth, the bulk of the aid is in the form of loans under Section 3 of the Export Guarantees Act formally tied to the purchase of British goods. They are normally long-term loans with grace periods for repayment at rates of interest (in recent years between 5¼ and 6¾ per cent tied to the British Government's borrowing rate or very nearly equivalent to conventional banking terms. This has meant that loans of this nature cannot be used for those projects which do not produce revenue quickly, and is particularly inappropriate in view of the already heavy burden of debt service on many developing countries. Britain has recently introduced longer grace periods and a waiver of interest on loans for a period of seven years, and some lengthening of the terms of repayment.

More could be done in this field. The World Bank Mission at present in India is looking into the possibility of postponing debt repayment in view of India's balance of payments difficulties, and it is hoped that during her visit to India Mrs Castle will understand more fully the problems faced by a developing country like India. It is not surprising that the first foreign tour by the new Minister for Overseas Development should take her to India and Pakistan, two of the major recipients of British aid among independent Commonwealth countries. Figures on British bilateral aid for 1945-6 to 1962-3 showed that the independent Commonwealth countries received a total of £230 million (19 per cent of total bilateral aid), almost entirely after 1957. Three-quarters were in loans as opposed to grants. India received over half the total (£122 mililon of which all but £3 million was in loans). Pakistan received £30 million.

Mrs Castle's visit to India will acquaint her at first hand not only with India's development problems, but with a knowledge of how Britain's share of consortium aid to India is being used. It looks as if Mrs Castle's tour will mark the beginning of a new and more efficient era for the British aid programme. What is required here is fresh thinking and more efficiency as well as a greater on-the-spot appreciation of problems of developing countries. All this will help the new Ministry to reach conclusions on major aspects of aid policy. This will necessarily take time, but there is no doubt about the dynamism and enthusiasm that the new Minister brings to her task.

Book Reviews

Subsistence, Its Economics

N K Thingalaya

The Economics of Subsistence Agriculture by Colin Clark and Margaret Haswell, Macmillan & Co Ltd, London, 1964; pages 218, price 30s.

THE features of subsistence agriculture are not unknown: the attitude to farming as a way of life rather than as a business, the preponderance of the human energy and labour among inputs applied to agriculture, low land yields, high rents and, of course, hunger, squalour, illiteracy, unhygienic living conditions and inertia. The price insensitiveness of farmers is a part of subsistence agriculture with its corollary of the backward-sloping supply curve for farm products (and also for farm labour). In sum, the subsistence farmer emerges as a non-profit-maximising entrepreneur, caught in a vicious circle of low income — low productivity — still lower income. All this has been said before and is fairly well known. In delineating the features of subsistence farming, therefore, this book does not add much that is new. Its purpose here seems to be to document the different symptoms of subsistence agriculture as diagnosed by various "thorities" in various parts of the world at different times. The book presents a picture of the nature of subsistence in which the various parts have been brought together and then proceeds to evolve indicators to measure "the degree of subsistence".

Clark and Haswell begin by claiming that the extent of hunger and malnutrition prevalent in the world has been exaggerated. The common belief, aided and abeted by the FAO's publications and campaigns, is that "a lifetime of malnutrition and actual hunger is the lot of at least two-thirds of mankind". The truth, according to the authors, is that the world is not as miserable as all that. It is the standards used for estimating food requirements which are questionable. After much "intellectual detective work" the authors bring down the extent of hunger to 10 to 15 per cent of mankind.

Different Stages

Just as the growth of the whole economy is analysed in different stages, the development of agriculture can be studied in various stages. Recently some writers, like Winter and Daniel Thorner, have used elaborate classifications of peasant economies in an historical context. To trace the growth of agriculture in three stages, Clark and Haswell take us back to the prehistorical period to meet the "preagricultural man" amidst his primitive life. When hunting and fishing were the sources of food, the primitive man required an area varying from 17 to 90 square kilometres to obtain his food. With the introduction of agriculture the area required per person merely to subsist declined sharply. This happened even when cultivation was primitive with the rotation of fields rather than crops, clearing of forests by means of fire and use of labour as almost the only input. But when cultivation became sedentary, space requirements fell to 1 to 5 sq km per person and with the domestication of animals it further declined to half a sq km per person.

Measuring or comparing agricultural progress on an international plane is admittedly difficult, the more so because in the backward agricultural countries the greater part of the output is grown for subsistence consumption with only a negligible portion being traded for money. The authors use an unit of grain-equivalent for the purpose, fixing some 250-300 kg per person per year as the subsistence minimum. In a subsistence economy, as De Vries who has evolved many interesting empirical propositions regarding the role of agriculture in economic development has rightly observed, it is almost a law of nature that agricultural production will increase approximately at the same rate as the population. The large number of case studies and pioneering efforts made to estimate productivity in agriculture, which are cited in this book, bring out the nature of labour-earnings in agriculture. A bold generalisation is made by de Farey that "three kilograms of cereals is the usual reward for a day's work in a subsistence economy, whether it be India now, Russia at the beginning of the present century, or France in the 18th century". Clarke and Haswell present a wealth of empirical data to verify de Farey's proposition including such fascinating bits as that the average wage per man per day in Madras district in 1954 was 3.35 kg of rough rice.

Rent in poor peasant economies has been the subject of attention of

political economists since Ricardo, not the least because it accounts for roughly a half of the gross produce of land. It is not the fertility of the soil but the pressure of population on land that creates rent. A long table provides data on rents and prices of agricultural land in different parts of the world, giving the percentage share of rent in gross output and in total factor income in the developed and the backward economies. Surprisingly, the relevant data for India are not given, though the book abounds in references to the Farm Management Studies. Except in commenting on the rising land values and high rent, the authors make no reference to tenurial policies and tenancy legislations seeking to alter man-land relations which most developing countries have enacted, successfully or otherwise.

Leisure Preference

The leisure preference of subsistence farmers is an economic dogma which has come down from William Petty in the 17th century and it naturally makes its appearance in this book also. Case studies are cited to show that when the land held by families exceeds three hectares in fertile tracts, they tend to leaseout a part of it. But it is no less true that most of the farm families do not have sufficient land to keep them fully occupied, though the size of holding that provides full employment to a family may vary widely as may the intensity of labour-use on farms, making it difficult to measure the extent of rural over-population in subsistence economies.

The high income elasticity of demand for food is an accepted feature of the consumption pattern in peasant economies. At the lower income levels, expenditure on food articles forms the predominant item in family budgets. It tends to decline with rise in income. An impressive array of family budget data is presented to corroborate even this least controversial of all the characteristics of a subsistence economy.

However, after reading the book it is difficult to make out whether the authors intended to write a handbook on subsistence agriculture or a treatise on the economics of subsistence. Since there is no preface or introduction to the book we have nowhere an authoritative statement of the purpose of the book. But the mass of empirical information on subsistence presented by the authors is very useful and their success in providing some indicators for international comparison is commendable.

What to Do with Agriculture

N S Shetty

Agricultural Planning in India by S C Jain, Metropolitan Book Company, 1964; pages 125, price Rs 6.50.

AT present agricultural planning in this country takes the line of least resistance, argues the author of this brief book with the ambitious objective of pointing the way to a "revolution" in Indian agriculture. This approach to farm planning involves introducing technological changes into farm production while its structure and organisation remain unadjusted to these changes. The frequent failures of "schemes of improvement" is proof of the validity of this criticism. Despite huge investments made in three Five-Year Plans, we are now almost at the point from where we had started. The warning follows that "time is now ripe to give serious thought as to whether to stay for some years more with the existing techniques of agricultural planning or to introduce new methodology capable of eradicating the various lacunae in our efforts to solve agricultural problems and raising farm productivity within the shortest possible period."

What Is Wrong?

That something is wrong with our agricultural planning needs no special emphasis. Jain's book falls logically into three parts. In part one he examines the existing techniques of agricultural planning. The basic causes of the slow rate of increase in agricultural production and productivity are described in part two. Part three brings together the author's proposals to bring about the "revolution" in agriculture.

The main components of agricultural planning in the Five-Year Plans are described by Jain as :

(i) provision of material inputs which include manures and fertilisers, improved seeds, irrigation facilities and insecticides and fungicides;

(ii) measures for improving efficiency of agriculture which involve introduction of improved cultural practices and changes in methods of production;

(iii) provision of economic incentives through price support, subsidies; and

(iv) institutional reforms, including land reforms, provision of institutional credit and reform of the marketing system.

The achievements of agricultural planning, according to the author, have been "spectacular" in creating pockets of increased knowledge and experience in agricultural development, in getting the Government deeply involved in the problem of agricultural development and in increasing awareness of agricultural problems among governments, politicians and the public. While there is no doubt that by and large "substantial progress — better progress than in any other ten or twelve year-period of India history" has been achieved, the break through to high productivity is far from being in sight yet.

Not Original

Jain's proposals for bringing about the agricultural 'revolution' are :

(1) Complete mechanisation of agriculture in two districts in each State;

(2) Seven agricultural machinery producing plants and a plant for manufacturing multi-purpose machinery capable of doing all jobs on the fields and farms;

(3) Three insecticide, weedicide and pesticide plants along with power sprayers, dusters and aerial spraying equipment plants;

(4) Chemical fertiliser plants;

(5) Irrigation and electricity on all farms; and

(6) Centralised agro-biological and agro-service stations, with a large number of laboratories equipped with modern appliances.

As a blueprint for the agricultural 'revolution' this is as grandiose as it is perhaps lacking in originality. The question is why the far more elaborate blueprints contained in the Five-Year Plans so far have failed to deliver the goods. Though Jain is highly critical of the Government's efforts, no systematic answer to the above question emerges from his book.

Some Patterns of Tribal Leadership

A Aiyappan

Before undertaking any action programme, the agent of change should have some idea not only of the theory but also of the general morphology of tribal leadership in its relatively static phase in the past and in the present fluid situation of rapid change under the powerful impact of modernism. A great deal is known of charismatic and religious leaders of tribal groups, but not of other types of leaders of the past and the present.

An attempt is made here to describe briefly a few typical situations and the history of group or individual leadership emerging in these situations in order to suggest the kind of problems which the researcher is likely to meet with in tribal societies.

THERE is a pressing need in India now for research information on problems of tribal leadership. Administrators of welfare programmes on a nation-wide scale are confronted with the task of locating genuine leadership and enlisting it in the service of tribal and rural reconstruction. The wide-spread failure to do this has been partly responsible for the malaise in our community development schemes. On-the-spot studies and active involvement in welfare work are necessary before the anthropologists can help the administrator in his difficult job. Anthropologists in India are getting sensitised to the new field of leadership studies as applied to our rural and tribal communities. (The Seminar on Leadership held in Ranchi in November 1962 discussed various aspects on the subject with particular reference to rural and tribal India. The report of the Seminar when published is bound to be of great interest.)

Before undertaking any action programme, the agent of change should have some idea not only of the theory of leadership but also the general morphology of tribal leadership in its relatively static phase in the past and in the present fluid situation of rapid change under the powerful impact of modernism. History would give us insights into the nature of leadership which different situations threw up, the relation between leaders and followers, the instrumentalities of leadership, the personal and group goals sought to be achieved, and so forth. In the following pages, a few typical situations and the history of group or individual leadership emerging in those situations are briefly described—no detailed analysis is given—in order to suggest the kind of problems which the researcher is likely to meet with in tribal societies of India. A great deal is known of charismatic and religious leaders of tribal groups, but not of other types of leaders of the past and present.

Leadership that Got Pushed Out

The Kisans are a Dravidian-speaking tribe living mainly in the Districts of Sundergarh and Sambalpur of Orissa, their largest concentration being in Gangpur, Bonai and Bamanda. The Kisan language is allied to the Oraon language and the tribe itself is believed to be an off-shoot of the Oraons. The Bariha was the traditional leader of the Kisans. The word Bariha, it is surmised, means "king". The Bariha was a minor 'Raja', over-lord, above the village-heads (Gountia). The Raja of Gangpur recognised two Barihas, and Raja of Bamanda recognised four who are still surviving and functioning to some extent. Copper-plate charters appointing them as chieftains over the Kisan were also granted. The Barihas' functions were mostly social and involved very little administrative or revenue or judicial work. Fines and the various fees collected by them were the chief source of income for the Barihas. The Bariha had the special function of arranging the marriages of widows and divorced women and the readmission of illicitly pregnant women into the Kisan society. The bride prices of all these types of marriages went to the Bariha. At the last phase of Barihahood in the lowland villages, the widows and divorcees were almost sold away. This kind of 'revenue' collection led ultimately to the decline of the office of the Bariha.

The office of the Bariha got stabilised because it helped to weld several Kisan villages together and provided a machinery for social control at an inter-village level over areas which included about 100 or more villages. Disputes which could not be settled at the village level or by a small group of nearby villagers were referred to the Bariha who could fine or excommunicate or readmit guilty persons. The position of the Bariha was strengthened by the use the Rajas made of the office as their channel of communication and as their "executive". After the Rajas lost power and the British came in, the Rajas and Barihas lost their roles. The new emerging tribal elite did not like many of the things done by the Bariha, e g the admission of aberrant women into Kisan society. The "sale" or similar disposal of widows and divorced women was also repugnant to the emerging tribal elite. The support for the office from the popular side also gradually waned. People stopped going to the Bariha to deal with the various categories of disputes described above. Inter-village disputes also ceased to be referred to the Bariha.

About 25 years ago, the authority of a Bariha to impose some rather cruel sanctions was questioned in a criminal complaint. There was a custom by which, in cases of seduction, the Bariha allowed the brother of a seduced woman to kidnap the sister of the accused man (seducer). Educated Kisans thought this was unjust and exploitative and filed a complaint. My information in this case is, unfortunately, incomplete, but it shows that forces to undermine traditional authority were being generated by an emergent and new type of leadership.

By 1945, a new movement was taking shape. This was the organisation of the tribes on the model of the caste associations of the Gonds, Telis and other castes. Social reform was its aim and one of the first resolutions of the Kisan Jati Sabha was for the abolition of the Bariha's office. The Panchu Palli (five villages)—a council of leaders—representative of a few villages came now into existence to settle matters involving more than one village. For this there was precedent in the council which could, in the past, be summoned by an aggreived villager to settle a matter which a Bariha refused to adjudicate. Several Barihas and village leaders would attend such a council. But the Panchu Palli referred to here had limited coverage over a few villages. Informal councils with the jurisdiction over four or five villages functioned in the past also. A resolu-

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tion of the Kisan Jati Sabha only formalised this small council's role.

The Ritual Leader

Another type of leader, exercising social control, is the Panigiri (Panigrahi) or Ghata Bariha. He helps in the maintenance of the existing structure at the inter-village level and also the ongoing sanskritisation process, to which some of the Bariha's activities ran counter (e g readmission of aberrant women). In a Barihas' territory there may be two or three Ganga Ghats (ghats for purificatory baths) each in charge of a Panigiri. The Panigiri's influence is declining, but not so much as the Bariha's. The Panigiri is the person who ritually readmits deviants by sprinkling water on them, formerly on the orders of the Bariha or local leader. The Panigiri hears disputes regarding readmission and cases which could not be decided at the village or inter-village level. With the emergence of the Panchu Palli and Kisan Jati Mahasabha the Panigiri's influence is going down as cases now get settled quickly at the village level.

Persons capable of "talking", with good economic status based on landownership, with literary, or puranic scholarship, with medical and other traditional knowledge, or with contacts with courts and the world outside, are the kind of men who get into the new leadership positions. Gram Panchayat members also are invited to sit with these leaders in tribal meetings. Government servants are only outwardly respected by the Kisans. Land and bullocks give real status, for the Kisan is business-minded, worldly wise, and calculating, and values real property. Active politicians of the Congress party (most of them formerly members of the Praja Mandal) and some of the Ganatantra Parishad party are found among the Kisans. Most of the new leaders are of the Congress party, but there are many among the people belonging to Ganatantra Parishad. The Jharkhand party has little appeal to the Kisans. These new leaders are genuinely interested in the future of the tribe and are all reformers. The all-India parties are attempting to draw these leaders into their own groups. Thus the Kisans are moving from the state into national parties.

Annan Pittan was an outstanding personality among the Kurichiyas of Wynaad, one of the predominantly tribal areas of Malabar. The Kurichiyas are still one of the most conservative of South Indian tribes. Unlike the Nayars, they retain their matrilineal family system, and many other old world customs, little affected by modern trends. My acquaintance with the tribe began about 1934 and I have been in touch with them for the last 18 years. Annan Pittan was one of the four or five literate men of the tribe who number about 12,000. Apart from literary he had several other qualifications, the capacity to "speak law" being one of them. His skill in handling disputes, skill as a hunter and marksman with both the shot gun and bow and arrows, his stature and bearing were among his additional qualifications. Some time about 1937 Annan Pittan was nominated as a Panchayat member to represent the Depressed Classes, for at that time the Kurichiyas were wrongly included in the list of Depressed Classes. The elders of the tribe were opposed to his accepting the membership of the Panchayat, so the gods were consulted in the usual formal manner. The *shaman* as the mouthpiece of gods told them that the gods were opposed to a member of the tribe accepting the membership of the Panchayat Board. Now the Kurichiyas are an extremely religious people with an exaggerated development of religious institutions which has been the undoing of the tribe as in the case of the Saoras of Orissa. Anan Pittan disobeyed the commands of the gods and accepted the nomination and attended the first meeting of the Panchayat Board. Within a few days he had an attack of cholera and he died within a few hours after the attack. I had the sad privilege of attending his funeral ceremony. The tribal elders with whom I discussed the subject of his death told me that the gods had taken their revenge on the disobedient Kurichiya.

Responsive, but Ascribed Leadership

Few tribes there are in India who can equal the Kurichiyas in their religiousness. Yet occasionally we come across tribesmen who have courage to go against tradition. Annan Pittan was one such, but his unfortunate death at a critical time gave the elders a good excuse to hold up social change. Had he survived, wider contacts of the Panchayats would have enabled him to attempt modernisation of his tribe.

Among the Koyas (of Malkangiri), one of the most backward tribes of Orissa (according to the list of the Dhebar Commission), the Pedda, the hereditary headman of the village, is in most cases the *de facto* as well as *de jure* leader of his village. He enjoyed this position in the past because the disposal of the village land was in his power and he was the agent of the Muttadars. But now he no longer enjoys this power and so his importance is much less, but he still controls social, political and religious activities, the Perma or priest acting under his direction. Some Peddas have now become Panchayat members.

The qualities which the Koya villager wants in his leader are—

(1) he should be frank and fearless in dealing with outsiders, particularly Government officials;

(2) he should be truthful;
(3) he should be impartial; and,
(4) he should be somewhat rich.

Prasanta Kumar Choudhury tells me that in each Koya village an annual meeting is held of all the villagers, at which they review the Pedda's work for the past year; the Pedda sits along with the other members of the assembly and listens but does not challenge any statement or express anger. The object of this annual meeting is to make him aware of his lapses and make him do better in the future.

The Koyas are a tribe of Dravidian speakers. Among several ancient Dravidian communities, the democratic, responsive leader of the type referred to here is mentioned in classical works in Tamil. The persistence of the institution among the Koyas is a matter of some interest.

The traditional pattern of tribal leadership which after stabilising its economic and political status sanskritises and leads itself up and partially out was well brought out in a dispute concerning an election from a double member parliamentary constituency in which the tribal member got elected as the member for the general seat by getting more votes than his non-tribal rival. In the award of the election tribunal, the situation which I have referred to is discussed in detail. Candidate D in his nomination paper described himself as a member of a scheduled tribe, and the returning officer accepted his claim. The rival candidate who filed the election petition produced documentary evidence to show that in his school record and several registered documents he had described himself as a Kshatriya, that he had marriage relations only with zamindar families who also described themselves as Kshatriyas, that he was wearing the sacred thread and was maintaining a great deal of social distance between himself and the members of the tribe

to which he claimed to belong. The election tribunal held the view that D should be regarded as a non-tribal and on this and other grounds declared his election void.

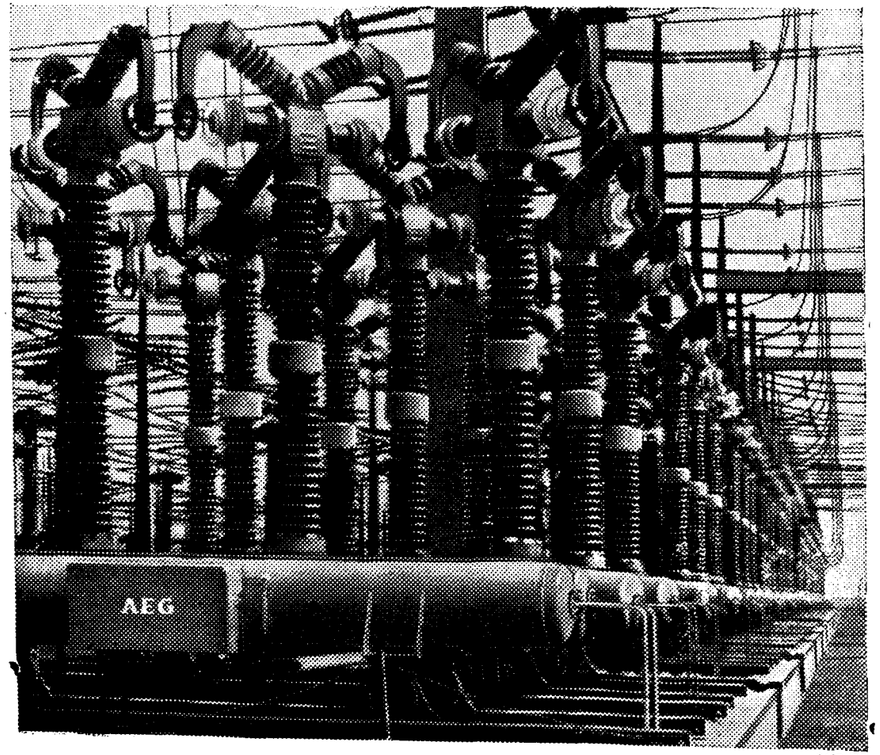
I need not go here into the sequel ot this dispute. There is no doubt that D's ancestors were tribals who managed to raise themselves to pseudo-Kshatriya rank through devices with which we are familiar. The procedure is about the same as in the Rajputisation described by Surjit Sinha in his presidential address to the section of Anthropology of the Indian Science Congress Session in 1962. D sanskritised himself and his leadership of the people after this was from outside. Under the traditional social systems, for both the tribal and the non-tribal ruralites, there were gains to be acquired by the assumption of Kshatriyahood. But, under the new constitution, the political gains were tempting enough for the provisional renunciation of Kshatriyahood. Under the trdaditional social system, the particular tribal society did not provide a satisfying role within it for a highly sanskritised elite. Under modern conditions, westernisation provides such roles without the individual having to create any myth for the status change.

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Dandakaranya: A Survey of Rehabilitation
II - Industries

S K Gupta

Judging by the two categories into which the Ministry classified the displaced persons it seems that its imagination did not at first go beyond agriculture and small trade, as the two alternative means for their economic rehabilitation. No sound economy can, however, be built upon agriculture alone, even under the best of conditions, and in Dandakaranya conditions were far from ideal. Trade, too, in the narrower sense, was not a sufficient alternative, for it could not play a significant role in a rural economy where thirty to fifty families in a village earned a precarious living from land while the nearest village was sometimes miles apart. Even in urban and semi-urban areas its scope was limited because of strong competition from old, established rivals.

The pattern of non-agricultural rehabilitation which was limited to providing a loan for starting a trade and another loan for building a house with three months' grace within which to make good and be independent of aid was, therefore, foredoomed to failure. Here and there some one with an instinct for business set up a shop, another opened a barber's saloon close to a staff colony, a third started a confectionery or a bakery or an eating house near some urban concentration; but their number was small and the shop rooms built by the Project were mostly vacant because of high rent and unsuitability of site. The majority failed in their venture, ate up the business loan and looked about for jobs.

Many non-agriculturists had only their skill as carpenter or weaver to offer and could find employment only if there was an entrepreneur to organise work, provide capital and take charge of marketing. The Project authorities were thus gradually forced to start industries on their own with the twin objects of finding supplementary work for agricultural families and self-sufficient means of living for the non-agriculturist.

For the second purpose the tests of efficiency of an industry are whether it will be economically viable when the artificial prop of the Dandakaranya Development Authority is withdrawn, whether it can offer a living wage to the workers, and whether the volume and scope of employment bears a reasonable relation to the capiatl invested. Unfortunately, no commercial accounts have been kept and the figures supplied by the industries department are sometimes slightly discrepant. There are, however, three other sources from which helpful data are available.

A profit and loss account for most of these industries was drawn up from the start of the industries up to the end of March 1963 in a specially devised proforma at the instance and under the supervision of the Deputy Financial Adviser and Chief Accounts Officer of the DDA.

An Economic Investigation Team set up at my request by the Development Commissioner, Small Scale Industries, New Delhi, to explore the possibilities of Small Scale Industries incidentally deals in its Report with the present state of some of the major industries run by the DDA and their working in March 1964.

Lastly, the Rehabilitation Industries Corporation lent me the services of its Chief Cost Accountant who made a detailed scrutiny of the working of the industries during the three months from April to June 1964 and submitted a report in August which is quite illuminating.

All these materials have been made use of in the following survey of the industries of the Dandakaranya Project.

BETWEEN 1959 and 1964 the following Industrial Centres were set up by the Project Administration, the figures in brackets showing the year of starting.

(I) Centres directly controlled by the Industries Department:
- (a) Industrial Centre at Boregaon (1959)
- (b) Industrial Centre at Jagdalpur (1962)
- (c) Wood Working Centre at Umarkot (1962)
- (d) Oil Extraction Centre at Ambaguda (1962)
- (e) Carpentry Unit at Govindapalli (1963)

(II) Cottage industries directly controlled by the Zonal Administrators:
- (a) Weaving Centre at Boregaon and Jugani (1960)
- (b) Cottage Industries Centre at Umarkot (1962)
- (c) Cottage Industries Centre at Paralkot (December 1963)
- (d) Cottage Industries Centre at Malkangiri (March 1964)

Except at Ambaguda all others concentrate on one or more of four stereotyped industries like carpentry, weaving, blacksmithy or sheet metal work.

(a) Industrial Centre at Boregaon

This is the biggest Industrial Centre of the DDA primarily concerned with timber products of a general or a special kind. Its different sections are (1) a saw mill (with log stacking as an ancillary operation), (2) a general carpentry unit, (3) a blacksmithy unit, (4) an Ascu treatment plant, and (5) an ammunition box manufacturing unit. The first two were started in 1959, the third in 1962 and the fourth and fifth towards the latter part of 1963. A wood seasoning unit with a boiler has also been installed recently, but it had not started functioning by August for lack of specialist staff. Of these the saw mill, the blacksmithy and the wood seasoning plant are only feeders to the carpentry and ammunition box sections, and the Ascu treatment is also likely to be so as soon as the present contract with the Post and Telegraphs Department to treat its telegraph poles at a certain agreed rate is over.

The proforma accounts, condensed in Table 1 show a loss of Rs 3.25 lakhs upto the end of March 1963.

The latest attempt made with the concurrence of the Chief Financial Adviser to reduce the gap between expenditure and income by excluding the charge of superior direction from the left hand side and adding a fictitious sum of Rs 30,000 on the right hand side to represent the national value of waste timber which was unutilised is disingenuous and I disallowed it when it came to my notice on the eve of my leaving Dandakaranya. I am not sure whether the attempt will not be revived. Even if it be conceded that superior direction is part of normal administration and its cost should be excluded there is no justification for adding a fictitious sum over and above the actual sum received by sale of waste timber. If operational inefficiency led to large wastage when logs were converted to timber and this waste timber, as the foreman admitted, had no demand and was not sold nor turned to any profitable use, it is not permissible to argue that this waste is really an asset and to inflate the figure of income by another thirty thousand as it snational value.

Investigation Team's Report

I pass over the Economic Investigation Team's estimate of loss for the months of March 1964 at Rs 30,721 in respect of four of the units (excluding blacksmithy) and come to the report of the Cost Accountant who has gone more deeply into the matter. It is not necessary to set forth the details of his calculations and the manner in which he has distributed the fixed cost and overheads over the different units of manufacture, but the net results of his findings are briefly as follows.

The saw mill works 46 per cent below capacity and recovers only 50 per cent of sawn sections from logs against 65 or 70 per cent of a normally efficient mill. The resultant high cost of production is reflected in the high price charged for sawn timber from the carpentry and ammunition box sections. The latter comes in for very severe strictures for the extremely unwise terms on which the Project agreed to supply 10,000 ammunition boxes of a particular type to the Defence Department at Rs 29 per box including delivery and loading at the railway station although the actual cost is more than double the amount. The cost of timber (teak) per box is Rs 20, and that for fittings Rs 17.30, while the cost of conversion (including proportionate costs of power, salaries of establishment, depreciation and repairs of buildings, machinery and plants, and the actual wages paid to labour) comes to Rs 22. If Rs 1.25 is added for transport and delivery at the railway station, the production cost per box amounts to Rs 60.50. The Economic Investigation Team calculated the cost of timber at Rs 16 and of fittings at Rs 12 (though they did not show how they worked out these figures), but even on that assumption the production cost per box comes to Rs 51 which far exceeds the contract price of Rs 29.

The fact is that when the contract was entered into in May 1963 the Project Administration, pleased with being able to pull off a large supply order from the Defence Department, showed a surprising lack of cost consciousness and did not stop to think what they were letting themselves in for. Hardly anything was done to retrieve the position even when the large recurring loss became apparent. Three steps could have been taken to reduce the loss, viz, increasing the efficiency of the saw mill so as to reduce the cost of timber, utilising the full capacity of the plant so as to make 100 to 150 boxes per day instead of a bare 15 so as to reduce the overhead, and substituting costly teak by the cheaper variety of timber which the Defence Department was quite willing to accept provided it was properly seasoned. The second step could have been taken easily for the output of the saw mill, even after working fifty per cent below capacity, was quite sufficient to feed both the carpentry and ammunition box sections at this increased tempo of production. As for the third, teak was used instead of inferior timber because the latter was not available at short notice and the seasoning plant had not started functioning.

As things are, the loss per box is Rs 31.50 which means that in eleven months from August 1963 to June 1964 during which 4,656 boxes were manufactured a total loss of rupees one and a half lakhs (approximate) was incurred on the assumption that all the boxes will be approved without objection. Actually, out of 4,566 boxes 3,000 were approved, 1,156 were passed after rectification of minor defects, and 500 boxes still awaited rectification and final inspection which would necessarily mean some additional cost. The cost Accountant cannot be blamed for concluding that "the agreement to supply ammunition boxes has been an extremely unfavourable deal".

The general carpentry section for the production of furniture, doors, and windows, etc, works partly on piece rate basis and partly under the foreman directly. It appears that during the three months from April to June 1964 the value of the articles manufactured was Rs 35,000 while cost incurred in materials, wages and overhead was Rs 32,000. The two remaining sections, viz the Ascu treatment plant and the blacksmithy are insignificant because they never employed more than 5 or 6 workers each. The Ascu plant was completely idle from June and the output of the blacksmithy during these three months was valued at Rs 1,600 while the cost amounted to Rs 2,200.

Considerable Loss

Most of the manufacturing units were, therefore, run at a considerable loss and the saw mill escapes the stigma only by being able to unload its costly products on sister units which have to take them willynilly. Only the carpentry section shows a small profit, due largely to the suddenly increased demand for furniture at Mana Camp where a completely new office had to be fitted up at short notice. No jugglery of figures can reduce this loss nor is the argument available that the loss is due to its being a training centre as well. The training aspect of the scheme is only a small part of it and most trainees should earn their keep after three months, if training is properly organised. No account having been kept of how much wastage of materials was due to training and what remuneration was paid during the exclusively training period it is not permissible to make them the scapegoats for all the loss sustained.

Table 1: Proforma Accounts of Industrial Centre at Boregaon

Expenditure	*Rs*	*Income*	*Rs*
(A) Raw Materials	4,27,019	(a) Saw Sections	3,72,988
Labour Wages	76,766	(b) Furniture	86,838
Electricity	98,000	(c) Blacksmithy Products	4,114
(B) Establishment (Overhead)	68,316	(d) Sale of Waste Timber	719
(C) Depreciation	79,235		4,64,659
Interest on Capital	24,048	Excess of Expenditure over Income	3,25,725
Superior direction	27,000		
Total	8,00,384	Total	8,00,384

Even the consolation—a large volume of employment at living wages, is not available. The average employment in 1963 was 170 per day. Between January and July 1964 the number employed in different sections will be seen from Table 2.

Taking the month of June as typical, there were 107 displaced persons in the saw mill and log stacking section, 82 in the ammunition box section, 28 in the carpentry section and 7 in the blacksmithy section. The Ascu plant which had flickered into life in April and May was closed in subsequent months.

For a capital investment which has been variously estimated from Rs 3.3 lakhs to Rs 4.7 lakhs the volume of employment is only moderately good, but it is not possible to be enthusiastic about this employment figure when it is remembered that all these are not new employment for an additional set of displaced persons, as out of 224 desplaced persons employed in this centre in June as many as 155 had already been settled on land or offered business loans and had found land unproductive and business unprofitable and that only 69 new employments had been created for people who had not previously received any kind of accommodation.

Even worse is the standard of wages which in most cases was below subsistence level. Excluding piece rate workers, the employees are usually graded according to their skill and responsibility as chargemen, operators, helpers and trainees and paid usually at the daily rate of Rs 6, Rs 4, Rs. 2.50 and Rs 1.50 (now raised to Rs 1.75) respectively. The low rate of wages for the vast majority of workers will appear from Tables 3 and 4 for the three months from May to July, 1964.

Trainees constituted 71 per cent in May, and 62 per cent in June and 56 per cent in July, the improvement in the latter months being due to the periodical selection for promotion started of late. There were, in July, 37 trainees who were in this category for over a year and a half, 11 for over a year and 10 for over 6 months.

With such a large proportion working at the lowest rate and with a maximum of 24 or 25 working days in a month (unless reduced by illness or other causes) it is not surprising that the total income of a worker is in most cases far below the subsistence level (see Table 4).

Comment is needless. An industrial employee who does eight hours of manual labour and walks a long distance to come to his place of work gets much less than the lowest paid menial employee of the DDA. Out of 271, 225 and 280 workers at Boregaon in May, June and July as many as 178, 173 and 178 did not reach an income level of Rs 50.

Only the piece rate worker fared reasonably well. In June 1964 the average earning of 17 piece rate workers was Rs 138 and the income of one of them was as high as Rs 471. July figures were somewhat disappointing and the average was low probably because some of the workers were only partially employed, but even so, 4 earned more than Rs 200 each, 9 between Rs 100 to Rs 200 and 4 between Rs 80 to Rs 100. The total number of piece rate workers in this month was twenty.

(b) Industrial Centre at Jagdalpur

There are four units run under an Organiser of Industries, viz (1) weaving and spinning, (2) carpentry, (3) sheet metal work, and (4) blacksmithy. The Organiser is independent of the Industries Officer and directly controlled by the Chief Administrator.

The proforma account upto the end of March, 1964 drawn up by the Deputy financial Adviser shows a net loss of Rs 1,600 (approximate), the carpentry section being run at a slight profit and others at a loss. For the next three months the Cost Accountant calculates the net operating loss at Rs 12,600. The Economic Investigation Team's analysis tallies with this for it finds the excess of expenditure over income in March 1964 to be Rs 4,000, but it thinks that if Rs 3,000 be regarded as the cost of training the net loss of Rs 1,000 may not be regarded as too high.

This flattering conclusion about training is not borne out by facts. The number employed is small and it shows a progressive decline. There is a great

Table 2: Employment in Industrial Centre at Boregaon

	Saw Mill & Log Stacking		Ammunition Box		Carpentry		Black Smithy		Ascu Plant		Total		Total
	DP	NON-DP	DP	NON-DP	DP	NON-DP	DP	NON-DP	DP	NON-DP	DP	NON-DP	
Jan	68	27	98	12	13	—	3	2	2	1	184	52	226
Feb	72	23	90	9	14	—	3	1	2	1	181	34	215
Mar	86	41	92	10	12	—	5	1	1	1	196	53	249
April	73	41	89	8	22	25	5	—	5	—	194	74	268
May	114	44	82	9	13	—	5	—	5	—	219	51	270
June	107	28	82	8	28	1	7	—	—	—	224	37	261
July	100	40	90	8	56	1	5	1	—	—	251	50	301

Table 3: Number of Employees at Different Rates of Daily Wages

	Rs 1.75	Rs 2.	Rs 2.50	Rs 3	Rs. 4	Rs 4.50	Rs 5	Rs 6	Total
May	193	19	33	10	7	3	1	5	271
June	140	21	35	10	11	3	—	6	226
July	158	54	26	19	6	7	2	8	280

Note: The June figures are incomplete.

Table 4: Income Level of Workers at Boregaon in 1964

	May	June	July
Up to Rs 30	51	39	25
Rs 30 to Rs 40	61	59	64
Rs 40 to Rs 50	76	75	89
Rs 50 to Rs 60	17	13	43
Rs 60 to Rs 70	24	16	16
Rs 70 to Rs 80	7	8	18
Rs 80 to Rs 90	—	1	5
Rs 90 to Rs 100	4	6	3
Above Rs 100	11	9	—

deal of absenteeism among the workers within a month and desertions in subsequent months. The organiser's invariable comment against most displaced workers in the monthly progress report is that they are wilful or negligent which seems to be an excuse, prepared in advance, for his failure to attract them or win their loyalty. Obviously, the centre has not been able to attract the displaced persons and make them work continuously so that desertions and irregular attendance detract from its utility as a training centre.

The capital invested, excluding office furniture, is Rs 22,000 for tools and equipment, and Rs 91,551 for buildings etc, excluding land for which no payment had to be made. In May, June and July the total number of workers were 96, 74 and 79 respectively of whom about 11 were not refugees. Of the 96 workers of May, 43 ceased to attend in June while 17 new workers joined, and something similar to this also happened in July. Irregular attendance was very high in June, about a dozen workers being absent for more than twenty days, and in July there were four cases where the attendance was much less than ten days. The primary reason must be that either the centre has failed to develop the requisite skill among the refugees to enable them to earn more or, what is more probable, it has not been able to win their confidence so that they prefer working under other masters who offer them better conditions of work and better wages.

The low rate of daily wages and poor attendance were reflected in the income earned by workers at daily rate and piece rate. Twenty-one persons in May, 19 in June and 4 in July earned less than Rs 10 which probably shows that they found other jobs more attractive. The number in the different income brackets will appear from Table 5.

Table 5: Number of Employees in Different Income Brackets

	May	June	July
Up to Rs 30	58	24	21
Rs 30— 40	24	30	27
Rs 40— 50	2	6	20
Rs 50—100	8	8	7
Above Rs 100	4	6	4

In the highest category there is one chargeman—a widow, who is not a refugee and whose qualifications for the responsible job she holds are very doubtful. The rest are piece rate workers of the locality who are not refugees.

(c) Wood-Working Centre at Umarkot

The Wood-Working Centre was started in March 1962 and gradually expanded to comprise four units—a saw mill, a carpentry section, a blacksmithy and a tubular furniture factory. The total capital invested is about Rs 1.30 lakhs in machinery and tools and Rs 50,000 in buildings.

The proforma accounts up to March 31, 1963 show a net loss of nearly Rs 22,000 even without taking into account interest on capital outlay and the proportionate share of the cost of H Q establishment. As in the case of Boregaon Industrial Centre the saw mill, inspite of inefficient working, saves itself from loss by issuing sawn sections to the carpentry unit at a slight profit, but the latter together with the blacksmithy section suffered a loss of Rs 4,000 between May and July as per Cost Accountant's Report, while the tubular furniture factory ceased working in January and was never resumed later. The saw mill was not working in December 1963 for want of power.

Employment figures show remarkably sharp fluctuations from month to month. Prior to December 1963 there were, according to the Industries Officer, 4 operators, 5 helpers, 28 trainees and 30 piece rate workers, but the figures submitted on the spot by the foreman in December (63 showed 3 operators, 4 helpers, 5 trainees and 10 piece rate workers working on that date.) The information given to the Cost Accountant was that while there were 6 operators, 12 helpers, 61 trainees and 6 independent carpenters working at piece rate in April, there was a sharp fall in June when only 5 operators, 4 helpers, 33 trainees and 7 independent carpenters were employed. The drop from 85 workers in April to 49 in June is a deplorable anti-climax to the ambitious programmes outlined in the Industrial Sub-Committee meeting held in April 1964 and a poor return on an investment of nearly Rs. 2 lakhs.

The wages paid are also low. The average monthly earning of operators was Rs 90, of helpers Rs 55, and of trainees Rs 30. Promotion from the lowest category to the next was slow, at least seven persons being in that category for over a year, some even for two years. The average monthly pay roll of the wage earners is Rs 2,800 compared to which the salaried supervisory establishment, drawing Rs 1,700 per month, seems abnormally large.

(d) Oil Extraction Centre at Ambaguda

This is one of the craziest schemes whose operation has been so unbusiness-like that after a year's working which showed a loss of Rs 2.33 lakhs up to 31st March, 1963, the Financial Adviser seriously asked whether a scheme which showed no redeeming feature at all should be continued. The leisurely manner in which the scheme was pursued is obvious from the fact that while the Chief Administrator sanctioned the scheme as early as March 1960 and the factory building was ready by the end of the year, oil seeds began to be purchased from February 1961 onwards and it was not till May 1962 that crushing operations could be started. Undaunted by the loss new machinery was purchased and set up in November 1963 for crushing 'mohua' seeds, but they have not gone into operation yet. In July 1964 the Oil Extraction Centre ceased to work for want of seeds and will remain idle till February, 1965. There has throughout been a hiatus between purchase of machinery and the starting of production with resultant loss of operating time and interest on capital. If half the enthusiasm shown for the former was available for the latter things would not have been in such a bad way. Unfortunately, the zeal for purchasing machinery has often out-run discretion for, as the Cost Accountant says, already machinery worth Rs 41,000 purchased for this Centre had to be condemned and scrapped.

The factors responsible for this heavy loss are many. Seeds were purchased at high rates in the off season and they were of inferior quality so that the percentage of oil extraction was below par. This, together with under-utilisation of the plant and its prolonged idle period, payment of excessive electric charges, engagement of staff far in advance of need and the purchase of costly, but not very efficient, machinery etc led to high production cost with the result that the oil was later sold at much below the cost of production to the same firm from which the seeds had been procured at higher rates. The excuse that the cost of seeds was high because the formal purchase procedure had to be observed should cut no ice because in a commercial undertaking it is the result that matters and not the formal correctness of the procedure adopted. On account of an agreement with the Orissa Electricity Board, more is paid for electricity than would be justified by the units actually consumed while the surplus units which could have been utilised by the Central Work-Shop situated next door was not utilised because it produces its own electricity through generators inspite of the State Electricity Board's power being available at its door step. Nothing could be more inept or extravagant. The Cost Accountant has shown that if strict control is exercised at all stages, the Oil Extraction Centre may be made to yield a profit of 13 per cent whereas, between April 1963 to 9th July 1964, the net loss was Rs 2.8 lakhs.

What are the economic consequences of this scheme so far as the displaced persons are concerned? The salaried establishment consists of three employees—none of them a displaced person—of whom the foreman is an ex-Accountant of Andhra State Service without any business experience or any technical knowledge of oil extraction. Throughout the second half of 1963 only 12 displaced persons and 2 Adivasis found employment in this centre, 6 as operators, 5 as helpers and 3 as trainees. By June 1964 the total rose to 14 displaced persons and 4 outsiders of whom 2 were chargemen, 6 worked as operators, 9 as helpers and one as trainee. The redeeming feature of the scheme was the large proportion of workers in the higher category and the smaller number of trainees. This naturally resulted in higher average wages so that in June 1964 only three employees earned less than Rs 50, thirteen earned between Rs 50 to Rs 100 and two had an income of over Rs 100. This was however only a flash in the pan for with the closing down of work on July 9 most of these employees have again been reduced to the position of trainees, forced to try their hand in some other trade or craft such as carpentry or weaving. A capital investment of more than Rs 2 lakhs which cannot employ more than a dozen displaced persons, incurs heavy losses from year to year and suddenly closes its door in the midst of the working season stands self-condemned, the condemnation applying less to the scheme itself than to the manner in which it has been run.

(e) Industrial Unit at Govindapalli

This is a small affair started in July 1963 more to give employment to a number of refugees in a neighbouring transit camp than because of any inherent advantage of this site. It now consists only of a carpentry unit as the proposed saw mill has been transferred to Boregaon and the blacksmithy was closed down for want of raw materials. In December 1963 there were 2 operators—both non-displaced persons—and 20 trainees of whom 17 were displaced persons who came from a transit camp some three miles off. When the Economic Investigation Team visited the place they found 2 operators and 39 trainees of whom one operator and 32 trainees were refugees. Figures for June 1964 show a further increase in employment though the increase was partly due to recruitment of a large number of non-displaced personnel. The earnings in June 1964 of different categories of workers were as follows:

	(Persons)
Up to Rs 30	12
Rs 30— 50	38
Rs 50— 60	10
Rs 90—100	1
Above Rs 100	1
	62

(f) Cottage Industries

Only the briefest mention will be made of the four cottage or small scale industries organisations run under the direct control of the Zonal Administrators since their purpose is not to provide a self-sufficient means of living to the employees, but to supplement the meagre earnings from agricultural land. A large number of employees in the weaving section are women.

The earliest to start was the weaving centres at villages Boregaon and Jugani which, in June 1964, had 62 workers, mostly women, whose average earning per month at a daily rate of Re 1 never rose above Rs 25 and sometimes fell as low as Rs 3 or Rs 4. Piece rate workers, numbering eight, fared better and some of them earned as much as Rs 96 in June though in the preceding two months their earnings did not exceed Rs 60. Even on paying such low rates the net loss during April—June, 1964 was Rs 1,500. Inspite of this deficit this is a useful institution as it offers a sorely needed additional income to people of Boregaon and Jugani who are hard hit by the poor quality of their land and its meagre yield. With better organisation and a little more clerical assistance in costing and keeping accounts this section has plenty of scope for expansion with the help of the expert weavers among the new migrants who are concentrated in Narayanpur Transit Centre where a third unit may be started.

Unfortunately, the same remark does not apply to the cottage industries set up in different villages in Umarkot Zone which have languished for long periods and where the wages are both meagre and very irregularly paid. The weaving units in villages Murtama and Gobri were idle during January and February 1964, and even after they were revived they were run at a loss although the daily rate was first reduced to 75 P per day and then to 50 P. The carpentry unit at Umarkot which earned a small profit was merged with the mechanised wood-works centre. The small blacksmithy unit in village Sonabeda just managed to keep its head above water, the tin-smithy at village Karagaon had to be closed down, and the tailoring unit at village Barakumari did not get going at all. The total volume of employment was low. In May there was practically no worker in the weaving section on account of the reduction of the wage rate to 75 P or 50 P per day. In June when the rate was temporarily raised to Re 1 per day there were 50 workers of which carpentry accounted for 31, weaving for 11 and blacksmithy for 8. All the workers in the carpentry section and over half the workers in the weaving section preferred working at piece rate.

The Small Industries Centre in Paralkot Zone was a sturdy child under the fostering care of its energetic Zonal Administrator and showed greater vitality and promise of survival. Started towards the middle of December 1963 it had in its three sections (carpentry, blacksmithy and weaving) 99 workers by the first week of January of whom 6 were skilled workers at Rs 4 per day, 13 worked at piece rate in the carpentry section and 80 worked as trainees, either directly under the Administrator or as helpers to the piece rate workers. In March, the Economic Investigation Team found that the number of workers had gone up to 120, but with the onset of the monsoons and the beginning of agricultural operations most of the workers had to be sent back to their land.

The Cottage Industries Section in two villages in Malkangiri started in March 1964 are too recent to justify any comment, but refugees of a few villages have shown considerable initiative without waiting for the starting of industrial units by the DDA.

III

I am not concerned in this article with laying down a blueprint for what should be done in future, but only with an analysis of the existing state of things. It is obvious that industries run by the DDA have been extremely amateurish, uneconomical, reckless about wastage of time and raw materials, and unconcerned about costs, with losses mounting up annually, with employments at a low level and sporadic because of occasional closing down of units, and with wages scandalously low for the large majority of employees they satisfy none of the three tests laid down in the beginning of this article. There should be a complete reorganisation of the Industries Department with a Director at the top who has both technical and managerial ability of a high order and whose control over all the widely scattered units run by the DDA should be complete and unquestioned. The present system of accounting should be replaced by commercial accounting so that there may be a continuous checking of the value of the product with its cost of production. Some suggestions have been made by the Economic Investigation Team and also by the Cost Accountant of the RIC as to what shape this organisational machinery should take and they should be considered even if they cannot be accepted in *toto*. What is important is that the present system of control by different independent officers with hardly any supervision from the top should be replaced by tighter control by one who has experience of industrial management as well as imagination, energy, knowledge and drive to make his authority felt all along the line. If the right type of officer is found he may also have overall control of the Central Workshop and the Motor Vehicle Repair Sections whose potentialities for providing technical training to displaced persons and giving them employment are now completely unutilised.

Several other questions remain to which no final answer can be given without further study. What are the industries to be started? Where are they to be located? Are they to be in the public sector or the private sector? If the former, is the DDA the most appropriate agency for the purpose? These are questions to which no completely satisfactory answer can be given till adequate data are available. It appears from press reports that large-scale comprehensive surveys about the economic and industrial possibilities of Dandakaranya are now in contemplation which at least shows a belated dawning of wisdom, which Sukumar Sen tried to drill into the minds of the Ministry without much success, that industry and not agriculture is the solution if refugees are to be rehabilitated on a large scale. But the risk is that these surveys, if they are to be of any use for preparing industrial projects, take a long time and in the long run, as Keynes said, "We are all dead". What is important, is that on the basis of data already available some immediate action should be taken for starting industries for which there is scope, while preliminary spade work for bigger projects are under way. These data can be collected from surveys that have been already undertaken and completed—viz the Techno-Economic Survey Report of the National Council of Applied Economic Research, the Report of the Economic Investigation Team appointed by the Development Commissioner, Small Scale Industries, and an earlier report prepared by two officers of the West Bengal Industries Directorate.

One has to admit that for development of industries on a large scale Dandakaranya is not yet an ideal area. Of the various factors which determine the locations of industries, viz raw materials, labour (skilled and unskilled), power (fuel or electricity), transport and communication, water resources, markets, banks and other financial organisations, etc, it can boast of very few. Transport is rudimentary because roads are still being built or improved and the only railway line under construction will reach Bailadila by the end of 1965 or the beginning of 1966, while the other half of the scheme connecting Bailadila with Bhilai or Raipur to the north or Bhadravati to the south is still in the thinking stage. Coal is not available and electric power is available, with occasional breakdowns, only in a very few places. The contemplated hydel project at Chitrakut will take years to start and function and the alignment of the electric lines in Bastar has not yet been decided upon. Water resources in Dandakaranya where most rivers are seasonal and water table low pose a problem which has to be solved probably by building reservoirs for storage during the rains. There is or should be an abundance of raw and unskilled manpower from among the refugees in need of gainful employment but facilities for training are exiguous. As regards markets there has hitherto been little demand for a wide variety of additional consumer goods in this under-developed region though several big projects already under way, such as the Mining industry at Bailadila, the MIG Factory at Sonabeda, the Railway Project connecting Vishakhapatnam with Bailadila may stimulate demand for many commodities of a stereotyped as well as of a novel kind of which advantage can be taken if industries are properly planned. But, as the Techno-Economic Survey Report says "any such scheme has to take cognisance not only of the regional or national demand for the product but also of the alternative sources of supply, existing or proposed, in other regions". Over-production with too many people competing for the same market may be disastrous.

Choice of Industries

The choice of industries for development by the DDA or with its collaboration depends not merely on the above factors but also on the purpose in view. Since that purpose is to provide employment to as many refugees as possible the industries should be labour-intensive and not capital-intensive. Since immediate employment is desirable to shorten idle camp life or unproductive life in villages, industries which give results in the short run should be preferred to industries which require a long period of waiting before underground resources are developed, processed and become ready for use as raw material. This does not mean that the latter should be neglected, but only that exclusive concentration on such long run projects should not lead to the neglect of projects which have a larger employment potential in the shortrun. The Techno-Economic Survey has suggested that a few resource-based industries have great possibilities of which the most important is an integrated iron and steel plant at Bailadila which may start functioning by 1970-71. The other possible big or medium industries suggested are a pig iron factory in Umarkot, two cement factories in Koraput and Bastar districts, a calcium carbide factory, a clay-washing plant, and a plant for manufacture of silicon carbide. The snag about these industries is that, apart from the huge initial capital investment required, all of them require further study of data of all sorts before a project can be launched and that in the case of the iron and steel plant, national and political considerations decide the choice of location more than its economic advantage or technical feasibility.

Considering all this, the Economic Investigation Team has taken the view that in the short period only those lines of manufacturing should be set up which are predominantly market-oriented or of ancillary type. The Team has made a fairly detailed study of the commodities for which there is an existing or potential demand both in the interior markets—at Jeypur and Jagdalpur—and in the bigger markets beyond the border. It has also ascertained from the Hindustan Shipyard, the Vishakhapatnam Port Trust, and the DBK Railway Project what their annual consumption of various kinds of commodities is. Such studies may be extended to the Bailadila Mining Project, the MIG Factory Project, the Hindustan Steel Project at Bhilai, etc, to ascertain their requirements and also to the Defence Departments which are large consumers of a wide variety of goods. When the Central Government directly or through its public sector corporations is such a large consumer it should not be difficult for the different Ministries to come to a working arrangement with the Ministry of Rehabilitation or the DDA, so that a fair proportion of the supply could come from the industries run by the DDA. When the market is assured, it should not be difficult either for an energetic and experienced Director of Industries to plan and organise his production in the most effective and economical way possible so as to be able to compete with the market both in quality and price. The Techno-Economic Survey Report suggests that the bigger industries and large-scale factories should be started first to stimulate growth, so that sufficient purchasing power is pumped into the hands of the people of Dandakaranya in order to generate demand for products of many small-scale or cottage industries to be started later. This ignores the long gap that must intervene between the first step taken for starting large-scale industries after necessary survey and the production of raw materials and the stage of production when employment on an adequate scale becomes possible. The best thing is to exploit the demand that is already there while not neglecting the steps needed for future large-scale industrial development.

The agency for setting up and running these industries is a difficult question to answer. The Techno-Economic Survey Report suggests that 90 per cent of the total investment will be in the public sector because the steel industry and the mining of iron ore will be under it. The large-scale industries suggested for the private sector are cement, calcium carbide, wood distillation and pig iron production. It also thinks that small scale industries should be in the private sector though a large share of the initial expenditure by way of providing industrial estates should be incurred by the DDA. The difficulty is that the private sector has not yet shown any enthusiasm for coming over to Dandakaranya and the record of the DDA, if my foregoing analysis is correct, has also been quite dismal. Representatives of the Indian Chamber of Commerce, Calcutta, whom I met in a conference early in May wanted a tax-holiday for some years, adequate finance to be provided at a cheap rate, exclusive licences for certain lines of production, and the creation of an infra-structure in advance which would remove all their headaches about road and railway transport for the movements of raw materials and finished products, and provision of their requirements of power, water and land in convenient areas of their choice. They frankly stated that profit, not philanthropy, would guide their choice. Members of the Bengal National Chamber of Commerce were more helpful in their attitude but they wanted to have an on the spot study of the situation before coming to a decision. The DDA thought of an industrial estate at Ambaguda in 1959 but even by the end of 1964 nothing has been done besides occasional notings in the file after very long intervals. It is probable that small scale industries except the very few which can be run independently by the refugee artisans or artisans' co-operatives will have to be run partly by the private sector and partly by the DDA, but the private sector will have to moderate its demand for incentives and the DDA will have to show much greater efficiency than it has hitherto done. The technical education of the refugee boys which has been sadly neglected must be taken up in earnest.

Unless the entire machinery of the Industries Department is drastically overhauled with control vested in a competent Industries Officer or Director of Industries helped by adequate staff, it is futile to expect these industries to be a source of employment with reasonable wages for a considerable number of refugees waiting in the camps or languishing in the villages.

(To be Continued)

Busy Year for IMF

THE International Monetary Fund provided twenty-two members with $1.9 billion in twelve currencies during 1964 — its second largest year of financial activity thus far. As in 1961, when drawings totalled £2.5 billion, this year's Fund operations included large-scale drawings on the part of the United Kingdom, but 1964 also saw the first use of Fund resources by Italy and the United States.

The U K and U S maintained stand-by arrangements respectively for $1 billion and £500 million at the beginning of 1964, and new arrangements in the same amounts were disclosed during the summer. The first U S drawing, equivalent to £125 million in European currencies, was made during February, and subsequent drawings occurred in June ($125 million), September ($150 million) and December ($125 million). Currencies drawn by the U S were sold for dollars to countries wishing to make repayments to the Fund. Although more than $4 billion were drawn from the Fund in U S dollars in earlier years, a return flow restored the Fund's holdings to a point at which its rules require repayments in other currencies, or in gold.

The Fund's holdings of some of its European currencies had been considerably reduced when, early in December, the U K effected a drawing of eleven currencies equivalent to $1 billion. In order to meet the U K request, the Fund sold $250 million of its gold holdings to acquire needed currencies, and borrowed the equivalent of $405 million more under the terms of its General Arrangements to Borrow.

These arrangements, which were used for the first time, authorize the Fund to borrow up to $6 billion in the currencies of ten of its industrial members, and must be reviewed in 1965 if they are to be extended beyond a four-year term which ends in 1966. Since the coming year will also require decisions in connection with quota increases, it is expected to bring developments importantly affecting the Fund's future financial capacity to strengthen and support the international monetary system.

Economic Conference

R K Hazari

THE 47th annual conference of the Indian Economic Association was held in Baroda from December 29 to 31 on the impressive campus of the Maharaja Sayajirao University. About 250 members and delegates attended. D T Lakdawala of Bombay University presided. The subjects for discussion were: (1) the Theory of Capital; (2) International Liquidity; and (3) the Basis of Taxation in the Context of the Developing Indian Economy. The respective rapporteurs were Gautam Mathur (Osmania), S L N Simha (Reserve Bank) and R J Chelliah (Rajasthan). The current topic was "Fourth Plan: Size and Priorities". Discussion of the Theory of Capital is being reviewed separately.

International Liquidity

There were 22 papers on this subject, of which 12 were published in full and the rest in the form of short summaries. This innovation represents a compromise between the acceptance of all papers submitted by contributors and rejecting the substandard outright. The rapporteur's report was more of a contribution in its own right than a critical summing up of the papers. Most contributors agreed on the definition of international liquidity and the need to prevent its shortage in the future. Several of them advocated a bold or revolutionary approach on the basis of the Triffin proposals for a world central bank, but displayed insufficient understanding of the problems involved in setting up and working it. Two contributors favoured an evolutionary approach, encompassing recent liberalisation measures and the developments (e g, swap arrangements between central banks) allied to I M F working, and also suggested greater automatic flexibility in its credit policy.

Regarding the composition of liquidity, the rapporteur suggested the replacement of gold by gold certificates, abandonment of gold reserves against currency and a revision of the gold price with arrangements for equitable distribution of the benefits of revaluation. As for the particular interests of developing countries, movements of hot money did impinge upon their balance of payments, directly and indirectly. Besides the recent facility of an additional drawing of 25 per cent of the quota, D Bhattacharya (Toledo) revived the suggestion for the creation of an Export Receipts Stabilisation Fund. The rapporteur felt that all reform proposals, not merely Triffin's, required international collaboration and surveillance. A variety of arrangements, he believed, could provide suitable checks and balances.

In the group discussion, it was unanimously felt that the present system of reserve creation through a few key currencies was unsatisfactory. There was general support for the establishment of a system providing for genuine creation of reserves on an adequate scale, for which IMF with suitable adaptations was well-fitted. Much interest was shown in Bernstein's scheme for the creation of a new composite reserve unit, at least as a transitional arrangement, provided the obligation to maintain a partial gold reserve ratio was removed. According to the rapporteur, the discussion helped to focus attention on the fundamentals of the subject and provided an opportunity to familiarise the audience with the working of the international monetary system and recent plans for reform.

The open session brought out a number of useful points. P J J Pinto (Reserve Bank) made the point that while the Triffin proposals were based upon trade, recent heavy drawals from IMF were matters of confidence. No single institution could by itself handle movements of hot monies. The veto of the Ten over IMF would have to be sorted out slowly. AG Chandavarkar (Reserve Bank) suggested that instead of subsidising interest on loans to developing countries, it would be better to recognise their bonds as trustee securities in leading capital markets. Dr I G Patel (now back as Chief Economic Adviser) emphasised that our kind of short term difficulties could not be solved by short credits. Since there is no easy way now to raise long term untied cash, it is necessary to enter international capital markets for getting elbow-room accommodation. Professor V K R V Rao agreed with the proposal for reviving capital markets to provide long-term cash facilities to developing countries but considered it dangerous to get long term loans for short term requirements. He favoured matching short credits against short requirements and believed that the policy of getting maintenance loans was wrong because it tended to cut into capital formation. He also called for differentiation in the IMF between developed and developing countries as had been achieved at the Geneva trade talks.

Replying to the debate, S L N Simha maintained that raising the price of gold was not a subsidy to producers, only paying a fair price for it. He was cautiously optimistic about tapping international capital markets and wanted IMF to lengthen the maximum repurchase periods (3 to 5 years at present) in favour of developing countries. Summing up, Professor Lakdawala wondered whether a world central bank would have the power to withdraw liquidity besides creating it and how a super central bank could operate in the absence of an international fiscal system.

Basis of Taxation

The discussion of the basis of taxation was rather discursive, mainly because of the sweeping breadth of the subject. Most of the 10 papers (there were also 16 summary papers) were concerned with the objectives and functions of taxation, the role of direct and indirect taxes, the most satisfactory base for direct taxation and agricultural and land taxation. There was one paper each on taxation of foreign investment income and company taxation; the latter alone essayed the testing of a hypothesis.

Most writers agreed that maximum resources should flow into the public exchequer but not at the expense of private saving and investment. They assumed, without adequate empirical justification, that incremental public revenues would be used for public investment rather than consumption though they could have argued that some part of the additional public consumption constituted investment in human capital and provision of social overheads necessary for subsequent investment. The need for a broad-based tax structure with a harmonious combination of direct and indirect taxes was accepted but not a single paper gave any evidence of serious effort to translate this unexceptionable principle into a reasonably logical and feasible scheme.

As regards the basis of taxation, nearly all contributors agreed that income should be the primary base. None, however, seemed to recognise the place of capital gains. On the contrary, one contributor, R L Sharma (Jodhpur) played around with surplus income (income minus essential consumption and priority investments) and another R L Sabarwal (Ludhiana) placed his faith in a mass expenditure tax on a progressive scale to such growing consumption. These ideas failed to carry conviction because they were just thrown up but no attempt was made to relate them to the existing tax scheme: would they replace the super tax and/or the confusing surcharges? At what levels would they apply? What are their revenue implications? Would they affect the federal devolution of revenues? The expenditure tax in one form or other fascinates many who have been converted to appreciation of private savings (as such or as a source of finance for public investment) but it still remains an appendage, fascination is not backed with genuine conviction or understanding of the entire structure of direct taxation. The rapporteur for instance pointed out that after income and wealth tax at present rates practically no assessee would be able to spend more than Rs 36,000 except out of past wealth, on which expenditure tax could be levied. Dr Nanjundappa (Dharwar) emphasised that both income and expenditure cannot be taxed simultaneously at high rates.

Degree of Progression

The desirable degree of progression again left the contributors — and participants in the discussion—groping for facts. Several recent empirical studies have shown that highly progressive rates have neither curbed incentives nor dried up the sources of capital. M Sinha Ray (Viswa Bharti) warned against uncritical acceptance of these findings and the rapporteur emphasised that where evasion and avoidance sustain incentives, steep progression cannot last because it does not exist. Dr M P Bhat (Gujarat) made the point that tax rates are hardly meaningful when the tax base is narrow. There was no reference in the discussion to the fact that corporate investment which accounts for a large and increasing part of private investment requires equity capital more as yeast for fermentation than as the main source of finance for investment and that equity capital itself is being raised increasingly from institutional sources. Nor was formal progression related to the actual number of assessees, e g, in the assessment year 1961-62 (the latest for which data are available) the number of individual and HUF assessees with an income of over Rs 2 lakhs was only 543 and 97 respectively.

In indirect taxes, the consensus was in favour of (a) selective exercises as allocative measures, (b) stiff taxation of luxuries and (c) taxation of non-essentials having a high income elasticity of demand. Bright Singh (Madras) feared that indiscriminate excise duties might hamper exports. The rapporteur drew attention to the taxation of a wide range of intermediate products and expressed strong doubts about fulfilment of the intentions underlying them, and disapproved of the large number of duties, most of which fetched little revenue.

Taxation of Agriculture

Taxation of agriculture called forth a number of suggestions to raise the rural tax burdens, particularly on higher income groups, among other reasons, to increase the marketed surplus. E T Mathew (Kerala) suggested that "the potential income from each holding" calculated as the average potential output per acre for the region should form the basis of taxation. Amiya Gupta (Viswa Bharati) proposed the amalgamation of Union income tax and agricultural income tax but neglected the question of the appropriate exemption limit. Chelliah said that policy recommendations based purely on calculations of formal evidence can be accepted only with great reservations owing to the possibility of backward shifting and, further, that indirect taxation might prove an adequate instrument for taxing the rural masses. Sadhu Singh (Ludhiana) strongly refuted the suggestion that land taxation had not gone up. He referred to various local taxes and surcharges and said that in Punjab at any rate land taxation had tripled or quadrupled. Greater risk in agriculture and inconsistency with price supports and other incentives were also arguments against raising the tax burden.

Regarding the taxation of foreign investors, P C Chatterjee (North Bengal) dished out the usual arguments about relatively high taxation in India without attempting to explain the growth of foreign collaborations. V D Lall (Bombay) examined Turvey's proposal for replacing the corporation tax by taxes on shareholders and rejected it firmly, after a somewhat detailed analysis, on grounds of loss of revenue. He also circulated a supplementary note to refute the rapporteur's suggestion that Turvey's scheme could perhaps be applied to private companies. This reviewer stressed that while taxation had not so far affected corporate investment, it had tended to encourage high costs; it was, therefore, worthwhile to investigate the possibilities of a tax system which offered incentives for cost reduction. Dutia (Ministry of Agriculture) argued for taxation to make traditional cultivation methods costlier and to discourage acquiring of further land.

Social Objectives

In the open session which followed group discussion, R N Bhargava (Benares) said that socialist objectives could not be superimposed on the traditional objectives of taxation and that recent socialistic taxation was responsible for slowing down the rate of growth. A good tax structure, he said, could bear a heavier tax load. He called for stability of the rates and schedules over plan periods and suggested that direct taxes rates should be applicable to the financial year after the Budget. M V Mathur (Education Commission) regretted that the Panchayat Raj structure had not mobilised much resources so far. Chelliah suggested in this connection that States and panchayats could levy duplicate taxes and then allow a 70-85 per cent tax credit. V S Shukla (Baroda) said that raising of the marginal saving income ratio was the basic objective of taxation but the expenditure tax as imposed or envisaged could not cut down middle class consumption. The only way to curb consumption was to shut off the supply of certain goods. On a similar vein, P N Mathur (Poona) emphasised that taxation of the rich will not cut down consumption if defence expenditure is tending to push it up at the same time. On a different level, M P Bhat felt that since the share of property owners in national income was relatively high, there was scope for heavier taxation of property incomes.

The rest of the discussion was practically confined to agricultural taxation. In the random cross fire over higher taxes against tax incentives (ultimately answered by Professor Chelliah's statement that the farmer should be better fed, better clothed and better taxed), S C Gupta (Delhi) made some useful points. Agricultural taxation, he said, could not be viewed merely as a method of mobilising resources for the public sector. Diversification was necessary in this field, especially by

taxing income from money-lending, trade and rent on a discriminatory basis and by levying a tax on unsown productive land. The simultaneous need for cheaper inputs and more taxes had to be reconciled and one of the ways of doing so was to raise taxes (especially betterment levies) only when the benefits of increased productivity were realised. Horizontal equity between urban and rural taxes, he emphasised, could never be established since the levels of productivity and capital formation, etc, differed so much. K S Krishnaswamy (Planning Commission) explained that since agricultural taxation was not so responsive as urban taxation to increases in national income, the easier source had to be exploited first for the sake of convenience.

In his summing up, Lakdawala said that the search for equity could not be carried too far. Criteria other than the capacity to pay would be necessary even if the direct tax coverage were 100 per cent. There need not be any limit on the rates of commodity taxation, the idea that they should be restricted within a range of say 25 to 70 per cent was misplaced.

Current Topic:
The Fourth Plan

Discussion of the current topic left one in doubt as to how much interested economists are in the Fourth Plan. As for its size and priorities, it was obvious that none of those present, eminent or not, had not been able to spare the time for going through the various draft Plan papers. One senior participant explained the accounting mechanism of deficit financing at the Reserve Bank (only insiders can be in the know after all) and another, from his exalted place, waxed eloquent on steady moral degeneration without essaying a quantification of rate of growth. N D Sovani (Poona) initiated the audience into the metaphysics of reality with observations on the increasing unreality of successive plans. He said that past under-fulfilment of targets had not been taken into account in postulating the rate of growth, that two years of booming exports did not justify excessive optimism about the future and that the muddle in price policy showed no signs of ending. Taking these observations at their face value, K S Krishnaswamy listed the considerations in the light of which the realism of the Plan had to be assessed :

(1) Since the bulk of consumer goods came from agriculture, is agricultural growth commensurate with the growth of demand?

(2) Though institutional changes are necessary, the production problem is overwhelming and this boils down to greater productivity i e, larger industrial inputs per acre and the creation of an adequate infra-structure.

(3) Each plan has to be an instalment of a longer perspective which implies that problems cannot be solved by throwing them forward.

(4) Plans can no longer be enlarged merely to get more foreign aid. The domestic price problem cannot be solved in an enduring manner by changing the structure of imports which will continue to consist largely of food, petroleum and metals.

(5) A change in the occupation pattern has to be brought about by providing wider opportunities of non-agricultural gainful employment, which in turn requires manpower budgeting.

M B Desai (Baroda) pleaded for demarcation of the areas of rehabilitation from areas of response and suggested that best results could not be obtained by distributing effort all over. A G Chandavarkar pointed out the practical

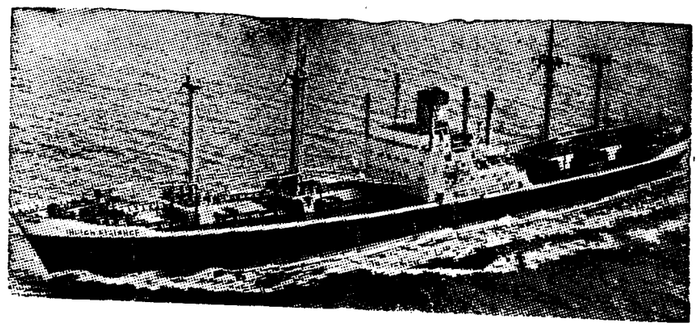
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absence of income and price policies and of manpower budgeting and said that the financial aspect of the Plan was based upon the quantity theory of money while the real aspect was Keynesian, without there being an adequate link between the two. He regretted that no Plan so far had referred to the role of interest rates and monetary policy. Dutia contended that price policy was a necessary but not sufficient condition for technological revolution. Gautam Mathur asked for calculation of the self-reproduction rate of heavy industries and the ratio of heavy quick yielding investment; he wanted deficit financing to be related to the latter.

Prof V K R V Rao said that the Planning Commission had turned to constant self-introspection and that there was a greater awareness of realities now. The excessive optimism at the time of the Chinese invasion that defence and development could go together was no longer there. More specifically, (1) industrialisation is being geared to agricultural development for the first time, (2) selectivity is being accepted but there are political difficulties, (3) it is realised that development cannot be neglected, (4) a sharp increase in social service expenditure is being provided for, partly for welfare and partly for production, education being oriented towards production, and (5) politicians are displaying a greater degree of understanding and acceptance of economic criteria.

The next session of the conference will be held in Benares at the invitation of the Benares Hindu University. N V Sovani of the Gokhale Institute, Poona, will preside. The topics for discussion are (1) Theory of Demand, (2) Population: Economic Analysis of the 1961 Census and, (3) Investment in Human Resources.

The Theory of Capital

A Correspondent writes:

THE Rapporteur introduced, at the outset, a welcome procedural change; he suggested that the discussions be on the theory of capital, in general, rather than revolve around the ten papers contributed on the subject. Accordingly, the discussions ran in rather general terms and touched upon some 'fundamental' issues in capital theory. Of course, the papers were referred to by the discussants, *albeit* in a cursory manner, at appropriate places. The subject was divided into six broad categories: (1) Measurement of capital; (2) the nature of capital; (3) technical progress; (4) production function; (5) treatment of capital in growth models; and (6) unbalanced growth in relation to capital formation. Even though, for want of time, the last two topics were not taken up for detailed discussion the participants did touch upon these aspects as well; thanks to the inter-related nature of problems in capital theory.

The much debated issue of measuring a heterogeneous bundle of long-living assets somehow failed to evoke any controversy. Brahmananda who led the discussion explained how one could measure economic magnitudes unambiguously in a Sraffa system in terms of the standard commodity. Gautam Mathur drew attention to the similarity between Sraffa pricing and the Robinsonian golden age situation. He further indicated that the Robinsonian system gives an unambiguous measure of capital only in a steady growth state where uncertainty is ruled out and the rate of profit remains constant.

Leading the discussion on the nature of capital, R Bharadwaj pointed out that a satisfactory capital model should consider a number of quite complicated issues, such as, measuring capital selecting production processes, determining process intensities and so forth, simultaneously. It was pointed out by him that the earliest model to give explicit recognition to all the above aspects including also the heterogeneous character of capital goods was the model due to Von Neumann. He added further that this remains even now the most rigorous and complete capital model. The Sraffa model was compared to that of Von Neumann. In the discussions, there appeared to be a broad agreement regarding the immense difficulties encountered in the treatment of the dynamics of relative price movements under non-steady states. The success in measuring capital in Von Neumann—Sraffa models, Ray observed, was primarily due to avoiding the real issues of growth where structural changes are prominent. At this point the Turnpike Theorem, which attempts at linking Von Neumann's results with the real world issues of development, came up with Nath raising questions regarding the operational meaningfulness of the Theorem. However, the difficulties of formulating a preference function in the form required by the Theorem, among others, were considered to render the Theorem somewhat unattractive in practical plan formulation.

A good deal of time was taken up in discussion of technical progress. Chakrabarty who opened the discussions proposed that technical change be defined mainly in terms of engineering data. Mehta interpreted the growth of technical knowledge in itself as technical progress. This point was further elaborated by Lokanathan who maintained that, in a modern economy, a large share of investment goes into knowledge-increasing activities.

It was generally agreed that technical progress should be discussed in terms of engineering data. However, it was pointed out by G Mathur that the conventional definitions of neutral technical progress, used in the theories of growth, have been generally formulated in economic terms. Mathur further suggested the possibility of devising a definition of neutral technical progress in terms of simple process matrices.

Turning to the utility of the notions of neurality and non-neutrality, I G Patel expressed scepticism and further suggested that the superiority of a technique may be determined entirely by looking at the productivity per man in the consumption sector. However, G Mathur felt that this may not always be an unambiguous indicator. Continuing the discussion, V K R V Rao criticised the engineering definition as being inadequate for purposes of giving any answer to the question of neutrality when the resources employed in the two situations were the same but the technical knowledge was at an improved level in one of them. The difficulty of identifying constancy of resources in such situations was raised by Mathur.

Discussions relating to the Production Function were initiated by P N Mathur who discussed the neo-classical production function, particularly of the Cobb-Douglas variety. He attributed its popularity to its simplicity and cautioned against its indiscriminate applications. Discussing the production functions of the neo-Keynesian types, Jain referred to the central importance of the Wicksell effect in the formulation of a production function. G Mathur, elaborating upon this indicated the difference between the neo-classical and the neo-Keynesian production function as one intimately linked up with the notion of the Wicksell effect.

Is It Later than We Think ?

A B C

Some weeks ago Mrs Joan Robinson delivered a tirade at us telling us to wake up and catch up with the Chinese who, she certified, had not the slightest interest in invading India, and who, she said, had gone far ahead of us in all forms of economic development.

The Chinese Government must be duly grateful for her testimonial but it behoves us to enquire whether her views on Bharat's progress are justified.

[The author was a student of Mrs Robinson a quarter of a century ago and confesses to have been taken in by her heresies and fallacies at that time and even to have enthusiastically admired them. He has, however, repented and recanted since and is grateful to Time for giving him an opportunity to don sack-cloth in public.]

THERE is no doubt Mrs Robinson saw everything in our country with a jaundiced eye. She admires the industrial revolution in China, the agricultural progress, the mental alertness, the eager vision of the people. She forgot that China has suffered from half a century of violence from warlords, famine and invasion, and her people are now prepared to sell their souls for peace and order. Liberty had become anarchy and that had been replaced by the law of the jungle in the years since the last Manchu had been hoofed out of the country, and the Japanese and the war-lords and Chiang Kai-Shek and the Communists came into their own. Today little things like forced labour or compulsory sterilisation or getting hanged for deviating from the Party line worries nobody—at least whole provinces are not being devastated in senseless rivalry among marauding dacoit gangs, nor towns and villages being plundered to satisfy the rapacity of some small-time thug.

India in similar case a couple of centuries ago had welcomed Mrs Robinson's ancestors, though it is doubtful whether any Chinese bandit could match in cruelty, rapacity or greed, the early servants of the Hon E I Co. However, that was a long time ago. The years passed and while these Western marauders who despoiled our country evolved into the Nabobs who financed the Industrial revolution in their own, peace and order came back to us, as well as the slow torpor that hangs on all subject peoples.

The years of British domination did not serve us well, it sopped the natural evolution of our political genius and imposed an artificial and superficial unity upon a fragmented people. And after all, why not? Our kinsmen the Red Indians of North America were divided into dozens of "nations"; why should the Brown Indians of S E Asia not have a similar number? True, the ramshackle political structure of Hindu India collapsed in front of a couple of hundred horsemen of Mahumud of Gazni. But we can draw comfort from T S Eliot's assurance:

> *"Men learn little from others' experience*
> *But in the life of one man,*
> *Never the same Time returns".*

In the life of one Nation also, never the same time returns, so quite clearly, Unity is not the need of the hour—the continued dominance of the Congress Party is far more important. In any case, the rivalry between the "Free World" and the "Socialist Democracies" will be deep enough to ensure a hope that neither side is permitted by the other to dominate India, at least in our time.

For Midnapurians!

The British imposed unity by importing a foreign language, English, in which educated people from Peshawar to Rangoon, from Colombo to Srinagar, could converse, carry on the daily business of life, commerce, industry, administration. But the masses could not be appealed to in English and to prevent the rise of an educated ruling caste, we have tried to call "Bharat that is Hindia" into being. "Genii of the Lamp", as Alladin found to his cost, are not always obedient servants and Hindia has been split up into Tamilnad and Punjabi Suba, Telugu-land and Maha-Gujarat, and there is a faintly audible cry of "Midnapur for the Midnapurians" in S-E West Bengal. That will really be splendid! Should each District in the country become a State, there should be enough of Ministerships to satisfy every seedy politicians and enough of even Chief Ministerships to satisfy most of them. Since political institutions exist but to subserve human needs, again one asks, why not?

We shall then have about 300 States in the country, each with its own language, its own people running its own administration — indeed if we went a little further and established 300 different countries, we might be able to swamp the rest of the World in the U N !

And then there are the castes and communities. The British, apt pupils of the Romans in the art of Divide and Rule, have left to us their legacy, until today when a Congress candidate wins the election at Jind, on a whispering campaign of Hindu vs Sikh, while caste and sub-caste dominate parties and politics from the State to the village. But these are the realities of life—we console ourselves that even in educated and advanced Europe, there are Catholic and anti-Clerical parties. We, Hindu, Muslim, Sikh or Christian by whatever label we might go, are a religious and God-fearing people and if we do occasionally "kill each other for the love of God", at least we are purer and holier than the Godless Chinese. One who criticises rather than admires this aspect of our contemporary life, betrays a complete lack of understanding of the beauty and depth of our culture, the harmony and synthesis we have established between the old world and the new.

In laying the foundations of Democracy firmly we have laboured for the freedom of the human spirit. Perhaps we have not bothered sufficiently about feeding the human stomach but material wants, thank heaven, have never been very compulsive in Bharat. Such sly, snide sneering remarks about our caste-based elections, about the sources of Party funds, we can ignore, secure in the knowledge that later if not sooner, as in Sardar Kairon's Punjab, justice will catch up with the malefactor, at least those who will not even attempt to white-wash themselves.

No we have nothing to be ashamed of in our record. Think of the hundreds of crores of rupees which are spent annually in the name of Agricultural Development. Is it the fault of the Government or of the People that so many individuals at so many levels have sticky fingers, which the cash simply refuses to trickle through? Any way even if the village bund is not repaired, or the Japanese (foreign again!) method of cultivation is not introduced, at least the Party organisation at the village level is being strengthened and rendered safe for the next election or two!

Sleeping in the Sun

Naturally the Government is not a Fascist nor a Communist dictatorship and cannot compel unwilling people to obey its orders. In the bad old days the balance of trade between agriculture and industry was so adverse to the former and the cash imposts (like rent or land revenue) so heavy, that the poor villager had to sell most of his produce, to pay for whatever he needed to purchase and for his rent. All that is changed now; rent and land revenue have become a fraction of what they were in real terms, and the farmer need sell only a small proportion of his produce to satisfy his monetary requirements. Nor has he been so corrupted by the greed for money as to give up the ideal of the contemplative life, so attractive a feature of Hindu culture. No, by no means. Four months' labour in the year still suffices to bring in one harvest; the remaining eight, he spends in philosophical discussion, contemplation, or merely sleeping in the sun. Incidentally, we are able to save the USA of part of the heavy costs of warehousing her excess wheat and thus display our spirit of international co-operation.

We also rejoice that the moral superiority of our people is being upheld and our virtue is being preserved untarnished through all the vicissitudes of these troubled times. Neither beef nor pork, nor veal nor ham nor spirits nor wines are available in our (somewhat seedy) Railway Refreshment Rooms or in the I A C, at least above the counter. If the prayers of bootleggers move the All Highest at all, most of our political *netas* will surely have seats near Him, when they are finally gathered into Abraham's Bosom.

To say nothing of the Sadachar Samities. If it is saddening to think that this wonderful instrument for maintenance of purity is being laughed at, it is tragic that the sport of rooting out corruption is being turned against the very *netas* themselves. Any way the black-mailing slanderers, one hopes, will soon be rooted out and all our energies get diverted once again towards purifying our administrative machinery. If in the process of insuring themselves against decisions which Time shows to have been erroneous, officials develop the art of "passing on the buck" to someone else, we rejoice —better a halt to progress, than an administrative error.

In the meantime we are developing our vast public sector industries. In coal for instance the public sector will be raising some 60 million tonnes by the end of the Fourth Plan and will have a capital of about Rs 450 crores, in deep mines, washeries, LTC plants and the like. Today the private sector raises almost the same quantity in backward, inefficient workings, which barely employ Rs 60 or at best Rs 70 crores. Instead they use some 400,000 human beings, of whom nearly 90 per cent could be replaced by machines, thereby proving how hopelessly old fashioned they were and how very much in need of modernisation.

Our labour legislation is among the most modern in the world, so that our labour is about the most costly, at least for those industrial units which really obey the regulations. (Unfortunately many don't). Unlike other industrial countries which sweated their labour in the early transition years, our industrial labour forms an aristocracy, an elite amongst the starving ill-clad working class of our country. This provides another example, if this were needed, of our social conscience for this is all at the cost of our balance of trade.

Enough has been said to show what a great advance has been made by this country, and on what a wide front. Not only has democracy been maintained but the old virtues, the old values have been re-established. With all the peaceful atoms we are developing at Trombay and the Yoga Health Centres in New Delhi, with the Hindi revival in Arya Varta, we can afford to laugh at carping critics. Perhaps the population is exploding right in our ears, perhaps there is a shortage of foodgrains, perhaps there's not quite enough cloth to clothe the naked, perhaps there's even a slight shortfall in our targets. But we shall go on, from Third Plan to Fourth and from the Fourth to the Fifth and even if there is a slight waning in enthusiasm, much will have been accomplished.

Will that be enough to stave off the wrath of the "People" who come behind? They may be hungry and tired but their caste and creed rivalries, their tribal jealousies would seem to make any faster rate of material progress unnecessary. If greater haste is not desired by any one except a small intellectual elite, would it not be a sin for the political leadership to attempt it?

Business Note

Ashok Leyland

THE results of the working of Ashok Leyland for the year ending September 30, 1964, have fulfilled the optimistic hopes held out by the Chairman, A Ramaswami Mudaliar, at the Annual General Meeting of the Company held in January 1964. As against the disappointing results of 1962-63, the Company has produced vastly improved results for 1963-64. The pre-tax profit after providing a depreciation of Rs 53.17 lakhs (Rs 41.63 lakhs) amounted to Rs 188.44 lakhs as against Rs 67.47 lakhs representing a rise of nearly 180 per cent. Taxation provision had to be raised more than four times at Rs 86.40 lakhs (Rs 21.45 lakhs). Even so, the net profit after tax at Rs 102.04 lakhs was more than double the preceding year's figure of Rs 46.02 lakhs. This enabled the Directors to plough back about Rs 36.09 lakhs (nil) to General Reserve after earmarking Rs 18.50 lakhs (Rs 14.00 lakhs) to development rebate reserve and to step up the dividend from 7 per cent to 9 per cent for the year which will absorb Rs 47.31 lakhs (Rs 32.07 lakhs).

The improved results have followed a sharp rise in sales by about 60 per cent during the year from Rs 10.92 crores to Rs 17.38 crores. This was achieved partly by an increase in the output of Comet chassis from about 200 per month in 1962-63 to about 315 in 1963-64 and partly by a substantial rise in the sales of spare parts which could be manufactured in larger quantities helped by an enhanced allotment of foreign exchange. The increase output by over 50 per cent in one year is "unusual" for the Company, but this, according to the Chairman, was attained by re-establishing production at a satisfactory level after its dip in 1962-63. An output of over 4,500 Comet Chassis is anticipated in 1964-

65 which would mean the maintenance of the rate of progress achieved over a period of 10 years with the exception of 1961-62 and 1962-63 and the stepping up of production by about 20 per cent over the year 1963-64.

The expansion programme initiated in 1960 to manufacture about 5,000 Comet chassis per annum and also adequate spare parts is now near completion. Within a month or two all plants and machineries will have been installed and the installed capacity will be fully utilised. Based on the output achieved in 1963-64, actual production may in due course be expected to exceed the planned figure.

With regard to the programme initiated in 1963 for increasing the indigenous content of Comet chassis by manufacturing components within the factory, a loan of Rs 60 lakhs was secured by the Company in August last from the Commonwealth Development and Finance Company. Now plant and machinery have been ordered and production is likely to commence in the current year. After the plan goes through, the indigenous content of the Comet Chassis which is 82 per cent now is expected to reach about 90 per cent.

The Company is also going ahead with a scheme of increasing the output in its Ennore Foundries to 200 tonnes per week immediately and eventually to 400 tonnes per week in order to meet its own additional requirements and the additional demands of other manufacturers for iron and aluminium castings.

Around Bombay Markets

Sharp Break in Equities

DALAL STREET's distinctly firm appearance throughout the Christmas holdings had raised hopes of a promising start for the New Year. The start was not really unpromising; in Monday's early dealings, many popular counters were marked up beyond their December highs. But the initial strength proved to be extremely deceptive. Equities soon began to drift lower and the market developed near-panic conditions on Tuesday (January 5). Within just two days, Century fell from Rs 588 to Rs 560, Standard Mills from Rs 608 to Rs 568, Indian Iron from Rs 26.30 to Rs 25.60, Tata Steel from Rs 148 to Rs 144, Tata Locomotive from Rs 276 to Rs 264.50, Hindustan Motors from Rs 16.96 to Rs 16.32, National Rayon from Rs 371 to Rs 354.50 and Shivrajpur from Rs 22.60 to Rs 18. The market as a whole lost nearly 70 per cent of the ground it had gained from its December bottom. Lower levels, however, attracted considerable short covering and some replacement buying and the market staged a moderate recovery by Wednesday.

In view of the impressive recovery from the December low point, some setback in equity prices was not unexpected on technical considerations. But the break that occurred on Monday and Tuesday seemed more than a correction of the preceding rise. The sudden turn in market sentiment was attributed to the growing anxiety among business men over the aggresive hunt for unaccounted money and the Government's decision to seize unaccounted assets discovered from searches for recovering tax dues. Trading sentiment was also unsettled by rumours about disquieting development on the Sino-Indian border.

Dalal Street is once again in an uneasy mood. With the market unable to maintain a firm appearance despite encouraging corporate news, the outside public is in no mood to take any lively interest in the stock market. The Finance Minister Krishnamachari's recent tax concession in respect of investment in equity shares of new companies in specified industries is interpreted as a more positive indication of the Government's concern about the capital market. But confidence is unlikely to revive unless the Government takes more concrete measures to encourage the flow of savings to the investment market. This might not be possible unless the Government takes stern measures to check the speculative employment of funds in commodity markets and in real estate.

Cotton

Needed Firm Action

YET another week has gone by and the situation obtaining in the cotton market continues to be about the same with almost all the varieties quoted well above the ceilings. The situation has, if anything, worsened in that several mills in the upcountry are reported to be faced with closure due to inadequate supplies of cotton and prices have hardened a little following some unseasonal rains in Gujarat, though the impact of the recent rains can be easily exaggerated. With the Government of India in no mood to own the responsibility of making cotton available to the industry at ceiling prices (that is what price control really implies) and at the same time unwilling to revise prices of controlled varieties of cloth in order to accommodate the rise in cotton prices, the industry is

Thursday Morning

naturally becoming increasingly worried over its prospects. The Indian Cotton Mills' Federation has been busy for some time working out a scheme which would enable it to secure cotton at or below the ceiling prices. The original proposal regarding monoply buying has been shelved for the time being and it will be resorted to only when all other measures fail. The Federation has now finalised an 8-point plan of rigorous self-discipline through strict supervision of the purchases made by the member mills. Under the latest scheme, no mill in Bombay and Ahmedabad shall hold more than two months' stocks of Indian cotton, the limit for mills in other areas being 4 months' stocks. Each mill will be required to declare to the Federation its presnt stocks of cotton and 'kapas', its stocks with merchants as well as forward purchases. The Federation will give to each mill purchase-delivery certificate for a quantity which will enable it to conform to the prescribed limit of stocks. No mill will purchase cotton or 'kapas', ready or forward, in excess of the purchase-delivery certificates and no mill shall buy cotton at above the ceiling prices. The Federation has declared that it will be prepared to buy throughout the season any cotton offered at prices 5 per cent below the appropriate ceilings. A permanent high power subcommittee has been appointed to implement the scheme with immediate effect.

The scheme is laudable in that purchase of cotton above the ceilings is to be avoided through strict self-discipline. It goes without saying that the success of the scheme will depend on the willing co-operation of all the mills

in observing strictly the code of discipline laid down by the Federation. The growing agitation among traders and growers against the Federation's scheme is not ununderstandable because it will restrict the scope of their operations. But that is precisely what is needed in the prevailing market conditions; price control over cotton has been reduced to a complete farce. If the Government is at all serious about enforcing cotton control, it would be well-advised to resort to requisitioning on a large scale which alone can induce growers and merchants to part with their stocks thereby accelerating the movement of the crop. At a time when the industry has devised a scheme of self-restraint, Government action will produce a salutary effect on the market. It is to be hoped that the Government will not miss the opportunity provided by the industry plan of self-discipline.

The Forward Markets Commission too can do its bit. Since the hedge contract cannot be officially quoted at above Rs 775 during the pre-delivery period, the margin of Rs 15,000 per 100 bales which the Commission has prescribed should be made applicable at some operational level—Rs 774 or lower. The hedge contract has been quoted above Rs 775 since December 9 — the latest quotation is Rs 782 — but it has failed to attract any margin. There is no sense in waiting for the commencement of the delivery period for the enforcement of margin. Whether the margin will have any significant impact on the market is a different matter.

There has been a marked revival of overseas demand, mostly from Japan, for Bengal Deshi despite the steep rise in prices here. Fairly good business is reported to have been put through recently. Sales registered to-date have exceeded 1.16 lakh bales.

Oilseeds

Prices Recede

OILSEEDS prices registered an all-round sizable setback last week and the fall was particularly pronounced in linseed which had recored the most spectacular rise in the preceding fortnight or so. The decline in prices made possible the official resumption of future trading in castor and linseed. Linseed March which had been bid up to Rs 55 in the previous week were sold down to Rs 49.50 (per 50 kgs) on January 7 and castor March moved down from Rs 212 to Rs 201.25 (per 250 kgs). In ready, linseed declined from Rs 71 to Rs 66, linseed oil from Rs 30.50 to Rs 28 (per 10 kgs), groundnut (Khandesh) from Rs 64.50 to Rs 61 and groundnut oil from Rs 24.25 to Rs 22.80. Oilcake prices also eased by Rs 10 to Rs 30 per tonne.

In view of the fantastic rise that had taken place over the past few weeks, technical considerations alone could have produced a sizable setback. But the sudden turn in market sentiment last week was due largely to reports of highly beneficial rains in the Punjab, Uttar Pradesh and Madhya Pradesh which have raised hopes of bumper crops of mustardseed and rapeseed and linseed. Most market men are now inclined to the view that if the weather continues to oblige, the mustardseed and rapeseed crop might set a new record around 15/16 lakh tons and linseed output would be around 4 lakh tons. The supply position of oilseeds last season had been seriously affected by the partial failure of the mustardseed crop which yielded no more than 6.5 lakh tons.

The suply position of vegetable oils this season promises to be distinctly comfortable. Apart from the anticipated record harvests of mustardseed and groundnut, the country will be importing 75,000 tons of soyabean oil for the vanaspati industry and a minimum 50,000 tons of mutton tallow for the soap manufacturers which will naturally ease the pressure on the demand for various edible oils. If oil prices continue to be high despite improved supply, the authorities, whether Central or State, will have only themselves to blame for their failure to enforce a measure of discipline on the market.

Export activity has been virtually confined to groundnut extractions which have been in keen demand recently. Poland was reported to have purchased substantial quantities last week. Business in cottonseed cake was limited by the poor availability of goods; internal prices too have been on the high side. Hardly any business was reported in castor oil.

Money Market

Thursday morning

THE inter-bank call money rate opened for the week at 5.5 per cent on Monday and eased in stages to 4.75 per cent in late transactions on that day which was the first working day of the New Year. The climb down from the peak of 6 per cent, reached in the previous week due to year-closing and other concurrent factors, reflected the return-flow of funds to lenders and the consequent return of the market to more comfortable and realistic conditions once the window-dressing was over. Since then the rate hovered between 5 per cent and 4.75 per cent till the close of Wednesday.

Strange as it may seem, the Calcutta market which used to be generally tignter than Bombay displayed an even easier trend, the call money rate coming down by and by from 6.5 per cent to as low as 2.5 per cent on Wednesday. In Madras, however, stringent conditions continued to persist not, however, due to local demand but reportedly arising out of substantial transfer of funds to other centres. The call rate as a result remained steady and firm between 4.75 per cent and 5 per cent.

The intensity of demand for funds that set in during the last week is reflected in the Reserve Bank's statement for the week ended January 1, 1965. Scheduled banks' borrowings during the last week of December 1964 rose sharply by Rs 26.75 crores to Rs 62.10 crores. This compares with the rise of Rs 18.71 crores during the week ended January 3, 1964 to Rs 26.79 crores. Thus, set against the position a year ago, scheduled banks' borrowings from the Reserve Bank by the end of December, i e, in two months of the busy season, are higher by Rs 35.31 crores. The restrictions imposed on borrowing have not, therefore, deterred so far the scheduled banks from resorting to borrowings from the Reserve Bank, and obviously there is still room enough for banks to step up their borrowings.

Notes in Circulation have risen during the week ended January 1, 1965, by Rs 11.31 corres to Rs 2516.80 crores as against Rs 2369.18 crores about a year ago on January 3, 1964, showing an increase of Rs 147.62 crores over the year. Rs 29.68 crores worth of additional Notes were issued during the week, probably in anticipation of heavy demand, but of this Rs 18.37 crores remained with the Banking Department.

Foreign assets during the week have fallen by Rs 2 crores as a sequel to a decline in balances held abroad. Central Government's deposits with Reserve Bank are lower by only Rs 75 lakhs and those of scheduled banks have receded by Rs 3.38 crores while advances to governments are also more by Rs 75 lakhs. As against scheduled banks' borrowings of Rs 26.75 crores, their deposits are higher by Rs 7.45 crores.

CURRENT STATISTICS

Foreign Trade of India

PRINCIPAL EXPORTS

(Rs lakhs)

	September		April-September	
	1964	1963	1964	1963
Food	*2623.96*	*2347.75*	*12618.31*	*11502.29*
Live animals chiefly for food	2.29	0.70	7.24	4.02
Meat and meat preparations	1.27	8.15	7.79	84.48
Dairy products, eggs and honey	0.08	0.13	0.54	0.54
Fish and fish preparations	46.70	47.08	258.83	247.14
Cereals and cereal preparations	1.80	4.24	29.26	16.24
Fruits and vegetables	275.36	208.55	1783.56	1477.09
Sugar and sugar preparations	54.09	109.63	1587.32	1813.28
Coffee, tea, cocoa, spices and manufactures thereof	2049.14	1776.92	7231.25	6327.43
Coffee	137.18	77.11	976.16	459.87
Cocoa	0.37	0.17	3.45	4.68
Tea and mate	1824.89	1570.11	5607.48	5242.13
Spices	86.42	129.18	640.93	619.53
Feeding stuff for animals	230.92	191.79	1701.72	1526.40
Miscellaneous food preparation	2.20	0.54	10.79	5.66
Beverages and Tobacco	*299.67*	*236.50*	*1837.20*	*1759.20*
Beverages	1.08	—	2.46	0.28
Tobacco and tobacco manufactures	298.59	236.50	1834.73	1758.93
Crude materials, inedible, except fuels	*1043.10*	*808.56*	*6504.09*	*6057.96*
Hides, skins and fur skins undressed	86.46	60.79	435.50	502.22
Oilseeds, oil nuts and oil kernels	1.75	2.39	163.41	136.83
Wood, lumber and cork	17.98	10.27	97.53	137.95
Textile fibres and waste	187.91	141.31	1460.46	1417.72
Silk	1.40	3.81	16.29	20.30
Wool and other animal hair	77.94	51.65	479.57	239.07
Cotton	78.26	64.18	732.61	891.71
Jute, including jute cuttings and waste	0.36	0.12	42.77	106.18
Vegetable fibres, except cotton and jute	22.92	15.89	144.24	124.97
Synthetic fibres	1.44	0.90	9.23	6.10
Waste materials from textile fabrics, including rags	5.58	4.76	35.75	29.38
Crude fertilisers and crude minerals, excluding coal, petroleum and precious stones	107.48	81.85	583.61	583.37
Fertilisers, crude	0.41	0.56	3.73	4.43
Crude minerals, excluding coal, petroleum, fertiliser materials and precious stones	107.07	81.29	579.88	578.93
Metalliferrous ores and metal scrap	468.58	382.80	2652.54	2266.66
Iron ore and concentrates	281.50	252.09	1662.74	1582.71
Iron and steel scrap	47.46	35.12	231.54	245.70
Ores of non-ferrous base metals and concentrates				
Non-ferrous metal scrap	138.15	94.93	742.84	435.64
Animal and vegetable crude materials, inedible, nes	1.47	0.66	15.42	2.62
Crude animal materials, inedible, nes	172.92	129.11	1110.64	1012.85
Crude vegetable materials, inedible, nes	37.82	22.99	292.49	227.37
Mineral fuels, lubricants and related materials	135.10	106.12	818.15	785.48
Coal, coke and briquettes	*71.17*	*52.69*	*601.64*	*479.83*
Petroleum products	40.85	12.83	211.70	120.62
Animal and vegetable, oils and fats	30.33	39.85	389.94	359.20
Chemicals	*116.34*	*111.35*	*482.81*	*937.69*
Chemical elements and compounds	*107.34*	*57.36*	*470.40*	*333.95*
Inorganic chemicals	30.41	5.17	95.57	64.46
Organic chemicals	15.62	1.32	57.74	18.68
Mineral tar and crude chemicals from coal, petroleum and natural gas	14.79	3.85	37.83	45.77
Dyeing, tanning and colouring materials	1.44	0.64	3.83	14.20
Medicinal and pharmaceutical products	5.71	3.58	28.11	24.22
Essential oils and perfume materials, toilets, polishing and cleansing preparations	22.72	8.36	103.38	58.91
	39.56	38.21	183.97	159.08
Fertilisers, manufactured	—	0.60	0.26	0.60
Explosives and miscellaneous chemical materials and products	7.48	0.80	55.29	12.47
Manufactured goods, classified chiefly by material	*2966.63*	*2491.72*	*17205.52*	*15029.99*
Leather, leather manufactures, nes and dressed furs	243.24	158.22	1405.38	246.84
Rubber manufactures nes	12.91	8.02	69.01	41.96
Wood and cork manufactures	1.95	1.82	14.62	6.31
Paper, paperboard and manufactures thereof	6.47	8.58	48.97	39.73
Textile yarn, fabrics, made-up articles and related products	2379.04	2083.76	14022.90	12551.84
Non-metallic mineral manufactures nes	14.91	16.94	98.26	59.80
Silver, platinum, gems and jewellery	152.85	155.48	778.47	754.06
Base metals	123.36	25.15	562.24	175.48
Iron and steel	113.20	18.25	514.61	75.13
Copper	5.31	1.80	27.56	13.82
Aluminium	2.21	3.43	10.75	82.69
Zinc	0.17	1.00	4.13	3.02
Manufacturers of metals	31.89	33.75	205.66	153.98
Machinery and transport equipment	*79.95*	*43.23*	*401.32*	*268.17*
Machinery other than electric	42.28	26.09	185.69	133.87
Power generating	12.76	5.90	55.24	30.21
Agricultural	0.53	—	1.42	0.24
Office	5.60	0.17	21.52	1.36
Metal working	3.41	1.25	7.63	4.50
Mining, construction and other industrial	19.98	18.75	99.80	97.53
Electric machinery, apparatus and appliances	21.21	7.07	104.47	87.87
Transport equipment	16.46	10.06	111.16	46.44
Road motor vehicles	8.16	5.48	56.05	20.46
Road vehicles other than motor vehicles	8.22	3.39	41.25	14.00
Aircraft	—	1.19	9.87	11.28
Miscellaneous manufactured articles	*147.34*	*187.12*	*889.68*	*865.42*
Clothing	28.99	48.80	159.68	222.21
Footwear	29.17	37.99	212.11	165.76
Miscellaneous transactions and commodities nes	*33.21*	*34.04*	*214.82*	*166.91*
GRAND TOTAL	*7529.69*	*6370.34*	*41232.17*	*37401.43*

Source: Department of Commercial Intelligence and Statistics, Government of India.

BANKING RETURNS

(Rs crores)

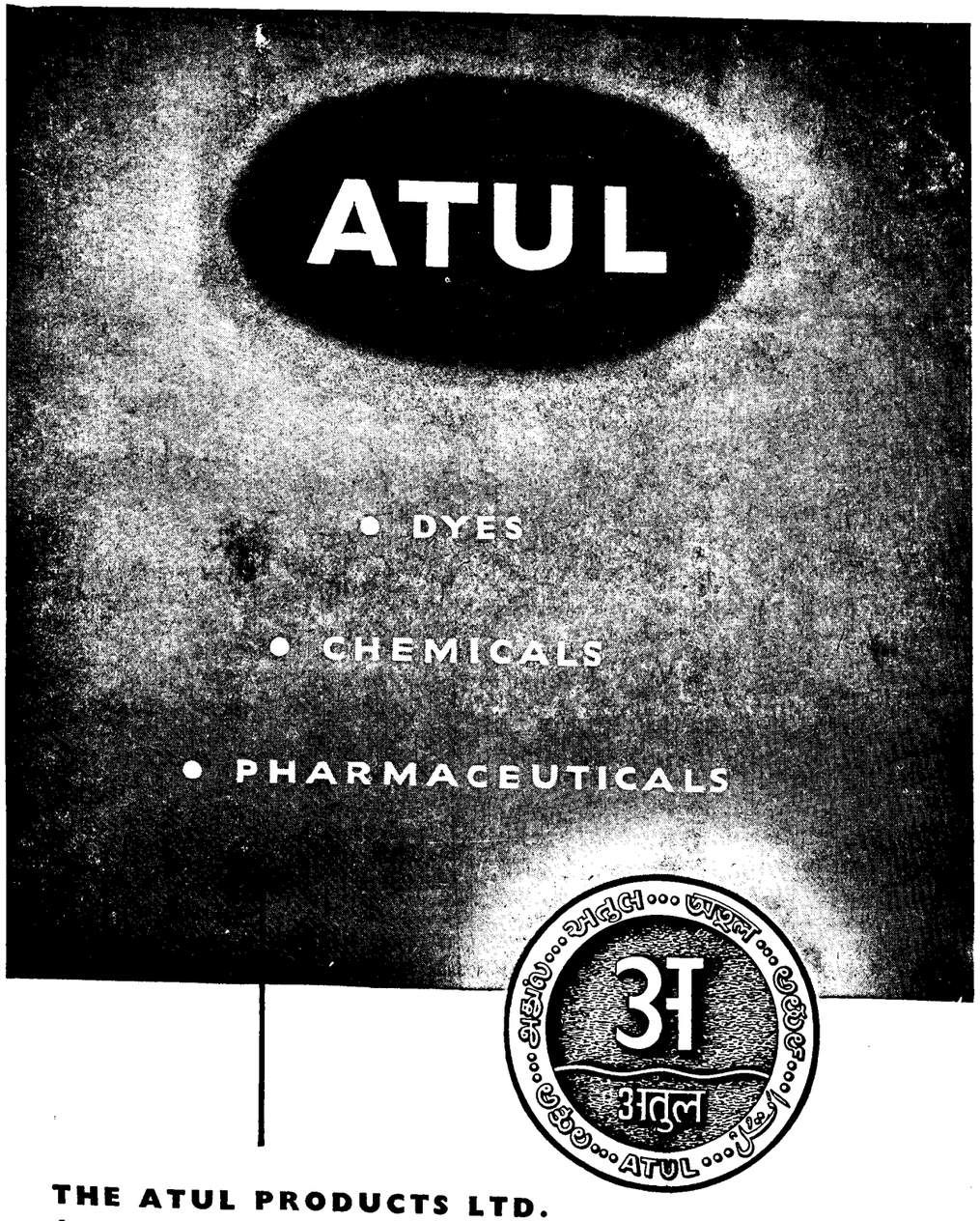
Reserve Bank	Jan 1	Dec 25	Dec 4	Jan 3, '64
1 Note circulation	2516.80	2505.49	2472.97	2369.18
2 Rupee coin	102.10	102.38	102.08	115.81
3 Deposits				
(a) Central Govt	52.04	52.79	86.30	52.53
(b) Other Govts	7.08	10.46	5.49	9.66
(c) Banks	101.93	94.72	91.99	88.68
(d) Others	146.05	143.49	144.57	173.93
4 Foreign securities	85.46	85.46	85.46	97.46
5 Balance abroad	7.73	9.73	11.39	8.33
6 Rupee securities	2246.06	2216.10	2186.13	2059.31
7 Investments	112.73	148.41	117.51	190.89
8 Loans and advances to Govts	69.15	68.41	72.52	71.19
9 Other loans and advances	263.81	207.70	181.00	171.39
Scheduled Banks	Dec 25	Dec 18	Nov 27	Dec 27, '64
1 Aggregate deposits (net)	2521.61	2520.30	2534.54	2253.03
Demand (net)	1176.23	1182.33	1198.75	1000.44
Time (net)	1345.38	1337.97	1335.79	1252.59
2 Cash in hand	65.29	66.38	65.66	62.54
3 Balance with Reserve Bank	92.87	90.36	93.76	78.90
4 (2)+(3) as % of (1)	6.35	6.22	6.29	6.28
5 Borrowings from Reserve Bank	35.72	22.42	1.31	8.08
(a) Against usance bills and/or promissory notes	2.15	2.62	0.15	3.16
(b) Others	33.57	19.80	1.17	4.92
6 Advances	1523.86	1516.74	1448.37	1327.30
(a) State Bank	353.37	351.73	339.61	263.09
(b) Others	1170.49	1165.01	1108.76	1064.21
7 Bills discounted				
(a) Inland	213.76	204.23	190.90	193.53
(b) Foreign	73.97	72.40	74.63	59.57
(c) Total	287.73	276.63	265.53	253.10
(i) State Bank	25.40	24.80	23.12	20.46
(i) Others	262.33	251.83	242.41	232.64
8 (6)+(7) as % of (1)	71.84	71.16	67.62	70.15
9 Investments in Govt Securities	764.91	766.69	839.26	709.59
10 (9) as % of (1)	30.33	30.42	33.11	31.49

BOMBAY MONEY RATES

(Per cent per annum)

	Dec 25	Dec 18	Nov 27	Dec 27, '63
Call money from Banks	5.46	5.48	1.02	3.98
Deposits 14 days	—	—	—	—
91 months	4.00	4.00	4.00	3.50
Six months	4.50	4.50	4.50	3.75

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Atul, via. Bulsar,
Western Railway.

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Kamaraj's Siren Voice

THE resolution on economic and social policy adopted at the Durgapur Session of the Congress states, *inter alia*, that "the rate of economic growth must be stepped up *substantially*" and that "more far-reaching social and economic policies must now be forged for implementing a *bolder* Fourth Plan" (italics ours). There is much else about advance towards socialism, social justice and reduction of disparities, etc, but the above are the specific and pointed references to the Fourth Plan. This resolution has produced no impact yet on the Government.

What has is Kamaraj's Presidential address, asking for scaling down the size of the Fourth Plan because of the dangers of inflationary pressures arising out of large investment. It is the impact of "such pressures on the poor and weaker sections of society" which has turned him against a Plan of the size of Rs 21,500 crores to Rs 22,500 crores which has been provisionally accepted by the Planning Commission. Kamaraj points out that Rs 21,500 crores is more than what has been spent in the first three Plans put together, ignoring that in view of the rise in prices the comparable investment in real terms in the Fourth Plan is appreciably less ambitious than the financial figure of Rs 21,500 crores suggests. That the burden of raising nearly Rs 3,000 crores by the Centre and the States to implement such a Plan would be too heavy is Kamaraj's other objection.

There is thus a sharp rift between the Congress President and the Congress Party to the extent that the views of the latter find expression in the economic and social policy resolution. This is certainly striking, but even more striking is the alertness with which the Finance Minister has come to the support of Kamaraj and the speed with which the latter's views have initiated re-thinking at the top. Shastriji has called a meeting of the Planning Commission on Monday to reconsider the size of the Fourth Plan and a meeting of the National Development Council is likely to be summoned soon to recast the Fourth Plan outline in the light of the high level discussions held over the last few days.

In an inflationary situation such as the present one, it is clearly unnecessary to be overmuch concerned with the problem of financial resources. However, that apart, let us consider the plight of the poorer and weaker sections of society for whose benefit the Congress President wants the Planning Commission to recast the Fourth Plan and cut down its size. True, the economic situation today is bad enough. Prices have been rising, especially of the essential commodities needed by everybody, rich or poor. Nor is there any doubt that with determined action at an earlier stage some of the difficulties currently facing us could have been avoided. It is not today that we have become aware that agricultural production fluctuates from year to year or that food production has been sluggish or stagnant. It did not need much intelligence to anticipate that from year to year the community would be spending more and more with population increase, rise in incomes and larger employment. On top of this there has been the incubus of a vastly inflated defence budget in the last two years. And it would be idle to deny that the earlier assumption, based more on patriotic fervour than reason or conviction, that defence and development could reinforce

each other and go ahead with a sort of chain reaction has not been borne out in actual experience.

Things today are not so very different from what they were six months ago. It is no pleasure, however, to find that the worst fears then expressed in these columns ("Is Growth Expendable?", Special Number, July 1964) should have today a prophetic ring. It was pointed out then that

> "A situation such as this is ideal for the so-called pragmatists who live in the present to take over. Politically, it is good to be concerned about prices; that would be an earnest of one's identification with the masses, whose interest is not being safeguarded here and now because the Government is callous, big business is exploitative and so forth. All this makes a fine facade for the pragmatist behind which things of value to the vulnerable classes themselves can be jettisoned. For such a purpose, what is better than a crisis of confidence in the future?"

It is sad to find Congress President Kamaraj appear in the pathetic role of such a pragmatist. The country had expected much from this son of the soil. He has done much to tone up the Congress organisation and the political life of the country. Will he think again? The dangers of short-sighted pragmatism spelt out in the editorial referred to above have become so real in the light of Kamaraj's views and their apparent impact on the Government that no apology is necessary for quoting at length from it in what follows.

There are enough lessons from the immediate past which one can draw upon to realise that some short-term remedies can be worse than the disease; at a minimum, they end up by being no remedies at all for society as a whole, though they may benefit an advantageously placed section of it. It was the frantic "re-appraisal" of the Second Plan that reappeared in the initial years of the current Plan in the shape of transport, power and other bottlenecks. And the foreign exchange crisis of the Second Plan itself was the fruit of the "realists'" solution for the unemployment scare of the First Plan period. But nobody, least of all the men in a hurry to solve the price problem, cares to ponder a moment on these mistakes of the past!

Fascinating games can be played on how to reduce demand and influence prices in two weeks. But in real life, which the pragmatists often do not believe in seeing in the round, things do not happen that way, especially when one is dealing with prices of consumer goods essential for plain, daily requirements. It is at that point that one has to strike if a dent is to be made on current demand. What is more important, this reduction in spendable income has really to be made at the lower income levels, if the maximum impact is to be felt on the demand for rice, edible oils, textiles and such necessities of life.

It takes no great perceptiveness to see that cutting the demand for essential consumer articles cannot be achieved without reducing employment at the lower income ranges. A variant of this is, of course, to reduce the rates of remuneration to the workers. In all the agitation against rising prices, the point is ignored that in a considerable range of incomes, the excess demand that exists is the counterpart of the employment and income increases that have occurred over the years. If we can organise our affairs more rigorously, it is true that a good bit of fat at higher income ranges and in the distributive trades can be cut, without detriment to the quality or quantity of goods produced. But it is a safe bet that padded incomes are likely to be the last to be cut or tampered with. Those that have these are too privileged or too powerful politically to be effectively dealt with under existing conditions, unless drastic measures are taken. But drastic measures are not taken because the cry can be raised that democracy is in danger or that there will be no incentives for the already better-off sections of the community. What then is easier than achieve price stability through denying employment to those who have little or no income to spend?

This is not perverted thinking. The incomes that are most expendable are those that do not yet exist. But they would come into existence if the Third and Fourth Plan outlays are carried out as scheduled. Should these come about — and even without any really effective redistributive policies being adopted — there would be a further increase in employment and spendable incomes with the people. For those who concentrate on the present price problem, nothing would be more unhelpful than the additions to these incomes that are yet to come.

One should not, of course, close one's eyes to the immediate problem or to inflation. But in seeking the easy way out of the present situation or shortages, must we perpetuate them? Pragmatism is only a part of economic statesmanship. The other, and more important, part of it is a vision of the future to be striven for. It is time that the latter is rescued from the stampede that is threatening. This is however not to say that there were no gaps in the built-in scheme of things. There were and still are. Both the Congress President's address and the economic and social policy resolution have pin-pointed some of them. Despite exercises on the significance of projects being phased over time and the relationship of such phasing to the rate of growth of income and output, the Planning Commission has never been quite aware of the relevance of the issue. The pattern of investment — in addition to, as much as together with, the size of the investment — is an element to be taken into account. The larger the size of the investment programme, the greater is the necessity of certain types of marginal adjustments in the pattern of investment for dampening the inflationary pressure of the bigger outlays. Of this, the Planning Commission is even less aware. The size of the development programme is, after all, only one dimension of the process which makes rapid long-run growth feasible. What the investment programme yields in the short period in terms of increased availability of goods and services is the other dimension of the process, namely, that of political feasibility. In order to win the war of 'magnitude', it may on occasion be good tactics to concede minor variations in the 'pattern'.

What was also not built into the Plan was any scheme for effective insulation against fluctuations in food production, and ironically we have been badly caught up in it, in a fairly good year with an all-time record high rice production and at a time when imports are freely available. This is now being remedied and a hopeful beginning has been made by setting up the Food Corporation.

Granted these and other gaps and short-comings, which must be overcome, the fact remains that the guarantee of a minimum income by the end of the Fifth Plan to which the Congress has committed itself, the progressive reduction of the backlog of unemployment, not to speak of the other social objectives reaffirmed at Durgapur — the siren voice of Kamaraj, the pragmatist, will take the country and the Congress to none of these.

Drug Prices: Case for Enquiry

THE disclosure that the same drug is being imported into this country at Rs 5,500 per kg and at Rs 300 per kg could not have come at a more uncomfortable moment for that section of our drug industry which has been fighting tooth and nail to ward off the long-awaited amendment of the Patents Act. 'Librium', a tranquiliser, is imported from Switzerland at Rs 5,500 per kg by a Swiss firm which holds the patent rights to the drug in India; it is also imported at Rs 500 per kg by another firm from Italy which does not recognise patent rights to drugs. As an instance of a patent monopoly being exploited by the patentee to charge exorbitant prices, this is by no means unique. There have been numerous instances of vital drugs being imported into this country at excessive prices when they could be had from Italy or the Eastern European countries for a fraction of these prices. Thanks to the Patents Act, import from the cheaper sources is shut off; those who undertake imports lay themselves open to prosecution by the patentees.

Those who have been aware of the damage done by patents to the development of the pharmaceutical industry on lines which would ensure supply of the vital life-saving drugs at prices which the mass of the people can afford to pay will, no doubt, be heartened by the Industry Minister's statement that the Government will after all introduce the bill to amend the Patents Act in the next session of Parliament. The enthusiasm will remain qualified, however, since all reports indicate that the Patents Act as it is today. The enthusiasm will remain qualified, however, since all reports indicate that the amendments proposed by the Government will fall far short of what are called for in the interests both of speedy development of an indigenous drug industry, and cheap supply of medicines to consumers. While detailed comment on this matter must await the publication of the Bill, the Government's attention needs to be drawn to another, and complementary, course of action which, if pursued, could have signal effect on drug prices in the country.

It is a fact established by investigations in countries like the U S and the U K that the prices of drugs manufactured by a patent-holding monopoly bears little or no relation to their cost of production. The manufacturer gets his profits where he can as quickly as he can. Invariably he charges what the consumer can bear, which in the case of life-saving drugs can be very high indeed even in a poor country. Only two factors could compel reasonable prices: competition from other manufacturers and pressure from the Government. Since the patents system protects the manufacturer from competition, the consumer's only protection is Government intervention. In both the U K and the U S A Governmental pressure has been successfully applied to bring down drug prices.

The Government of India has enough powers to regulate prices of commodities under the Defence of India Rules as well as the Essential Commodities Act. Following the declaration of Emergency, prices of drugs were frozen at the then prevailing levels. But since these levels were high enough manufacturers have not demurred and consumers have not benefitted. What is necessary is more discriminating regulation aimed at progressively reducing prices. This calls for a thorough enquiry into costs of production. A competent enquiry will produce many startling facts as well as many pointers for action.

Weekly Notes

Slow-footed Refineries

TO speak of the "inauguration" of the Barauni refinery by the Minister for Petroleum on Friday, as official announcements and advertisements released by the Indian Oil Corporation have done, is somewhat misleading. The first mn ton unit of the two mn ton refinery was commissioned in July last year and is at present in operation. The second mn ton unit is still under construction and is not expected to be ready for commissioning till the middle of this year. It is not clear, then, what the occasion for the "inauguration" is.

What the publicity attendant on the event has achieved, however, is to remind one of the unconscionable delay in the execution of the Barauni refinery. The agreement with the Soviet Union for setting up the refinery was signed in September 1959 and, even after making allowance for the slow progress of prelimanary work, the refinery was scheduled to go on stream in February 1963. But in all the official write-ups released by the Indian Oil Corporation, there is no mention at all of the reasons why the refinery has ended up so much behind schedule.

The first two public sector refineries at Nunmati and Barauni are rather poor advertisement indeed of the public sector's ability to expand refinery capacity in pace with the growth of demand for petroleum products. Nor is the third one at Koyali doing too well. The first stage of the three mn ton project was to be commissioned early this year. This, it is now certain, will not be possible though the extent of the delay is yet to be known. Work on the refinery at Cochin, however, is reported to be progressing apace and the deadline of end-1965 for commissioning may be more or less honoured.

The Petroleum Ministry's estimate of demand for petroleum products at 25 mn tons by the end of the Fourth Plan has been challenged as an underestimate. It is known that the Indian Institute of Petroleum had recommended, on the basis of a detailed study, that the Fourth Plan should aim at establishing additional refinery capacity of 12 mn tons which would take total capacity by the end of the Plan to 29 mn tons. An inter-Ministerial committee which subsequently went into these estimates recommended additional capacity of 11 mn tons and total capacity of 28 mn tons by Fourth Plan end. As against these recommendations, the Petroleum Ministry has settled for the lower figure of 25 mn tons — on what basis, it has never been adequately explained.

But what are the prospects of refinery capacity being set up to meet even the Ministry's lower estimate of demand? The tentative programme for the Fourth Plan has been drawn up on the assumption that the capacity of the existing refineries plus those already under way will be 17 mn tons so that new refineries would have to be planned with a capacity of 8 mn tons. Three new refineries are on the anvil. Two of these will be at Madras and Haldia while the site for the third remains to be selected.

though it has been decided that it will be in north-west India. The refineries at Madras and Haldia will have a capacity of 2.5 mn tons each and are expected to be completed in 1967 and 1968, respectively. The refinery in the north-west also will have a capacity of 2.5 mn tons and will be completed in 1970. To make up the deficit of 0.5 mn tons, the Madras refinery is to be expanded.

Of these, some progress has been made so far only on the Madras refinery. An agreement has been signed with the National Iranian Oil Company and the American International Oil Company on what are believed to be very favourable terms, specially in regard to the price of crude oil. In Haldia, on the other hand, the problems are truly formidable. Ignoring everything else for the moment and judging only by the progress made in creating port facilities, it appears extremely unlikely that a refinery will go on stream there in 1968. The position is even more indefinite in regard to the proposed refinery in the north-west. What makes it particularly so is that the setting up of this refinery is contingent on oil being produced in Cutch, Jaisalmer and Punjab.

ICICI's Ten years

WHEN, ten years ago, the learned gathered to cast its horoscope, they predicted for the Industrial Credit and Investment Corporation an existence prominent in public affairs and declared that it would "provide finance, particularly by way of underwriting of, and direct subscription to, share capital of companies". The first part of the prophesy has been amply fulfilled and the satisfaction and pride with which the ICICI looks back on its first ten years are not unjustified. But, like that of all mortals, the ICICI's progress has been no unswerving march along the linear path charted for it in advance.

The Rs 100 crores or so of assistance which the ICICI has provided so far to private companies has been a significant contribution to industrial development in the private sector; but it has not taken the form, principally and unvaryingly, of "underwriting of, and direct subscription to, share capital of companies". Foreign currency loans have accounted for almost 50 per cent of all assistance. On the rupee side, direct subscription to capital has constituted the smallest part of assistance (11 per cent) while loans have constituted the biggest (48 per cent).

Starting in 1955 with initial resources of Rs 17.25 crores — Rs 12.50 crores in rupees, comprising Rs 5 crores of privately-owned share capital and a Rs 7.50 crore interest-free loan from the Government and $ 10 million in foreign currencies loaned by the World Bank — the ICICI first found few takers for its offers of foreign loans, so easy was it to get import licences until the mid-years of the Second Plan. During this period the demand was for rupee loans to purchase foreign exchange from the Government to finance imports.

Soon came the foreign exchange crisis, and the ICICI became the private sector's principal institutional source of foreign currency resources — thanks to the munificence of the World Bank. The foreign exchange problem has persisted ever since, as has the role of the ICICI as purveyor of foreign exchange, so that over the ten years its foreign currency loans are barely lower than its total rupee assistance in all forms.

By far the largest part of the ICICI's foreign currency resources has come from the World Bank. In five lines of credit the World Bank has advanced $ 90 million; DM 40 million have come from the West German Kreditanstalt fur Wiederaufbau and $ 5 million from the US Agency for International Development. While the majority of the foreign exchange loans have financed purchase of capital goods and equipment for new projects, not a few have gone to established concerns for replacement and modernisation. In particular, a large part of the W German credits has been used for the latter purpose.

As in foreign currency loans, in underwriting again it is possible to see the shifts induced by general economic trends. When the ICICI came into being the capital market boom of 1959-61 was still a thing of the future and so its first few years were marked by active underwriting. Then in 1959 the tide turned and the boom set in; the public which had held back so far swooped down on most of the issues that hit the market; some of these issues, it is interesting to recall, were subscribed 100 times over! Promoters, confident of public response, did not feel the need now to approach the ICICI for underwriting. The kind of issues that did come to the ICICI were of units in industries like paper and electricity in which, because of price control, profit rates were pegged.

The capital market boom tapered off in 1962; in the stagnation that followed, and which still persists, the ICICI was again much sought after to underwrite capital issues. In the two years and nine months up to September 1964 it underwrote issues for Rs 7.11 crores or about 43 per cent of its total completed underwriting in ten years.

The ICICI's rupee resources, except for the share capital which was subscribed to by private parties, have come entirely from Government loans. Its function has thus been to channel funds from the Government to the private sector, its own contribution consisting principally of evaluation of projects and deciding which deserve assistance. As for the larger impact of its operations, these have been a major counter-vailing factor. To say that they have had a significant corrective effect on trends in the capital market would be to claim too much; but, then, this is a criticism which must extend far beyond the ICICI.

Finance, Private and Public

HOW much business is done by private sector financial and investment companies? A Reserve Bank survey of the finances of 177 public and private companies in 1962-63, which account for 84 per cent of the share capital of all non-Government financial and investment companies other than banks and insurance, gives some interesting results. Their resources are Rs 67 crores of owned funds (share capital and reserves) and nearly Rs 55 crores of borrowings, mainly from 'others', at the end of March 1963. Their investments in private securities amount to Rs 65 crores, including Rs 10 crores held as inventory, and loans aggregate Rs 51 crores. During the year 1962-63, they raised a gross total of Rs 9 crores, almost wholly from borrowings; of this amount Rs 2 crores went into private securities and the remaining Rs 6 crores was loaned out. While shares continue to form the bulk of investments, debentures have begun to attract.

Out of the main income of Rs 9 crores, dividends contributed nearly Rs 5 crores, and the balance was shared equally between interest and net earnings from hire purchase financing. The companies earned 4 per cent on net worth against 5.3 per cent in 1961-62; the decline was not due entirely to higher tax liability for the volume of profits before tax also declined thanks to lower income

and higher interest charges. Most of the profit after tax was distributed as in the previous year (nearly all such companies are classified under section 104, formerly 23A, and are required to distribute most of the profit) but with an almost constant distribution, retention became nominal.

Though the inclusion of hire purchase financiers confuses the picture, it is obvious that private sector financial and investment companies are now only minor constituents of the capital market and that too mainly for loans rather than investments. Their income compares favourably with that of the 16 public sector financial corporations taken together but their resources and operations are much smaller. The statutory corporations earned only Rs 6 crores in 1962-63 but their profit on net worth was higher at 5 per cent. They raised a gross total of Rs 27 crores (of which Rs 10 crores was from bonds, Rs 5 crores from Government, and Rs 2 crores in foreign exchange), and put Rs 6 crores in investments (mainly debentures) and Rs 19 crores in loans. The total resources of statutory corporations have yet to catch up, owned funds of Rs 26 crores and borrowings of Rs 84 crores, aggregating Rs 110 crores against Rs 122 crores in their private counterparts.

Italy's Shaky Government

IN countries with an established parliamentary system and a strong ruling party, the election of a largely ceremonial president usually involves little dissention. In Italy, where the president of the Republic often holds the balance of power in selecting a prime minister, and where a presidential election means a test of party strength, the recent election of President Saragat almost paralyzed the body politic. It is clear that the presidential election left Italy's fledgling parliamentary democracy weaker and that the ruling centre-left coalition has lost face. It is even possible that the Christian Democratic party, which has ruled Italy since 1948, may split as a result of the tensions created by the election.

The election itself, which was almost a comedy of errors, took 21 ballots and lasted a fortnight. When the two Houses of Parliament, which together constitute the electoral body, finally elected Signor Giuseppe Saragat, they were exhausted by the effort. Saragat's choice was obvious from the beginning, though the political parties were divided among themselves, and could not agree on a single candidate. Indeed, Saragat's candidacy shows some of the inherent problems in Italian politics as it has developed since the war.

Saragat is both a non-Catholic and a Socialist. As a non-Catholic, he was unacceptable to the strongly Catholic wing of the ruling coalition as well as to the clerical parties outside of the Government. In a nation which is nominally 98 per cent Roman Catholic, but in which an estimated 40 per cent of the population never enters a church, the religious issue is a controversial one. As a Socialist, *albeit* not a Marxist, he aroused the animosity of the right and some sections of the centre. His clear record of opposition to the Communists did not win popularity among members of the far-left political groups.

The ruling Centre-Left coalition, which consists of the dominant Christian Democratic party, and the Nenni Socialists combined with Saragat's own Social Democratic group, is in deep trouble. In the recent municipal elections, the ruling parties suffered a slight setback, primarily to the parties of extreme right and left — the communists and left-Socialists on the one hand, and the Republicans on the other. Not only is the coalition threatened by its parliamentary opposition, but it is also ridden with internal dissentions. The left wing of Nenni's Socialist party is anxious to continue its long standing co-operation with the Communists (broken off when the Socialists joined the coalition government), and in fact the Socialist party was split at the time of the coalition, and faces the possibility of further factionalism. The Christian Democrats are in deeper trouble. Since it was founded in 1948 by the late A DeGasperi as an opposition to the popular front of the period (with the strong support of the Catholic Church), the party has been without strong popular leaders. It has become an alliance of regional political leaders with a vague political ideology but without a concrete programme. The Christian Democratic right wing, which is strongly Roman Catholic, could not accept



even a moderate Socialist and non-Catholic like Saragat. Faced with electoral losses, and a seeming increase in leftist influence in the Government, a large number of Christian Democrats want to scrap the coalition. One of those most interested in ending the present Government is former Premier Fanfani, architect of the coalition in the first place. Thus, it remains to be seen if the centre-left government in Italy can last. It is also doubtful that two of Italy's most important political parties, the Christian Democrats and the Nenni Socialists, will continue as political entitites.

It is possible that Italy may see another "popular front" government in the foreseeable future. The Communists, who have been left in the political wilderness for almost two decades, are anxious to take part in the government. As Italy's second largest party, they are a potent force. If the present coalition does break up, it is possible that such a popular front will be formed. Certainly the present situation is not helping Italy's democratic system. Many people feel that parliamentarianism does not work well, and the proliferation of parties has not helped matters. The coming period is an extremely important one for Italy, and particularly for its present governmental set-up.

Economics: Socialistic, Courtly

A Correspondent writes:

MAY I supplement the very admirable reviews of R K Hazari and 'Correspondent' on the Economic Conference in your issue of January 12 with a brief "marginalia"?

This Conference, like its recent predecessors, has amply justified the changes in the conduct of proceedings introduced since the Nagpur session. The meetings had a certain brisk pace about them and the wafflers—who like the poor shall always remain with us—did not have much more than a sporting chance of getting a word in edgewise! Old Conference hands even recalled the memorable 1944 (Dr Hyder's) session in Delhi. Even more pleasing was the rapport between Age and the Angry Young Men, a gracious coming to terms with a new dispensation. The Elders did say their sage piece, to the point, and to give just that added leavening of mellowness to the mass of virtuosity. We have now a very impressive body of highly competent young Indian economists steeped in the latest lore and with impeccable credentials. With this generation, the gap between the two cultures of Economic Science, the 'Literate' and the 'Numerate', appears to have been bridged. One could discern too the beginnings of a growing and effective dialogue between the 'Advisers' and the 'Academics'. The one showed an agreeable willingness not to be wholly on the side of the angels even as the other took in the occupational hazards and difficulties of the economist in the Backrooms of Power. Yes, it was all very prim and precise. One even missed the now-vanished species of the lone wolf with the *idee fixe!*

There is something to be said for holding an academic conference in the capital of a former Princely State. In Baroda there was just the right touch and flavour of a vanished age. Was it not Oscar Lange, who told an incredulous Galbraith in the midst of the near mediaeval pageantry of the convocation of the University of Cracow, "we like our economy to be socialist but our manners to be feudal"? So was it here—splendid logistics plus courtliness!

Anand and Baroda

Another Correspondent writes:

THE agricultural economists' conference at Anand and the economists' conference at Baroda offered some interesting similarities and contrasts. The hospitality at Anand was enveloping; one was looked after right from half past five in the morning when children came to pour hot tea and inform one that bath water was ready, till supper was served by endless files of volunteers. The same facilities were there in Baroda as well, but there was less spoon-feeding. Tea was served but one missed it if one was silly enough to bolt the door; boiling water was available but one had to find a bucket if one wanted it; excellent and abundant food was provided but one was free to give it the go-by and retire to a chair.

The discussion at Anand, on the whole, kept more to the point and was better informed. This is somewhat surprising and difficult to explain. One reason might be that the proportion of teachers was lower and of research workers higher at Anand than at Baroda, and teachers seem to keep up with things less well. Another might be that mathematics and statistics have made greater inroads into economics than into agricultural economics in India so the proportion of mathematics-based statements that could go over the heads of "lay" economists or be misunderstood by them was less in Anand. There were howlers in both Conferences on this account. In a paper submitted to the agricultural economists' conference, what was evidently a supply function went under the name of production function; in Baroda there was some fanciful speech-making about the turnpike theorem. Nevertheless, the approach of the agricultural economists was more workman-like. Their level of ambition was lower, and their achievement measured up correspondingly better.

Letters to Editor

North vs South in Nigeria

MAY I offer a few brief comments on your informative Weekly Note, 'North *vs* South in Nigeria', in your issue of January 9?

It is said that "religious, tribal and linguistic animosity has provided a forceful barrier to National Unity in Nigeria". But it would be nearer to the truth to talk of regional differences rather than religious, tribal or linguistic barriers as an operative influence in Nigeria. Undoubtedly, the North is overwhelmingly Moslem whereas the West and South are predominantly Christian and pagan. There is also a sizeable proportion of Yoruba Moslems in the West. From this, however, it would be misleading to infer that religious differences have any part to play in the recent political distemper in Nigeria or at any time in the past in Nigerian public life. Fortunately in Nigeria, as elsewhere in tropical Africa, religion has not yet been imported into politics on the scale and in the manner familiar to inhabitants of the Indo-Pakistan sub-continent. Religion sits lightly on African shoulders. There is piety and even orthodoxy but seldom fanaticism, whether among Christian or Moslem Africans. It is not unusual to come across African families whose members profess different religions, including a flexible agnosticism!

Likewise the adjective 'tribal' has to be used with due caution in Nigeria. The Moslem North has two distinct tribes, viz, the Hausas and the Fulanis and there are also speakers of a third language, Kanuri. In the East, apart from the Ibos there are the Ibibios of Calaban. In any case, in Nigeria tribe and religion are subsidiary to region.

The survival of the feudal Emirates in the North is explained by the adoption of 'indirect rule' in this region under the influence of Lugard's philosophy. The presence of the powerful Fulani Emirs in the North — comparable to the Indian ruling princes in many respects, down to a rather violent addiction to polo! — gave the ruling British power a ready-to-hand instrument of control not available in the South or West. In these regions the tribal chief did not quite fill the bill. Today the British presence in the North is not wholly a thing of the past. Witness the number of Balliol ties at cocktails!

In conclusion, it should also be pointed out that the latest census in Nigeria has been an inconclusive and controversial affair. One therefore does not know the precise numerical preponderance of the dominant North.

Bombay, 'AFRICANUS'
January 12.

Annie Besant

THE unsigned book review of Nethercot's book on Annie Besant and her associates needs a little comment. It so happens that the lady is my paternal grandfather's first cousin. For your reviewer to describe Nethercot's review as objective is, frankly, ludicrous. There is a history behind this which would probably not interest you. It has long ceased to interest me.

As for the quotation which your reviewer excerpts from Nethercot's book "objectivizing" J Krishnamurthi, would it not be a good idea if your reviewer were to consult both the N E D and Webster for current definitions of the scholarly use of the word "objective" and its derivatives? It also happens, that J Krishnamurti is a close personal friend of mine. This is natural since we are of precisely the same vintage; and he has been a great deal in Bombay. It also happens that I have some close acquaintance with a number of psychiatrists, of whom perhaps the most objective, and certainly the most widely experienced, is the founder and first director of the World Federation of Mental Health, Dr J R Rees. Your reviewer might do well to refresh his knowledge of the term "schizophrenic". He might also consult three works of Karl Jung, upon the concept of dual personality.

Even with these precautions, however, I doubt if your reviewer, and I am quite certain Nethercot, could be said to be objective in the defined sense of that term.

Mrs Besant committed the error of living too long; nevertheless, she did a great deal to form the present Bharat, and her influence, both good and bad, is still felt far outside the faithful at Adyar. J Krishnamurthi also wields a certain influence.

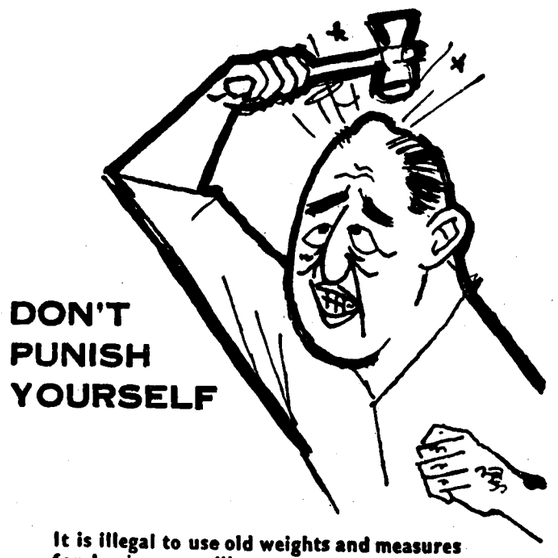
I myself do not regard him, despite his schism from the Theosophical Society, as a major prophet, nor a guide to spiritual philosophy; but as a gentleman, which seems to be a rarity nowadays. This impression of rarity is reinforced upon reading the review in question.

EVELYN WOOD

Bombay,
January 7.

Our reviewer writes: I am quite willing to undertake all the heavy reading prescribed for me by Evelyn Wood but, in return, I would request him merely to re-read my review. He could find that far from considering Nethercot's summing up of J Krishnamurthi as "objective", I have clearly implied that it is less than fair. The point is not elaborated further since the subject of the biography is not Krishnamurthi but Annie Besant.

All that the review says is that Nethercot fulfils a pre-condition necessary for objectivity in undertaking the definitive biography of a controversial figure like Annie Besant in that he never knew her and never came within the ambit of her influence. To this I now feel inclined to add that he is not related to Mrs Besant either.



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From the London End

France Asks for Gold

THE recent hectic activity in the London and Paris gold market has brought into prominence once more the unstable nature of the present international monetary system, based on the gold exchange standard, which relies on the deficits of the reserve currency countries (the U S A and the U K) for any growth in world reserves over and above what comes from new gold production.

At the end of last week, after a period of frantic activity touched off by the decision of the French to convert a proportion of their dollar holdings into gold, the dollar price of gold finally closed between $35.17 and $35.20 an ounce. During this period, dealings in gold were heavier than at any time since the Cuba crisis. During the week there was steadily rising speculation, and gold prices rose 6½ cents an ounce in four days.

The Bank of England's decision to allow the price of gold to rise above $35.13, where it had previously been held, heightened rather than lessened speculative pressure. The Bank of England also allowed the £ to fall below $ 2.79. These recent operations in gold, illustrate quite clearly the interdependence of sterling and the dollar. The general distrust for reserve currencies is at the back of the desire to hold gold. There is no doubt that the two reserve currencies, the £ and the dollar, must stand or fall together.

There is no doubt that before Europe can be convinced that the key currencies can be trusted at their present gold parities, more will have to be done to show that there has been a real change for the better in the British position. One of the factors which leads to a distrust of the dollar in European minds is the fear that a collapse of sterling would transfer the whole pressure to the dollar and make it too costly to hold the present gold price for long.

As the present system stands, any rumour no matter how unfounded, can produce a raid on one currency or another, or a move out of currencies into gold. The speculative pressures were calmed by the warning from the U S Treasury that those expecting a rise in the basic price of gold will "inevitably end on the losing side". The U S Treasury also made it quite clear that it regards the present gold price as "immutable", and that if it came to a pinch and the U S had to choose between controlling all capital movements and agreeing to a change in the price of gold, it would be the first line of action that the U S Government would pursue. It reaffirmed what the late President Kennedy had said three years ago, that the whole of the U S gold stock was available to support the dollar in the international markets "at the immutable price of $35 an ounce".

In addition, the American Administration is considering passing a law to free a part of the fixed gold cover for U S notes and reserve bank deposits. At present, much of American gold stocks are tied up as backing for notes and deposits as a result of the 25 per cent gold cover requirement for Federal reserve banks on deposits by commercial banks.

Mistrust of Present System

What is behind the latest French move to assert the independent position of France? The sums which the Bank of France has asked the U S to change from dollars into gold are not very large; they amount to approximately $ 300 million over the next three months. What is more important is that France has indicated that she would like that in the future any additional dollars flowing into the account should be converted into gold. There lies the rub.

Although the French move can be described as the move of a prudent banker who is not entirely confident about the strength of either the sterling or the dollar, there is no doubt that one of the aims behind the French move is to highlight in a very practical manner, the French distrust of the present international monetary system, and the demand for a thorough reform of it. The dissatisfaction of France with the present system is no secret, although the remedies proposed by the French are not all of the same sort. There is the orthodox school in France which would like to see the old gold standard restored to its pristine splendour, while there are other groups with a more nationalistic outlook who would like to see the franc take its proper place in the world monetary system.

The French plan favouring a change in the present system is based on the "Bernstein" plan for monetary reform which would create a new "composite reserve unit" with the major difference that these new reserve units would eventually replace dollar and sterling holdings, not merely supplement them. It is for this reason that the French are anxious that special care should be taken in the creation and volume of any new reserve currency units, and any recourse to them should be concerted and limited. They also believe that they should be supervised, not by the I M F where the French feel they have not got enough influence, but by the "Group of 10" where their own position is more influential.

The French position was described very clearly at the Tokyo meeting of the International Monetary Fund in September and there is no doubt of the French disapproval of the system. They have repeatedly pointed out that the system as it exists to-day, allows British and the U S A to finance large deficits using their own currencies, and so weakens more orthodox methods of balance of payments discipline. The French have also pointed out that while the U S A has been running a heavy deficit, the outflow of investment capital has continued.

While the French move by itself presents no great threat, particularly if a change in U S legislation on gold backing is introduced, if other European countries, especially West Germany and Italy, were to follow France's example, this could have a very serious effect on the whole international monetary position. Both Germany and Italy at present maintain the lowest gold covers of any member of the European Economic Community. A showdown over the world monetary system cannot now be postponed indefinitely, it appears.

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A Calcutta Diary

No Eleventh Arm for Durga

AT Durgapur, where the Indian National Congress recently concluded its 69th annual session, several wordy resolutions were adopted solemnly and ceremonially. The power of the word is not to be underestimated even in this age of its incredible profusion; but, with a variety of motives, there were Congressmen to complain that the party only passed pious resolutions and then did nothing or little about them. The failure of the Third Plan was not denied; extolled was the promise of the Fourth. Caterers provided excellent meals; most delegates yet remembered that there was a severe food crisis in the country. Oddly enough, the debate that generated the greatest interest and animation was on the question whether India will or will not make an atom bomb. It was decided at session's end that, at least for the present, the ten-armed Durga will have to do without an eleventh, nuclear, arm.

What seemed obvious from beginning to end was that few knew what they were talking about; the many included the Prime Minister, Lal Bahadur Shastri. The Congress President, like a minor spokesman of the External Affairs Ministry referred to the Colombo proposals and China's sinister intentions towards this country but made no direct reference to the bomb. It was *Shastriji* who did not try at all to conceal his pride over the decision not to make a bomb—for the present. Only a few heard the horse-laugh of which the epicentre was believed to be Peking, although there is evidence to suggest that some other captains may also have been equally amused.

The Jamboree

Nobody was left in any doubt that the online begetter of the Durgapur session of the Congress was Atulya Ghosh, although the nominal President of the State Congress had to be made the Chairman of the Reception Committee. Ghosh bestrode the scene like a colossus, as he was, at least physically, fully qualified to do. Few cared to notice that Ghosh had reduced the whole show to a farce by announcing at a Press conference two weeks earlier what the Congress was going to decide, on the bomb and other questions. In the event Ghosh proved absolutely right to the last detail; the Congress decided exactly as Ghosh had said it would. Nobody expected a surprise from Durgapur; but Ghosh's prescient statement imparted to the millions of words uttered there a greater hollowness than was necessary.

Yet the session was held. Those who said that Nehru was the star attraction of Congress sessions without whom few would care to attend them have been proved wrong. Atulya Ghosh showed that the traditional pilgrims to the annual *mela* could do without their diety; the shrine was important enough. *Pandas*, he successfully demonstrated, had taken over from the Pandit; and the loss may be more marginal than electoral. Kerala got incidental mention; but, after Nanda's massive arrests of the left C P I, if anybody was nervous he did not show it. The Congress Party in its long career has successfully faced and withstood so many crises that it no longer quivers when another crisis is around. Confident talk replaces concern. Atulya Ghosh said it in Bengali, drawing cheers; Prafulla Sen said it in Hindi, drawing cheers. When party talk exceeds the permissible percentage of nonsense, it does not much matter what language one uses; at Durgapur linguistic clashes were few and never really unpleasant. The West Bengal Chief Minister went to the extent of saying that, having been born in Bihar, for him Hindi and Bengali were the same. The little he had to say could, indeed, be said even in Hindi. He too was agin' the bomb—for the present.

The Other Explosion

No matter what has been happening elsewhere in the country for the general reason of a sudden and fantastic increase in defence expenditure, in West Bengal prices have behaved in the most extraordinary manner in the last few weeks. Statutory rationing came into being last week; and dal disappeared altogether from the market, as other things had done earlier. Atulya Ghosh has denied any connection between the upward movement of prices and the levy on trade and commerce to meet the cost of the Durgapur Congress. He has said that the cost of the Congress came from small donors, people who paid a rupee or two. Well, Ghosh himself advised us not to pay much attention to gossip.

It has been said that in any city except New York a presence like the U N's would have created an unbearable pressure on prices and everything else like accommodation. It is suggested that a Congress session has, given the obvious difference in scale, similar effects on the market, especially in a State as deficit and overpopulated as West Bengal. Whether or not there have been levies on particular trades, the very expenditure on Durgapur was enough to have upsetting effects on supplies and prices; and upset many things were. Children in Calcutta went without milk so that Kamaraj could have his coffee at Durgapur. It is not pleasant to have to present problems in such personal terms; but there it is.

After Pro Forma

If this be the *pro forma* account of the Durgapur Congress, it must be somebody's business to demand a final balance sheet of what comes in, from where, and what goes out in the name of a Congress session. At a private function a hero of the Bhubaneshwar Congress had been asked, with a bluntness that took one's breath away, how much he had made out of Bhubaneshwar; with a blandness unknown since Clive's "I am amazed at my moderation", the politico referred the questioner to sponsors of the Durgapur session for more up to date information. Like everything else the Congress sessions are growing annually more expensive; and again at Durgapur no attempt was made to relate the outlay to the return.

Against this background, the mushroom of the bomb debate wore an ominous look. The whole thing seemed unbelievably unreal and yet fantastically farcical — and cruel. A foreigner was some years ago *justly castigated* for suggesting that what India needs is not blast furnaces for making steel but gas chambers for wiping out a part of the population. Perhaps, after all. India should have the bomb, for judicious use within. It cannot be said that Durga's existing ten arms have so far been used very effectively against enemies within — or without.

— Flibbertigibbet

Book Reviews

The Vietnamese Tragedy

Vietnam Divided by B S N Murti, published by Asia Publishing House, 1964; pages 227, price Rs 16.
The Last Confucian by Denis Warner, published by Penguin Books, 1964; pages 385, price 5s.

IT is often possible to tell the extent of a world crisis by looking at the number of books published about a given area or situation in a specific year. Judged by this criterion, the situation in Viet Nam ranks as a major crisis. Indeed, the amount of material which has been published on Viet-Nam has been particularly striking in view of her almost total isolation prior to 1954. Scholarship, both East and West, was almost ignorant of this area of the world prior to its attainment of a spotlight in the Cold War. The amount of homework which had to be done by scholars and journalists alike is indicated by the large number and often low quality of the material which has been published since 1954.

These two recently published books provide some insights into the situation in Viet-Nam, and also offer some interesting contrasts of style and quality. Because of Viet-Nam's crucial importance at present, they are particularly relevant. They are indicative of the kind of material which has crowded libraries and diplomat's bookshelves in recent years.

Diem and the U S

Both books have similar aims. They wish to shed light on an exceedingly complex political, social and economic situation which is entering a crucial phase. Both trace recent Vietnamese history in order to provide essential background to present developments. Murti's analysis concentrates mostly on the period since the Geneva Conference (1954) ended French hegemony in Indo-China and provided a backdrop to the present crisis. As a former Deputy Secretary General of the International Control Commission for Indo-China, he had a unique opportunity to see developments during the crucial period from 1954 to 1957 at first hand. His account relies mostly on the reports of the Commission, or press reports, and is clearly favourable to the North Vietnamese Government.

Murti discusses the unco-operative attitude of the Diem regime in South Vietnam, and its attempts to lure the large Roman Catholic population of the North southwards by means fair and foul after the Geneva agreements were reached. His discussion of the rise of the Diem regime, and the key role of the United States in securing and maintaining Diem's power in South Vietnam, and particularly Diem's campaign to destroy all opposition, whether Communist or non-Communist is elucidating. Furthermore, it provides an understanding for part of South Vietnam's present dilemma, for there is no sophisticated and experienced leadership to take-over from the military rulers due to Diem's (and by implication, American) ruthless destruction of all legitimate opposition.

N Vietnam's Role

In his discussion of the Vietnamese situation, Murti almost entirely ignores North Vietnam. This omission is particularly unfortunate, as it is impossible to understand the situation in Vietnam without looking at the country as a whole. His bias toward the North Vietnamese government is evident in his discussion of the role of the Viet Cong (Communist National Liberation Front in the south). He contends that little or no arms came from either China or North Vietnam, despite overwhelming evidence to the contrary from both the International Control Commission (an independent body consisting of India, Canada and Poland) which he has dismissed in one sentence, and from Western press sources, which he has totally ignored. Further, he does not discuss in any detail the political and military influence of the North Vietnamese government on the Viet Cong. Most independent observers seem to agree that Viet Cong obtains substantial material and ideological help and direction from the North, and from Communist China.

Where Murti's book is valuable is in its overview of the recent history of Vietnam, and particularly the development of South Vietnamese policy under the direction of the United States. The description of the French withdrawal from Vietnam, and their ambivilant attitude toward Southeast Asia generally is important when one recalls that French influence in Vietnam is still quite strong, particularly in the fields of finance and education.

An experienced journalist, Denis Warner spent a good deal of time in Vietnam, and succeeded in talking at length with leaders of both North and South Vietnam. His discussion of the government and personalities of North Vietnam is particularly cogent, and unusually useful in the light of the few facts available about this area. While highly critical of U S policy in Viet Nam, Warner maintains an admirable objectivity, and freely criticized both sides when necessary.

The Context

"The Last Confucian" places the Vietnamese struggle in the context of the Cold War and analyzes the situation from this point of view. It is because of this broader frame of analysis that he is able to cogently discuss both the background and the present situation in that troubled land. His discussion of Diem's personal character, and the mark he left on the face of South Vietnam is as devastating as it is convincing. And, as always, the stamp of American influence is heavy on the Diem regime. Warner discusses the little known fact that Diem was able to bully the Americans into supporting various schemes which were not considered practical, and that after he removed all possible democratic opposition, the U S had no alternative to him. While Murti does not discuss the recent series of military juntas in South Vietnam, Warner's analysis is fairly up to date, and tries to deal with some of the causes for the rash of coups and counter-coups.

Though Warner is basically sympathetic to Ho Chih Minh's Communist government in North Vietnam he is not unmindful of Communist Chinese influence in the area, and in fact shows that North Vietnam might be willing to accept some kind of solution which would rid Vietnam of both Chinese and American domination. Warner recognises the substantial Northern aid to the Viet Cong, although he accepts that the popularity of the rebels in South Vietnam comes from a rapport with the peasants combined with the total bankruptcy of the Saigon Government. Under the present circumstances, no victory for the American-backed Saigon regime is envisioned, and Warner is quite impressed with the morale and intelligence of the Viet Cong, as he is with the savagery with which the struggle has been carried on by both sides.

Warner's book is a conscientious job of reporting and analysis, written with a good deal of perception. He holds no brief for American "anti-Communism" while at the same time maintaining a highly critical attitude toward the Communist-backed Viet Cong. By placing Vietnam clearly within the context of the Cold War, with the impact of outside influences from various sources, he is able to clearly see the picture, as clearly as possible under the circumstances.

While both books provide some very useful background material to a country surrounded by myths and preconceived notions, neither writer has any solution for the difficult situation in Vietnam. Both agree that the Saigon regime will have to radically change if it is to have any chance of holding the loyalties of the people. Warner particularly points out that a government which provides essentially no services to the peasants, has not carried out a meaningful land reform, and exists only through outside support is politically bankrupt. Indeed, the Saigon Government has in the past year engaged in its "strategic hamlet" programme which has essentially provided concentration camps for a section of the population and has increasingly taxed the poorer sections of the peasantry. With such a legacy of corruption and misgovernment, it is difficult to see how the Saigon government, even with direct U S military support and the commitment of American troops, can succeed.

Warner observes that any solution of the situation in Vietnam will have to be in the context of the Cold War, and will have to be a political solution. Merely abandoning the country to the Viet Cong and the Communist North would be unacceptable to the United States, while a return to the 1954 *status quo* would negate the gains made by the Viet Cong, and therefore be unacceptable to them. Thus, some kind of negotiated solution is called for, though both writers seem to be unable to make any concrete suggestions.

China : Some Portents

P Misra

The recently concluded session of the Chinese National People's Congress, (the Chinese parliament) was in the nature of a victory parade for Mao Tse-tung.

After years of internal disarray and external disenchantment, China had exploded its first nuclear device; Khrushchev, her bete noire, *was no longer the head of the Soviet Government; her influence in Asia and Africa was in the ascendant; and industrial and agricultural production, after years of stagnation, had taken an upward turn.*

BEFORE the Congress met, observers in Peking were busy scrutinizing the list of the 2,836 Deputies attending it. *Le Mond's* correspondent in Peking described the Chinese Parliament as not only the largest, but also "the most familial" in the world, as wives of almost all the members of Chinese Politbureau were found to be members of Parliament, along with their spouses. More important were the names missing from the list. Gone were those of Dalai and Panchen Lama, along with those of other top delegates from Tibet, and in their place were included 12 representatives, "the erstwhile serfs and slaves recently emancipated". From Sinkiang, 12 delegates representing minority communities were found missing and from Manchuria, 10 Manchurian delegates out of 29 had been dropped. It is interesting to note that most of the delegates dropped represented the minority races bordering on the Soviet Union. Missing was also the name of Marshal Ping teh-Huai, relieved earlier of Defence Ministership for his alleged pro-Soviet activities.

Optimism and Confidence

Chou En-lai's report, issued by Hsinhua, is remarkable for its tone of confidence and optimism. The report said that China experienced a large upsurge of industrial and agricultural production during 1964. "After three successive years of natural disaster from 1958 to 1961 and despite withdrawal of Soviet aid, Communist China managed to readjust its economy." Chou accused Khrushchev of "abruptly and perfidiously tearing several hundred agreements and contracts and withdrawing Soviet experts working in China and cutting the supply of important items of equipment". While conceding that this added greatly to China's difficulties, he nevertheless declared that China had not been cowed. Shortcomings and mistakes in work had been corrected and the arduous task of readjusting the national economy had been accomplished.

The entire national economy, Chou En-lai claimed, had taken a turn for the better with industrial output 15 per cent higher than in 1963. And the production of cereals, cotton, tobacco and sugarcane touched 1957 levels and production of petrol, cement, motor vehicles, chemicals and cigarettes marked a rise of 20 per cent over last year. Chou En-lai claimed that the consumer goods were in relatively abundant supply and that one could see signs of prosperity everywhere. "Prices have remained stable, revenue and expenditure were in balance and confidence in the currency was greater and there has been considerable expansion of foreign trade." Chou En-lai stressed the fact that the great achievements of the last few years had been the result of the resolute policy of self-reliance, specially after the betrayal of Soviet Union, and as a result an army of first-rate scientists and engineers was ever growing. He proudly declared that China had produced its atomic bomb, largely on its own initiative and even the foreign atomic scientists had to admit that it has surpassed those initially built by the United States, Britain and France. Turning to 1965, Chou En-lai said both revenue and expenditure were likely to be 10 per cent higher. The draft plan for 1965 provided for an increase of about 5 per cent in total value of agricultural output as compared with 1964.

Opposition Admitted

The report also revealed that the period following the Blooming of the Hundred Flowers and Great Leap Forward witnessed a massive spurt of revisionist trends, which were ruthlessly suppressed. Chou-En-lai confessed that the Government experienced much internal opposition after the failure of the Leap Forward policy and the rise of revisionism, advocating abandonement of the fight against imperialism and assistance to revolutionary struggles of other countries.

This was a serious problem and consequently the Party had to launch a counter-attack in September 1962 against such reactionary manifestation. He paid homage to Mao Tse-tung "for guarding against under-estimating the peril of restoration of capitalism." Obviously, it is in this context that nearly 295 delegates, about one-fourth of the previous Congress were dropped from the present Congress.

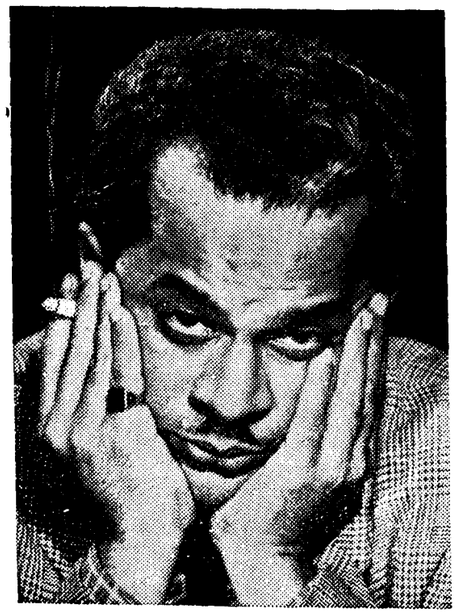
The report on foreign relations, not only assured continuity but stepping-up of China's aggressive policies against the background of her expanding economy. Chou En-lai emphasised that Asia, Africa and South America were the nerve centres of the revolution and pointed out the growing contradictions in the imperialist camp, the latest symptom of which was Franco-U S conflict. He also predicted an imminent economic crisis in America. China's unwillingness to withdraw the seven posts from Ladakh, as a pre-condition to negotiations, laid down by the Colombo proposals is a sign of her growing truculence and her support to Sukarno on Indonesia's withdrawal from the U N are significant in this context.

Though no direct attacks were made on the Soviet Union for its alleged revisionism, Safudin, President of the autonomous region of Sinkiang, warned the Congress against subversion and sabotage from across the border. He was obviously aiming at the Soviet Union. Lin Leng-yi, the President of the Federation of Chinese Workers also had a dig at Russia while emphasising that China did not envisage any re-conciliation with imperialism or limitation of her aid to the oppressed people of the world.

Fears of Revisionism

The Congress thus marked a great triumph for Mao's policies. The expanding self-reliant economy, the prospects of a successful harvest and the creation of a parallel international communist movement, will naturally embolden China to take aggressive postures in world affairs. Yet, Mao is hounded by fears of a revisionist revolt in China. To guard against this catastrophe the Chinese Communist Party has launched a mass campaign to create "millions of revolutionaries after the image of Mao". The Old Guard of the Chinese Communist Party is aging fast. Its average age is 65 and observers of the Chinese scene had expected that some younger blood might be introduced into highest echelons of the party during this Congress. It was widely rumoured in Peking on the eve of the Congress, that Mao will step down to honorary Chairmanship of the Party and that Chou En-lai, who has been carrying the enormous burden of Premiership since 1949 and has lately looked very tired, may be elevated to the ceremonial post of the Presidentship. But to everybody's surprise, no change in the top leadership has been made. It appears that the Chinese leadership is still reluctant to entrust power to the younger cadre who are essentially technocrats. The ranks of devout Maoists who were participants in the historic Long March is thinning fast. On the other hand, the recent experience has shown that even the smallest relaxation produces strong revisionist forces in the Chinese society, which can be suppressed only with great difficulty. Mao may be prepared to pay any price to prevent the "restoration of capitalism in China through the back-door of revisionism" but to the younger technocrats of the Chinese revolution such an endless crusade appears very barren and dreary indeed.

The proceedings of the Congress indicate that China's economic progress is assured in the near future, unless she jumps into adventurist operations across her frontiers. It is also evident that once China's international personality is recognised and her foreign policy placed on an even keel, her obsession with the world revolution may be a thing of the past. It is now largely up to the diplomacy of the Western powers to help the evolution of this prospect.



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Dandakaranya: A Survey of Rehabilitation

III—Other Urban and Semi-Urban Employment

S K Gupta

A few odds and ends should now be dealt with to tie up loose ends and bring the discussion to a close.

Apart from industries the other possible means of earning a living in urban and semi-urban areas are private or co-operative trade, transport, contract work of all sorts, public service, and independent professional or consulting work. Of these, the last may be ruled out at once for displaced persons moved to Dandakaranya lacked the necessary qualifications to set up as lawyers, doctors or consulting engineers.

What scope did the displaced persons have in the rest and what opportunities were created?

PRIVATE trade or business is not an expanding source of employment in backward areas where people's purchasing power is small. Displaced persons seeking employment under old established business houses in the four or five urban centres within Dandakaranya were likely to get snort shrift because the latter would prefer their own kin who knew the locality and spoke the local language. In any case no attempt was made to give displaced boys a training in salesmanship and induce private businessmen to take them in as apprentices. Those who wanted to set up as independent traders or shopkeepers faced an uphill task. They were offered a business loan of Rs 1000 and a house-building loan of Rs 2000 and a maximum of three months' dole apparently under the belief that within that period they would be able to earn enough from their meagre capital investment to maintain their family and repay the loan. Since, as will be shown later, no homestead plot had yet been allotted, the income would also have to be large enough to pay the rent of the shop room that would have to be hired. Even if a homestead plot had been available, it would presumably have been away from the hub of the urban area and therefore unsuitable as a shopping site.

Unrealistic Scheme

The scheme was, therefore, not very realistic and the rigidity with which it was applied made its harshness all too plain. One glaring example was the case of 23 non-camp displaced families sent from West Bengal towards the latter part of 1963 who were not offered any homestead plot and did not on that account take the business loan because there was no place where they could ply their trade, but whose dole was stopped after three months reducing them literally to starvation till private charity and occasional casual work came to their rescue. Their case evoked no response from the Ministry even when a reference was made.

How many people have been given such business loans and how many have made good? I have no exact information about the first but a press note of the Ministry published in a vernacular daily of Calcutta on December 15, 1964 gives the number on September 30, 1964 to be 170 which presumably includes the 100 families who had formed themselves into a co-operative society to run a transport service under the name of Navjiban Transport Co-operation Society. It also perhaps includes another ten persons who had formed a co-operative soap-manufacturing society at Boregaon. Of the rest only about 10 or 15 persons are maintaining themselves fairly well by running canteens, or grocery and carpentry shops in places like Koraput, Ambaguda, Jagdalpur, Umarkot, Paralkot and Boregaon. One even did a thriving grocery business in the isolated village of Dabugaon whose one big weekly 'hat' compensated for all the remaining lean days of the week. But such cases are rare. It should also be said that shops and canteens which depend largely on DDA staff for sale of their goods have a somewhat uncertain future because their market will shrink as soon as the DDA is wound up or work shifted from one zone to another. Offices and officers are much more mobile than shop-keepers and the shifting of the main Transport garage from Boregaon to Ambaguda spelt disaster to a number of people who previously lived by catering to their needs. It is only the growth of a sizable local population with enough purchasing power which can assure a stable custom to grocers and hoteliers.

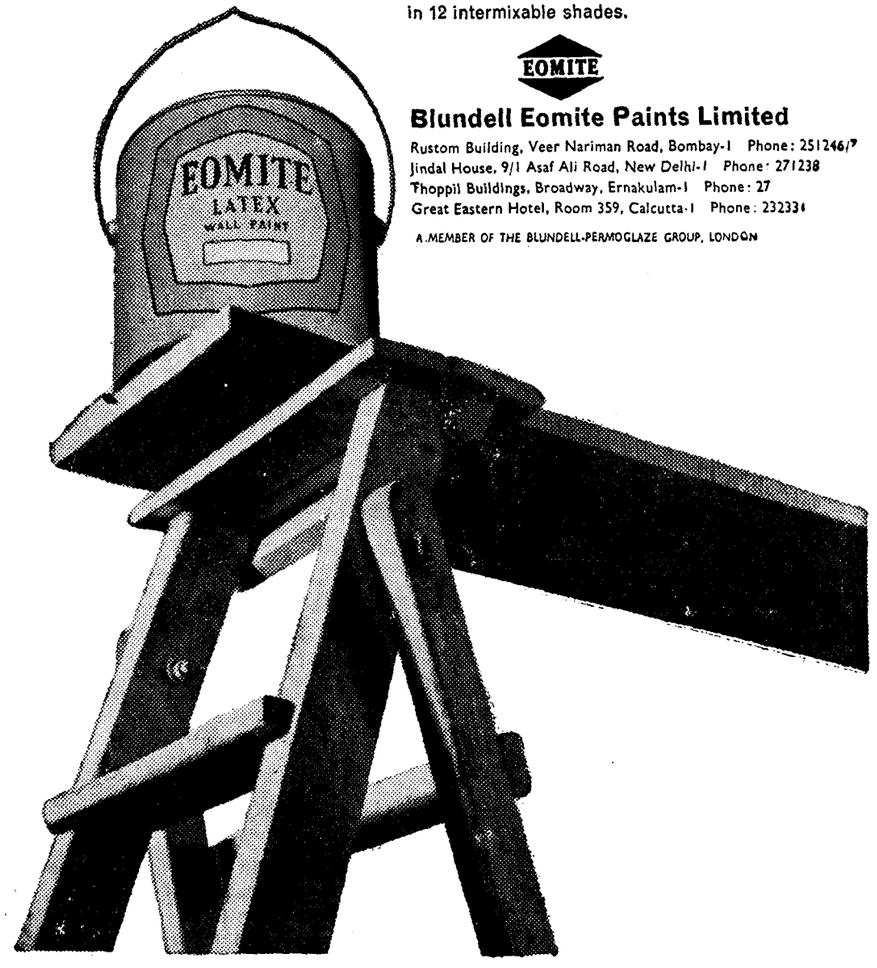
The co-operative soap factory mentioned earlier is in the doldrums. If it has not already closed its doors it will have to do it soon. With poor technical skill and crude methods of manufacture nothing better should have been expected, particularly when materials had to be obtained from a distance and local markets were not fully exploited. Even the hospitals of the DDA did not patronise its products in the way they should have done. Whether with a more attractive wrapping and active canvassing sales would improve is more than one can guess, but the society seems to be nobody's baby and hardly receives more than spasmodic attention from the Special Officer (Co-operatives) of the DDA.

Transport

The only transport service run exclusively for the employment of displaced persons is that of the Navajiban Co-operative Transport Society. It started promisingly and did well in the initial stages but it began to face heavy weather as soon as the fostering care of Sukumar Sen and J K Roy was withdrawn by death or transfer. Its 100 members contributed as their share the maximum loan they were entitled to and raised a capital of Rupees one lakh. The Rehabilitation Industries Corporation advanced Rs 5 lakhs as loan and a fleet of trucks were purchased for running a carrying service in which thirty or thirty-three of the subscribing members found employment as clerks, accountants, drivers, cleaners or mechanics. For a time the earnings and emoluments were reasonably good and part of the loan was paid off. The root of the trouble which started after the death of Sukumar Sen lay in the fact that in order to ensure security for the loan it had advanced, the RIC had reserved the right to appoint the members of the Managing Committee, and after the transfer of J K Roy, had appointed as Chairman, the DDA's Conservator of Forests between whom and the Society's Secretary (who was also an officer of the DDA) there soon developed irreconcilable differences. The latter blamed the Chairman for favouring private carrying contractors in pre-

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ference to the NCTS which, as a DDA sponsored society designed to help refugee rehabilitation, deserved special consideration. The complaint was that the more hazardous jobs under difficult road conditions which the Conservator of Forests gave to the NCTS led to frequent breakdowns and damages to parts, with consequent increase in the cost of repair, the number of idle hours, and considerable loss of income. The Secretary, too, acted arbitrarily and in defiance of the decision of the majority of members. He had to be pulled up and has, I think, left the DDA for good. These internicine squabbles among two officers of the DDA who were foisted upon the NCTS to occupy two key positions in the Managing Committee did much damage to a society which had started so well and whose potentialities for good are by no means exhausted, provided the RIC replaces these two office-bearers by others likely to give a better account of themselves. The original idea of Sukumar Sen was, it seems, to transfer the entire transport business of the DDA and its petrol pumps to one or more transport co-operatives formed by the displaced persons so as to give greater scope for rehabilitation of displaced persons by opening up new opportunities of gainful employment as drivers, mechanics, cleaners, clerks, accountants, petrol pump men, chaukidars, etc, whereas the employment of displaced persons at present in the vast transport organisation of the DDA is minimal. The NCTS has not yet justified the expectations it created but it is probably not yet too late to pull it out of the rut.

Contract Labour

Another avenue of employment initiated by DDA's first engineer-member S Bandopadhyaya was the execution of petty contracts through a body of men called group leaders—contracts relating to a wide variety of works such as construction of buildings and link roads as well as water-bound macadam high-ways, making of culverts and small bridges, excavation of tanks, earthwork for dams, and miscellaneous construction, repair and maintenance works of all kinds. These group-leaders were recruited either from among refugee settlers or from registered displaced persons who had migrated from East Pakistan but were not fully rehabilitated in West Bengal. Local tribals were also entitled to be enrolled as such, as were a few co-operative societies of displaced persons and tribals. They were expected to collect a group of displaced persons for both skilled and unskilled work and not employ outsiders except when no displaced person was available for that type of work. As a *quid pro quo* for guaranteeing employment of displaced persons the group leaders were given liberal concessions. Works upto Rs 50,000 (if distributed by the Chief or Superintending Engineer) or Rs 25,000 (if distributed by an Executive Engineer) could be allotted to them without calling for tenders, and in the case of co-operative societies the limit could be doubled. The earnest money was minimal and the security deposit which was not required in advance could be built up out of small deductions from bills which were expected to be paid at scheduled rates and at frequent intervals during the progress of the work. Even advance payments in between two bills could be made for unmeasured work at the discretion of the Executive Engineer if the Assistant Engineer so recommended.

The scheme so promising in intention did not work as well as its sponsors thought it would. Out of the 426 East Pakistan displaced persons originally registered only a fraction survives. There were complaints of unfair distribution of work which may be exaggerated because anybody who fails to secure a contract in the absence of open tender is likely to ascribe motives as to why his rival was favoured, but the point on which all group leaders were unanimous was the undue delay in the payment of bills and the refund of security deposits which was a severe strain on their exiguous resources and drove them into the clutches of big contractors who used them as their *de facto* agents so that these contractors got the concessions they were not entitled to while the DDA was denied the benefit of lower rates which competition might have brought about. There were also cases where outside contractors, not registered as group leaders, were directly allowed all the concessions a group was entitled to on the flimsy excuse that no group leader was competent to do the job, and this favour was repeated even after the DDA had condemned the practice. The Superintending Engineer's latest suggestion, which I could not accept, was to throw the door wide open to all and sundry regardless of whether they were refugees or tribals, which would have knocked the bottom out of the group leader system and deprived it of whatever justification there was of dispensing with the time-honoured practice of calling for competitive tenders.

But the expectation that the group leader system would lead to large employment of displaced labour has been belied. Whatever may have happened in the beginning almost the entire labour force now employed by group leaders and other contractors consists of tribal men and women. Where the work site is far removed from a settler village or transit centre this is understandable but where it is not the failure to enforce a condition which was the *raison d'etre* of the group leader system will take some explanation. Responsible officers have told me that the reason why contractors (including group leaders) prefer tribal labour to displaced persons is not that the latter are unwilling to work or put in hard labour but that they will insist on the minimum legal wage being paid to them while the former may be cheated into accepting less. True, casual labour under group leaders is not a permanent means of rehabilitation but it may yield a useful addition to agricultural income which has been shown in the majority of cases to be very much below subsistence level. The group leaders themselves could have found in this system a means of permanent rehabilitation if it was worked in the spirit in which it was introduced. The near breakdown of the system has choked up a promising line of employment and hampered the rehabilitation of a sizable number of refugees.

Public Service

Lastly comes public service which in this context means service under the DDA because both Orissa and M P have their work cut out for them to provide employment to their own indigenous population and may not unreasonably expect a share of the employment provided by the DDA which other States, not in any way connected with the refugee problem, are taking full advantage of. The DDA had on July 31, 1964 as many as 5,199 officers and employees of all grades in its regular establishment and about 1,312 employees (this is the figure in January 1964 but the number must have remained approximately the same) in its work-charged establishment—together making up a total of over 6,500 which is not far below the total number said to have been rehabilitated

upto date. Disregarding for the moment the nagging question whether such a large establishment was necessary for such a small measure of rehabilitation and looking at it only from its employment potential the conclusion is obvious that if a fair proportion of these employments could be reserved for displaced persons much of the problem of urban rehabilitation could have been solved and even the fertility status of much sub-marginal land improved with the help of resources augmented by the income of members working in different departments of the DDA, part of which was bound to flow back to the main branch of the settler family.

Employment : For Whom?

The figures collected by the departments which I shall analyse in subsequent paragraphs are, however, a misleading index of the measure of rehabilitation through employment under the DDA for the simple reason that the word displaced person is ambiguous and has been applied indiscriminately to three classes of persons each comprising a narrower circle than its predecessor. There were, first, those who had lost their homeland in East Bengal in consequence of the partition of India whether they were in need of assistance or not. Secondly, there were displaced persons in need of assistance and registered as such but who did not live in camps nor depend on doles. Thirdly, came those who were not only registered but were for a long time dependent on doles and mostly lived in camps in different parts of West Bengal. In connection with rehabilitation in Dandakaranya the word was restricted to the third category who alone were sponsored by the Government of West Bengal under instructions from the Ministry for movement to Dandakaranya and for whose rehabilitation the DDA was directed to accept responsibility. Even tagged members were excluded from consideration, that is, members who were parts of the family in a very real sense (adult sons, brothers, parents, uncles, etc) and who were allowed to accompany the 'sponsored family' in order that a family was not split up, though, on account of the fact that they were not living in camps at the time of departure, none of the rehabilitation benefits either by way of doles or separate allotment of agricultural land or payment of agricultural or business loans was extended to them.

In the figures of employment of displaced persons collected by the office and given below no distinction was made between these different categories. Anybody hailing originally from East Bengal and now a permanent resident in India was called a displaced person when totalling up the classified list of personnel in different categories of employment. Obviously, the extent of rehabilitation through jobs under the DDA is very much less than the figures would suggest if the word is restricted, as it should be if the Ministry's directive is to be observed, to sponsored displaced persons. The Ministry's policy may be wrong. Personally I think that it is. All displaced persons who have found their way into Dandakaranya either as sponsored displaced persons, or as tagged members or as employees should be sought to be permanently rehabilitated without rigidly adhering to the formula that 90 per cent camp displaced persons and 10 per cent non-camp displaced persons are alone entitled to consideration. But as long as the formula is not discarded it is not possible to take credit for substantial rehabilitation through jobs by inclusion of those who do not come under the accepted definition.

Recruitment to the upper echelons of service where higher qualifications are needed provide little scope for employment of displaced persons though they are important for one reason which I shall explain later. It is in the lower echelons—the Class III and Class IV posts—where the employment potential is large and the standard less exacting where considerable scope exists. Out of about 6,500 jobs no information is available to me about the composition of 1,300 odd work-charged personnel but from general observation I do not think that more than five per cent of them would be displaced persons. As regards the regular establishment of 5,199 officers and employees about which more definite data are available there are three departments—medical, education and zonal administration and resettlement—in which the number of displaced employees (in the broader sense) had to be large because in their case a knowledge of Bengali was essential. Doctors, nurses and compounders must understand what the patients say, teachers must teach through the medium of the mother tongue, and *sevaks* and Assistant Administrative Officers must establish direct contact with displaced persons in order to understand their problems and explain DDA's policies and schemes. It is not, therefore, surprising as figures in Table 1 show that in these departments the proportion of displaced persons in Class III posts and to a smaller extent in Class IV jobs was fairly high.

Directives Disregarded

By contrast, the proportion of displaced persons in similar categories in other departments was very low and in some cases so absurdly small that the only possible explanation one can think of is either an inherent allergy to employment of displaced persons or an anxiety to favour the claims of particular candidates for one reason or other.

Obviously the directive issued by Sukumar Sen in 1961 with the imprimatur of the DDA and subsequently repeated by the present writer in January 1964 that in all Class III and Class IV appointments sponsored displaced persons, tagged members, tribals, unsponsored displaced persons and local inhabitants should get preference in the order stated went unheeded. The opportunities of rehabilitation through employment under the DDA were systematically neglected through indifference if not something worse. Three States— Kerala, Andhra and Punjab—seem to have had a disproportionately large share in filling up the vacancies and this not because candidates with requisite skill and qualifications were not available from among displaced persons or the indigenous population of Orissa and M.P. One obvious instance is the Central Workshop where displaced boys who had passed the one and a half year's training course in the Industrial Training Institutes at Bhilai or Koni were not considered fit even for in-plant training for six months on the ground that they could not be 'trusted to handle delicate machinery', though the Hindustan Steel Works at Bhilai absorbed them soon after without any such misgiving. All that the Manager of the Central Workshop would agree to was to give such training (which would have to be for two years) if a completely new wing was opened with additional plants so that access to 'delicate machinery' would be barred. The Chief Administrator not only endorsed this view but suggested a reduction of the stipend recommended so that, instead of two years which is the normal period of training, both theoretical and practical, a displaced boy would have to spend three and a half years on an inadequate stipend of Rs 35 before the Manager of the DDA Central Workshop would consider him properly qualified for appointment. He did not have such qualms when recruiting raw hands from other sources.

This apathy to employment of displaced persons, most notorious in the case of the Central Workshop is also seen in Transport, Engineering (construction and irrigation), Reclamation, Agriculture and in jobs in Headquarters or branch offices, whether in clerical or menial jobs. The emphasis here laid on the need of employment of displaced persons is not inspired by any narrow parochial view. If the DDA had been an ordinary Central Government undertaking where opportunities for employment should be *overte anx talents* no such question would have arisen. But the DDA was set up for a specific purpose, viz, the rehabilitation of displaced persons from East Pakistan, and since permanent or quasi-permanent employment in public service is one important means of such rehabilitation the opportunities offered by the large employment potential of the DDA should have been more fully utilised.

Table 1: Employment of Displaced Persons in the Medical, Education and Zonal Administration Departments of the D D A

	Total Number of Employees		Total Number of Employees Displaced	
	Class III	Class IV	Class III	Class IV
Medical	280	270	209	101
Education	366	2	347	2
Zonal Administration (including resettlement)	273	173	206	83

Table 2: Employment of Displaced Persons in other Departments of D D A

	Total Number of Employees		Total Number of Displaced Employees	
	Class III	Class IV	Class III	Class IV
Central workshop	83	46	5	10
Transport	380	234	56	52
Reclamation	564	127	160	6
Engineering (Const)	287	242	93	67
Engineering (Irrgn)	305	80	34	20
Agriculture	211	131	24	27
Head Quarters	151	106	11	5

Method of Recruitment to Blame

Why this was not done might lead to subjective speculations from which I shall refrain but there is no doubt that the method and the machinery of recruitment was partly to blame. In the higher echelons officers are either taken on loan from the Central or State Governments for a stated period or recruited through the UPSC. The proportion of displaced persons in these categories is negligible, being nil in Class I out of total of 43, and 24 in Class II out of a total of 129 and these latter consisted wholly of medical men and a few assistant engineers. In the general non-technical establishment in the Headquarters which constitutes the hard core of the administrative machinery, the predominant element came *en bloc* from the Settlement Department of the Ministry at New Delhi, when it was about to be closed down or drastically reduced. The significance of this in the context of rehabilitation lies in the fact that in recruitment of personnel for the unfilled vacancies their sympathies naturally went to people they knew or were interested in, rather than to displaced persons whose rehabilitation should have been their special concern. Even peons and other Class IV staff were allowed to come on deputation and draw the project and deputation allowances.

In the selection of candidates for appointment to any class of posts the Chairman did not originally have any say and had no means of checking whether his directives were ignored. The Employment Exchange regulations were applied in a way which was definitely calculated to debar employment of displaced persons. The statute merely required notification of vacancies. The rules promulgated by the Ministry (Home or Labour, I am not sure which) went much further and suggested that no appointment of outsiders should be made before the candidates sponsored by the Employment Exchanges were first interviewed and found unfit and a certificate obtained from the Director General at New Delhi that he too was unable to suggest any suitable candidate. For displaced persons this works very prejudicially because settler villages and transit camps were usually situated very far from the two or three Employment Exchanges within the Dandakaranya area. Lack of knowledge that registration in the Employment Exchanges and periodical renewal of such enrollment were a condition precedent to employment under a Central Government organisation, and lack of resources to pay the exorbitant bus fares to and from their village for registration and interview were the two major obstacles to their being considered for appointment. For the floating new migrants who were being transferred from one transit camp to another till their final destination was reached there was the additional handicap that they had no knowledge in which Exchange to register and no guarantee that intimation would reach them in their changed address in remote villages or camps where postal service was very irregular. In all clerical and other appointments the case of displaced persons therefore goes by default while candidates from other States who receive prior intimations from their relatives already in service that some vacancies are in the offing have the whip hand. They hurry to Dandakaranya, get themselves registered and bide their time till the hour comes for presenting themselves before the selection committee. In the only selection committee over which I presided the great preponderance of candidates from one particular State who had no obvious reason to come so far away from their home state excited my curiosity and enquiries revealed the modus operandi above outlined which enabled them to swamp the selection committee because candidates from among displaced persons and other States did not know the trick.

The rule that nobody should be appointed without being sponsored by an Employment Exchange has little valid reason behind it and the way it is being abused justifies its abrogation or drastic modification. If it was intended to ensure fair deal for candidates from all over India competing on equal level it has obviously failed of its purpose. But in this case where fair deal for all competitors is not the objective but the appointment and rehabilitation of as many displaced persons as possible, provided they have the requisite qualification, the Employment Exchanges are a clumsy and time-wasting obstacle in the way. The Employment Exchange officer is

not the best judge of who is a fit candidate for any particular post, nor does he pretend to be so for he only acts as a post office, forwarding the names that are recorded in the Exchange. I suggested to the Ministry that for the purpose of employment of displaced persons the existing rule should be modified so that while all displaced persons should try to get themselves registered in any one of the local Employment Exchanges or in Calcutta, the DDA should not be debarred from considering their case at the time of selection even if their name is not sent up for want of timely intimation, along with that of those whose names are sent up. If the displaced candidate is selected an intimation could be given to the Employment Exchange to keep its records in order. Like many other proposals emanating from the DDA in connection with refugee settlement this too did not receive any reply and presumably the matter is still under consideration.

Education and Training

Superficially education may seem to have little connection with economic rehabilitation but this is a mistake. It has a vital though indirect bearing on such rehabilitation which has so long been lost sight of because of the excessive faith of the Ministry in agriculture and small scale cottage industry. Except agriculture where traditional methods may be followed without much book knowledge and handicrafts where manual dexterity is all-important all other occupations require a minimum educational background which is the passport to any kind of training or to any job under the public or the private sector. Even a chaukidar must know his three R's, an aspirant for *dai*-training must have education upto Class V together with a knowledge of the local language, and a literate peon has to prove that he has read upto Class VIII. Similar qualifications are necessary for training as a nurse (unless the still higher standard of Matriculation is insisted on), an auxiliary nurse, a mid-wife or a *gram sevika.* No Industrial Training Institute would admit a student unless he is a matriculate (or, in special cases, has at least passed the Class VIII standard) and an L D C must, in addition, have knowledge of typing. Since agricultural land does not expand *pari passu* with the expansion of the family, new avenues of all kinds must be explored even for the existing refugee population in Dandakaranya, and this need will increase as the number increases. The keenness of the refugees for the education of their children has also been quite well-known and has been admitted more than once in the pamphlets issued from time to time by the Ministry when credit is taken for the arrangements made by the Project in this behalf. Unfortunately what passes for education in Dandakaranya is a mere make-believe — a facade without depth of content.

It cannot be denied that education is the Cinderalla of the Project and has the smallest budget. With a teacher-student ratio much in excess of the usual norm and without books, maps, black-boards and other aids to education, teaching imparted by untrained teachers becomes a meaningless mumbling of things learnt by rote which is not even an apology for ordinary bookish education, far less of education with an agricultural or a practical bias. The Education Officer is too timid even to ask for the minimum allotment of funds necessary for books and other requisites and when he takes courage in both hands and does, administrative bungling or apathy holds up sanction. Books supposed to be supplied free are either not supplied at all or so rigidly rationed that one book may have to be shared by ten, fifteen or twenty boys or girls. One teacher takes three or four classes simultaneously and can pay attention to none. There is very little supervision so that barring the few cases where the teacher is genuinely interested in teaching the student scarcely receives any individual attention. While the lowest classes in primary schools are overfull the sharply diminishing roll strength in the higher classes indicates the huge proportion of failures or desertions which are a measure of the waste of educational effort. This is further exemplified by the fact that five middle schools in widely separated villages in four zones and one high school at Umarkot are enough to take in the products of about 150 primary schools of settler villages for further education. Stipends for students compelled to live in hostels attached to middle schools or the high school are niggardly and rendered still more so by cheese-paring deductions. The teachers are mostly untrained with a consolidated salary plus dearness allowance but without any increment so that the desire for transfer to the normal administrative hierarchy salaried on a time-scale basis becomes difficult to resist. The drift from teacher to sevak, from sevak to L D C, and from L D C to U D C is a regular feature of the DDA administration. The products of such schools cannot provide very promising material for further education in high schools or training in technical institutions. What is worse is that the few who show promise and are sent to Industrial Training Institutes in the neighbouring States feel frustrated and sometimes have to desert because stipends on which they have to depend for their expenses are not regularly paid through administrative bottlenecks.

A Retrograde Step

Yet it is obvious that unless education is more vigorously pursued and proper training imparted several avenues of employment would be a closed door to the existing and the rising generation. The training courses should be open to girls as well for in these days their earnings are also necessary to supplement the family budget, and there are several occupations (eg, teaching, nursing midwifery, service as *gram sevikas,* etc) in which girls fit in better than boys. They have also better prospects of employment in the State service as for these jobs the States have to go far afield to recruit their personnel. A nurse's training scheme was started in a small way at Kondagaon and has already proved a great success. A *dai* training scheme was also under way when I left. What is sought to be emphasised here is that with agriculture proving a broken reed and with prospects of more agricultural land receding into the background greater reliance will have to be placed on industrial jobs and jobs in all kinds of services, crafts and trades where admission as well as success will depend upon the acquisition of special skills based upon sound academic knowledge upto a prescribed standard. This has been woefully neglected in the past and may be even more neglected in the future if the reported step of reducing teaching strength by combining the function of *sevaks* and teachers and dropping the teachers' training scheme is given effect to. *Sevaks* in the DDA who have received no special training and who have their work cut out for them in doing their multifarious liaison work will have added responsibility when agricultural extension work is also made part of their duty. If to that is added education the latter is bound to get short shrift.

Urban Rehabilitation

A permanent home is part of economic rehabilitation. The natural instinct of an uprooted individual is to get some land of his own where he can build his home and grow his roots. This has been done quite satisfactorily in agriculturally settled villages though rights and titles are still to be perfected by documents guaranteed by the States and the lands are to be mortgaged to the Government of India for house building and other loans. What about urban settlers? What progress has been made in securing lands for them and giving them a permanent home?

The position, it must be confessed, is still very nebulous and unsatisfactory. A rural non-agricultural settler gets, besides his business loan, half an acre of homestead-cum-kitchen garden plot and 2 acres of agricultural land. By a parity of reasoning Sukumar Sen had suggested that an urban settler should get, free of cost, four to eight hundred square yards of homestead land and an extra loan for building his business premises in lieu of two acres of agricultural land. The Ministry did not recognise any parity and refused the extra loan, but in a letter written as late as March 28, 1963 they said that a maximum of 800 sq yards could be allotted per family provided the cost of acquisition, if any, and the cost of development did not together exceed Rs 500 which would have to be treated as a loan, not as a grant. There seems to have been no follow up of the efforts which Sukumar Sen had initiated so that even by the beginning of January 1964 the position was almost static. The little push that could make things move was missing, till discussion with State Governments was resumed in January or February 1964.

Right in the beginning of the Project the State Governments had allowed temporary possession of several plots of lands on either side of major highways for setting up transit centres where displaced persons could stay (and, if possible, work) while steps for their permanent rehabilitation were under way. Lands were also obtained for a longer duration for offices and staff colonies and industrial units. When Sukumar Sen realised that exclusive dependence on agriculture was futile and industrial and other resources must be explored he started discussion with the State Governments for permanent transfer of some of these plots and a few others which were or could be made suitable as industrial and residential sites so that displaced persons could earn their living from industries situated within a reasonable distance from their home. In this way, in Koraput four large plots on the National Highway measuring 273 acres in all were acquired from the Orissa Government while negotiations were started for acquisition of about 78 acres in four other plots in Umarkot-Raigarh zone though it has not made much progress yet on account of local resistance.

But the final result upto date is disappointing. Of the four plots acquired one was meant for an industrial estate, another for DDA's own industries and the remaining two for permanent homesteads of displaced persons working in those industries. The industrial estate has not seen the light of day even in five years and over the site intended for it now stand the Central Workshop, the main Transport Garage, and the Ambaguda Oil Crushing Unit. Obviously nobody remembered when these buildings were erected that an industrial estate was projected on this site. In the adjoining land meant for refugee homesteads, the staff of the DDA working in the Workshop and Garage have found a footing and pushed the displaced persons to the wall. No step has been taken for demarcation and allotment of any homestead plot out these parcels of land. The remaining two plots must still be there but they could not be traced and demarcated by the departmental officers on the date of my visit.

Similar indifference was noticeable in respect of lands offered by the Madhya Pradesh Government. Nineteen acres of land in Jagdalpur town itself are no doubt being used as an industrial unit but 59 acres in village Kangoli, about four miles from Jagdalpur, lay covered with jungles and undemarcated in June 1964 and could be traced only with considerable difficulty. Till very recently no attempt was made to see if water was available underground, for without water and without power its suitability for industrial or residential use would be more than doubtful. There were much better potentialities in the 50 acre plot in Dharampura close to the staff colony and now temporarily in the possession of the DDA for accommodation of lower grade staff and a transit camp but till I talked matter over with the Chief Secretary of Madhya Pradesh towards the end of August 1964 its possibilities for permanent residence of displaced persons do not seem to have been considered. Nor, for the matter of that, were the potentialities of Narayanpur — a fast growing township — remembered when large areas once in the possession of the DDA were proposed to be surrendered to the State Government.

In fact, there has been a surprising lack of foresight in picking up and acquiring suitable areas for urban residence of displaced persons and a surprising indifference to their interest when areas transferred by the State Governments for resettlement of displaced persons were converted to the purpose of the DDA organisation. One example has already been cited — the occupation by the DDA staff of land acquired for homesteads for displaced persons opposite the Ambaguda Workshop. Another glaring example occurs at Farashgaon where 10.40 acres of land permanently transferred in January 1964 to the DDA for the resettlement of displaced persons were occupied by the Reclamation Department as their central tractor depot. About half of the 22 acre plot which the M P Government has agreed to transfer permanently to the DDA for allotment of homestead plots to the members of the N C T S is occupied by the Project's poultry farm which it would be difficult to dislodge when the deal with the M P Government is finalised.

Urban resettlement by the allotment of homestead plots has thus been completely neglected. There were probably a few allotments in Boregaon but they were technically speaking for rural small traders, not urban small traders. One reason for this neglect was obviously lack of vigilance, an absence of a constant and spontaneous urge to see that no aspects of rehabilitation in urban areas are ever lost sight of. Another reason may be some uncertainty as to where the displaced persons should be resettled, for the dismal failure of the industrial ventures undertaken upto date may well raise a doubt as to whether the existing industrial centres are the most suitable locations. Urban rehabilitation and successful industrialisation should go side by side except when employment in public service or trade is assured.

Conclusion

I must bring this discussion to a close though much more might have been said. I have scrupulously avoided matters administrative — the illogical distribution of powers and functions at the top level, the inflated staff and

the large establishment bill, the inefficiency of some technical staff, the enormous TA bills and the excessive amount of unnecessary travelling, and other cognate matters — because I wanted to focus attention on what really matters most, viz, the economic condition of the refugees who were taken to and are still living in Dandakaranya. I have tried to be as factual as possible, not mincing matters but not going beyond the data I have in my possession. True, some of these data are slightly descrepant — evidence, no doubt, of some slipshod work in the offices where they were compiled. Given time, the discrepancies could have been reconciled after proper verification but that time was not available. The Minister had at one stage agreed to my original suggestion that unless he wanted me to quit earlier I might be relieved on September, 30 which would give him about a month's time to choose my successor. Apparently he changed his mind shortly after for on September 8, when I was in Calcutta, he sent me a telegram an extract from which is worth quoting: "In view of your offer Government consider that *in the interest of the Project* you should relinquish charge *immediately on your return* from Calcutta *on the 10th September* and hand over custody of *all papers* to the Chief Administrator even before the appointment of your successor." I had barely time to return and pack and quit. Reconciling of small discrepancies by fresh verification was out of the question in the circumstances. Skeptics will doubt whether so much hustling was really necessary or was in the interest of the Project. People with a malicious turn of mind might think that it was more in the interest of persons who feared exposure and wanted to prevent it by reducing the margin of time between my return to Koraput and relinquishment of charge 'with all papers' so that the 'skeletons in the cupboard' I had referred to in my letter of resignation might remain safely buried. I had, however, kept from the beginning a manuscript note book in which all important statistical information contained in files passing through my hands were recorded for ready reference, because I found DDA's statistical service to be non-existent and disorganised. The information contained in these articles which are based on these notes and other papers is not, I presume, likely to be faulted on the ground of large inaccuracies though some small discrepancies may continue to exist. The general picture is not distorted.

I admit that the picture is a gloomy one and constitutes an indictment of the Dandakaranya Project as it has worked up till now. Partly the indictment recoils on me too for I was for ten months the Chairman of the DDA. I have explained elsewhere (see *Financial Express*, December 13, 1964) why the Chairman's role was comparatively ineffective. All I can say is that by the time I had obtained a clear picture of the affairs of Dandakaranya by on-the-spot studies, by questioning officers, by calling for reports and returns, and by appointing investigating teams to probe into different aspects of development, the Minister decided that the Chairman should only advise but not act. Not being able to imagine myself in that role I have quit. That is a matter of very small importance. It is the refugees who matter most, for what happens in Dandakaranya is a matter of life and death to them. If my reading of the situation is wrong none would be happier than I. If I am right, a heavy responsibility rests on the Ministry, the DDA, the West Bengal Government and the general public to change the shape of things. A report from Jagdalpur published in the *Hindustan Standard* on December 28, 1964 says that 282 agricultural settler families have recently deserted from Umarkot-Raigarh area on account of famine conditions which, if true, is a severe indictment of the past and a serious portent for the future.

(Concluded)



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Agricultural Economics Conference

C H Shah

WINDS of theory blew low over the deliberations of the 47th Indian Economic Conference held at Baroda last month. In contrast, the discussions at the 24th Indian Agricultural Economics Conference held at Vallabh Vidyanagar (Anand) basked in hot sun of empiricism. If not all, most of the participants who attended both the Conferences carried an impression that each of the two would have maximised the total benefit if they had shared the climate of each other.

The Indian Agricultural Economics Conference which preceded the Indian Economic Conference got started on a note of realism. Both the Inaugural and Presidential Addresses dealt with the problems that currently afflict agriculture. The discussion groups and open sessions approached the subjects selected for discussion mainly from the side of empiricism.

The rough edges of reality often leave deep bruises. Pleasant vagueness of generalised theory gives way to uncomfortable conflicts of facts, views and approach when subjects are tackled on mainly empirical grounds. Solution of the problem as faced in the real world becomes equally elusive in both cases. The choice is not between perfect and imperfect but between less imperfect and more imperfect conclusions and inferences.

The Inaugural Address of the Chief Minister of Gujarat implicitly suggested the hypothesis that the performance on the production front was commendable, but the distribution of the product which is fettered is likely to curb further progress through improved efficiency that can be induced by regional specialization. The Presidential Address, in contrast, admitted the failure on the production front but laid the blame on the lag in the fulfilment of production targets of feeder industries like fertilizer. What emerged coould be termed as the 'agro-industrial integration hypothesis'. Both Addresses covered a wide variety of data, one relating to Gujarat, the other relating to India but both drew different conclusions, one emphasising regionwise production specialization the other emphasising production integration at inter-industry level.

Three subjects were selected for discussion by participants. In all 47 papers were contributed. All the three subjects had relevance to current problems of agriculture. Against a backdrop of the current rise in farm produce prices, the widespread shortages of food, cotton and oil seeds, and the recent deliberations of Jha Committee, and with the Prices Commission in the offing, one cannot over emphasize the relevance of 'Relative Prices and Production and Supply of Farm Products'. 'Capital Formation in Agriculture' is of direct help to agricultural production. Rising national income leading to pressures on supply of cattle products has revived interest in 'Economics of Cattle and Dairy Products'.

Since one cannot simultaneously attend discussions of all the three groups, one has to rely on discussions in open sessions for making observations on the subjects where group discussions one has not attended. The observations are offered below with this limitation.

Relative Prices

Though the problem of relative prices was attacked from three angles, no central theme seemed to emerge. It was argued on the one hand that the relative prices are important, but they are not enough. Costs are of equal importance. Relative profits and marginal shifts in them provide, therefore, a better criterion to judge and to evoke production responses. The second major argument was: In a developing economy, the major problem is that of raising the level of total production, the change in composition of the product-mix is of secondary importance, if not unimportant. Third, on the basis of an empirical study, it was argued that there are circumstances when changes in relative prices bring forth results contrary to expectation. This referred to diverse movement in relative prices of sugarcane and paddy and area under the two crops. Technological conditions which undergo a change with developmental activities were held to be responsible for the 'perverse' behaviour of prices and area. Decline in importance of groundnut in Andhra and its steep rise in Saurashtra under comparable price changes in both the areas was suggested as an other illustration.

Of the three topics, discussion on 'relative prices' came closer to the core of the problem though it did not quite reach it. Of the text-book functions of the prices two that are most important relate to optimum allocation of resources on one hand and optimization of satisfaction through product distribution for consumption. Of all the economic theories, this one relating to prices is considered neat and almost unfailing. But the discussion of the theory of product prices proceeds on the basis of a major assumption 'other things remaining unchanged' (Marshall's famous phrase of ceteris paribus) and these other things include either prices or quantities of inputs and techniques of production. But in an empirical world, 'other things' cannot be ordered to behave as postulated in theory. It is in this context that the general equilibrium analysis assumes vital importance. Partial analysis is mainly an analytical tool to comprehend functioning of the economy. While discussing relative prices, a wider context thus becomes inevitable, not only the prices of farm products but also the prices of other products and inputs of all kinds together with the level of technique and foreign trade are to be taken account of. With this the problem would assume incomprehensible magnitudes. The mathematician's solution to this is to set up a model consisting of several equations. How many equations there will be in such a model will depend on experience and understanding of the economy. Only those commodities will enter the model which would have a vital role to play in determining the supply and demand for products being considered—an arbitrary but a useful procedure to make the problem comprehensible. Is the allocative role of relative prices relevant in an economy where overall scarcity of all commodities prevail? One can argue here on the basis of the theory that even when all commodities are scarce, there are some which are scarcer than others; while developing the economy therefore the increased inputs may have to be allocated between commodities according to relative scarcities of the latter.

When techniques are constant, resources are given and demand is unchanged, parity between prices of farm and non-farm products is assumed to indicate parity of incomes between the two sectors. A powerful plea was, therefore, made by some participants

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to consider the problem of parity prices in the context of relative prices. It lacked support, however; the things assumed constant, change and they do not necessarily change in equal proportion for the two sectors making application of parity idea unworkable.

Discussion on 'Capital Formation in Agriculture' did not reach the pitch attained by the discussion on 'relative prices'. What would capital consist of? Should working capital be considered a part of 'capital'? Why not include investment in human beings? Shall we measure capital through commodity flows, inventory counting or expenditure accounts? These questions seized the participants' minds for a disproportionate time. In pure theory one can hardly distinguish between production and consumption goods, their labels would depend on the use to which they are put. Even here the condition is not comfortable, production and consumption activities overlap to an extent greater than one would like to admit. Robinson Crusoe laying by his surplus catch of fish may use it next day to enjoy leisure, to weave a net or to catch fish for the third day; the wording of the label to be attached to the fish laid by will have to depend on Crusoe's *intentions* today about the use he is going to put it to tomorrow. Necessarily, therefore, any classification of capital will be arbitrary. No doubt each classification will have a useful purpose. It can be argued, therefore, that clear mention of categories, the process of their aggregation and building up of their relationship would matter more.

How can capital be measured? Theory will have a different answer. In any empirical system, the alternatives would be weighed on the bases of relative merits and demerits, since none of the alternatives would satisfy the theoretically ideal standard. The relative merits of measurement would depend on sources of data used and the objective of the study. For net capital formation, for instance, the expenditure would confront almost an unsurmountable problem of separating replacement from maintenance and repairs, and the two from net additions. The commodity flow approach would be guided by the label attached to each flow as to its intended use. The most interesting question—viz, 'what brings about additions to the stock of capital?'—was almost by-passed. Discussion of it should have had all the interest commanded by the discussion on prices. Agricultural economists being closer to farms, conditions of farms almost engaged their exclusive attention while discussing investment.

In various suggestions on capital formation institutional reforms loomed large. Land reforms and credit reconstitution came in handy. Dissenting voices were heard: What about absorption capacity of the farmer? What about the misdirection of easy credit? These could have been enlarged but they were not. Do we have a wide enough spectrum of techniques to permit a steep raising of capital per working person? An analysis of past trends almost suggested an equal pace of capital and labour as shown in one of the papers submitted to the Conference. The contributor has also suggested a hypothesis to explain this in the form of close complementarity between labour and capital. This thesis did not come up for comment or commendation. Nor was its usefulness discussed for future policy guidance. A useful line of attack on the problem at the macro level was thus missed.

Cattle and Dairy Products

Discussion on "Economics of Cattle and Dairy Products" posed three problems: What do we do with our surplus cattle? How to increase supply of dairy products which are scarce and are likely to become scarcer? What guidance do we get from technicians in regard to cattle policy? The papers that were contributed approached the subject from a different angle. Study of costs indicated that on an average engaging in dairy production is not a paying proposition; it becomes paying to some mostly in monsoon. The size of the herd is a factor to be reckoned with in this context. Small-sized herds are uneconomical; the small farmer is therefore at a disadvantage. Another common theme was: Standards of feeding under Indian conditions are not known, and the relation of fodder and feed to output is still less known. Broadly it was maintained that the present supply of feed and fodder is scarce and with a shift away from inferior grains like jowar and bajra that have larger per acre yield of cattle nutrition, and growing demand for milk, fodder shortage is likely to be more severe. The themes of the papers were nearer to the core of the problem.

The relevant questions for economics of cattle are: Why does the producer maintain surplus cattle? Can we explain this fully in terms of religious sentiment? It is relevant to have facts like these further analysed: that there is slow but sure trend in favour of the buffalo which goes against the explanation, in terms of religious sentiment; that the male/female ratio in buffaloes is very low compared to that in cows which further discounts the same explanation. Religious sentiment, if at all, is only a part explanation. Not far from the place of the Conference—in Ahmedabad—the Municipal Corporation finds hard to sell milk despite the service of home delivery, and has therefore decided to go into icecream production next season, a venture which the Delhi Milk Scheme gave up after burning its fingers. The demand for milk is high but not high enough and certainly not high enough at the producers' level. At their level, of all animal products, demand for draught power, organic manure and fuel is high. The producer adjusts his cattle economy to these demands. The observation of the Ford Foundation Team on "Food Crisis in India" that even for manure a smaller herd would be more economical has probably still to gain support from technicians; they did not bring this up during discussion at the Conference at any stage. A non-technician would still nurse a doubt: Why does farmer not find out this simple phenomenon, if it is so simple as it seems?

Towards the end one pertinent question was raised by one of the prominent participants: After all, what concrete suggestions emerge from our deliberations? The hot sun of empiricism made facts look very bright but it made their shadows darker too. The only concrete suggestion, if one wants to note it, was the one relating to relative prices. It was that one cannot consider the price of any one commodity or a group of commodities —food—in isolation from other related commodities even when prices are to be fixed, unless it is a very short-term measure.

Two hundred and odd participants in the Indian Agricultural Economics Conference is an index of the growing interest in the subject. It is also an index of the growing importance of the subject and the increased complexity of the agricultural situation. The emphasis on empiricism in agricultural economics has a place inasmuch as agriculture is earthbound, but it can be overdone as in any other field of applied economics. In fact, the growing complexity requires closer acquaintance with the theory to grasp better the generality underlying the diversity of facts.

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Labour Economists' Conference

S D Punekar

THE Eighth Session of the All-India Economics Conference was held at Baroda from December 29 to 31 under the auspices of the Maharaja Sayajirao University. V K R V Rao, Member of the Planning Commission, presided.

With the Fourth Five Year Plan on the anvil it was but natural that the President should discuss the role of organised labour vis-a-vis planning. The topic selected by Rao for his address was "the Role of Industrial Labour in a Socialist Economy". He regretted that organisations of industrial workers were not showing much interest in the Plans, with the result that labour in India was not having any noticeable impact on the objectives of the Plan, its strategy, the mobilisation of resources, the organisational and motivational aspects of expansion of industrial activity and reduction of costs of production. To get organised labour involved intimately in the formulation of the plans, it is proposed to set up a Labour Panel to advise the Planning Commission on the Fourth Plan.

New Role for Labour

What are the ways in which the industrial worker can play an effective role in our socialist economic development? In answering this question, Rao observed that the traditional role assigned to the worker is improvement of industrial relations. However, if economic development is to take the form of the construction of a socialist society, the industrial worker has to play a more positive and a more purposeful role. What is this role? According to Dr Rao what distinguishes the worker's role in a socialist economy from that in a capitalist society are : worker identification, worker participation, worker education and worker co-operation.

In regards to the sense of identification with the enterprise, the worker should not feel that he is only a wage-earner, who has to do his allotted work and take interest only in the remuneration that he receives for it. He should have the feeling that he also owns the concern and that he shares in the excitement of its growth, its fortunes and misfortunes, its successes and its failures; he would also like to see that the concern works efficiently, maximises its output and minimises its cost. For this purpose, the worker should have a sense of participation or identification. This sense is lacking even in industrial enterprises in the public sector, let alone the private sector. The scheme of joint management councils, more loosely described as worker participation in management, has not been successful. Only 80 undertakings, from both private and public sectors, have participated in the scheme. According to a Government evaluation, there has been practically no impact and no difference in working in respect of 40 per cent of the concerns, which have instituted joint management councils; even in those that have shown some success, the results have been more in the nature of better industrial relations than of increase in productivity traceable to worker initiative or the stimulation of a sense of participation in and identification with the concern by the workers.

To remedy the situation, Rao suggests :

(a) extension of co-partnership in management to co-partnership in ownership; and

(b) acquisition by workers and their leaders of skills in management and its problems.

Partnership in Management

For co-ownership, workers can buy shares in their companies with their provident fund accumulations. By the end of the Third Plan period, the workers' provident fund is likely to have an accumulation of about Rs 700 crores. Thereafter, on the assumption that about 80 per cent of industrial workers would be contributing at the rate of 8 per cent and the rest at 6¼ per cent, additional accruals in the Fourth Plan are likely to be of the order of Rs 600 crores. Allowing for an expected withdrawal of Rs 300 crores during the Fourth Plan period, an amount of Rs 1,000 crores is available to workers to buy shares in industrial capital. The worker would then get the right of ownership in the concern to that extent. Instead of getting the usual interest of 4 per cent, he becomes entitled to a share in the profits of the concern in which he is working; his interests get identified with the efficiency and profitability of the concern and he becomes a partner with his employer in the fortunes of the concern and industry. Rao suggests in effect the establishment of a workers' industrial ownership bank that will mobilise workers' savings and enable co-partnership of the industrial worker with his employer.

Workers' education would provide to workers skills in management and associated problems. The scheme of the Central Board of Workers' Education has a limited scope; it provides only trade union and labour education and citizenship training. These provisions should be supplemented by literacy programmes, as well as technical or professional or higher educational programmes for the working classes. Trade unions and Universities can make a useful contribution in this field with Government support. Part-time courses, correspondence courses, workers' colleges, night schools, week-end schools, Sunday schools and the like may be geared to the requirements of industrial workers and aimed at giving them cultural, technical, professional and managerial skills.

In a country which has accepted the principle of co-operation as the basis of planning for democratic socialism, industrial co-operatives have an important role to play. The principle of co-operation can be extended to organised industry, not to giant concerns and industries requiring vast and complicated technical and financial talent, but to the small and medium concerns. The experiment is worth making, because if it succeeds it may strengthen our economic democracy.

The Conference had three subjects for discussion :

(a) wage-price relationship;
(b) economics of social security; and
(c) role of trade unions in mixed and socialist economies.

Nineteen papers on these three subjects were discussed.

Wage-Price Relationship

The six papers received in this section discussed the various aspects of the field, often going beyond the scope of the subject. For example, one of the papers discussed the relationship between wage-price and full employment, dealing with technological and disguised unemployment, normally prevalent in developing economies. Another paper concluded that our

wage-price policies were not conducive to economic development. A third paper confines itself to the theoretical concept of wages, while another deals with "an open economy", "fluctuations in prices and employment" and "a stable monetary policy". Two of the six papers related to empirical verification of theory — one studying the movement of wages and cost of living of jute and sugar workers on the basis of data from Census of Manufacturers for the years 1950-1958 and the other making an attempt to draw some hypotheses about the relationship between foodgrain price behaviour and changes in money wages. The general impression about the papers in this section was that they failed to restrict themselves to the given field and hence not much light was thrown on the wage-price relationship.

Social Security

This section also had six papers — two dealing in very general terms with economics of social security, one with old age assistance in India, two with some aspects of the Employees' State Insurance Scheme and one with social security schemes in India. The last paper written by a high official in the new Ministry of Social Security, gave up-to-date and authoritative details about the Employees' State Insurance and Provident Fund Schemes. One of the six papers was an interesting case study of the attitude of workers to the E S I Scheme in two factories in U P; it showed all-round dissatisfaction. The session discussed in detail the few social security schemes at present in operation in India but could not get an over-all view of the economics of social security; nor could it obtain a perspective of social security for the future.

Trade Unions

This section, which dealt with the role of trade unions in mixed and socialist economies, had seven papers for discussion. The definitions of trade union, socialism and mixed economy demanded clarification. One view advocated was that the workers' organisations in communist countries should not be called trade unions in the strict sense of the term. This view, pressed by the Rapporteur of the Section, was not acceptable to all.

Two other areas, which attracted attention were labour research and voluntary labour arbitration. V K R V Rao stressed the importance of labour research in a developing economy, with an emphasis on rapid industrialisation and suggested that the Indian Society of Labour Economics, representing labour economists in India, should take the lead in organising labour research on proper lines. It was generally agreed that the Society, with the assistance of the Planning Commission, should explore the possibilities of conducting some labour research surveys. The Indian Academy of Labour Arbitrators, started in Delhi in 1964, has already done some preliminary work in finalising the constitution, enrolling members and publicising the cause of voluntary labour arbitration. The work is to be extended on an all-India basis during the current year.

Asoka Mehta, Deputy Chairman of the Planning Commission, has been elected next year's President and the following subjects were approved for discussion in the next session :

(a) methods of wage determination (including wage boards);

(b) role of workers' education and training in economic development; and

(c) consumer price index numbers.

Around Bombay Markets

Equities Recover

Thursday, Morning

DALAL STREET which had been completely shaken by the panicky sell-off on Tuesday, January 5, has staged a fairly quick recovery and it is back again very near the highest point reached in the New Year's opening session on January 4. And the market's overall performance, though far from being impressive, holds out the hope that it might not take long to make a new mark in the upward move which has been in progress since about the second week of December. The market sentiment had deteriorated all too suddenly in the preceding week mainly due to rumours about disquieting developments on the northern borders. The turn came when the bears found that these rumours were baseless and they rushed for a cover. Recovery was aided by the deliberations at the Congress session at Durgapur. There was virtually nothing in the economic policy resolution to make the stock market feel uneasy. Not only that. The market seemed much pleased with Shri Kamaraj's presidential address wherein the Congress President had advised the Planning Commission and the Central Government to be prudent and realistic in fixing the size of the Fourth Plan in view of the restricted scope for raising additional resources and the inflationary impact of a large development outlay.

The corporate news too has been distinctly encouraging. The preliminary reports indicate that banks have had a fairly prosperous time in 1964. The Tata group of electric companies has raised the interim dividends. The December output of saleable steel by the Tata Iron and Steel Company is a new record. The Indian Cotton Mills' Federation's scheme holds out the promise of securing cotton at or below the ceiling prices. There have been persistent reports about quite a few companies seriously considering the issue of bonus shares. The story will not perhaps be complete without a mention about the end of the two-month-old strike at National Rayon which accounts for nearly a third of the total output of rayon yarn in the country.

With turnover extremely restricted and activity almost entirely professional, the stock market's behaviour is likely to remain quite irregular. The market is, however, inclined upward in the hope that the forthcoming Budget will contain some fiscal relief for reviving the capital market. Whether the market's expectations in this regard will be realised or not, it is extremely difficult to say. The recovery in equity prices will need to be sustained for long in order to attract outside public participation.

Cotton

Prices Recede

THE situation in the cotton market is beginning to ease. Though still well above the ceilings, spot cotton prices registered a decline of Rs 20 to Rs 40 per candy last week. And there was also a mild revival of official trading in futures which had been at a standstill since December 9 as the hedge contract had all the time been quoted above the operational limit of Rs 775. Of course, only official dealings had been suspended; business was freely conducted in kerb at rates higher than the operational ceiling of Rs 775. On January 11, the March hedge contract was sold down to Rs 770.75 but it again rose above Rs 775 the next day, bringing official trading to a standstill.

The easier tendency in cotton prices is not due to any upward revision of crop ideas; crop estimates are, in fact, being gradually revised downward. Some of the leading spot houses feel that the crop might not exceed 57/58 lakh bales. The pattern of marketing having undergone a significant change it is no longer easily possible to estimate the size of the crop from the flow of arrivals.

Nor is the recent setback in prices due to Government's determination to enforce strictly the price control order. The way the authorities have continued to remain idle spectators of the open violation of the price control order is really amazing. Cotton prices have eased because the Indian Cotton Mills' Federation has made it abundantly clear that it is determined to implement its 8-point plan of securing cotton at or below the ceiling prices through rigorous self-discipline. The high power sub-committee of the Federation has warned the mills that if they do not excercise self-discipline in accordance with the code of conduct already laid down, it would not hesitate to seek the Government's permission to requisition cotton either from the mill or from the trade. The Textile Commissioner has constituted, at the instance of the Federation, a joint committee of representatives of trade and industry, which will be asked to recommend, whenever necessary, requisitioning of cotton stocks from mills as well as from the trade to maintain prices within the ceilings.

Latest reports indicate that some sixty mills have been asked to surrender their excess cotton to the tune of over 1 lakh bales to the Federation for redistribution among needy spinners. If the mills fail to submit variety-wise break-up of the surplus cotton within a week, the Textile Commissioner is likely to order the requisitioning of the same. The Federation's scheme has made it easier for the Government to enforce the price control order. It would be most unfortunate if the Government were to miss the opportunity and not take positive measures on its own to facilitate the supply of cotton to mills at or below the ceiling prices. With the Federation undertaking to purchase all the cotton offered to it during the season at 5 per cent below the ceiling prices, the growers are assured of a price which is about they can hope to secure if the price control is not to be reduced to a farce. It is an ideal situation where the producer does not have to lock up his funds in order to be able to get the maximum permissible price for his product. If the growers are not satisfied with the ceiling prices of cotton, they had better fight out their case with the Government.

Contrary to the easier tendency in the rest of the market, Bengal Deshi prices have continued to show a hardening tendency. This is partly due to a smaller crop and partly due to keen buying by both mills and exporters. Japan is reported to have made sizable purchases in recent weeks. The increase in the export price of Deshi cotton is welcome in that it helps to augment the country's foreign exchange earnings. But there is a danger that if prices continue to rise, the overseas buyers might be obliged to switch over to synthetics or seek alternative markets.

Oilseeds

Prices Ease Further

PROSPECTS of a bumper crop of mustardseed and rapeseed, which is varyingly estimated between 15 and 18 lakh tonnes, have brought about a significant change in the general sentiment in the oilseeds market. Oilseeds prices have developed an easier tendency under the lead of mustardseed and linseed; linseed have, in fact, been merely following mustardseed. Spot mustardseed which had been quoted around Rs 2,150 per tonne about a week ago has declined to Rs 1,560 and the quotation for March position is much lower around Rs 1,375. Mustard oil ready has come down from Rs 4,600 to Rs 3,900 per tonne and the March position is quoted around Rs 2,800. Within a fortnight or so, linseed ready has declined from Rs 71 to Rs 61 (per 50 kilograms) and linseed oil has come down from Rs 30.50 to Rs 23.75 (per 10 kgs).

The sharp decline in mustardseed and linseed prices has imparted an easier tendency to other oilseeds. The fall in groundnut and groundnut oil has, however, been much less pronounced; spot groundnut (Khandesh) has moved down from around Rs 64.50 to Rs 59 and groundnut oil from Rs 24.25 to Rs 21.80. This is mainly because, both mustardseed and linseed had been pushed to ridiculously high levels and they have slumped with improved prospects of supply.

Oilseeds future have eased in sympathy with the weakness in the spot material. Castorseed March which had declined from Rs 212 to Rs 201.25 in the preceding fortnight were further marked down to Rs 194.37 on persistent bear pressure and nervous bull liquidation. The week-end quotation was a little better around Rs 197 because of short covering induced mainly by technical considerations. Linseed March which had been marked down from Rs 55 to Rs 49.50 in the preceding week or so eased further to Rs 46.62 on persistent north Indian selling. Later, the contract rallied to around Rs 48 on bear covering and some replacement buying. Cottonseed futures were neglected around Rs 117.25.

Oilseeds prices can be expected to ease further because of the distinct improvement in the overall supply position due to record domestic production, sizable imports of soyabean oil and mutton tallow and the continued ban on the export of groundnut oil. How far the current decline might go, it is difficult to say. A great deal will depend on the Government's export policy for groundnut oil and groundnut HPS. Informed sources say that the current ban on the export of these commodities is likely to be lifted in February or early March when the movement of the mustardseed crop will be in full swing and the country would have received a sizable quantity of soyabean oil from the U S. The need for earning foreign exchange can scarcely be over-emphasised. But there is a distinct danger that export of groundnut oil might cause an unduly large excitement in the market and push up prices of edible oils to undesirably high levels. New Delhi will be well-advised to bear in mind carefully the possible impact of export of groundnut oil on internal prices of edible oils which are already standing at very high levels.

Money Market

THE money market displayed very steady conditions during the week with hardly any notable movements. The inter-bank call money rate continued to be quoted at 5 per cent though dealings were reported occasionally at

4.75 per cent on Monday and Tuesday after clearing hours. By Wednesday slight stringency was noticeable with lenders not so easy to locate as before. Scheduled bank's statement on January 1 last showed that "Money at Call & Short Notice" has contracted to Rs 58.48 crores from Rs 66.42 crores in the previous week, indicating that the flow of funds to the call loan market has been reduced and banks had to rely more on the Reserve Bank by borrowing Rs 29.48 crores during that week. This tendency has continued during the week ended January 8, when according to the Reserve Bank's statement, loans to scheduled banks jumped up by Rs 28.06 crores to Rs 90.16 crores. In the last three weeks scheduled banks' borrowings have continuously increased, the total increase being Rs 67.35 crores. That seasonal pressure is mainly responsible for this rapid increase in borrowings can be taken for granted considering the equally substantial expansion in bank credit which during the four weeks ended January 1, amounted to Rs 87.15 crores. The rise a year ago was even sharper. Between November 1, 1963 and January 3, 1964 total bank credit swelled by Rs 152.39 crores while in the current season it has risen by Rs 136.36 crores only. It can be expected, therefore, that the rise in bank credit will be more rapid in the coming weeks. The deposit resources of scheduled banks have no doubt increased in absolute figures from Rs 2245.01 crores on January 3, 1964 to Rs 2536.67 crores on January 1, 1965, i e, by Rs 291.62 crores, but the rise during the current busy season alone is about Rs 5.45 crores and compares with Rs 2.33 crores during the same period last busy season.

As the overall flow of funds into the call loan market continues to be limited, the scheduled banks rely more on the Reserve Bank for their needs, and the extent of their reliance will also depend upon the changes in their deposit resources. In any case, the call loan market may continue to rule steady and more or less on a par with Reserve Bank's lending rate to the Banks.

Reserve Bank's statement during the week ended January 8, is a reflection of the enlarged demand for funds. Notes in Circulation sharply rose by Rs 55.72 crores of which Rs 18.71 crores came out of the Banking Department thus involving an additional Note Issue of Rs 37.01 crores. Foreign securities went down by Rs 4.99 crores. Rupee securities had to be inflated by the addition of Rs 40.34 crores to cover the additional Note Issue and fall in foreign securities taking into account the inflow of Rupee coins. Foreign balances, however, improved by Rs 2.03 crores with the result that Reserve Bank's foreign assets declined by only Rs 2.96 crores.

Central Government's deposits receded by Rs 1.48 crores and those of State Government improved by Rs 71 lakhs. Borrowings of Governments increased by Rs 2.69 crores. While scheduled banks' borrowings increased by Rs 28.06 crores, their deposits fell by Rs 3.04 crores reflecting their overall needs during the week.

Business Notes

Kesar Sugar

THE working of Kesar Sugar Works for the year ended July 31, 1964 shows a marked improvement. Net profit after providing Rs 5.65 lakhs (Rs 4.38 lakhs) for depreciation, Rs 1.85 lakhs (Rs 14,000) for development rebate and Rs 9.00 lakhs (Rs 6.00 lakhs) for taxation, has more than doubled at Rs 8.65 lakhs as against Rs 4.17 lakhs in 1962-63. The increased profit has followed larger sale at Rs 3.02 crores compared with Rs 2.91 crores in the previous year. Sugar production during the year was higher at 211,953 quintals compared with 176,950 quintals in the previous season. The various incentive measures such as grant of higher prices for sugar cane and sugar, and rebate on excise duty on excess production helped to achieve larger production and sales though the target of production, namely 33 lakh tons, has not been reached. After taking into account other items of receipts and payments, a sum of Rs 8.00 lakhs has been transferred to General Reserve leaving Rs 34,532 (Rs 13,039) to be carried to the next account. Out of the General Reserve a dividend at Rs 10 per share, equivalent to 20 per cent, has been proposed which will absorb about Rs 5.43 lakhs.

The factory is stated to have attained a crushing capacity of 1,500 tons of cane per day, though the anticipated capacity of 1,700 tons per day is yet to be achieved due to delay in the arrival of machinery.

With a larger cane crop for the current season, the Directors expect still higher production. The Company's distillery suffered a setback during the year for want of molasses, but during the current year the position is expected to improve. The chemical factory's sales were maintained due to diversification of production.

Belapur

BELAPUR production of sugar fell to 2.54 lakh quintals with a recovery of 12.43 per cent during the year ended September 30, 1964, from 3.00 lakh quintals in 1962-63. Sales also dropped from Rs 365.83 lakhs to Rs 301.54 lakhs. However, the pre-tax profit was substantially higher at Rs 74.87 lakhs compared with Rs 59.98 lakhs. Taxation provision absorbed a much larger amount at Rs 41.65 lakhs (Rs 33.71 lakhs). Even then net profit stood higher at Rs 33.22 lakhs as against Rs 26.27 lakhs. The Directors have stepped up the dividend from Rs 18 to Rs 20 per share of Rs 50. The higher profit has enabled the Directors to set aside Rs 2 lakhs (nil) to General Reserve and Rs 31.70 lakhs (Rs 24 lakhs) to Dividend Equalisation Reserve from which the dividend amounting to Rs 28.20 lakhs (Rs 25.38 lakhs) will be paid. Besides, the shareholders will be entitled to relief under Sec 235 of the Income Tax Act in respect of the advance agricultural income-tax of Rs 25 lakhs paid by the Company to the Maharashtra State Government for the assessment years 1962-65.

The Directors state that during the current year recovery is lower due to shortage of rainfall and water supply; but they expect improvement as the season advances. Last year, the Company's factory crushed about 2.05 lakh tons of cane of which 50,330 tons were purchased from outside. The Company, this year, seeks to secure about 50,000 tons of cane from its own areas by making advances to cultivators and cultivating cane more intensively. The Company has set up three lift irrigation schemes on its drains from which it is proposed to supply water to the cultivators who will repay the cost to the Company over a period of years. On the whole the Directors consider the past year as successful one and, but for the heavy taxation, it would have been a very profitable one also.

The Company's subsidiary, Gangapur Sugar Mills, recorded a net loss of Rs 11.39 lakhs for the year ended June 30, 1964. The setback in its working is attributed to shortage of cane supplies. During the current year the cane supply is expected to improve to some extent, but even that will be insufficient for economic operation of the factory.

Bhopal Sugar

BHOPAL Sugar Industries has fared better during the year ended September 30, 1964 as compared with the previous year. Gross profit earned is higher at Rs 6.85 lakhs (Rs 4.12 lakhs). Net profit after making the usual provisions including Rs 37,500 (Rs 95,000) for taxes amounted to Rs 1.92 lakhs (Rs 13,222). This being insufficient even to clear arrears of preference dividend and to meet the year's dues, dividend has been skipped as in the previous year. The last dividend was 3 per cent for 1961-62; in 1958-59 the Company paid 25 per cent.

Kirloskar Brothers

DESPITE a rise in sales from Rs 4.78 crores to Rs 5.33 crores, gross profit of Kirloskar Brothers for the year ended July 31, 1964 has turned out to be lower at Rs 56.49 lakhs compared to 59.63 lakhs in 1962-63. The lower profit is attributed to increased production costs without a corresponding rise in the selling prices.

Taxation provision absorbed less at Rs 17.25 lakhs (Rs 18.13 lakhs). Allocation to depreciation was more at Rs 15.64 lakhs (Rs 13.96 lakhs), but other allocations were pruned down. The Directors have however maintained the equity dividend on the increased capital at 9 per cent which will absorb Rs 6.80 lakhs (Rs 6.10 lakhs). Preference dividend also takes away more at Rs 1.35 lakhs (Rs 36,246).

The Company's branch at Dewas is stated to be working satisfactorily, production having reached its rated capacity. Government has approved the phased manufacturing programme of compressors in collaboration with Tecumsch Products, Michigan, U S A, and steps are being taken to arrange for foreign exchange for the import of machinery. The Company's sealed compressors are expected to come in the market in the next financial year. A financial arrangement has also been entered into with Butler Machine Tool, U K, for the manufacture of planing, cleaning and shaping machines of which planing machines might begin to come on the market by the end of the current financial year.

Indian Oxygen

THE operations of Indian Oxygen have turned out to be more profitable during the year ended September 30, 1964. Sales have risen by Rs 1.89 crores to Rs 12.10 crores and the net profit also is slightly better at Rs 73.38 lakhs (Rs 71.06 lakhs). The equity dividend has been maintained at 12 per cent and will absorb 43.68 lakhs. Out of the profits Rs 63 lakhs (Rs 69 lakhs) have been transferred to General Reserve from which the dividend will be distributed. Allocations have absorbed more during the year. Depreciation gets Rs 67.78 lakhs (Rs 59.66 lakhs) and taxation Rs 86 lakhs (Rs 69.34 lakhs).

The Company spent about Rs 73.75 lakhs by way of capital expenditure on capital projects in connection with its oxygen and acetylene factory at Hyderabad, loxite factory at Ranchi, electrode factory at Madras and a new equipment factory at Calcutta. Products from all factories have contributed to the larger turnover. The Company's capital expenditure is expected to increase further in the next three years as a result of the major projects which have been undertaken under the Company's Rs 6-crores expansion programme spread over four years ending September 1967. The necessary financial arrangements for the programme are stated to be almost complete.

Structural Engineering Works

STRUCTURAL Engineering Works Limited has earned a pre-tax profit of Rs 10.98 lakhs (Rs 6.81 lakhs) during the year ended June 30, 1964. Sales went up to Rs 156.52 lakhs from Rs 129.73 lakhs during the previous year. Out of the profit the major deductions are taxation, Rs 5.75 lakhs and managing agent's remuneration, Rs 1.14 lakhs — thus leaving a balance of Rs 6.97 lakhs, available for distribution.

The Directors have recommended a dividend of Rs 6.00 per share on 45,000 ordinary shares, Rs 4.50 per share on 45,000 partly paid-up shares, Rs 7.14 per share on 5,000 cumulative preference shares and Rs 9.28 per share on 20,000 redeemable cumulative preference shares — all totalling Rs 6.94 lakhs.

The directors' report states that the results for the year would have been more satisfactory if only the pipe plant did not remain idle during the first half of the year and also work at the Dhamangaon establishment had not come to a standstill during the latter half of the year owing to raw material shortage.

The proposed new factory at Mulund to manufacture Cochran boilers is nearing completion and will go into production soon, the report states. Orders worth well over Rs 5 crores are on hand to keep the company's establishments fully engaged during the current year.

The company has received a long term loan of Rs 60 lakhs from the ICICI which is fully withdrawn to meet the capital outlay on the Cochran boiler and other projects.

Bank of America

BANK of America registered record earnings in 1964 with net operating earnings increasing to $99 million compared to $90 million during the previous year. Loans outstanding stood at $9.2 billion as against $8.3 billion a year ago and the deposits rose to $14 billion with an increase of $757 million during the current year.

At year-end the bank operated 871 branches throughout California. With 5 new foreign branches opened during 1964, the bank's international network now includes 27 overseas branches, 12 representative offices and interests in banks and other financial institutions in 22 countries.

The Indian Iron &Steel Company Ltd
Notice

THE Register and Transfer Books for Ordinary shares in the Company will be closed from Monday, the 15th February, 1965 to Saturday, the 27th February, 1965 both days inclusive for the purpose of payment in due course of an interim dividend on Ordinary shares in respect of the year ending 31st March, 1965. The interim dividend when declared will be paid to those shareholders whose names appear on the Company's Register of Members for Ordinary shares on the 27th February, 1965 or to their mandatees.

BY ORDER OF THE BOARD
MARTIN BURN LIMITED
Sd/- F. G. Liversedge,
Managing Director,
Managing Agents.

11th January, 1965,
Registered Office :
12, Mission Row,
Calcutta-1.

CURRENT STATISTICS

Foreign Trade of India

PRINCIPAL IMPORTS

(Rs crores)

	October		April-October	
	1964	1963	1964	1963
Food	*1120.79*	*1555.61*	*9277.90*	*10831.30*
Live animals, chiefly for food	0.08	—	0.38	0.60
Meat and meat preparations	0.03	0.05	0.21	0.54
Dairy products, eggs and honey	37.03	71.91	600.64	588.68
Fish and fish preparations	24.06	45.95	129.26	296.42
Cereals and cereal preparations	929.02	1336.83	7294.22	9079.90
Fruits and vegetables	124.36	95.23	1195.99	800.75
Coffee, tea, cocoa, spices and manufactures thereof	5.56	3.42	44.56	55.15
Feeding stuff for animals	0.62	0.51	7.31	4.59
Miscellaneous food preparations	0.02	1.70	5.25	4.63
Beverages and Tobacco	*26.65*	*2.66*	*43.32*	*18.71*
Beverages	5.12	2.63	18.78	13.42
Tobacco and tobacco manufactures	21.53	0.03	24.53	5.29
Crude materials, inedible, except fuels	*1342.36*	*931.69*	*6908.14*	*7356.31*
Hides, skins and fur skins, undressed	18.16	32.04	179.45	194.51
Oil-seeds, oil nuts and oil kernels	45.08	58.61	389.94	502.17
Crude rubber, including synthetic and reclaimed	23.70	95.89	388.79	653.32
Wood, lumber and cork	11.54	44.75	115.30	170.53
Pulp and waste paper	87.94	67.82	438.82	563.84
Textile fibres and waste	1007.31	423.40	4296.58	4210.82
Crude fertilisers and crude minerals excluding coal, petroleum, and precious stones	122.43	189.65	843.97	840.22
Metalliferous ores and metal scrap	10.63	6.13	104.03	112.26
Animal and vegetable crude materials, inedible, n e s	15.56	13.41	151.26	108.63
Mineral fuels and lubricants and related materials	*264.25*	*902.69*	*4544.77*	*6919.22*
Animal and vegetable, oils and fats	*24.92*	*25.40*	*328.11*	*318.30*
Chemicals	*761.88*	*612.15*	*5231.76*	*5873.61*
Chemical elements and compounds	247.85	223.00	2008.03	1981.80
Inorganic chemicals	111.03	98.66	752.57	816.67
Organic chemicals	136.81	124.34	1255.46	1165.13
Mineral tar and crude chemicals from coal, petroleum and natural gas	0.05	0.02	2.11	1.13
Dyeing, tanning and colouring materials	75.60	63.30	555.41	528.38
Medicinal and pharmaceutical products	59.86	53.78	472.21	511.40
Essential oils and perfume materials: toilet, polishing and cleansing preparations	5.75	5.33	62.06	48.59
Fertilisers, manufactured	293.77	185.99	1438.81	2071.51
Explosives and miscelianeous chemical materials and products	79.00	80.73	693.13	730.80
Manufactured goods classified chiefly by material	*1590.55*	*1728.08*	*12401.12*	*11584.47*
Leather, leather manufactures n e s, and dressed furs	0.32	0.47	4.23	3.06
Rubber manufactures, n e s	9.28	8.67	74.18	135.87
Wood and cork manufactures (excluding furniture)	2.87	1.79	32.32	30.72
Paper, paperboard and manufactures thereof	77.24	110.24	638.40	703.73
Textile yarn, fabrics, made-up articles and related products	135.16	116.79	969.35	761.18
Non-metallic mineral manufactures n e s	47.86	32.56	481.88	291.44
Silver, platinum, gems and jewellery	7.60	16.48	106.45	105.23
Base metals	1186.50	1311.94	9161.61	8514.73
Iron and steel	836.43	664.83	5914.82	5207.38
Copper	142.29	367.95	1417.41	1590.26
Nickel	11.86	12.55	82.57	91.46
Aluminium	18.20	32.10	394.66	375.19
Lead	19.87	21.73	244.08	197.66
Zinc	81.50	137.66	602.14	607.92
Tin	69.00	67.29	426.71	381.62
Manufactures of metals	123.70	129.13	932.70	1038.50
Machinery and Transport equipment	*2914*	*3527.04*	*26072.35*	*25619.33*
Machinery other than electric	1993.71	2257.90	17261.68	16133.01
Power generating	279.35	305.92	2656.32	2381.60
Agricultural	20.19	9.32	118.52	86.62
Tractors	36.69	19.59	321.93	215.38
Office	26.30	15.94	213.78	114.70
Metal working	308.20	460.80	3385.61	2928.01
Mining, construction and other industrial	1322.97	1446.34	10565.53	10406.69
Electric machinery, apparatus and appliances	613.93	585.87	5149.05	4865.18
Transport equipment	306.89	683.28	3661.61	4621.14
Railway vehicles	47.00	309.20	914.85	1872.48
Road motor vehicles	184.43	273.72	1912.22	1682.49
Aircraft	63.81	41.98	525.67	853.52
Ships and boats	2.54	57.20	277.17	195.57
Miscellaneous manufactured articles	*130.51*	*228.08*	*1193.79*	*2416.05*
Prefabricated buildings; sanitary plumbing, heating, and lighting fixtures and fittings	2.30	2.30	19.87	33.91
Professional, scientific and controlling instruments; photographic and optical goods, watches and clocks	86.63	90.40	795.51	711.76
Miscellaneous transactions and commodities n e s	*11.89*	*56.02*	*304.59*	*398.70*
GRAND TOTAL	8188.43	9569.43	66308.11	71335.99

Source: Department of Commercial Intelligence and Statistics, Government of India.

INDEX NUMBER OF WHOLESALE PRICES

(Base : 1952-53=100)

Group and sub-Group	WEEK ENDING			
	19.12.64	12.12.64	21.11.64	21.12.63
Food Articles	*165.4*	*165.8*	*164.0*	*136.8*
Cereals	141.8	142.1	140.8	117.2
Pulses	195.6	190.3	179.9	122.0
Fruits & Vegetables	184.1	191.6	205.6	137.7
Milk & Ghee	145.5	147.2	146.6	123.9
Edible Oils	225.4	220.5	209.5	147.2
Fish, Eggs & Meat	179.3	178.2	175.4	157.7
Sugar & Gur	191.8	197.6	192.3	192.1
Others	169.6	170.2	176.3	175.8
Liquor and Tobacco	*135.3*	*135.3*	*135.8*	*122.4*
Tobacco	133.2	133.2	133.8	119.7
Fuel, Power, Light and Lubricants	*145.5*	*145.1*	*144.8*	*139.9*
Industrial Raw Materials	*173.2*	*170.5*	*165.9*	*138.6*
Fibres	144.3	144.6	144.4	133.1
Oil seeds	224.8	217.9	206.8	151.6
Minerals	102.1	102.1	101.6	91.5
Others	135.9	135.2	134.2	127.8
Manufactures	*139.7*	*139.2*	*139.0*	*130.7*
Intermediate products	*159.4*	*157.7*	*155.8*	*139.0*
Finished products	*136.5*	*136.2*	*136.2*	*129.4*
Textiles	134.0	133.9	135.1	127.2
Cotton	136.4	136.4	130.5	135.9
Jute	124.4	125.3	124.6	96.7
Woollen	169.2	169.2	169.2	160.2
Silk & Rayon	135.3	132.1	131.8	140.2
Metal Products	169.5	169.5	169.5	163.0
Chemicals	120.2	120.4	120.3	117.8
Oil Cakes	221.1	214.7	201.6	185.5
Machinery & Transport equipment	128.0	128.0	127.5	124.5
Others	128.2	128.2	127.8	128.1
All Commodities	*157.9*	*157.6*	*155.9*	*135.1*

BANKING RETURNS

(Rs crores)

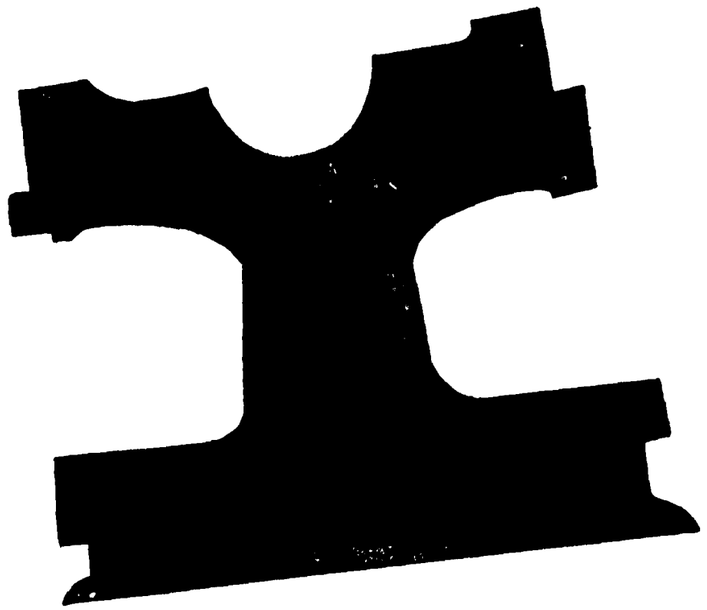
Reserve Bank	Jan 8	Jan 1	Dec 11	Jan 10, '64
1 Note circulation	2572.52	2516.80	2510.53	2412.49
2 Rupee coin	98.78	102.10	100.88	113.56
3 Deposits				
(a) Central Govt	50.56	52.04	53.05	51.96
(b) Other Govts	7.79	7.08	17.82	15.44
(c) Banks	98.88	101.93	95.52	80.76
(d) Others	147.01	146.05	143.28	182.02
4 Foreign securities	80.47	85.46	85.46	97.46
5 Balance abroad	9.76	7.73	10.84	9.29
6 Rupee securities	2286.40	2246.06	2216.13	2099.31
7 Investments	98.14	112.76	142.45	196.54
8 Loans and advances to Govts	71.84	69.15	59.72	66.75
9 Other loans and advances	249.07	263.81	187.44	175.15
Scheduled Banks	Jan 1	Dec 25	Dec 4	Jan 3, '64
1 Aggregate deposits (net)	2536.67	2521.61	2508.90	2245.51
Demand (net)	1216.63	1176.23	1182.66	1020.99
Time (net)	1320.04	1345.38	1326.25	1224.52
2 Cash in hand	74.27	65.29	65.69	60.74
3 Balance with Reserve Bank	103.47	92.87	92.09	82.97
4 (2)+(3) as % of (1)	7.01	6.35	6.29	6.40
5 Borrowings from Reserve Bank	65.20	35.72	15.37	20.14
(a) Against usance bills and/or promissory notes	8.94	2.15	6.10	11.73
(b) Others	56.26	33.57	9.27	8.42
6 Advances	1553.72	1523.86	1484.65	1352.41
(a) State Bank	365.81	353.37	339.61	273.26
(b) Others	1187.91	1170.49	1145.04	1079.15
7 Bills discounted				
(a) Inland	217.78	213.76	199.16	206.29
(b) Foreign	74.16	73.97	74.71	61.52
(c) Total	281.94	287.73	273.87	267.81
(i) State Bank	26.33	25.40	23.12	21.69
(ii) Others	255.61	262.33	250.75	246.12
8 (6)+(7) as % of (1)	72.76	71.84	70.09	72.15
9 Investments in Govt Securities	759.87	764.91	802.54	696.78
10 (9) as % of (1)	29.96	30.33	31.99	31.03

BOMBAY MONEY RATES

(Per cent per annum)

	Jan 1	Dec 25	Dec 4	Jan 3, '64
Call money from Banks	5.14	5.17	4.47	4.46
Deposits 14 days	—	—	—	—
91 days	4.00	4.00	4.00	—
Six months	4.50	4.50	4.50	3.75

mukand housing for sugar industry



MUKAND IS STEEL
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Gold Support

SOME one high up in the British Treasury who had an occasion in the recent past to interest himself in Indian balance of payments asked a visitor the other day, who it was in the Indian set up who lost his sleep over the weekly returns of the Reserve Bank. He frankly confessed that he could not himself bear to look at these statements without nervousness and trepidation. One does not know who in the Government loses his sleep over it but last week's papers, the financial press not excluded, suggest that no one looks at the weekly returns any more. Or else, how is it that an increase for the first time in many many years in the gold holdings of the Reserve Bank went unnoticed and was not commented upon by the Indian papers? The single exception was the Gujerati *Vyapar*. It did not escape the vigilant eye of the *Financial Times*, London, either.

The Reserve Bank, of course, would not bother to explain its gold operations even though this was the first operation of its kind to come out in its weekly returns. There had been an earlier transaction in gold some years ago, when the Reserve Bank paid to the I M F India's share in gold for the raised quota. It did not feature in the weekly returns. While it is useless to expect the Reserve Bank to explain or even put in a footnote, it is not necessary either. For the Government has some little stock of gold which is drawn from various miscellaneous sources—the subscriptions to the Gold Bonds amounting to some Rs 8.61 crores, the output of the Kolar gold fields averaging Rs 2 to 2½ crores annually which has been moving since August 1958 straight to Government stocks and there is also some smuggled gold which is confiscated from time to time, averaging, about Rs 1.5 crores annually, judging from the figure given out once to the Estimates Committee. Gold stocks with the Government from all these sources are estimated at Rs 31 crores. (All the figures are at the official price of gold).

That no explanation has been offered for the modest increase in the gold reserves of the Reserve Bank is not surprising. But it is surprising that no explanation has been forthcoming yet as to how the foreign exchange reserves suddenly sank so dangerously low that in order to avoid seeking Government permission for allowing reserves to fall below the minimum, a transfer from Government stocks of gold had to be effected at the last moment. It is this which calls for an explanation, not the modest transfer to the gold reserves which is, after all, only a matter of internal book keeping. The decline in foreign balances is altogether a different and much more serious matter.

That things should have been allowed to come to such a pass raises doubts whether the Reserve Bank or the Finance Ministry tries to keep any track at all of the anticipated foreign exchange incomings and outgoings in the coming weeks or months and attempts to synchronise them in some sort of way. Exports have been good, in fact unusually good, and it is not true that all the exports are going to the rupee payment countries and are thus not bringing in any foreign exchange. There is no reason either to assume that aid payments have been lagging behind. On the contrary, all evidence suggests that aid utilisation has been activised and that procedural delays and hold ups which had precipitated a situation like this in the past have

now been straightened out to a great extent. After the unpleasant experience of bunching of imports in the past leading to a near crisis in the payment situation, track was being kept of the licenses likely to mature in a given period. There has been no relaxation of import and no reason to suppose relaxation of vigilance on the same. Surely, the Reserve Bank or the Finance Ministry would not have invited a situation like this of its own accord; something, therefore, must have gone wrong elsewhere. What could it be?

The scope for speculation about an explanation remains free until the authorities choose to take the public into their confidence. It may be that the deferred payment arrangements which were actively sponsored after the foreign exchange crisis of 1957 have now come to roost, for the credits then sought to be encouraged were for 5 to 7 years. It is possible, though highly improbable, that this was not anticipated or that foreign exchange payment on debt servicing which has now come up to a sizeable figure had not been anticipated well in advance. There is, besides, the fact of emergency food imports or drafts for defence, either of which can cause a sudden drain and, though anticipated, could not have been provided for in advance.

No Room for Product Patents

ONE of the principal issues on which the controversy over patents law in India has come to be centred is whether in the field of chemical products, food articles and drugs and pharmaceutical products should be made unpatentable and patents should be restricted to processes. The justification for such a change in law is that whereas a product patent gives the patentee the monopoly of that product, under a system of process patents the same product could be manufactured by different patentees using different processes. In his "Report on the Revision of the Patents Law" submitted to the Government of India in 1959 Justice N Rajagopala Ayyangar recorded that: "the denial of product claims is necessary in order that such important articles of daily use as medicine or food which are vital to the health of the community should be made available to every one at reasonable prices and that no monopoly should be granted in respect of such articles. It is considered that the refusal of product patents would enlarge the area of competition and thus result in the production of these articles in sufficient quantity and at the lowest possible cost to the public."

In the current controversy those who want the patents law to be left as it is, mainly the international drug companies and their Indian spokesmen, have made an attempt to confuse the issue by contending that under the existing patent system in the country patent claims for chemical products, including drugs and pharmaceuticals, can be sustained only when these products are manufactured by the process described in the patent specification. Following from this, it has been argued, any number of manufacturers can make the same product using different processes. This seemingly convincing claim is, in fact, highly misleading and needs to be refuted.

There is nothing in the Indian Patents and Designs Act to bar the grant of patents to chemical products. But the practice in this respect has come to be based on Section 38 A(1) of the U K Patents Act of 1907 as amended in 1932. This section lays down that "in the case of inventions relating to substances prepared or produced by chemical processes the specification shall not include claims for the substance itself, except when prepared or produced by the methods or processes of manufacture particularly described and ascertained or by their obvious chemical equivalents." In the U K the provisions of this clause were so exploited by the patentees as to render their monopoly of the products concerned as impregnable as if they were covered by straight product patents. The artifice adopted was to draft the specification as regards the process in such a way as to cover all the possible processes. The Committee appointed by the U K Government to advise on amendment of the U K Patents and Designs Act, the Swan Committee, concluded that patents granted according to the provisions of Section 38A(1) were, in effect, no different from patents for products *per se*. This was one of the reasons which led the Committee to recommend that Section 38 A(1) should be abrogated and products patents allowed—a recommendation which the U K Government accepted.

The operation of the so-called product-by-process patent system in India has been no different. The protection granted to the patentees under it has been scarcely less than what it would have been under a system of product patents. This has been achieved, as mentioned above, by drafting the specifications of the process in such a manner as to cover all possible processes. This becomes clear from an examination of any of the patent specifications relating to chemicals.

The patent in India for Tolbutamide, an anti-diabetic drug, is a case in point. Tolbutamide belongs to a group of compounds known as sulphonyl-ureas. The patent in question —taken out, not surprisingly, by one of the international drug companies—covers sulphonyl-ureas of a general formula and describes all the possible processes for preparing sulphonyl-ureas—no less than 13 in all. Of course, the patentee uses only one of the processes; the others have been included in the patent to keep out competitors. When the Haffkine Institute developed a process for making Tolbutamide different from that *used* by the foreign patentee and sought to manufacture the drug through an Indian pharmaceutical company, it was promptly challenged by the foreign patentee claiming that the process was covered by its original patent. Pending judicial disposal of the matter, production of Tolbutamide by the process developed by the Haffkine Institute has languished. The foreign patentee's monopoly in the production of the drug thus remains virtually unaffected and will continue to be so considering how long-drawn-out patent litigation invariably tends to be in this country as elsewhere.

Indeed, the instance of Tolbutamide shows that the protection afforded to the patentee by the present system extends even beyond keeping out rival manufacturers trying to make the drug by a different process. For, it is reported that when another manufacturer, this time one of the international companies, developed Chloropropomide, another anti-diabetic drug belonging to the sulphonyl-urea group, the Tolbutamide patentee claimed that this too was covered by its patent which was in respect of sulphonyl-ureas of a given general formula. Ultimately, it is learnt, the company which developed Chloropropomide agreed to manufacture the drug under licence from the other company, thus accepting the latter's patent claim. It is, of course, fairly common for the big international drug companies to accept one another's patent claims even when they could be challenged as part of *quid pro quo* arrangements designed to preserve their monopolies in their respective fields, keep out other manufacturers and prevent competition among themselves.

In any case, there is enough evidence to show that the present patent system in this country has worked no better, from the point of view of encouraging competitive research and manufacture, than a product patent system. The need to amend the law is, therefore, incontestable. According to reports, the amendments to the Patents Act which the Government is expected to move in the coming session of Parliament will seek to reduce the term of patents, put a ceiling on royalty rates and make the provision for compulsory licensing more effective. While these changes are necessary and have been long overdue, they will lose much of their impact unless the award of patents in the field of chemical products, food articles and drugs and pharmaceuticals is restricted to processes. If the objective of reducing the monopolistic consequences of patents is to be achieved, it should be explicitly laid down that the patentee's exclusive claim will be limited to the process that he actually *uses*, leaving others free to manufacture the product by other processes.

Annual Number 1965

THE 16th Annual Number of the Economic Weekly will be out on February 6, 1964. 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 Rs 1.25.

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

In view of the Annual Number, there will be no weekly issues on January 30 and February 13.

A FERNANDES
Business Manager

Weekly Notes

. . . (India) Ltd Blessed

GOVERNMENT has decided not to insist any more on issuing Letters of Intent (ie, pre-licenses under the Industries Development and Regulation Act) only to resident individuals or companies registered in India. Such preliminary approvals for starting an industrial undertaking can now be granted directly to a prospective foreign investor without requiring him to find an Indian partner. To this extent, the initiative for industrial venture in India can rest with the foreigner, and not with the Indian collaborators, at least in the initial stage. Indeed Indian collaborators can be eliminated altogether, as an extreme case, with the assistance of the Industrial Development Bank.

This appears, at first sight, a major policy change, though what precisely has been the policy so far has never been very clear. The Foreign Capital Policy Statement of 1949 which still continues to broadly regulate foreign investment lays down that the major interest in ownership and effective control should, save in exceptional cases, always be in Indian hands. But at the same time, the statement held out the assurance that no discrimination would be made between foreign and Indian undertakings in the application of the general industrial policy. Of the total of about 2,000 new collaborations approved from 1956 to 1963, some 1,750 were purely technical collaborations in the sense that they involved no foreign equity participation. Most, though not all, of the remaining 250 or so which had such participation were in the manufacture of metals and chemicals, generally accepted as technologically intensive industries. In more than one-half of these 250, however, foreign collaborators held effective control, ie, more than 40 per cent of equity. In other words, foreign control has accompanied the inflow of new technology. Since this is the field covered by "exceptional cases", the doors were open already. By opening the door wider, the **zamindari** tenure that was conferred upon Indian industrialists by their exclusive right to obtain industrial licenses has now been virtually terminated.

The privilege hitherto enjoyed by the Indian licensee strengthened his capacity to bargain with foreign investors who had already more or less decided to come to India. But it also created several difficulties. It did not altogether prevent effective foreign control, as the facts mentioned above testify; neither did it keep down the liability on account of remittances and repatriation. The choice of foreign partner, however, remained with the Indian licensee, meaning in most cases the influential business houses, which had been successful in getting the licenses at the right time. Many potential foreign investors in new industries turned away because they did not want the particular licensees as partners. The one-sided right of choice implied discrimination against the foreigner. This element of discrimination, however, was not covered by the assurance given in the 1949 Statement which concerned only the application of general industrial policy.

Will Speed Implementation

APART from these matters of protocol, a more substantive issue has assumed importance over the last two years. Many high priority projects for which Indian parties had received licenses and negotiated or had almost completed the negotiations for foreign collaborations made no progress because the Indian collaborators were either over-committed elsewhere or unable to raise the rupee finance. Since the mobilisation of local resources is primarily the responsibility of the Indian party, cases of such failures tended to discourage or put off prospective foreign private investors.

No tears need be shed over this loss of the privileges of industrial **zamindars**. The procedural change in licensing would speed up the implementation of approved projects and would also help to break up the practical monopoly of large projects held by big Indian business houses. The extent of foreign control will certainly increase in terms of absolute magnitudes but even in the past seven years, there has been no dearth of "exceptional cases" of effective foreign control, particularly in the industries which are considered the most impor-

tant and which will assume increasing importance in the future. The measure in which the Development Bank and other financial institutions come forward to participate in the foreign-initiated ventures would give the public sector a share in the private sector of industry. So long as foreign initiative does not go into chocolates, cosmetics and the like, the change is all to the good, at least for the immediate future, particularly since it should reassure the World Bank and IMF about India's willingness to achieve international viability.

The long-term, especially balance of payments, implications of the recent moves to attract more foreign private investment, however, remain obscure. For at least the last three years, the World Bank has been extremely sceptical of India's capacity to service external debts and has consistently prodded the Government of India into liberalising the conditions of entry for foreign equity capital, as distinct from purely technical collaborations. Technical collaborations create an immediate and recurring liability and are proving expensive — payments on account of royalties, fees, etc., amounted to Rs 45 crores in 1963-64 — while equity investments allow some breathing time. Granted all this, the World Bank, with all its experts, has yet to establish whether equity investment as compared with official aid is preferable for developing countries or not, taking into account its ultimate cost in terms of the burden on balance of payments and all the benefits, e g, import substitution, organisational and technical skills, etc, that are supposed to flow from it.

Teja Tops Shipping Target

SHIPPING has already over-fulfilled its target for the Third Plan. This is not anything much to make a dance and song about but with so much dismal failure all around in keeping to the schedules leading on to the targets in the different fields, this achievement in shipping certainly deserves honourable mention. According to the latest survey by the Ministry of Transport, over 5,83,000 GRT have been acquired by the Indian shipping companies in the public and private sectors, as against the Third Plan target of 3,75,000 GRT new shipping and 93,000 GRT delivered against Second Plan orders. Net acquisition, however, would be naturally smaller for scrapping of old ships so far amounts to 1.46 lakh GRT, bringing down the net acquisition to 4.37 lakh GRT. This is, of course, not the whole story for a lot more shipping is on order—about 6,90,000 GRT and another 40,000 GRT are expected to be ordered before the Third Plan end.

In this splendid performance, the role of Jayanti Shipping has been spectacular indeed, for this new-comer in the field has already acquired tonnage of about 5,00,000 which is the largest in India for any shipping company. A remarkable performance, indeed, whatever may be the economics of it or the financial outcome of the company's operation. (It should be pointed out that though Dr Teja does not say so specifically this figure presumably is that of D W T and is not, therefore, directly comparable with the G R T figures mentioned above.)

On the financing of shipping companies Dr Dharma Teja has made a definite, albeit, startling contribution, in his statement made at the last Annual General Meeting of the shareholders of the Jayanti Shipping Company and shaken up the ship-owners who, having had their financing experience in other industries, bring into shipping their old concepts which tend to inhibit their activities. The point about financing is that you must always have enough cash to meet your commitments, enough, but not much more. If you have too much cash, you are under-trading. If you have too little, you are over-trading. No one could accuse the other Indian shipping companies of the latter, and most definitely the charge of under-trading cannot be levelled against Jayanti Shipping.

Dr Teja has seen the potential of credit availability that Indian shipping has. The credit comes from two sources, one of which is general to all shipping and the other is specific to Indian shipping. The general part is credits given by ship-building yards for building new ships. Any reputed ship-owner with suitable security can get from almost all the major ship-building yards of the world 80 per cent credit over a period of 8 years. Indian ship-owners can also get 90 per cent loans in rupees over 18 years at the low rate of 3 per cent. What Dr Teja has done is to use Indian Government credit to secure the ship-building yard and use his ships to secure the Indian Government, a method which has enabled him to manage with only marginal internal finance.

Not that other ship-owners were unaware of this method of financing, but it needed Jayanti to crystallise the whole scheme, and where Dr Teja stole a march on the others is in the scale of his operation. Other ship-owners thought twice about expansion; Dr Teja had the courage to plunge in a big way. He realised that the greater his commitment, the larger his orders, the more willing would shipyards and Government be to extend him credits.

Bold Financing, Poor Accounting

WHILE Dr Teja has undoubtedly been bold and imaginative in shipping finance and perhaps blazed a trail, which even the faint-hearted may follow, one cannot say the same about the accounting methodology he presented in his Statement to the shareholders. The terms he uses for comparing with other shipping companies are unfamiliar and therefore are difficult to understand; the arguments with which he supports his contentions do not follow recognised accounting principles.

To put the Jayanti accounts in more familiar terms, while the gross revenue of the company has jumped from Rs 99 lakhs to Rs 497 lakhs and gross profits are over Rs 1 crore, there is an unstated net loss, if account is taken of depreciation. And this, after capitalising the interest paid abroad on purchase of new vessels—a feature which is totally novel in Indian shipping, though it is in accordance with a recent Government of India ruling. To put Jayanti's accounts on par with that of other Indian shipping companies, however, one would have to deduct from the gross profits the interest charges and this would go to increase the net loss.

Dr Teja has invited discussion on another novel argument of his, about what he calls double depreciation. He claims, if one understands him correctly, that there is no need for a company to account for depreciation so long as its financing is done from borrowings. It is difficult to understand the logic of this argument. True, if a company is financing its investment from borrowing, then there is no need to earmark these funds as a separate entity. But this cannot alter the requirement that a company has to earn depreciation in order to meet its liabilities for loan purposes, as well as recording the fact that the asset has depreciated in value to the extent provided.

As it is, Indian shipping companies do not provide enough against depreciation. They provide depreciation of a ship on a straight-line basis of 5 per cent over 20 years, although it is increasingly recognised that a ship becomes obsolescent much earlier and, indeed, requires major renewals of hull and machinery after 12 years. Some Indian companies, therefore, do face and will face the alternative of either taking a loss on capital account (almost unheard of in factory machinery) or renewing an obsolescent vessel. Clearly, if a ship actually depreciates by about 7 to 8 per cent a year, it would be only prudent to provide a minimum depreciation of 7 per cent per year. The more rational system would be to permit as much depreciation as profits will allow; this will give the shipping companies a much greater competitive edge in the lean years when they are not able to provide for depreciation in their rate quotations.

Jayanti's total commitment to Indian shipping has led to the latter's major expansion. It is to be hoped that Dr Teja's courage will not go unrewarded. He has at least shown that Indian shipping is as competitive as any in the world. What is now required is an organisation which can maximise his profits and men who are capable of raising Jayanti's operating performance over the pedestrian levels at which it is slogging at the moment.

Fund Raising at Durgapur

A Correspondent writes:

IN an afternoon session of the Subjects Committee meeting during the Congress session at Durgapur, Atulya Ghosh, West Bengal's Congress boss moved about on the dais, wearing an expensive 'punjabi' made from Cashmere *tush*. He did not perhaps know that it cost the fantastic amount of Rs 1,000. He did not pay for it; sometime ago, an affluent Congressman had taken note of Ghosh's regret that he did not have warm clothes to wear in Darjeeling, and promptly telephoned an order to a famous Calcutta tailor to take his measurement for a 'punjabi' made from the best material.

Lots of people and firms must have likewise taken note of the needs of the Durgapur Congress session and supplied financial help to it. Casual suggestions and dropped hints must have brought out donations running to lakhs to finance the enormous expenditure on food, lodging and transport of the delegates to the session. The West Bengal Provincial Congress Committee, the host of the Durgapur meet, claimed that Rs 14 lakhs were raised from donations, most of which, it further claimed, came from common folks. To bring home the point that the Congress session is being financed by common people, the West Bengal Congress had arranged the publication in newspapers of a picture of Atulya Ghosh receiving a cheque from a District Congressman for Rs 25,000; this amount, the caption read, was the first instalment of collection from ordinary people in the district. Still earlier, West Bengal's Chief Minister had declared in the Assembly that he, like others, had donated Rs 25 to the Congress fund for the Durgapur session.

All this propaganda could not hide some obvious fund-raising gimmicks at Durgapur at public expense. A quick check at the exhibition grounds showed that the Congress must have raised not less than Rs 10 lakhs from the rent of the stalls and pavilions in the industrial exhibition alone. There were also two other exhibitions, on agriculture and on khadi and cottage industries, into which money from Government agencies had been poured in equal measure.

The land on which the exhibitions were held belongs to the Durgapur Projects Ltd, a Government undertaking. It was lent to the Congress at a rent which has not been decided yet. An official of Durgapur Projects told this correspondent that the rent would be nominal. Possibly, it would not cross a couple of thousands of rupees. And, yet, look at the profit the Congress made on the land owned by a Government company. Here are some instances.

The pavilions of Hindustan Steel and the Heavy Engineering Corporation must have fetched not less than a lakh of rupees to the Congress. The rent for the Railway or Orissa Government pavilion must have been of the order of Rs 50,000. The West Bengal State's pavilion was the largest, costing not less than a lakh of rupees in rent. The cost of building the pavilions was, of course, much more; but it is unlikely that the Congress made any profit out of the fabrication of the pavilions and stalls and the display materials inside unless, in the case of some favourite contractors, the Congress bosses did quietly suggest a cut on the total bill.

There were lots of stalls outside the exhibition precincts, serving food or selling things or presenting shows as in a *mela*. The rent for any such stall measuring about 50' x 50' was Rs 1,000 to Rs 1,200. Rents of bigger stalls were proportionately higher. If the stall was a little way back from the main road facing the exhibition, the rent was halved. There were over fifty such stalls outside the exhibition ground and you can guess the money the Congress collected from the land outside the exhibition grounds.

Case for Sadachar Samiti

THERE were other ways the Congress made profit at the expense of the public exchequer. Take, for instance, the flats that were given to the press correspondents or other people who could not stay in the delegates' huts. The two-room flats owned by Durgapur Projects were kept vacant, we were told, since July for use during the Durgapur Congress. The official rent of the flats is less than Rs 20 each, but the Congress charged Rs 200 for each flat for the short duration of a little over a week, making a clean profit of Rs 180 per flat. Many pressmen, living in the press camp installed in these flats, complained that the Congress organisers did not even care to put up planks over ditches that lay across the route they used to take from the back of their flats to the Subjects Committee pandal, and some press reporters are known to have sprained their ankles or otherwise hurt themselves while rushing back to their quarters to file reports. The two wire-service agencies, PTI and UNI, chose not to pay such high rents for flats and built up little tinsheds of their own at the back of the big pavilion housing a restaurant, operated by a well-known Park Street caterer, where a fish-dal-rice lunch cost Rs 4.50.

The Congress exploitation of Government agencies and the public sector for party purposes is also evident in the building of a small station, named after Dr Roy, only a stone's throw from the bigger Durgapur station. The utility of this station after the Durgapur Congress is questionable; its only utility, namely its nearness to the Congress session site, died with the end of the session. And yet, at least Rs 8 lakhs must have been spent on this rail station which the Railway Minister opened a week before the Congress meeting.

There were other expenditures from Government funds which otherwise could not normally have been made, such as Rs 10 lakhs sanctioned by the State Government for improving roads leading to the Congress site and Rs 6 lakhs spent by the Post and Telegraph authorities for telegraph, telephone and allied communication facilities. Electricity was supplied to the Congress session and its paraphernalia at the cheap rate charged from small-scale industries. The cost on police arrangement by West Bengal which a Calcutta newspaper calculated at Rs 2 lakhs was, however, unexceptionable in view of the congregation of so many VIPs on the occasion of the meeting.

Equally unexceptionable is perhaps the traditional practice of fund-raising through the publication of a souvenir. Charitable organizations do this as do political parties, here and abroad. But it is interesting to note that the Congress party must have collected at least Rs 80,000 by way of advertising revenue from the English edition of the souvenir alone. It had forty pages of advertisements at the official rate of Rs 2,000 per page for one edition, Rs 3,000 for two. Special position rates are not included in this calculation. Quite possibly, many of the advertisers must have paid more as space charges to parry pressure for additional donations to party fund directly.

The exact amount of direct donation to party fund is a matter that deserves to be enquired by a private detective agency or, better still, by the Sadachar Samiti.

Johnson Begins

PRESIDENT Johnson, formally inaugurated on January 20, is clearly one of the most skilful politicians in recent American history. His political ability, combined with a huge majority in an often difficult Congress, promise to make his first term in office a significant one. To understand President Johnson's popularity it is necessary to look at his political roots. Unlike President Kennedy, who was clearly aristocratic in both background and style, Johnson is a "man of the people". He was born in the heartland of American populism, a powerful movement which caught the imagination of farmers and workers in the Midwest during the early part of this century and was aimed against the bankers and aristocrats of the Eastern seaboard. Johnson also served his political apprenticeship under President Roosevelt at a time when economic liberalism (and occasionally radicalism) was the order of the day.

Lyndon Johnson is also one of the most skilful legislators that the United States Congress has produced in this century. Having served in both the House of Representatives and the Senate for more than two decades, he has developed an almost unsurpassed understanding of the intricacies of the legislative process, a factor which has caused many Presidents serious problems. Not only is Johnson a master of twisting the arms of recalcitrant legislators, but he has a deep feeling for the process of legislation itself. This knowledge, combined with long personal and political contact with most key Senators and Representatives, will mean that he will have an easier time with his programmes than did President Eisenhower or even John F Kennedy.

President Johnson seems to pose a dilemma to most foreign observers. His style is neither polished, nor for the most part sophisticated. This fact is often taken as a sign of *naivete;* or perhaps ignorance. While it is true that Johnson does not have the breadth of wisdom of President Kennedy, he is clearly an intelligent individual, and keeps very well informed on current issues. Furthermore, a number of his advisers have an excellent understanding of world problems, and are particularly well informed and imaginative concerning domestic issues. Thus, while Johnson's style is not inspiring to the intellectual, he does combine keen political sense with a mass appeal.

Johnson starts out his term of office in a stronger position than President Kennedy ever had. He has more popularity, a larger (and, what is more significant, more liberal) majority in both Houses of Congress. Moreover, it seems as if the President will try to implement a substantial proportion of his electoral programme. His State of the Union address to the Congress, significantly delivered in the evening when there are maximum television audiences, stressed a strong programme, and left no doubt that he is firmly committed to increased aid to education (a very controversial issue since traditionally American education has been in the hands of the States), medical care financed by public agencies, a large mass transportation programme, and other costly, and politically controversial proposals. Administration of the newly passed civil rights law has been actively pursued by the federal government, under prodding from the executive branch. Thus, Johnson's popularity with Negro voters in the large cities is increasing and promises to be an important aspect of his strength.

Lyndon Johnson has surprised many liberal analysts in the United States with his far reaching domestic programme. Prior to his election, most intellectuals regarded him with suspicion at best, and supported him only as a lesser evil than Goldwater. Many now seem to be grudgingly accepting Johnson as both an effective politician and a national leader with some vision. Naturally, it remains to be seen if the promise of Johnson's initial speeches and statements is realised in practical legislation. But his odds are a good deal better than even, and certainly much more favourable than those of President Kennedy, who was faced with a hostile Congress, and a style often unsuited to the rough-and-tumble of U S politics.

President Johnson has one area of weakness which has become graphically evident in recent weeks. He has little experience with foreign affairs, and clearly prefers the more down to earth domestic issues over which he has strong control. Thus, the situation in Vietnam continues to stagnate with little initiative in any direction from the White House. American policy toward Europe also seems to have been enveloped by an embarrassing silence. While the United States was pushing hard for the multi-lateral nuclear force up to a few weeks ago, there is now stony silence from Washington, and growing dissention from the NATO allies.

Thus, present prospects from Washington are mixed. On the domestic side, Johnson seems to have emerged as a leader of both vision and effectiveness. But in matters of foreign policy, the new Administration has yet to prove itself. It is clear that, from whatever point of view, inaction in matters of international importance will be disastrous. Lyndon Johnson has his work cut out, and his recent performance shows that he has the ability to get the job done. While not of the intellectual stature of a Kennedy, he may yet prove to be more effective in implementing the programmes largely chalked out by the late President.

Letter from South

The State of the Congress

DURGAPUR has not caused even a ripple to stir in the stagnant Congress waters in the South. And this precisely is cause for concern. The "new economic policy" of "pragmatic" retreat even from the policy pronouncements of Nehru fits in with the mood of the leading Congress cliques here, who were never really bothered too much about the chailenging assumptions and assertions of the late Prime Minister, whom they never genuinely tried to understand or to know. Shastri, Kamaraj and Atulya Ghosh are far closer to, more familiar with, indeed, indistinguishable from, one another. How to make politics pay, how to keep things steady and how to let capitalist spontaneity work, these were and remain their main concern.

Absent Leaders

While Tamilnad was quite prominent in the proceedings and most of the Ministers knew that both good form as well as self-interest required attendance—after all, Kamaraj would miss their absence and wonder—, Kerala was unrepresented. So was Andhra—the Chief Minister is said to have rushed back as his wife had had a fall. Mysore was somewhat unseen and, in any event, Nijalingappa was far more attentive to the no-confidence motion he was going to face, where the opposition would rely heavily on the charge-sheet brought forward by a section of his own partymen. In the reported ruckus over the resolutions processed by the Working Committee, these satraps would not know where exactly to put themselves. If Sanjeeva Reddy and Kamaraj were united they could easily take up the appropriate postures. But rumour had it that the Andhra strongman was trying for his own place in the sun, was emerging rapidly from the position of Kamaraj's protege and hewing closer to Atulya babu. While Sanjeeva Reddy was all for the new course, where exactly Kamaraj stood was anybody's guess. Hence, the indecision or, even better, the safer absence and the quick departure.

In Kerala we hear of strange goings-on. While the opposition parties are in a state of confusion, the Congress has declared that it would go it alone. Yet ex-Chief Minister Sankar has already made his pilgrimage to Mannath Padmanabhan's home, reportedly to assure the Nair chieftain that the official Congress would be at least as fit a vehicle for his organisation's interests as the dissidents. It is further reported that Sankar made the additional point that the Nairs need not fear the Ezhavas while the Catholics would always be their rivals. (The dissident Congress is said to be controlled by the Catholics while the ex-Chief Minister is an Ezhava.) That this visit was not a single swallow is underlined by the published reports of the forthcoming trips by Lakshmi Menon and A M Thomas to some celebration that the Nair Service Society is organising. Simultaneously, some Catholic bishops are gathering soon in a secret conclave to decide what they could do to heal the breach between the two Congress factions.

These facts emphasise the conclusion that even after a split and separate functioning, the two Congress bodies cannot find a single principle to justify their wranglings. Communal separatism is clearly at the root of the break up and if the influential communal bosses so decide, some semblance of cohesion could again be restored. This does not look likely at the moment and may not even come about prior to the elections. After all, a great deal of personal bitterness has also developed and there is a desire for some trial of strenth, to demonstrate who is more powerful and who should be top dog should a single Congress organisation again become possible.

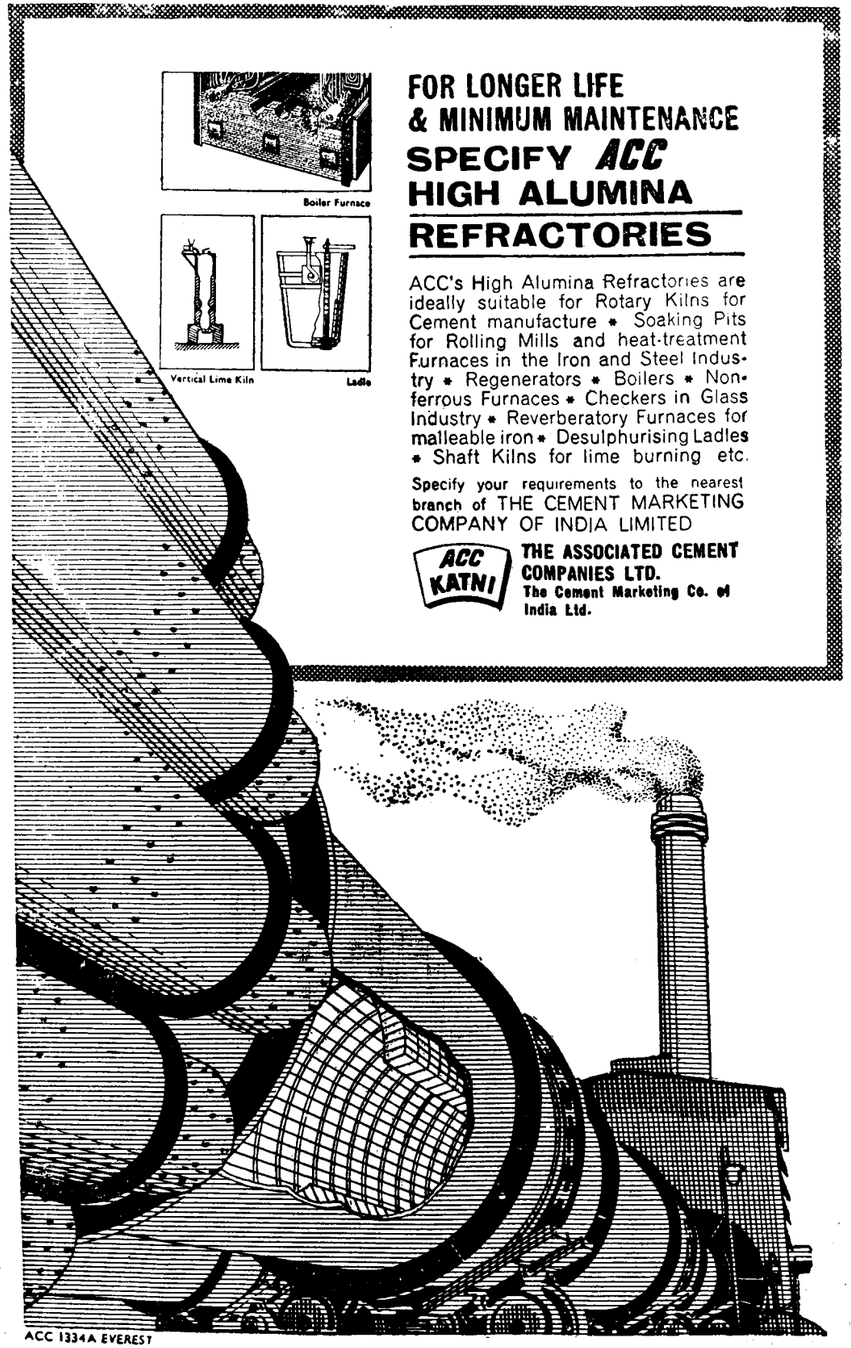
A Model of Pragmatism

The split in Kerala could become a model for the other parts of India in this age of "pragmatism" when the petty politics of the opportunist manoeuvre and the shady deal are at a premium. It is significant that despite strenuous efforts, including quite a prolonged trip by Krishna Menon, there are no signs of even a Congress Socialist Forum coming into being in any of the Southern States. Avadi, Bhubaneswar, Durgapur — nothing has made much of an impression on the Congress groups here.

The seeming serenity of Kamaraj and others at the prospect of the Congress failing to get a majority in the Kerala polls is based on the calculation that nobody else will either. The expected breakdown of the Left Unity Front means that no viable alternative to the Congress will be presented to the electorate. It is also unlikely that the Left Front and the Left Communists will separately win enough seats to give a joint majority after the elections. The prospect is real enough that President's Rule will have to continue even after the polls. And, Kamaraj and others feel, what is the difference since this, too, would mean that the Congress monopoly of power remains intact throughout India, even if the democratic system itself gets discredited in the process? *Parkalum* — let us see!

Sanjeeva Reddy Displeased

Nor is Kerala alone. The degree of the crisis is highest there but the quality of the Congress is much the same, say, in Andhra. If Sanjeeva Reddy is anxious to emerge from the status of Kamaraj's protege, the present Andhra Chief Minister, Brahmananda Reddy, is no less eager to be known as a person in his own right and not dependent for his status on the mercurial grace of the Union Steel Minister. It is widely believed that the appointment of V B Raju to the key and lucrative job of Chairman of the State Road Transport Corporation is an indication of the latter's desire to assert himself. This ex-Minister and defeated Congress candidate was said to have socialist inclinations once upon a time. But a trip to West Germany and the dim prospect of socialist convictions leading to any pedestal of power in the foreseeable future has wrought a degree of metamorphosis of belief. Still, Sanjeeva Reddy has not forgotten V B Raju's adherence to Sanjeevaiah and so counselled against any swift promotion. After a total eclipse for some years, Raju himself would be much more amenable and humble. Despite his objections the appointment has gone through. What is worse is the way in which the present Chief Minister is clipping the wings of Balaiami Reddy, the present Food Minister and a very loyal follower of Sanjeeva Reddy. The appointment of a senior civilian to handle the question of food supplies, directly responsible



to the Chief Minister, is also not without significance.

It is now rumoured that a new alignment is taking shape in the Andhra Congress power elite. A C Subba Reddy from Nellore and a strong man in his own right seems to be emerging as the direct plenipotentiary of Andhra's man in the all-India Syndicate. Against this powerful combination, Brahmananda Reddy is forming an axis with APCC President Thimma Reddy and Finance Minister Chenna Reddy. These positions have not crystallised as yet and each is rather warily feeling out the other. They are all conscious that any open attack on Sanjeeva Reddy's citadels would be inopportune at the moment. Thus, for example, there was no overt opposition to his son-in-law being the official Congress candidate to fill the Assembly vacancy created by his elevation to the Centre. What will be tried though, are small acts of defiance, which if pushed through, could build confidence, rally the cohorts and lead to bigger things.

But what is all the quarrel about? Perhaps, Sanjeeva Reddy is all for the Durgapur line while Brahmananda Reddy insists on loyalty to the Bhubaneswar approach? Even to pose the conflict in this context causes Homeric mirth. To their credit it must be said that the protagonists do not even take the trouble to put on any ideological togas. Their quarrel is strictly pragmatic — over the spoils of office and on the question of personality assertion. If in the process there is an amount of political instability and if the bureaucrat is simultaneously harassed and pleased, since many minor decisions will now be his alone while simultaneously factional considerations will dictate petty favours, nobody seems to be particularly bothered. And the opposition is still weak enough to be treated as irrelevant.

All this is creating a vacuum both inside the Congress and in the South as a whole. It is a peculiar problem since the vacuum seems pretty full of noises, scramblings, posturings and the like. Moreover, if nature is said to abhore vacuum the Congress politicians seem to thrive within one. The danger is that the people may well begin to despair and abhore politics and politicians of all kinds. This would prepare the ground for someone or some collective or some alignment of collectives to think in terms of partyless politics, with the army and the civilians playing a far more important role than parliamentary democracy now allows them.

From the London End

The Bloated Aircraft Industry

THE aircraft workers protest march to London (precipitated by rumours of large-scale cuts in the industry) and Harold Wilson's Chequers dinner invitation to representatives of Britain's aircraft industry, bring into prominence once more the future of this large and expensive industry which currently employs some 250,000 people.

No final decision on this important subject can be taken, however, before the Plowden Committee (which has been set up to enquire into this industry) publishes its report. In the meantime, it is worth taking a look at the present shape of the industry.

It has been obvious for quite a long time that Britain's aircraft industry is too large for Britain's needs. Six years ago the Conservatives attempted a half-hearted plan to reduce the size of the industry, and under Mr Duncan Sandys, the large number of private companies in the aircraft industry were merged into a few large groups. At present, the British aircraft industry consists of a few aircraft building concerns and two aero-engine manufacturers.

The British Aircraft Corporation was formed out of the merger of Bristol, Vickers Armstrong and English Electric. They produce the VC-10, the BAC One Eleven and the controversial TSR2 whose future is still undecided. This company is also engaged in the Concord project and, in the military field, it produces the Lightning, the Jet Provost and the following missiles: Thunderbird, Bloodhound, Vigilant, ET316 and Swingfire. It employs a total of 40,000 workers.

The next large group is the Hawker Siddeley Aviation Group employing 39,000 workers. It is made up of Hawker Blackburn, Avro Whitworth and De Havilland. It produces the HS748, the HS681, the Argosy, the Trident and the Comet, and, in the military sphere, the HS125, the Sea Vixen, the Buccaneer, the HS Kestrel, the HS P1154 and the rockets, Firestreak. Redtop, Bluestreak, Sea Dart, Seaslug and AS 37.

Handley Page still remains an independent organisation. It produces, among others, the Dart Herald aeroplane. Short Brothers and Harland of Belfast produce the Turbo Skyvan and the Belfast.

The two main aeroengine companies are the Rolls-Royce Aero Engine Division, employing 34,500 workers and producing the Dart, used in Convair 240, HS 748, HS Argosy, Handley Page Herald, the Japanese aircraft NAMC YS 11, the Dutch Fokker Friendship, and the U S Grumman Gulfstream. It also produces the Conway engine used in the VC-10, the Avon engine used in the Caravelle, the Comet, the Lightning, and the Seavixen; the Tyne used in the French Breguet Atlantic, the German Transall C160 and the Short Belfast plane; the Spey used in the Trident, the One Eleven and the Fokker Friendship; the military Dart used in the HS 748; the Medway used in HS 681; and the military Spey used in Buccaneer, McDonnell Phantom, and a number of other engines.

The other large engine group, the Bristol Siddeley engine group produces the Olympus used in the Concord and also in TSR2 and the Vulcan Bomber; the Viper used in the Indian Hindustan fighter; the Jet Provost, HS 125 and a number of engines used in helicopters.

While no definite decisions have yet been made by the Government, there is no doubt at all that it is firmly resolved to reduce the size of the British aircraft industry by 1970 to approximately 1½ times the size of the French aircraft industry which employs between 100,000 and 150,000 men. The object of Wilson's dinner was to canvass the views of the industry about the most economic set-up for itself. But plans of this sort must naturally be long-term. It begins to appear as if the main brunt of rationalisation will fall on the British Aircraft Corporation, which is involved both in the Concord and the TSR2. If both

the Concord and the TSR2 are cancelled, BAC will be in real trouble, and it would then be left entirely dependent on the declining production of the VC-10s and the BAC One Eleven and some missile work. The main criticism of the TSR2 is not only that it is too expensive (it is likely to cost about £3m a piece against the previous limit of £2.5m), but that it is too sophisticated for the defence requirements of the U K. Cuts on this plane would make a major contribution towards the estimated £950m saving on defence expenditure over the next 10 years. It is likely that a compromise on this subject will be reached, as well as a compromise on Hawker Siddeley's planes. Here, the very expensive P1154 supersonic VTOL project might be abandoned, and the earlier vertical take-off plane, the P1127, developed. The last moment invitation to Short Brothers and Harland of Belfast probably implies a reprieve for the company's big Belfast Freighter which is due for completion very shortly. The efficiency of Britain's aero engine manufacturers is not in doubt since British aero engines power half the world's civil jet airliners and turboprops. So the British engine firms will probably emerge unscathed.

Dependence on Defence Orders

Many would like the aircraft industry to be devoted solely to the production of civil aircraft—Mr Cousins has said that he would rather build freight-carriers than bomb-carriers—, but in the present state of the industry unless many more orders for exports are received (which in face of intense competition from other aircraft manufacturers seems unlikely) the industry will be heavily dependent on military orders.

In the post-war period, the British aircraft industry grew because of export orders from a number of countries who were anxious to re-equip with new jets their air forces which had been shattered during the war. Now many of these countries not only have a sufficient number of jets, but are also manufacturing them themselves.

In any reorganisation of the aircraft industry, the Government has a duty to see that sub-contracting contracts are spread out over as wide a field as possible. The French, for example, make it a practice to sub-contract to unsuccessful companies, and thus share out the work.

There is no doubt at all that the aircraft industry needs overhaul. Since the war thousands of millions of pounds have been sunk into it; abandoned aviation projects have cost the U K more than £300 m since 1951. According to a recent estimate made by the *Economist*, it costs an average of £2,000 per man to maintain the aircraft industry, or something rather more than £500m a year at its present size or £5,000m in the decade that it takes to design and deliver a new aircraft. The current cost of developing new engines alone ranges from £20m to £100m depending on their complexity.

Low Productivity

Compared with the aircraft industry in other countries, productivity in the British industry is not high. The Americans are said to obtain three times the production per man that the British do, and they use a larger proportion of unskilled workers. It is interesting to note that 10 per cent of British qualified manpower works in the aircraft industry. Foreign currency earned by the industry last year was a little under £100m; the French earned almost the same amount although they use one-third of the manpower, mainly through the sales of their successful Caravelle.

Wilson's concern with the state of the aircraft industry is understandable. That streamlining is essential nobody doubts, and indeed it will not mean the end of the industry, but the creation of more efficient and economic organisation. Hawker Siddeley are already embarking on many branches of advanced industry outside aeroplanes. The Canadian aircraft industry, which had grown on defence contracts, some years ago went through a similar crisis, from which it has emerged by drastic cutting down in men and design teams. It is now a smaller and more efficient industry earning more money than it has ever done.

A great deal of rethinking will have to be done about Britain's aircraft industry. Indeed, if Duncan Sandys' famous "rationalisation" project for the industry had been more carefully thought out and planned, much of the present crisis could have been avoided. The U S aircraft industry is already planning for necessary contraction, and all the leading American companies are attempting to adjust themselves to severe over-capacity and a declining market. The American consultants, Arthur D Little Incorporated, have recently published a detailed assessment of these efforts. This report discusses some of the plans which will help the U S industry to survive. One approach is diversification, with aeroframe makers diversifying into missiles for instance. Another solution is to apply the industry's research to other areas such as urban mass transportation and the exploitation of ocean resources. This, however, is a very long-term project. The report also comments on the failure to diversify into commercial markets. American companies seem unable to exploit their experience outside the industry. The best American companies have, however, transformed their aeroframe makers into "centres of invention, research, development and custom production".

Better Use of Skills

Much on these lines could also be done for the British aircraft industry. Some of the suggestions that are being mooted are that the Government could speed the building of a new airbus for which there is an immediate market, or that Britain should manufacture American aircraft under licence, but with British aero engines. A significant part of the British aircraft industry could be more effectively employed elsewhere. Most of the 250,000 aircraft workers are not specifically aircraft engineers, but skilled men who happen to be employed in the aircraft industry. With the crying shortage of skilled labour in other industries, which has now reached crisis proportion, transfers could, with proper planning, be made to the benefit of all. There is a growing demand for electronic skills and about onethird of the investment in modern military aircraft is in electronics. Some of this skill could be used to produce more efficient electronic aids in civil aviation or to meet the need for electronic instruments in medicine and in industry. The machine tool and other precision manufacturing industries could be enriched by talent which is now taken up by the aircraft industry. The Government itself could encourage various industries like "aircushion craft", monorails, hospital equipment, special-purpose building systems, to name but a few.

To support the British aircraft industry at its present size and cost is an uneconomic proposition, and it is necessary that the Government should take firm action to reduce the industry's size, particularly in the military field, at the same time making adequate plans to absorb the redundant skilled labour which is urgently required in other industries.

Capital View

The Passing Scene

Romesh Thapar

AS another Republic Day approaches, we have been doodling about the Congress confabulations at Durgapur. None of us seem to be able to make any sense out of the proceedings. Has Atulya Ghosh managed to grab the organisation? If there is a compact between Shastri and Kamaraj, why the implied criticisms of each other in their public speeches? Does Morarji Desai plan to change his tactics and emerge as a neo-Nehruist? Will Indira Gandhi accept the pincer movement of the Right to seize the ruling party or will she prepare for battle? Where does Nanda stand? A sorry spectacle, these permutations and combinations of personalities in the party, but this is the miserable state of the Congress today.

This kind of political doodling could range over many areas of enquiry. How come the party's official stand on the nuclear deterrent did not reflect the jingoism in the Working Committee? Is the free entry given to foreign capital an attempt to discipline indigenous tycoons who have been flirting with opponents? Has it been decided, at caucus level, to order a skilful retreat from 'socialistic' objectives? How will this smothering of past pledges be done in a party which has lived on a balance of power between the Right and Left? The questions certainly pile up.

Chaos at Film Festival

We must wait and watch for the developments. To say the same things all over again about the muddle and confusion is a rather futile exercise, even for journalists living in the incredibly prolonged twilight of Congress rule. So even as we exercise patience, let us turn to those subjects which absorb the time and energy of the comfortable middle class in the Capital.

At the best of times, in our mixed economy, organisers are few and far between, but the Information and Broadcasting Ministry must be absolutely bereft of such talent—at least, so it appears, from the extraordinary mounting of the first genuine international film festival. The chaos had to be 'sampled' to be believed.

Delhi's citizens got the first taste when, within an hour of booking offices opening, there were no tickets to be had. Even as Nanda launched the hunt for evidence against 'left' communists, the culture-climbers were searching for festival tickets in the Capital. It was a desperate, unrewarding search—blunted by the over-polite double-talk of the disorganisers in the scattered offices of the I & B Ministry —until the more enterprising discovered that stacks of these tickets were lying hoarded with the Vips and Spivs. The hoards were unearthed with money and influence, but the damage had been done.

Incensed pressmen, reduced to a single ticket a day, decided that they were not going to enjoy this festival at all. Everything appeared wrong: the speeches at a thinly-attended inauguration; the vulgar display of food at the formal buffet banquet; the amateur level of the symposia presided over by men with no knowledge of films; the feudal pomp at the Rashtrapati Bhavan reception; and the quality of the films entered. Then more fuel was added to their simmering anger. They found allies among the delegates, Indian and foreign, who also were reduced to chasing those elusive tickets and cursing the arrangements.

At this stage, something happened. Embassies took a hand in getting tickets for those who they thought deserved to see their films. Even the Press Information Bureau became generous. And, believe it or not, the theatres took down the 'house full' signs. Don't ask me what happened. Maybe, Indira Gandhi took a hand. Or, maybe, the Vips decided that they just could not have their families and intimates view uncensored films!

Yes, for the first time in what appeared to be living memory, the middle class of the Capital was exposed to uncensored stuff—and some were so lost in the prevalent mood that they were even titillated by the mock heroics of one of our offerings on the 1962 events in Ladakh! The word, 'uncensored', drew the crowds—and the blackmarketeers. Love in a tumble, bare buttocks and bosoms, dialogues loaded with sexful meaning, and a variety of tensions, kept our supposedly lusty audiences laughing nervously, coughting in embarrassment and fidgeting. Oh, to have been able to record this middle class sickness on film, with hidden cameras and tape recorders.

The fact is that there was little in the films to censor, but over the years our moral-keepers have made such morons out of us that even the slightest reference to the real relationship between man and woman causes a flutter—even a blackmarket in tickets. And, to think of it, the same story will be repeated in Calcutta, Madras and Bombay where the festival is due. We have certainly been 'integrated' on this plane of the unconscious.

I only hope the organisers will be more organised as the festival moves out of Delhi. A single theatre for invitees, please. Some block bookings through recognised societies, please. More theatres for more frequent showings, please. Sterner action against those who blackmarket tickets, please. Sorry to sound so basic. Our bureaucrats do not seem to understand any other language.

R S S and King Mahendra

Surprisingly enough, or perhaps, appropriately, the local elite was so engrossed in 'uncensored' film fare that it took little notice of other developments. Reports are current about Nepal's involvements with the RSS, involvements which are coming to light since King Mahendra announced his intention to address a rally organised by these Hindu militants. Equally interesting is the 'growing respectability' of V K Krishna Menon who is now slated as a member of our delegation to the Afro-Asian conference at Algiers — obviously an attempt to build the defences against a Chinese-inspired assault on India's policies.

Of course, the RSS story gets more play. It is a strange story. Apparently, for some time now the Nepalese have been sticking their fingers in the Hindu politics of the sub-continent. Tulsi Giri, alleged to be a former member of the RSS during his student days in Banaras, has been masterminding the idea of a Hindu consolidation under a monarch like Mahendra. This sounds the craziest of fantasies, but then the doyens of Hinduism have an extraordinary appetite for such intoxicating ideas.

There is indignation in palace circles in little Kathmandu over Delhi's

supposed *volte face* on Mahendra's plan to address an RSS rally in Nagpur. Tulsi Giri and his supporters imply that the G O I approved of the visit. And no one in Delhi is prepared categorically to deny this. Perhaps, our pragmatists were hoping to end Pakistan's flirtation with Nepal by playing on Mahendra's RSS sympathies. Now, these frolics are public and enterprising investigation should uncover many facets of an hitherto unpublished story.

Leaving melodrama behind, the debate on the Bokaro steel project continues. We are told that 'unexpected' hitches have developed and are being ironed out. The truth is very different. Despite the unexplicable secrecy which surrounds the negotiations with the Soviet delegation, a few revealing facts have been gathered. First, we are being asked to surrender our right to participate in and to judge the Soviet project report which will be submitted in October. Second, the foreign exchange component for the first phase of the project, estimated at some Rs 160 crores, has been scaled down to Rs 100 crores without any valid explanation. Third, there has been a complete departure from the specifications laid down in the Dasturco report, specifications which were to ensure us the most modern continuous strip rolling plant.

The hon'ble Steel Minister and his hon'ble ICS advisers talk of unexpected hitches, but the betting in the Secretariat is that they have every intention of accepting the Soviet turn-key terms, not because of their interest in ensuring the rapid implementation of the Bokaro project, but because Sanjeeva Reddy is anxious to push the fifth steel plant into Andhra through a turn-key arrangement with an Anglo-US consortium whose influential 'fixers' have been visiting the Capital rather frequently. These manoeuvres could have been neutralised by an independent Indian firm of consultants, but now, with the destruction of Dasturco on the Steel Minister's agenda, there's little chance of preventing our steel programme becoming the preserve of foreigners and their agents.

Tortuous Ways

Dastur's offer to become a public sector agency has been so distorted that demands are now being made to reduce the consultancy to a truncated body designed to rubber-stamp bureaucratic decisions. The hon'ble Steel Minister and his hon'ble ICS advisers have made clear that they do not want to understand what role a firm of consultants is supposed to play. And, significantly, in the course of the debate, Soviet spokesmen are beginning to reveal that their stand on 'full control' was in fact dictated by the Steel Ministry. Tortuous, very tortuous, are the ways of the G O I.

These problems notwithstanding, the talk will soon turn to the marked contradiction between the views of Kamaraj and Shastri on the resources position of the Fourth Plan. It is old mutton, this business of the scale of the plan, but it is decided that the targets must be reviewed all over again. This means that the extra Rs 3000 crores sought is considered too heavy a strain. And this in turn means that TTK has been warned to produce a softer budget. No wonder the stock markets are beginning to stir.

I don't want to imply that there is anything wrong in encouraging a revival in the investment climate. A mixed economy needs this. But those who want to restore incentives on the economic front must also implement reforms in the economic structure to satisfy the political aspirations of the radicals in the ruling party. Such an equation has yet to be worked out. In its absence, the Congress will suffer from polarising tensions. Do Kamaraj and Shastri represent the two ends of the economic-political equation?

Maybe, the ruling party will emerge from its dazed existence by restoring the incentives necessary in a mixed economy while at the same time proving its socialist dedication by a take-over on the banking and foreign trade front (for, every section seems to be dragging its feet on land reforms). These inter-connected matters are being discussed, but so far nothing tangible has emerged. Whatever the outcome, a reshuffle at Cabinet level is bound to be ordered to reflect the balance of forces which will finally prevail under the Shastri-Kamaraj alliance.



Religious Composition of Punjab's Population

Changes, 1951-61

Gurdev Singh Gosal

The religious composition of Punjab's population has undergone significant changes during 1951-61.

The excessive migration of the Sikhs to other States in India and to foreign countries has reduced their proportion in the total population in their own home State.

The Hindu population on the other hand, has slightly improved its relative strength because of excess of in-migration over out-migration.

Within Punjab, too, contrasting patterns of mobility of the two communities have been witnessed during the decade.

In the Sikh majority districts the population of the Sikhs increased very little or decreased while the rate of growth of the Hindu population was very high—higher than the rate of natural increase in many districts.

In the Hindu majority districts, by contrast, the numbers of the Sikhs increased phenomenally in certain areas while the Hindu population increased at about the rate of natural growth.

The Sikhs have shown greater mobility, both within and out of Punjab, in pursuit of economic opportunities than their Hindu brethren.

While the movement of the Sikhs is to a large extent from rural areas to rural areas, that of the Hindus is to urban places. In this movement religious and linguistic considerations have been generally disregarded.

These inter-regional shifts have set afoot a process of inter-mixing of Hindus and Sikhs. This is a healthy trend towards national integration and is a matter of great political, social and economic significance.

MOST human geographers will concede today that few among the phenomena causing or reflecting regional differences in cultures are as potent and sensitive as religion. A study of the changes in religious composition in Punjab where several economic, social and political matters are directly or indirectly associated with religion assumes a special significance. Particularly in post-Independence Punjab, religion, language and politics have been so intricately mixed up as to create difficult problems both for the administrator and the planner. Hence, an investigation into the regional variations in the growth rate of major religious groups, their inter-regional shifts and changes in the relative proportion of population of each within various areas is desirable on both academic and practical grounds.

The recent demographic dynamism of Punjab would be evident not only from its unusually high rate of population growth, but also from the substantial migration of its peoples to other States of India, and at the same time a considerable amount of redistribution of population within the State, causing significant regional and intra-regional changes in the religious composition of the population.

Our attention would be focussed primarily on the Hindus and the Sikhs, who according to 1961 Census, form 97 per cent of the State's total population. During 1951-61, the Hindus increased by about 30 per cent; while the State's estimated rate of natural increase was about 28 per cent. The Sikhs, on the other hand, increased only by 19 per cent.[1] Thus, assuming[2] similar rates of natural increase for both the communities, the slightly higher than the natural rate of increase in the case of Hindu population is obviously due to an excess of in-migrants over out-migrants. The considerably lower rate of increase of the Sikhs is attributable to the excess of Sikh out-migrants over the Sikh in-migrants. In India as a whole, their population increased by about 23 per cent. Indeed there has been a considerable migration of the Sikhs to other States of India and abroad. The numbers of such migrants from Punjab to foreign lands and other States of India are estimated at 240,000 and 220,000 respectively.

1 If allowance is made for the burnt slips on a proportionate basis, Punjab's Sikh population in 1951 should have been larger by about 150,000 and its rate of increase during 1951-61 should be about 19 per cent (as against 21.8 per cent as given in Census of India Paper No 1 of 1963, page v). Similarly the corresponding growth rate of the Hindu population should be about 30 per cent.

2 Many people believe, however, that the rate of natural increase of the Sikhs is somewhat higher than that of the Hindus.

Sikhs

A comparison of the figures in Table 1 indicates that outside Punjab there has been some amount of inter-State redistribution of the Sikhs during the decade, leading to differentials in their rates of growth. However, the actual numbers involved in this re-distribution are very small. The spectacular increases in the Sikh population of a few States may directly be attributed to migrations from Punjab which, consequently, reduced the proportion of the Sikhs in the State's total population.

Although the Sikhs moving out of Punjab have spread over most parts of India in their search for economic opportunities, a very large majority of them have gone to the adjoining States of Uttar Pradesh, Rajasthan and the Union Territory of Delhi, where their population has shown tremendous increases during the ten years (Tab 1).

The Terai region in Uttar Pradesh has witnessed unparalleled increase in the Sikh population. The explanation is not far to seek. Despite its agricultural potentialities, the region had been lying practically waste. The abolition of the landlord system of tenure soon after Independence threw this virtual wasteland open for development and attracted streams of Sikh peasants from the densely populated areas of Punjab.

Similarly, the extension of canal irrigation in the Ganga Nagar District of Rajasthan has encouraged a rush of Sikh farmers from their home State, increasing the district's Sikh population by 95.19 per cent—from 110.095 in 1951 to 214,905 in 1961. The actual number of in-migrants can, however, be determined only after making allowance for the natural increase. In the Alwar District where there were 23,028 Sikhs in 1961, the decennial increase was no less than 76 per cent, mostly in rural areas. Although in a number of other districts the percentage increase was startling, the increase in actual numbers was only small. In Rajasthan as a whole, the Sikh population increased by 84.98 per cent—from 148,229 in 1951 to 274,198 in 1961.

There was also a trickle of Sikh farmers to the newly reclaimed areas in Madhya Pradesh, where in 1961, in a total population of 66,715 Sikhs, 19,755 were in rural areas. The over-all increase in Sikh population in the State was 64.6 per cent.

In several of the remaining Indian States the Sikh population increased appreciably, but in urban areas and in pursuance of non-agricultural activities, Delhi and Greater Bombay experienced particularly impressive increases. Only Bihar and West Bengal, where the Sikhs were already in large numbers, registered small increases.

This movement of the Sikhs from Punjab to near as well as far off Indian areas during 1951-61, as also earlier, demonstrates their keenness to avail themselves of economic opportunities, whether in rural areas or in towns, whether in the field of agriculture or in other sectors, against all linguistic and religious considerations. It also shows unmistakably their tendency toward dispersal to areas of economic potentialities anywhere in the country, rather than concentration in the Punjabi-speaking zone of Punjab. It is no doubt a very healthy trend toward national integration, and a matter of great political import.

Among the Hindus too, there has been considerable out-migration from Punjab to other Indian States, but the number of Hindu in-migrants to Punjab has exceeded the number of out-migrants. These in-coming people are mostly labourers who engage themselves in construction work, or ply as rickshaw-pullers. However, notwithstanding this small excess of in-migration, the proportion of the Hindus to the State's total population has remained practically the same.

Changes in Religious Composition

The reverse pattern of imbalance between out-migrants and in-migrants of the two religious groups is not the only factor that has caused regional differences in the rate of growth of Hindus and Sikhs in Punjab. The considerable amount of redistribution of persons belonging to the two communities within the State has produced not only great contrasts in their rate of change within areas but also impressive inter-regional disparities in the growth of their populations. Of the two communities, the Sikhs have shown greater mobility within as well as out of Punjab. The resultant differentials in their rates of actual population growth have significantly modified the share of each community in the State's total population, as also in the total population of each area.

Whereas the proportion of the Hindus has increased from 62.2 per cent in 1951 to 63.6 per cent in 1961, that of the Sikhs has declined from 35 per cent in 1951 to 33.3 per cent in 1961.

Within Punjab, very contrasting areal patterns have emerged in the growth of population of the two communities during the decade. The contrasts were particularly accentuated in the case of the Sikhs whose population decreased or increased very little in a number of districts, but increased spectacularly in others. The population of the Hindus, on the other hand, increased practically everywhere at rates not far above or below the rate of natural growth. The inter-district disparities in the rate of population growth of each community give a measure of its mobility within the State, and also

Table 1: State-Wise Growth of Sikh Population 1951-61

State/ Territory	Sikh Population in		Percentage Increase During 1951-61
	1951	1961	
Andhra Pradesh	5,169	8,563	*65.66*
Assam	3,949	9,686	*145.28*
Bihar	37,947	44,413	*17.04*
Gujarat	7,029	9,646	*37.23*
Jammu & Kashmir	N.A.	63,069	N.A.
Kerala	308	822	*166.88*
Madhya Pradesh	39,914	65,715	*64.64*
Madras	2,386	2,567	*7.59*
Maharashtra	41,434	57,617	*39.06*
Mysore	3,951	3,287	*—16.81*
Orissa	4,163	5,030	*20.83*
Punjab	5,553,918	6,769,129	*21.88**
Rajasthan	148,229	274,198	*84.98*
Uttar Pradesh	197,612	283,737	*43.58*
West Bengal	30,623	34,184	*11.63*
Andaman & Nicobar Islands	126	241	*91.27*
Delhi	137,096	203,916	*48.74*
Himachal Pradesh	5,019	8,437	*68.10*
L. M. & A. Islands	—	—	—
Manipur	50	523	*946.00*
Tripura	35	49	*40.00*
Dadra and Nagar Haveli	—	—	—
Goa, Daman & Diu	—	—	—
Pondicherry	—	14	—
N E F A	N.A.	N.A.	N.A.
Nagaland	158	255	*61.39*
Sikkim	18	72	*300.00*

Source: Census of India Paper No 1 of 1963—Religion, pp v-vii.

*If allowance is made for the 1951-Census slips which were burnt in the Jullundur fire, the percentage increase comes to about 19.

the difference in the degree of mobility of the two communities.

In nearly all those districts where the Sikhs were either in a majority or formed a large proportion of the total population, their numbers either decreased or increased by rates far lower than the rate of natural increase. Tnis was due mostly to considerable out-migration from the rural areas. By contrast, the Hindu population in all of these districts increased by much higher rates which were above the rate of natural increase in most cases. The figures in Table 3 suggest some amount of in-migration of Hindus, most of which is to urban areas.

Table 3 reveals that in all the trans-Sutlej Sikh majority districts, the Sikh population increased very little during the decade. These are the districts where density of rural population is high, per capita cultivated land is small, and in some parts of which the menace of water-logging has been increasing alarmingly. The gradual deterioration of farm economy under the pressure of increasing population is inducing the peasants to seek economic opportunities elsewhere in the State as well as in other States of India or abroad. A sizeable proportion of the out-migrants have gone to those areas in Punjab where extensive wastelands have been reclaimed and brought under cultivation with the introduction of canal or tube-well irrigation, as in the Sirsa and Fatehabad tahsils of the Hissar district, Patiala and Rajpura tahsils of the Patiala district, Thanesar, Karnal and Kaithal tahsils of the Karnal district, and Jagadhari tahsil of the Ambala district. In most of these areas into which the Sikh peasants have moved the Hindus are in overwhelming majority. There has been considerable migration of Sikh farmers from the trans-Sutlej region also to the agricultural frontiers of the Terai in Uttar Pradesh and the Ganga Nagar district in Rajasthan. In addition, a large number of Sikhs have moved out for employment in the army, transport, industry and several other types of activities.

Large scale out-migration has practically neutralised the effect of high rate of natural increase in the population of the Sikhs in the Amritsar, Gurdaspur and Kapurthala districts; it has caused a 9 per cent decrease in their population in the Jullundur district from which there has been tremendous emigration to the U K during the decade.

The Hindu population in nearly all the districts listed in Table 3, on the other hand, increased by very high rates — higher than the rate of natural increase, reflecting some in-migration. This increase took place mostly in urban places, the most spectacular increase being in the Bhatinda district where, during the decade, numerous towns sprang up as agricultural markets and centres of processing industries, based mostly on cotton and oilseeds, located along rail routes converging on Bhatinda. Most of the industrial and commercial activities here, as elsewhere in the state, are handled by members of the Hindu community.

The great differences in the rates of population growth of the two religious groups in the predominantly Sikh districts have caused significant changes in their relative strength, the most meaningful changes being in the Jullundur, Gurdaspur and Sangrur districts where the patterns of religious composition have been reversed (Table 4). With the exception of Patiala and Ludhiana districts where the relative position of the Sikhs in the total population has somewhat improved, the proportion of the Sikhs declined in all the Sikh majority districts, whereas that of the Hindus has slightly improved (Table 4).

However, any progress in diversification of rural economy by a quick process of rural industrialisation in the densely populated trans-Sutlej plain will slacken this exodus. As the agricultural frontiers in the Terai and Ganga Nagar areas are fast closing, the rush of out-migration for farming is likely to peter out very soon. In future the out-migration of Sikhs will therefore be more and more for non-agricultural pursuits.

Table 2: Uttar Pradesh Districts with More Than 30 Per Cent Increase in Sikh Population During, 1951-61

District	Sikh Population in 1961	Percentage Increase in Sikh Population 1951-61
Chamali	33	*3200.00*
Nainital	46,537	*563.96*
Pilibhit	16,631	*513.24*
Kheri	12,564	*467.48*
Rampur	25,245	*390.38*
Shahjahanpur	6,560	*192.99*
Garhwal	422	*187.07*
Deoria	229	*126.73*
Mirzapur	1,806	*123.79*
Bareilly	9,936	*104.70*
Varanasi	2,516	*95.80*
Etawah	1,563	*66.99*
Pratapgarh	470	*66.08*
Basti	637	*57.28*
Gonda	1,202	*49.32*
Lucknow	12,113	*45.71*
Sultanpur	925	*41.01*
Kanpur	24,397	*37.67*

Source: Compiled from Census of India Paper No 1 of 1963 pp xxxi and 37-43.

Table 3: Differences in Growth of Hindu and Sikh Population in Districts of Punjab Where Either the Sikhs Were in a Majority or Formed a Large Portion of the Total Population in 1951

District	Proportion of the Sikhs in the Total Population in 1951	Percentage Increase in Population during 1951-61	
		Hindus	Sikhs
Amritsar	*70.6*	*33.8*	*2.6*
Gurdaspur	*46.5*	*27.7*	*6.9*
Kapurthala	*63.5*	*34.5*	*6.69*
Jullundur	*56.4*	*47.3*	*—9.1*
Ludhiana	*61.6*	*21.0*	*29.3*
Ferozepur	*58.6*	*34.0*	*25.3*
Bhatinda	*78.4*	*74.4*	*23.5*
Sangrur	*47.9*	*39.7*	*16.8*
Patiala	*52.3*	*32.2*	*35.9*

Source: Figures calculated from 1961 and 1951 Census data after making allowance for the 1951 Census slips burnt at Jullundur on a proportionate basis.

By contrast, in many of the Hindu majority districts the Sikh population has experienced a phenomenal increase while the number of Hindus has increased only at about the rate of natural growth (Table 5).

In the Hissar, Karnal and Ambala districts the increase in Sikh population, both percentage-wise and in actual numbers, was particularly impressive. In the Hissar district the increase was 89.9 per cent—from 80,394 in 1951 to 152,719 in 1961; in the Karnal district, 84.7 per cent—from 96,458 in 1951 to 177,602 in 1961. In both the cases the rapid rise in Sikh population took place in those areas where the development of new irrigational means has made the reclamation of waste lands possible. The inmigrants to these areas have invariably come from the densely populated regions where hunger for cultivable land is great. Also, among these inmigrants are a fairly large number of former displaced persons who come from the canal colonies of West Pakistan.

It may be noted that this process of redistribution of population, from areas approaching some kind of a saturation level under the existing economy and technology to thinly settled areas of considerable agricultural potentialities, has greatly slackened, if is is not already over. The future does not seem to hold a bright promise for further reshuffling on this account.

In the Hindu majority areas the Hindu population, on the other hand, increased appreciably only in the Hissar district where the last decade witnessed economic development at a quick pace. In the Kangra, Simla and Hoshiarpur districts their increase was far below the rate of natural growth, implying considerable out-migration. In the Simla district the main reason for the small increase in Hindu population and actual decrease in Sikh population was the shifting of the state Capital from Simla to Chandigarh. In the Kangra district, poverty of resources continues to push out the local inhabitants irrespective of their religion. In the Hoshiarpur district also where the disastrous action of the chos and the gradual increase of population over the last four decades have reduced the per capita cultivated land to less than half an acre, the process of out-migration has been continuous, particularly from the overwhelmingly Hindu-majority Una tahsil where poverty is more acute than elsewhere in the district.

In view of the considerably large differential in the rates of population growth of the two communities in nearly all the Hindu majority districts

Table 4: Changes in the Percentage of Hindus and Sikhs to Total Population in Sikh Majority Districts, 1951-61

District	*As Percentage of Total Population*			
	Hindus		*Sikhs*	
	1951	1961	1951	1961
Amritsar	*27.7*	*32.9*	*70.6*	*64.5*
Gurdaspur	*45.5*	*50.0*	*46.5*	*42.9*
Kapurthala	*35.4*	*40.9*	*63.5*	*58.2*
Jullundur	*42.6*	*53.9*	*56.4*	*44.8*
Ludhiana	*37.3*	*35.7*	*61.6*	*63.0*
Ferozepur	*38.4*	*40.6*	*58.6*	*57.9*
Bhatinda	*20.8*	*27.1*	*78.4*	*72.3*
Sangrur	*47.5*	*51.8*	*47.9*	*43.6*
Patiala	*46.6*	*45.7*	*52.3*	*52.9*

Source: Calculated from 1951 and 1961 Census Data.

Table 5: Differences in Rates of Growth of Hindu and Sikh Populations in Hindu Majority Districts of Punjab, 1951-61

District	Proportion of the Hindus in the Total Population in 1951	Percentage Increase in Population during 1951-61	
		Hindus	Sikhs
Hissar	*91.3*	*43.9*	*89.9*
Rohtak	*98.5*	*26.7*	*—18.5*
Gurgaon	*82.0*	*27.4*	*32.5*
Karnal	*90.3*	*32.8*	*84.7*
Ambala	*73.6*	*31.0*	*43.6*
Simla	*87.3*	*12.9*	*—49.4*
Kangra	*95.9*	*18.0*	*—51.8*
Lahaul and Spiti	N.A.	*24.6*	*3140.0*
Hoshiarpur	*73.2*	*4.6*	*33.5*
Mahendragarh	*98.9*	*23.9*	*—15.0*

Source: Figures calculated from 1961 and 1951 Census data after making allowance for the 1951 Census slips burnt at Jullundur on proportionate basis.

Table 6: Changes in the Percentage of Hindus and Sikhs to Total Population in Hindu Majority Districts, 1951-61

District	Hindus		Sikhs	
	1951	1961	1951	1961
Hissar	*91.3*	89.1	7.7	9.9
Rohtak	*98.5*	*98.5*	*0.7*	*0.4*
Gurgaon	*82.05*	*81.5*	*0.6*	*0.7*
Karnal	*90.3*	*86.7*	*8.9*	*11.9*
Ambala	*73.6*	*71.4*	*23.3*	*24.8*
Simla	*87.3*	*93.0*	*10.0*	*4.8*
Kangra	*95.9*	*98.2*	*2.0*	*0.8*
Lahaul & Spiti	—	*46.8*	*0.04*	*0.08*
Hoshiarpur	*73.2*	*67.7*	*26.2*	*30.9*
Mahendragarh	*98.9*	*99.2*	*0.5*	*0.4*

Sources: Calculated from 1951 and 1961 Census data.

the share of each in the total population has been modified during the decade. Whereas the proportion of Sikhs has improved in the Hissar, Karnal, Ambala and Hoshiarpur districts, that of the Hindus has increased in the Simla and Kangra districts. The religious composition of the Rohtak, Gurgaon and Mahendragarh districts remains practically unchanged. (Table 6).

Muslims

With a population of 393,314, which is only 1.94 per cent of Punjab's total population, the Muslims are the third religious group in the State. Their number increased by 38 per cent during the decade. However, within the State there are marked regional contrasts in their rate of growth. In the border districts of Gurdaspur, Amritsar and Ferozepur their population decreased by 40.6,43.3 and 0.8 per cent respectively.

In all the eastern districts of Punjab adjoining Uttar Pradesh, on the other hand, there has been tremendous increase in Muslim population, partly due presumably to in-migration from that State (Table 7). These in-migrants work mainly as agricultural labourers and truck farmers.

In the Gurgaon district where 16.91 per cent of the total population was Muslim in 1951—the highest percentage in Punjab—there was further concentration of this community, raising their number from 163,663 in 1951 to 216,767 in 1961; and their proportion to total population to 17.47 per cent. Part of this increase is attributable to in-migration from the adjoining areas of UP.

By contrast, there has been considerable dispersal of Muslims from Malerkotla, which was another area of Muslim concentration in 1951, to the adjoining districts. This dispersal has been encouraged by the stability in the law and order situation. As a result, there was absolute decrease in the Muslim population of the Malerkotla tahsil, and tremendous increase in the adjoining districts of Patiala, Bhatinda and Ludhiana during the decade. In most cases the increase has taken place in the rural areas where the Muslims work as agricultural labourers.

In the Lahaul and Spiti district the Muslim population has increased from 2 in 1951 to 1210 in 1961. It is an exclusively male population. It should be interesting to find out in what economic activity these people are engaged.

Some migration of Muslims has also taken place from the Kashmir Valley to the large towns and cities of Punjab during the decade. But the actual numbers involved in this movement are rather small.

Christians

With a population of 149,834, which is 0.74 per cent of the state's total, the Christians are a very small minority in Punjab. Their population experienced an increase of 51.56 per cent during the decade, mostly in the rural areas. About half of the increase seems to be due to conversions from among members of some of the backward classes. However, the numbers involved are so small that they have made no material difference in the pattern of religious composition of Punjab (Table 8).

The Buddhists, Jains and others represent only 0.32 per cent of Punjab's population. The population of the Buddhists increased from 1,660 in 1951 to 14,857 in 1961; that of the Jains from 45,096 to 48,754; and of the remaining religious groups decreased from 984 to 879. It will be clear from the above figures that the pattern of growth of these minorities is hardly significant to the religious composition of Punjab's population.

Summary

The religious composition of Punjab's population has undergone significant changes during 1951-61. The excessive migration of the Sikhs to other Indian states and foreign lands has reduced their proportion in the total population of their home state. The Hindu population, on the other hand, has slightly improved its relative strength because of excess of inmigration over out-migration.

Within Punjab also, contrasting patterns of growth of the two communities have been witnessed during the decade. In the Sikh-majority districts, the population of the Sikhs increased very little or decreased, while the rate of growth of the Hindu population was very high—higher than the rate of natural increase in many districts. This trend has resulted in a reduction of the proportion of the Sikhs, and an increase in that of the

Table 7: Punjab Districts with More Than 30 Per Cent Increase in Muslim Population, 1951-61

District	Population of Muslims		Percentage Increase 1951-61
	1951	1961	
Hissar	3,312	6,203	*87.29*
Rohtak	2,562	7,349	*186.85*
Gurgaon	163,663	216,767	*32.45*
Karnal	3,646	14,159	*288.34*
Ambala	24,424	40.351	*65.21*
Lahaul & Spiti	2	1,210	*60,400.00*
Hoshiarpur	1,360	7,050	*418.38*
Ludhiana	3,357	4,686	*39.59*
Bhatinda	1,677	3,340	*99.17*
Patiala	5,597	11,714	*109.29*

Source: Census of India, Paper No 1 of 1963—Religion, p xxv.

Table 8: Punjab Districts with Rapid Growth in Christian Population During 1951-61

District	Christian Population in 1961	Percentage Growth of Christian Population During 1951-61
Karnal	2,094	*328.2*
Amritsar	33,739	*128.6*
Ludhiana	2,638	*120.0*
Hoshiarpur	7,207	*78.9*
Ferozepur	19,234	*78.6*

Source: Compiled from Census of India, Paper No 1 of 1963, pp xiii and 32.

Hindus in nearly all the trans-Sutlej areas. It has reversed the pattern of religious composition in the Gurdaspur, Jullundur and Sangrur districts.

In the Hindu-majority districts, by contrast, the numbers of the Sikhs increased phenomenally in some of the areas, while the Hindu population increased at about the rate of natural growth.

Both within and out of Punjab the Sikhs have shown greater mobility in pursuit of economic opportunities than their Hindu brethren. While the movement of the Sikhs is, to a large degree, from rural areas to rural areas, that of the Hindus is to urban places. In this movement, religious and linguistic considerations have generally been disregarded. The inter-regional shifts discussed above have set in a process of inter-mixing of people belonging to the two communities. It is a healthy trend toward national integration, and is a matter of great political, social and economic significance.

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DA 64/544

The World Bank in Search of a Policy

Ashok V Desai

Statistics of the World Bank's operations in 1964, just released, bear out the suggestion that the demand for the Bank's credit is lagging behind supply. The Bank has been highly liquid since 1962 and has been retiring its funded debt. Given its present assets position it could certainly afford to lend more.

The forces behind this development invite some detailed consideration.

THERE was general concern when the 1962-63 annual report of the World Bank showed a decline in the value of new loans to $449 million from the previous year's total of $882 million. Since the need of underdeveloped countries for external finance had by no means diminished, questions were asked whether the Bank's conditions of lending were not too onerous and whether loan finance as such was reaching the limits of its usefulness as a form of external development aid. Attention was diverted from these questions by the Geneva Conference on Trade and Development; if the opportunities of export to industrialised countries were extended, the need for loans would be less pressing.

Decline in Assistance

By now, however, it has become apparent that the Geneva Conference was pretty fruitless. It brought out the strong sense of disappointment of developing countries over the performance of the GATT, which is likely to make it even less effective than it has been in the past. But the Conference created nothing that could succeed where the GATT failed. It failed even to obtain an undertaking from industrial countries to reduce tariffs. Since then, we have been waiting for the progress of the Kennedy Round and coming to realise that its results will be neither quick nor substantial; eyes are turning again towards possibilities of getting more loan finance. Meanwhile, the outflow of loans from the World Bank shows signs of slowing down again; loans in the calendar year 1964 amounted to $728 million and were $60 million less than in 1963.* At the same time, loans from the International Development Association, which gives softer loans than the World Bank, have risen by leaps and bounds: the 1964 total of $418 million was more than double the 1963 figure. There has evidently been a shift from finance from the Bank to finance from the IDA. Since the Bank and the IDA follow a unified policy, this shift reflects, besides the natural preference of borrowers for soft loans, their growing inability to borrow on the Bank's terms. The forces behind the shift have a long-term significance and invite some detailed consideration.

* The World Bank and its associates publish annual accounts for financial years running from June to June as well as annual loan statistics for calendar years. The last available figures are for the year 1964.

Lending for Development

Formally, the Bank is free to choose the projects and decide the terms on which it will lend money. It has, however, developed certain clearly defined conventions.

The lending rate of the Bank is governed by, and is generally somewhat above the rate on first class securities in the capital markets of the United States and Western Europe; for the last seven years it has been between 5 and 6 per cent. This adherence to the market rates is not formal; for while the Bank lends out of its capital subscribed by member countries on which it has to pay no dividends, a large part of its loans (50 per cent at the end of June 1964) is financed out of funds raised in the capital markets. Not only does the Bank borrow in its own name; it is also active in finding customers for loans it has given to particular borrowers. Thus its primary business is the lending of its reputation. It acts as an intermediary between investors in industrial countries and borrowers in underdeveloped countries, as a device to remedy the low investment status of underdeveloped countries in the eyes of private investors.

The importance of this role must not be underestimated, for in the postwar world, there have been powerful obstacles to the international flow of private capital which made mediation indispensable. The first obstacle is the greatly improved opportunities of investment in industrial countries: the momentum of postwar reconstruction and full employment policies has maintained rates of investment much higher than before the War, and raised the rates of profit. Second, as a consequence of widespread decolonization, political uncertainties have been added to the usual economic ones associated with investment abroad. This has not only to do with the possibilities of nationalisation; obstacles to the repatriation of capital and profits, generally on grounds of payments difficulties, have also become more common.

The World Bank has been able to overcome these difficulties. For one thing, it is not entirely dependent on market borrowings, and can to a substantial extent make its loans independently of the state of the capital markets by lending out of its capital. Further, it has a wide choice of capital markets in its borrowings. And insofar as borrowing countries value continual access to it for funds, the risks attaching to its loans are greatly reduced. Thus the World Bank is largely free of the disabilities of private investors; and only an organisation of its status and scale could have overcome them.

Decline in Demand

It appears, however, that the demand for the Bank's credit is lagging behind supply. The Bank has been highly liquid since 1962 and has been retiring its funded debt. Given its present assets position it could certainly afford to lend more.

One reason for this slackening in demand is the growth of direct contacts between investors and borrowers. Some of the Bank's borrowers—notably Japan—have improved their credit enough to be able to float loans in European and American markets. The liberalization of capital movements in the last decade has undoubtedly contributed to this development.

The Bank has made great efforts to promote such direct borrowing, and can only be pleased by it. It has repeatedly urged on its clients the need for such fiscal and monetary policies as would reassure private investors; and more recently it has concerned itself with more specific proposals, including a code of guarantees to foreign investors to be accepted by borrowing countries and facilities for arbitration in disputes between investors and borrowers. Ideally from the Bank's point of view, therefore, all countries



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in need of foreign capital would give such guarantees and gradually begin to borrow directly on the world market.

Underlying Problems

Even if they eventually did so, however, the Bank would not be able to wind up in contentment. For the view that unhindered movements of private capital would be sufficient for the needs of underdeveloped countries, if it was ever held, has undergone much modification. In particular, the Bank sees two problems which private investment would not be able to solve. First, there are services which are essential to development, but which do not yield a monetary return on investment, at any rate in the short run. The most important among them are schools and roads. Second, there are investments which yield a monetary return, but the balances of payments of some countries are too adverse to permit the transmission of profits abroad. Private capital would be very reluctant to help in these cases, and it is incumbent upon the Bank to step in.

The Bank's answer to these problems is the International Development Association. The IDA, which was founded in 1960, shares its administrative machinery with the Bank. The difference between them is that there are no conventional rules governing the lending of the IDA, regarding interest, terms of repayment or the currency in which capital and interest are to be repaid. In practice, the IDA has been giving interest-free loans repayable over fifty years.

In its first fourteen months, the IDA gave loans worth $101 million; in the three years that followed, the amounts were $134 million, $260 million and $283 million respectively. It is evident that the demand for its loans has risen rapidly. And it does not just reflect demand diverted to a cheap source of funds, for all the IDA loans can be identified as either loans for services that are not priced or loans to countries in payments difficulties. And the relative magnitudes of the two kinds of loans are significant. The International Monetary Fund publishes an annual report on exchange control in member countries. If we judge the gravity of the payments positions of countries on the basis of the stringency of their exchange control, it appears that over 80 per cent of the IDA loans in the last two years have been to countries in payments difficulties, and less than 20 per cent to countries in comfortable payments circumstances for investment in unpriced services.

Thus, the IDA meets real needs, and its efforts can only be commended. Its prospects of success are, however, a matter of concern. Hitherto, the World Bank has sold off over a fifth of the loans given by it, and borrowed to cover more than a third; repayments amount to 9 per cent of the loans given. These sources of funds are, however, virtually closed to the IDA. Since it has no income, it cannot borrow; nor can it sell its loans. Its repayments are going to come in much more slowly than the Bank's, and will not necessarily be in convertible currencies.

Thus, the IDA will have to depend almost entirely on members' subscriptions and interest-free loans from the Bank. Members' initial subscriptions, amounting to $782 million, were fully committed by mid-1964, and precipitate action had to be taken to raise the resources. The total subscriptions promised at present are $1540 million. IDA loans exceeded $1000 million at the end of 1964, so even the raised subscriptions might be fully committed by the end of 1965. Further increases in subscriptions will depend on the inclinations of member countries and might well suffer from their preference for national control of nationally given credits.

So the IDA seems likely to depend on the Bank for regular additions to its resources. This year the Bank gave the IDA $50 million and stopped putting the revenue from the 1 per cent commission on disbursed loans into the Special Reserve which had to be held in liquid form. However, the commission revenue and the annual profits together are the upper limit of what the Bank can give the IDA every year. They came to $131 million in the financial year 1963-64 and will decline in the future if the Bank's lending falls. Considering that the IDA lent $418 million in 1964, no practicable contribution from the Bank's earnings will be adequate. Hence it is probable that the IDA's loans will fall short of demand for them, and arrangements are called for either to supplement IDA's resources regularly or to reduce the demand for loans. Hitherto all efforts has gone in the first direction; here we shall explore the possibilities in the second.

The problems which led to the inception of the IDA, can, however, be tackled more directly. Let us take the first one, viz, that investment is necessary in services which do not bring a monetary return. Two possibilities immediately come to mind here: one might either change the conventions about pricing and charge for services that are normally free; or one might make some other charges to pay interest on investment in free services.

It is perfectly possible to make charges for the use of roads, education, water supply, etc, and many of these services are often sold at a price, or their use entails the payment of a tax which may or may not vary with their consumption. It is, however, common to underprice them or make them free goods because some objective of policy—e g equity, literacy, hygiene—is served by the encouragement of their use.

This does not, however, preclude the raising of prices or taxes in other sectors. Such a policy was implicit in the loans given by the Bank earlier for roads, irrigation projects, etc, and no arguments for its abandonment have emerged. If, however, loans for the provision of free services become widespread, the tax structure in underdeveloped countries will have to be adapted for their servicing. In fact, it is evident that for loans spent on primarily home produced goods, like roads and schools, tax revenue and external loans are alternative sources of finance; and the better the fiscal organisation the lower the need for external finance.

Tax System

The design of the system of taxation, therefore, invites more attention than the World Bank has devoted to it. Hitherto the Bank has concerned itself only with overall fiscal policies, and often urged the limitation of deficit budgeting, insofar as it worsens the balance of payments and makes the servicing of the Bank's loans difficult. Since budget deficits are generally incurred in response to powerful domestic forces, its advice goes unheeded. However palpable the connection between budget deficits, inflation and the balance of payments might be, the plea for fiscal discipline is bound to sound weak in the face of the growing needs of public investment and administration in underdeveloped countries. A much more effective and lasting contribution to fiscal discipline would be made, however, if they were helped to develop tax systems which would enable their revenues to keep pace with their needs.

Most underdeveloped countries rely heavily on taxes on commodities which can be taxed at a small number of points—goods entering international

trade or manufacture goods. Such a tax regime has its virtues: its cost is extremely low and the scope for evasion limited. But its base is narrow, and it is ill adapted to the aims of growth and equity. If we take these objectives into account, we must look for tax systems which restrain consumption, which are progressive and particularly hard on non-functional incomes, and which are difficult to evade.

Restraint of consumption generally calls for an effective land revenue. Not only is the land-based population the largest group of consumers, it also produces goods on which a large proportion of incomes is spent. Hence the commodity pattern of goods released by their taxation corresponds closely to the needs of the growing urban populations. The initial problems of setting up a land revenue system are formidable, and might often require changes in land revenue and ownership; but once it gets going, the problems of assessment, ascription and collection are comparatively simple.

It is difficult to devise taxes that are progressive and difficult to evade, since a high proportion of the taxable persons in underdeveloped countries are self-employed. But there are certain status-symbols or familiar forms of wealth display in all societies—buildings in some, marriage ceremonies in others—and their taxation can be progressive and effective. There is some scope for progression in land revenue as well.

Payments Problem and Integration

A more detailed analysis of fiscal policies would unduly stretch the limits of this paper; the above remarks make it evident, however, that some radical improvements in the tax structure of underdeveloped countries are possible. This list of improvements is by no means exhaustive; more detailed suggestions, however, can only be made on the basis of the particular institutional characteristics of the countries. Their rural character and the importance of small enterprises raise problems of efficiency and economy of taxation for which no general treatment is available, and where solution must depend on the study of local conditions. The Bank is in a very favourable position to initiate such studies, and in view of their bearing on the servicing of loans, its interest in them is manifest.

Payments difficulties have beset a very large number of countries, and their resolution has absorbed much administrative effort. The devices of import substitution and export promotion are familiar and widely used. There is often much scope for the use of information about long-term prospects of demand for products and about substitution possibilities in policy making; but given their state of information, countries know the rules of trade policy, and their practice cannot be greatly improved. But compared to marginal improvements in the techniques of antarky, the potential gains from planned international specialisation are considerable. While it is not possible to set limits to the range of industries particular countries can run with advantage, there are, in every region, countries which have a definite superiority in the production of particular goods by virtue of their mineral or agricultural resources; and however contestable the general argument for free trade might be, it is least equivocal in respect of free trade in these goods.

Such commodities are often the subject of bilateral trade agreements today. On balance, the bilateral agreements probably result in mutually advantageous trade which would not take place in their absence. Owing to their restricted international scope, however, they are liable to divert trade from less advantageous channels; and since they are shortlived, they do not result in enduring patterns of specialization. Hence it is advisable to move in the direction of more permanent multilateral arrangements.

Such arrangements could take many shapes; the following is suggested only as an illustration. A group of neighbouring countries might select a set of commodities including some in whose production each individual country has an absolute advantage, and agree to allow free trade in these commodities and their derivatives within the region. This would prevent inefficient import substitution in these commodities, and at the same time obviate the necessity for import substitution by providing for the growth of exports. The river Parana, the Caribbean and the Indian Ocean are convenient nucleii for such trade regions.

Of the problems associated with trade groups, many can be anticipated and tackled in advance. First, an attempt must be made to ensure that the regional exports and imports of each country balance and grow *pari passu*; thus, the selection of commodities to be freely traded will have to be preceded by a detailed study of the prospects of growth of their demand in individual countries. Second, a clearing house would be required for the exchange transactions arising from regional trade; and the stability of the agreement would be safeguarded if the clearing house were accompanied by the provision of credit to finance the short-term swings in countries' regional balances of payments. Such a fund could also be replaced by a free market in the currencies of the region. Third, it would be difficult to choose commodities in such a way that no two countries compete in their production. Hence it would be necessary to choose a large enough number of commodities for each country to ensure that a fall in the exports of one of them would not cause a serious imbalance in the country's trade with the region. Further, it would be advisable to diversify steadily the production of exportable goods and the set of freely traded goods exported by each country, so that its dependence on individual commodities is reduced.

Regional Trade Groups

Regional trade groups can solve the problem posed by the weak payments circumstances of the World Bank's clients. For the problem arises because the Bank's loans are spent largely on capital goods produced by a few industrial countries, and the clients' balances of payments with these countries are weak, so that they cannot repay loans in currencies that other borrowers can use. Now, if these capital goods are included in the set of goods to be freely traded in regions, the countries in that region can use loans in the currency of the regional producer of capital goods. Thus, the number of currencies in which the World Bank can give loans and accept repayment will increase, and the growth of regional trade will ameliorate the problem of their scarcity and inconvertibility.

The rationale of regional trade groups is simple. The practical problems of research and organisation are, however, formidable. So are the problems of political co-ordination and of the planning and finance of investment. But they are problems that the World Bank could tackle most effectively. Not only is the Bank capable of organising co-operative effort of this magnitude, it can also, by the provision of finance, help in the realisation of plans and create sanctions against their failure. The characteristics of the Bank which have minimised the risk of default can be used to ensure the success of trade groups. They point the direction in which the Bank's activities could most fruitfully move.

The National Council's Strategy for the Fourth Plan

T N Srinivasan

In April 1964, the Perspective Planning Division (PPD) of the Planning Commission circulated its Notes on Perspective of Development, India 1960-61 to 1975-76.

These notes provided a wealth of information on input norms, capital co-efficients, demand projections, etc. In fact the notes can be described as a "do it yourself planning kit". All you have to do to produce your own Fourth Plan on the back of an envelope is to change the PPD numbers here and there to suit your prejudices, biases, and tastes.

This is a critique of one such attempt.

(The author, and not the organisation he is associated with, is responsible for the views expressed in this article.)

UNDER the "direct supervision and guidance" of its Director General, the National Council has come out with its own strategy for the Fourth Plan. The preliminary version of this strategy was in circulation in September 1964. The final version was published in November 1964. There are some interesting omissions in the final version as compared to the preliminary. More about this later on.

The Council starts with the premise that the provision by 1975-76 of a minimum consumption expenditure of Rs 27 per capita per month for the poorest 5 per cent of the population will involve a drastic redistribution of consumption expenditure if national income were to grow at 6.8 per cent per annum during 1965-66—1975-76. Lorenz concentration coefficient will have to fall from 0.33 to 0.034.[1] On the other hand if redistribution is not feasible, the attainment of the minimum consumption objective will involve a very high and unattainable rate of growth of income. The Council then argues that since redistribution of total consumer expenditure to the required extent is not feasible in one stroke, one might attempt to achieve it in stages. First redistribute the main item of consumer expenditure, namely, cereals and pulses. The other items could then be taken up successively in decreasing order of their share in consumption expenditure. Thus the Fourth Plan is the "cereal redistribution plan", to be followed up presumably by a "cloth plan", a "house plan", and a "fuel and light plan", a "durables plan", etc, in successive quiquennia!

How is the redistribution going to be achieved? In urban areas it will be through rationing and in rural areas through a programme of part-time employment in rural works (with wages paid in cereals) of the poorer sections of the population.

This redistribution scheme and the associated rural works form the core of NCAER strategy. One must keep in mind the following facts while examining this scheme. First, the data from 15th round of NSS show that expenditure on cereals and their substitutes constitute nearly 42 per cent and 24 per cent of total consumer expenditure in rural and urban areas respectively. Thus redistribution of cereals implies redistribution of sizable chunks of consumer expenditure. Second, the distribution of cereals among different expenditure groups in both rural and urbans was markedly more even than total consumption expenditure. The Lorenz concentration ratios for *quantity of cereals* consumed were 0.14 and 0.08 in rural and urban areas respectively while the corresponding figures for total consumer expenditure were 0.30 and 0.35. Thus inequalities are very pronounced in other items of expenditure such as on health, education, etc. These inequalities will be reduced as free compulsory primary education, scholarships for higher education, extension of health services, etc, become available in increasing amounts. The NCAER strategy involves a reduction of concentration ratio in consumption of cereals to roughly one-ninth of the above already low values in *five years*. This is to be considered in light of the NCAER view mentioned earlier that reduction of concentration ratio in total consumption by the same extent in a *decade* is not possible[2]. Third, NCAER seems to be implicitly assuming that a substantial portion of any levy imposed on rich farmers to finance the rural works cum redistribution programme will cut into their consumption (of cereals in particular) rather than into their savings. It may in fact happen that these farmers might prefer to maintain their consumption of cereals at the expense of a reduction in other items of consumption or savings. A levy in kind will not solve this problem. It may only result in a reduction in marketed surplus thus jeopardising the urban "minimum consumption for all through rationing" scheme of the Council.

The Council does some computations on the burden of the levy by imagining an average village and applying to it the cropping pattern and yield rates prevailing in three states. It is not at all clear what these computations are supposed to illustrate. Be that as it may, different sections of the paper relating to this levy are not even consistent with each other.[3] For instance, according to Table 17 of the paper, rural works will create 1,933 million man days of employment in 1970-71. Assuming that the number of villages remains the same as in 1961, this amounts to an employment of over 3400 man days in 1970-71 for the hypothetical average village, requiring 10.2 tonnes of cereals as wages. The "illustrative" computations are based on 2,500 man days of employment! Besides, the gross cropped area assumed for the computations corresponds to 1953-54 rather than to the figure for 1970-71 given in Table 13 of the paper! Yield rates assumed are those of 1960-61. One could at the very least have worked consistently with figures relating to 1970-71 for production and areas given in Tables 10 and 13 to derive the implied yields.

One can in principle separate the problem of redistribution of consumption from that of capital formation through rural works. In fact, as the Council itself points out, our plans did make provisions for rural works. If one wishes, one can separate out a rural works component in the total invest-

ment proposed by PPD for agriculture. In this sense the rural works aspect, as such in the NCAER strategy, is nothing new. However, as the Council points out, the rural works programme of the Plans have not been a great success. When it comes to devising a concrete scheme for identifying and making rural works a success, the Council's contribution is rather meagre. It amounts to just two recommendations: (1) put all rural works programme under a Central Ministry and (2) employ retired NCO's of the Army to supervise the works.

The NCAER strategy relating to Industries, Minerals, Transport, etc, could have been passed over without comment except for the interesting omissions in the published version as compared to the draft. In the draft the section on industry stated "No material balances for the industrial sector were prepared by the Council. Those prepared by the PPD have, therefore, been relied upon". The section on Minerals said "The target for mineral production are broadly based on PPD material balances,...". In the published version, the Council has omitted all references to PPD. The targets in the published version, almost in all cases, are identical with those in the draft. Are we to assume that the Council did its own material balancing in the time-span between the two versions to check the internal consistency of various targets thus confirming the PPD exercise and therefore no reference to PPD need be made?

One is tempted to ask the following question as well. If a redistribution and rationing scheme for cereals and one or two other essential consumer goods of the order envisaged by the Council could in fact be carried out, one can also carry out much bolder programme of capital formation in basic industries than the Council recommends. After all the rationing scheme will suppress the deleterious consequences of a wage-goods price inflation that might otherwise take place. Why did the Council refrain from applying its resources to identifying (and suggesting remedial action on) the factors that inhibit faster growth in sectors of our economy other than agriculture? Surely the Council cannot hold problems of mobilisation of financial resources to be the limiting factor.

Notes

[1] I have not verified this computation of NCAER.

[2] The above discussion assumes that the data from NSS 15th round (1959-60) could be taken to represent the consumption distribution even in 1965-66. The comparison of initial and target concentration ratios does not necessarily indicate the magnitude of the task involved in going from one to the other.

[3] The Council does not indicate how the cereal consumption of the upper income groups in rural areas are to be kept down to the levels indicated by it. True, the levy is to be progressive. But this progression with respect to size of land holdings cannot be easily converted to progression among different per capita expenditure groups other than those covered by the rural works programme. Besides, as we mentioned earlier, a levy can redistribute income but not necessarily consumption.

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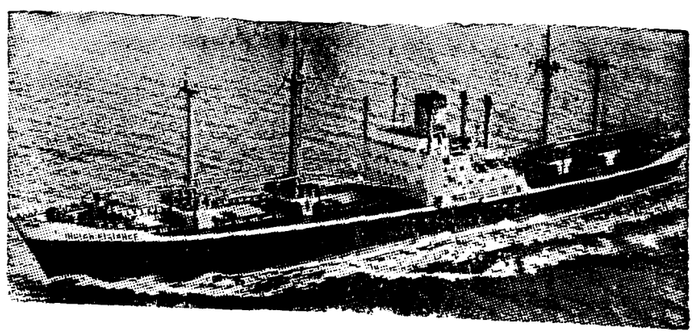
Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in 1956 and later to Rumanian ports. In 1959 the Company forged still another link in the overseas with South America, and in 1960 it extended its service to Poland.

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GOI's Decision-Making Apparatus

Through the Foreign Investor's Eyes

Anant R Negandhi

This article examines the foreign investor's reaction to the Government of India's "pragmatic" policy on foreign investment in India and to the official procedures for approval of such investment.

The necessary data were collected through a questionnaire survey in the United States of American companies which had invested in India or were contemplating such investment and personal interviews in the United States and India with executives of U S, British and Indian companies.

(Most of the data used in this article were collected for the author's Ph D thesis on "An Evaluation of the Private Foreign Investment Climate in India" at the Graduate School of Business Administration, Michigan State University, Michigan, U S A. The author wishes to express his thanks to Dr Claude McMillan Jr, Dr Dalton E McFarland, Dr Richard F Gonzales and Dr Edward W Smykay, all of Michigan State University.)

LIKE most of the developing countries, India's economic development heavily depends on the availability of managerial and technical know-how and foreign exchange. One of the ways to solve the problem of shortages of foreign exchange and managerial and technical know-how is to invite foreign private investors to India. Indian planners seem to have realized the potential of this media for promoting economic development in India. Recently the Finance Minister, Shri T T Krishnamachari, said: "I think the stage has come when we would be justified in opening the doors even wider to private foreign investment."

Not Enough Investment

However, in spite of our need and desire to increase the inflow of foreign private investment, such investment has remained quite inadequate. To carry out successfully envisaged economic plans we need some 300 million dollars investment a year from abroad, while the rate of investment from such sources has been approximately 100 to 120 million dollars a year. Moreover, the need of foreign private investment is likely to increase greatly in the Fourth and Fifth Five-Year Plans. For example, the preliminary figures released by the Government suggest that the total investments of the Fourth Plan will be Rs 21,500 crores to Rs 22,800 crores. The Plan envisages an over-all growth rate of about 6.5 per cent per year. Now if the Fourth Plan is to reach its targets, over-all private investment will have to be about Rs 7,000 crores, and private foreign investment will have to rise to four to five fold over the present rate.

The large gap between the supply and demand of foreign private investment in India has prompted researchers to undertake a comprehensive study of the Indian foreign investment climate.[1] In this research the following factors were investigated:

(a) Indian socio-economic and political environments and the foreign executives' evaluation of these conditions.

(b) Factors or Indian policies influencing investment decision of foreign investors in India, and their evaluation of these policies.

(c) Market potential and profitability of foreign ventures in India.

To collect the necessary data for this study a questionnaire survey in the United States and personal interviews in the United States and India were conducted. The questionnaire was distributed to some 188 American companies either having investment or contemplating such investment in India. Personal interviews were conducted among 82 top ranking executives of American, British and Indian companies. The entire field research was undertaken during the period between October 1963 and April 1964. Prior to this, extensive library work was done to collect factual data concerning Indian socio-economic and political environments and specific Indian policies affecting foreign private investment decisions.

The findings of this research seem to suggest that the Indian socio-economic and political environments, market potential, profitability of foreign ventures, and the Indian Government's attitude towards such investment are quite favourable in India. And these were regarded as such by the foreign executives investing in India. However, the research discovered that the excessive red tape and bureaucracy in the government, indecisive foreign investment policy and high tax rates were the main factors retarding the inflow of foreign private investment into India.

The favourable factors in Indian investment climate has been discussed and analysed elsewhere by the author.[2] Such unfavourable factors as red tape, and indecisive foreign private investment policy of the Indian Government will be discussed and analyzed in this paper. The Indian taxation policy has been examined by many authorities, and readers interested in this subject should examine the excellent research work of the National Council of Applied Economic Research.[3]

Red Tape and Bureaucracy

As said above, one of the main obstacles to securing foreign private investment or collaboration is the slow and cumbersome working of the Government control apparatus. The formidable array of forms to be executed and officials to be consulted greatly discourages both the domestic investor and the foreign investor or collaborator. One can easily visualize this difficulty of the foreign investor by merely looking at the procedural formalities he has to go through to obtain approval of the Indian Government. Under present procedural formalities, he must obtain:[4]

(a) An industrial licence under the Industries Development and Regulation Act of 1951.

(b) Approval from the capital goods and foreign agreements committees.

(c) A consent for the issue of any capital stock under the Capital Issue Act of 1947.

(d) A license to import capital equipment and machinery under the Imports and Exports Act of 1947.

(e) An approval from the Reserve Bank under the Foreign Exchange Regulation Act of 1947.

(f) A certificate of incorporation under the Indian Companies Act of 1956.

The net result of these excessive control measures is the creation of unnecessary red tape at all levels. And this irritates both the domestic and foreign investor. The latter, however, is more sensitive in that he always has the opportunity of going elsewhere to obtain quick approval for his investment.

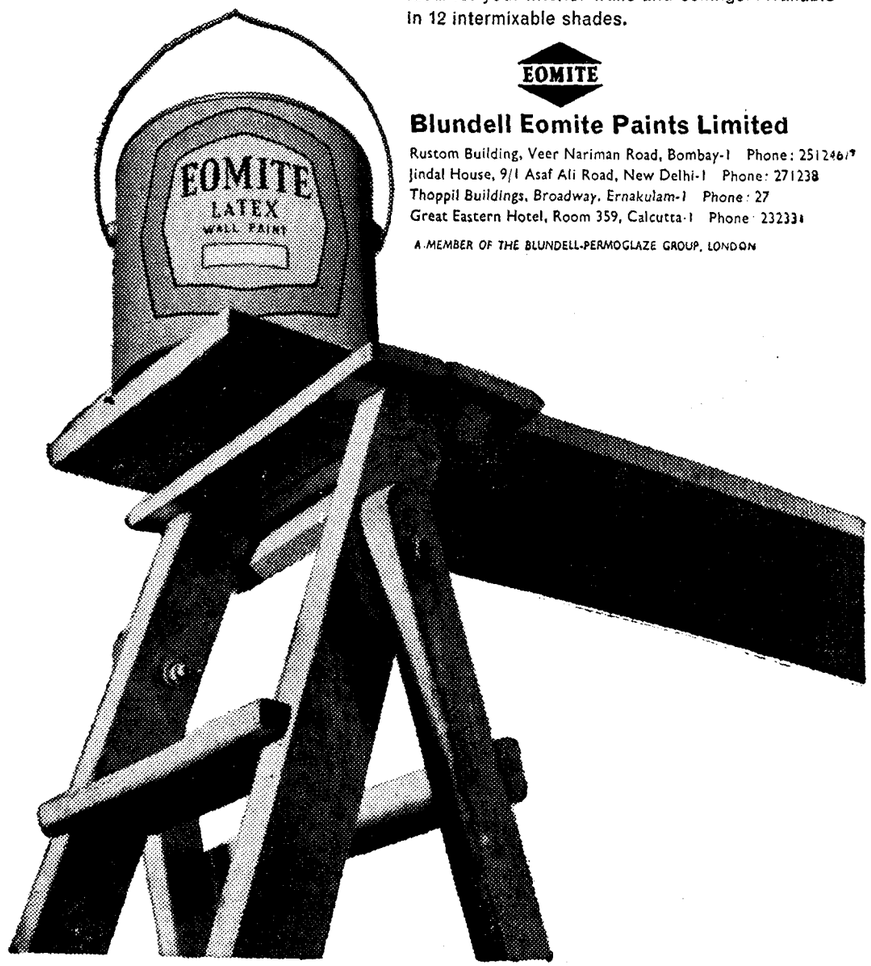
A majority of the foreign executives interviewed, approximately 87 per cent of the total, in the United States and India and responding to a questionnaire survey in the United States mentioned that red tape and slow decisions on the part of Indian Government officials were the main obstacles to investment in India. Their indictment of red tape and excessive controls can easily be seen from the following statements.

An American executive in the United States said:

> They [Indian government officials] are as slow as molasses in January ... we are in many countries, and India tops them all in red tape and

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> time consumption. You cannot move without innumerable trips to New Delhi.

An American executive in India said:

> ... bureaucratic red tape and delays are particularly irritating, to the point that in certain cases we have foregone opportunities rather than fight through the procedural battle.

Yet another American executive said:

> Red tape has been fantastic ... we budget ten times the usual required executive time ... It is difficult to do business with the Indian Government at least insofar as starting a corporation is concerned. We find the Indian officials very hard working, very well informed and very gracious, but because so many are or seem to be involved in most decisions, a decision is difficult to obtain.

Red tape and excessive Governmental bureaucracy also were considered the main problems faced by businessmen operating in India. For example, of the 54 U S and British executives interviewed in the United States and India, some 44 executives (81.4 per cent) mentioned red tape as the main operational problem.

Many of the American and British executives interviewed in the U S and India showed much concern about the conflicts that exist among different agencies of the Indian government. Conflicting objectives from agency to agency with no means to coordinate them and to resolve the conflicts result in additional delays.

Investment Policy

There is no single formal document that can be cited as laying down Indian private foreign investment policy. The Indian Government's attitude toward private investment is mainly reflected in the Indutsrial Policy Resolution of 1956 and various high-level pronouncements made from time to time. The industrial policy statement of 1948 set the early pattern for foreign private investment in India. In this statement it was said that foreign industrial know-how should be sought, but effective controls of new enterprise should be in Indian hands except in unusual cases calculated to serve the national interest.

The Indian Industrial Policy Resolution of 1956 thus prohibits establishment of majority-owned subsidiaries by foreign investors. However, in recent years this rule of minority participation has been disregarded. For example, English Electric Company, Consolidation Pneumatic Tools Company, Asahi Glass of Japan, W W Sprague of the United Kingdom, Parke Davis of the United States, Atlas Copco of Sweden, Johnson and Johnson of the United States, Hoffman-LaRoche of Sweden, Italian Ceat Croma, and Merck, Sharp and Dohme Company of the United States were allowed to own a majority in their Indian operations.

Thus, there is little about Indian private foreign investment policy that is rigid. The Indian Government is guided by pragmatism. The Government does not wish to establish rigid approval patterns that cannot be changed should the times or the specific case so demand. It wishes to avoid any form of rigidity and to keep a flexible position so that it can say yes to a wholly foreign-owned venture if the "merits" of the case demand such approval.

However, this pragmatism in policy both helps the foreign investor and adds to his problems. He has no clear-cut answer as to what will be approved and what will not be approved by the Indian government.

A majority of the executives responding to the questionnaire survey and interviewed showed much concern about the flexible attitude of the Indian Government in this regard. They considered this fexibility as a sign of "unbalanced mind" of the Indian Government. This can easily be seen from the following statements of Indian, British and American executives.

An Oxford-educated Indian executive said:

> Changing our investment policy from time to time hurts us more and creates suspicion in the eyes of foreign investors. We should be very clear from the beginning about our policies.

An American executive said:

> [Indian] policies may be fair but the Government of India cannot make up its mind ... and frequent changes in the policies create uncertainties in our mind and do not give us confidence to expand or grow ... changing policies also create frustration.

A British executive in India said:

> No general guidelines for what will be approved and what won't ... even Pakistan has general guidelines ... it is very frustrating for the foreign investor.

Conclusions and Recommendations

We have seen that excessive red tape and bureaucracy in the Indian Government and indecisive foreign investment policy are the two most important factors retarding greater inflow of foreign private investment in India. The third important factor retarding such investment is the high taxation in India. The relative importance of these factors in retarding investment in India was also confirmed by yet another finding of this research. To pinpoint the specific factors retarding foreign private investment in India, some 54 executives of American and British companies in India were asked to mention factors or policies which must be changed to increase their investment in India. Their responses to this question are as follow:

Of the 54 executives, 36 executives (66.7 per cent) said that, in order to attract investment, the Indian Government must improve its administration machinery and should get rid of excessive red tape. Some 34 executives (62.9 per cent) suggested that the Indian government should not oscillate in its policies, while 21 executives (38.9 per cent) suggested some changes in tax structure. Other changes suggested by these executives were:

Changes in Policy	*Per cent of Total 54 Responses*
Foreign exchange should be liberalized	*14.8*
More consideration be given to economic size	*1.8*
Repatriation policy should be liberalized	*1.8*
Excessive controls should be removed	*3.7*
Availability of raw materials and technical personnel should be improved	*5.5*

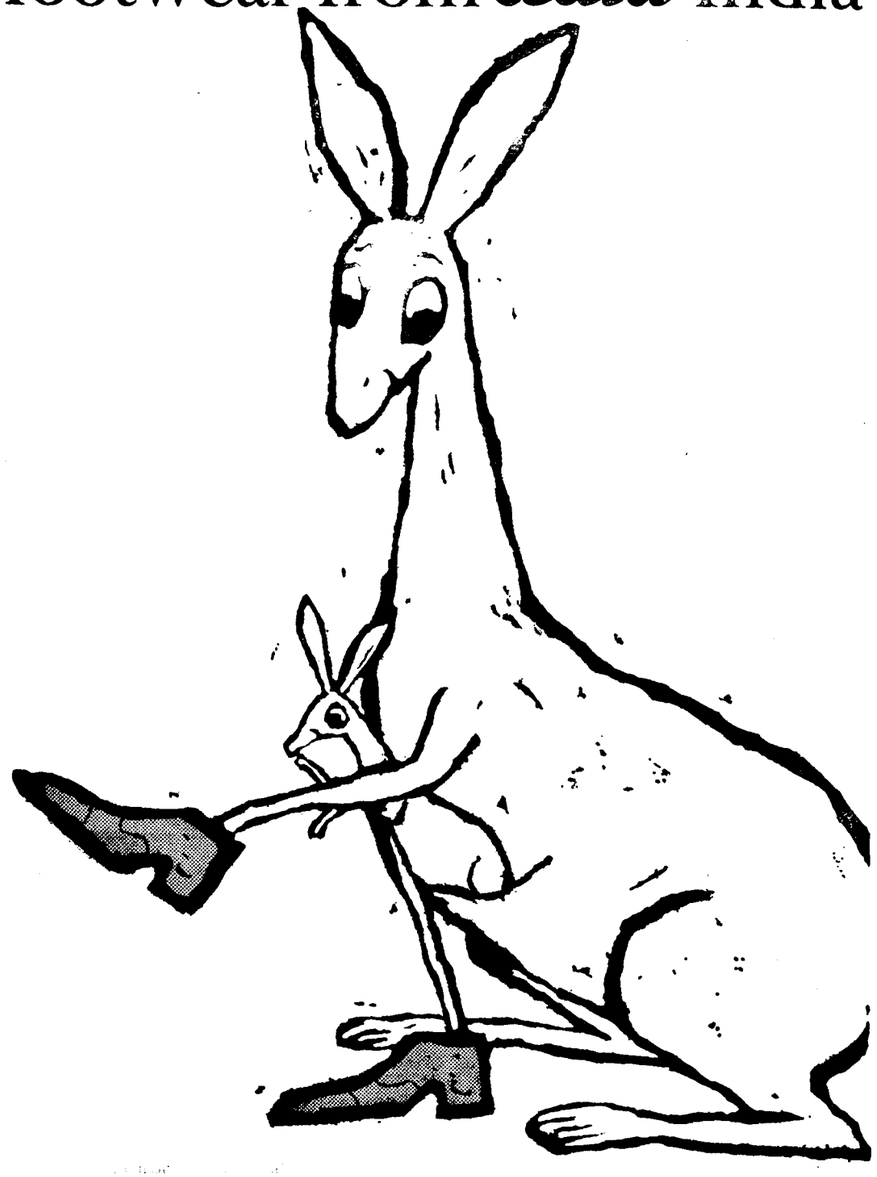
Of the three most important factors retarding foreign private investment in India, namely, excessive red tape and bureaucracy, indecisive foreign investment policy, and taxation policy, the first two factors were investigated in this paper. The third factor, Indian taxation policy, has been discussed and analyzed extensively by the author elsewhere and also investigated by such authorities as the National Council of Applied Economic Research.

Other factors such as Indian socio-economic and political environment, market potential and profitability of foreign venture in India have been termed as favourable by foreign investors investing in India.

The findings of this research seem to suggest that extensive red tape and bureaucracy in the Indian Govern-

COUNTRIES WE EXPORT TO (6)

Australia has purchased in 1964, 125,000 pairs of footwear from Bata India



ment and indecisive foreign investment policy of the Government are hurting India as far as investment from abroad is concerned. What can India do to remove these two serious obstacles and impediments to foreign private investment? An attempt has been made to provide an answer to this question below.

It is indeed true that in recent years, the Indian Government has made several attempts to introduce expeditious procedures. For example, last year the Government appointed a committee known as the Industries Development Procedures Committee headed by T Swaminathan, Secretary of the Department of Supply and Technical Development to review the operation of controls applicable to the establishment of additional industrial capacity in the country, the import of capital goods, and the issue of capital and foreign investment and collaboration. The committee in its interim report recommended the issue of a "letter of intent" within a month from the date of receipt of an application to start an enterprise. This new procedure is intended to give the applicant the earliest opportunity for finalizing other parts of his projects like the terms of foreign collaboration, import of capital equipment, issue of capital and other related matters and would broadly indicate the conditions on which the Government would be prepared to consider the grant of a license.

This may alleviate some of the problems and difficulties of foreign investors in India, but much more needs to be done yet in the direction of procedural reforms. To decrease red tape and bureaucracy in decision-making, we should identify therefore the main sources of red tape.

One of the most potent sources of delay is in the issue of import licenses.[5] The procedure known as "screening for indigenous availability" is adopted for issue of an import license. This procedure requires applicants for import licenses to obtain a number of "refusal letters" from indigenous suppliers before they can be given the license. This procedure is very circuitous and time consuming, and it is doubtful whether the resultant saving in foreign exchange is worth the loss to the nation through delays in implementing new projects.

Another source of delay in obtaining foreign collaboration approval is in securing an industrial license, necessary under the Industries Development and Regulation Act of 1951. It is believed that the implementation of this act has created serious obstacles to industrial progress. For example, the Indian Engineering Association's research suggests that the present system of industrial licensing control has led to indecision or to arbitrary decisions and has provided unnecessary scope for the misuse of power. To alleviate this problem the Association has suggested a change in the method of issuing the industrial license. Under the new system, the purpose of industrial licensing would be simply to register or record the intentions of the various parties proposing to set up new projects or to expand existing ones. The advantages of this procedure according to Engineering Association are:

(1) Industrial projects would be implemented more speedily through the elimination of a major source of procedural delay.
(2) An industry would become more efficient through the removal of artificial restrictions on competition and through the establishment of units of an economic size, resulting in lower prices, improved quality, and increased capacity to compete in export markets.
(3) Unnecessary duplication of controls and multiplication of government decisions would be avoided, thus enabling both the administration and applicants for licenses to attend to other more important work.
(4) The full potential demand of industry for raw materials, electric power, fuel, transport, etc., would be duly registered with the authorities concerned, thus enabling more realistic planning ahead for the vital sector of the economy.
(5) Industrial licenses would cease to be a marketable commodity, and current speculation on trafficking in licenses would be eliminated.

The Engineering Association's suggestions merit the serious thought and consideration on the part of Indian planners.

Yet another source of delay in obtaining the Government's approval is the division of responsibility among various Government authorities for approving new projects. This involves the foreign businessman in several trips from one Ministry to another or between the Central and State Governments. It is therefore desirable to concentrate the various discussions and decisions relating to each project at one particular point as far as possible. One possibility here would be to give a greater measure of responsibility to the State Government to approve and promote industrial projects within their borders.

As we have seen above, there is no single clear-cut policy which reflects the attitude of Indian Government toward foreign private investment. So far, the Government has been pragmatic in implementing this policy. However, the pragmatism itself has become an inhibiting factor and is looked upon by the foreign executives as a sign of "unbalanced mind" of the Indian Government.

Indian planners, however, always have taken pride in being flexible in their policy measures. But if the flexibility creates suspicion and uncertainties in the minds of private investors, then indeed it is time for the Indian Government to make up its mind about what they want. In particular, as pointed out by one of the foreign advisers to the Indian Investment Centre, there is an urgent need for general guidelines concerning what will and what will not be approved by the Indian Government.

There is also a need to spell out clearly policies concerning the following:

(1) Rules on equity;
(2) Royalty payments; and,
(3) Payment for such intangible assets as research and development.

Notes

1 See author's dissertation on *An Evaluation of the Foreign Private Investment Climate in India*, Graduate School of Business Administration, Michigan State University, East Lansing, Michigan.
2 See Anant R Negandhi, "An Evaluation of the Foreign Private Investment Climate in India," forthcoming in *California Management Review*, University of California, Los Angeles, California.
3 See particularly, *Foreign Investor and Tax Reforms*, National Council of Applied Economic Research, New Delhi, India, 1964.
4 "Investing and Licensing Opportunities in the Thirty-seven Countries", *Business International*, New York, 1964, p 112.
5 The material discussed under this section is drawn from "Report on Foreign Aid, Collaboration and Investment," Indian Engineering Association, Calcutta, January, 1964.

Quality tools from quality steel

In 1923, a new Indian industry was born when the manufacture of improved agricultural implements of steel was started at Jamshedpur. In 1925, The Tata Iron and Steel Company took over the Agrico factory, and, for the first time in India, diversified production to include essential implements, such as hammers, shovels, picks, beaters and crowbars.

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TATA STEEL



The Tata Iron and Steel Company Limited

JWTTN 2066 A

Poverty, Automation and Civil Rights in the US

Philip G Altbach

Since the end of the Second World War a profound change has taken place in the American economy. So much of the industrial process has been mechanised that a large segment of the industrial work force is threatened with permanent unemployment. Automation, or as it is more technically known, cybrenation, has been the primary cause of this second "Industrial Revolution".

Combined with America's growing civil rights movement, automation and its related effects present an unprecedented challenge to the established social order. A social consciousness among American Negroes and a tightening job market spell social discontent if the problems are not adequately tackled.

IN recent months, a good deal of national concern in the VS has been expressed about the plight of workers affected by automation and about the "depressed areas," large pockets of poverty caused by technological change or the exhaustion of natural resources. The coal mining regions of Appalachia on the East Coast are a prime example. Economically destroyed by a shift to oil as a primary fuel, miners are without work and without the prospect of employment. Schools, hospitals, and other social services are inadequate and often non-existent. In short, the area presents a real challenge to the world's richest nation.

Johnson's War on Poverty

President Johnson's War on Poverty is the most graphic indication of the growing national concern about technological change and the poor. It remains to be seen whether this "war" will succeed in effectively dealing with tremendous problems, but it is an example of governmental interest. This article will focus on the issues crucial to understanding America's "second revolution," and the possible solutions which have been put forth in recent months.

Poverty has always been difficult to define in America's affluent society. Many Americans, including sophisticated economists and analysts, have preferred to ignore it. The United States Government states that any family with an income of less than $3,000 annually is poverty stricken. There were 9.3 million such families in the United States in 1964. Many of them receive governmental assistance from any number of local, state, or federal agencies. Some receive surplus food from government stockpiles. Most are under-educated and often lack adequate educational facilities. Minority groups are strongly represented among the poor, particularly Negroes, Puerto Ricans, and Mexicans. The infant mortality rate is higher as is the death rate, and there are more cases of tuberculosis and other diseases.

Coupled with automation and poverty, other factors have made the situation even more difficult. Massive movements of people from rural areas to the cities, and particularly of Negroes from the rural slums of the South to the urban slums of the North, has caused much social dislocation. The revolution of rising expectations has manifested itself among American Negroes and demands for equal employment opportunity, education, and legal status are being pressed vigorously.

A number of statistics show the dimensions of the situation. In the economic sector, the industrial work force in the United States has decreased by 300,000 from its 1957 levels despite impressive gains in productivity and output. Agricultural employment declined from 14 per cent to 7 per cent of total employment. Despite a 17 per cent increase in construction activity since 1956, there has been virtually no increase in jobs. Taking all of the goods producing industries together (agriculture included), this sector shows a loss of three million jobs since 1960. Wage and salary employment went up by 40 per cent between 1957 and 1963. This development took place despite a pronounced deceleration in the rate of gain for white collar workers. More than half of the increase in jobs occurred in the public and personal service sectors of the economy. Thus, in six years, the private, profit making, non-farm sector of the economy generated only 300,000 jobs—or the equivalent of one year's growth in public employment.

It is in this context that the President's Council of Economic Advisers has revised its original prediction that the 1964 tax-cut would quickly reduce unemployment to 4 per cent (a figure still higher than many European nations). In its 1964 Report, the Council said of the unemployment rate, "By the end of the year, it is expected to fall to approximately 5 per cent...but the attainment of the interim goal of 4 per cent lies beyond 1964." All of the above are present trends. They make it clear that:

semi-skilled and unskilled jobs are declining and will continue to do so;

the already mechanised private manufacturing and farming sectors will, through automation, increasingly produce more goods with fewer workers;

the growth sector of the economy, as far as new jobs are concerned, is the "human care," or personal service industry which cannot be cybrenated; and that new markets for housing, schools and social services for thirty-five million impoverished Americans is increasingly important.

Position of Negroes

Negroes constitute about one-fifth of those families below the poverty levels. Furthermore, they have been traditionally the last hired and first fired in American industry. Now, with jobs at a premium and much of the Negro community without adequate educational facilities, their plight is desparate. The civil rights movement, which is acting with so much militancy in both North and South, is beginning to see the relationship of the struggle for equality and the economic situation. Indeed, Negroes have picketed against segregated labour unions in New York City, have demanded pledges of non-discriminatory employment from employers, and have always stressed the need for improved schools.

The depth of these issues has recently been discussed by a number of American commentators. Michael Harrington, a socialist intellectual, described poverty in both human and economic terms in his book "The Other America". This book has spurred the Johnson Administration to step up its efforts in this area and the newly appointed director of the war on poverty,

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Peace Corps head Sargeant Shriver, has obtained many of his ideas from Harrington's work. An economist, Robert Theobald, has discussed the economic implications of automation in his book "Free Men and Free Markets". In addition to outlining the scope of the changes taking place, Theobald makes several radical assertions. He states that full employment is no longer possible in the United States and advocates the concept of the guaranteed income, which would assure everyone of an income, regardless of employment status. The guaranteed income scheme would necessitate a redefinition of work and of the "Protestant ethic", which teaches the centrality of work to man's life. Traditionally unprofitable undertakings, such as small farms, skilled handicrafts, and such, would have to be subsidised by the government to insure everyone both adequate income and a satisfying life career. This scheme is somewhat similar to India's village industries programmes. Massive educational programmes would have to be initiated, both to retrain individuals with obsolete skills and also to prepare young people for a radically different economic situation.

Growing National Concern

Harrington and Theobald are still on the radical fringe of American economic and social thinking. But their work has been influential. Men such as Walter Heller of the Council of Economic Advisers and J K Galbraith of Harvard University have urged more radical steps to deal with economic change. Influential journals have featured articles on poverty and automation. *Time* and *Newsweek* as well as more liberal magazines like the *Nation* and *New Republic* have dealt with these issues. *Business Week* and *Fortune*, magazines highly influential in the business community, have taken more notice of economic change. Several conferences have been convened concerning poverty. American students have begun to take an active interest through such organisations as the Students for a Democratic Society, a fairly large left-liberal student movement.

One small group of radical intellectuals has recently issued a manifesto which addresses itself to many of the issues central to America's social dilemma. This group, which calls itself the Ad Hoc Committee on the Triple Revolution, connects the revolutions in automation (economic), human relations (civil rights and equality), and weapons (disarmament) and postulates that far reaching social change is necessary if the United States is to effectively meet the challenges which it faces. It links the Negro struggle with the problems of automation and states that there is no real solution to the Negro problem without substantial economic readjustment. The Committee advocates a substantial reduction in American military spending so that funds can become available for needed projects. It indicates that the immensity of military expenditures in and of itself creates economic problems because many areas have become dependent on arms production and that there is a problem in converting these large sums of money, totalling more than 50 billion dollars annually, to peace-time purposes. It attacks conventional military strategists for continuing to rely on "overkill capacity" and states that the United States could cut its military budget substantially without interfering with its defence position. Finally, the Committee on the Triple Revolution urges that the idea of the guaranteed income be seriously considered and that American intellectuals, economists, and political leaders think seriously about the three-pronged challenge of automation, human rights, and weapons.

Small Beginning Only

The reaction to the Committee's statement has been remarkable. While most radical intellectuals are ignored by the broader society, the Committee has received widespread publicity and serious attention. Newspapers have printed editorials on the statement which, though usually sharply critical, do admit the importance of the issues presented. Magazines with large circulations have commented extensively on Committee's ideas. Academic figures have devoted more attention to the poverty issue and economists have turned their attention increasingly to this and related issues.

The most important aspect of concern thus far has, however, been President Johnson's "War on Poverty". While the bill authorising this "war" is not even out of its Congressional committee, a number of drawbacks can be seen in the programme. Several economists have stated that the war is not really a war at all, but merely a small forward step where substantial change and massive funds are needed. The total funds suggested for the "war" constitute less than the annual amount spent on unemployment relief payments alone. The programme of area redevelopment, which is intended to revitalise depressed areas such as the exhausted Iron range in Minnesota and the Appalachia area, is both sorely deficient in funds and provides insufficient emphasis on education. Thus, while the "war on poverty" is an important first step and an indication that both government and big business are aware of the problems that exist, it is only a small beginning.

The Triple Revolution in the United States, and particularly the cybrenetic revolution in the production and distribution of goods is causing massive social change in the United States. This article has indicated some of the problems that face an advanced industrial society in a period of technological transformation. It has also discussed a few of the suggestions for meeting the problem that have been postulated. An understanding of these issues is a necessity if America in the 1960's is to be comprehended adequately, for they are vital not only to America's poor and Negroes, but on the international scene as well.

I D A's Billion

THE credits extended to Mauritania ($ 6.7 million) and to Kenya ($4.5 million) in the last week of 1964 brought total lending by the International Development Association (IDA) over the one billion dollar mark. In four years of operation, IDA has extended 70 development credits totaling $ 1,002,240,000 to 27 countries. The largest share, $ 435.9 million, has been for transportation — railways, highways, ports and inland waterways. The largest amount, $ 777,590,000, has been made available to countries in Asia and the Middle East.

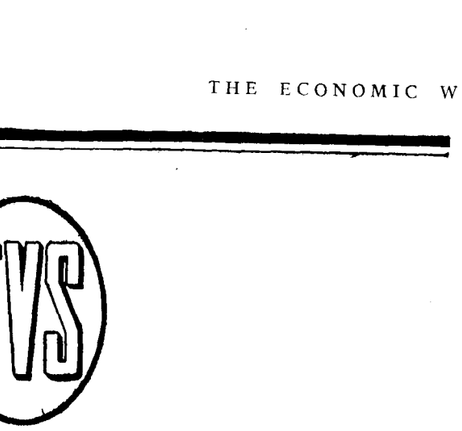
Its 42 credits in Asia and the Middle East totaling $ 777,590,000 have been made to Afghanistan, the Republic of China, India, Jordan, Korea, Pakistan and Syria. Nine African countries — Bechaunaland, Ethiopia, Kenya, Mauritania, Niger, Sudan, Swaziland, Tanzania and Tunisia — have borrowed $ 72,000,000 under 11 credits. Twelve credits totaling $ 96,950,000 have been made in Latin America to Bolivia, Chile, Colombo, Costa Rica, Ecuador, El Salvador, Haiti, Honduras, Nicaragua and Paraguay. In addition, five credits totaling $ 55,700,000 have been extended to Turkey.

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From the Chair

Indian Oxygen Limited

Statement of the Chairman Mr N Dandekar

THE following is the Statement circulated by Mr. N. Dandekar, Chairman, Indian Oxygen Limited to the Members of the Company with the Annual Report for the year 1964.

Since our last annual general meeting the nation has suffered an irreparable loss in the death of Jawaharlal Nehru. As a freedom fighter and later as Prime Minister, his contribution to the nation's stature and welfare has been outstanding. More than any other individual he emphasised the need for technological progress in all fields, including agriculture, and the urgency of industrial development in India. The best homage we could pay to his memory would be to work sincerely for the furtherance of these aims.

Your Company will complete thirty years of its existence on 24th January, 1965. Looking back I think we can be satisfied with the significant services we have rendered to Indian industry and I hope that with the wider opportunities which will flow from the growing activities of your Company our contribution to the country's development will be even more extensive in the coming years.

The year under review has witnessed a further rise in the general price level. A state of acute monetary inflation came prominently to the surface in the Indian economy, with an impact which was unforeseen by the authorities in resorting so extensively to deficit financing. We have done our best to tackle the problems posed by steadily rising costs induced by continuing inflation. It is in this context of the country's economic situation that we have to assess the year's results.

Sales

You will see from the accounts that sales for the year totalled Rs. 12.10 crores. This was higher than the previous year's sales by nearly Rs. 1.90 crores, which I am sure you will agree is very satisfactory; nearly all products contributed towards this rise, particularly electrodes, dissolved acetylene and arc welding equipment.

Due to the continuing rises in the cost of production of oxygen, mainly caused by increases in the cost of power and labour, we were reluctantly compelled to increase the Company's selling prices from 1st January, 1964. It is, however, interesting to note that, despite these increases, the Company's average realised selling price of oxygen today is lower than that obtaining more than twenty years ago; this is an achievement which arises directly out of the economies resulting from the increasing scale of our operations.

It also became necessary to increase the selling prices of mild steel electrodes from 1st September, 1964 as a result of the discontinuance of supplies of core wire from foreign sources and an increase in the price of indigenous electrode-steel which came into effect in April 1964 after decontrol.

Profit, Taxation and Dividend

The profit for the year, after providing depreciation of Rs 67,77,754 (previous year Rs 59,66,478), amounted to Rs 1,59,38,213 as against Rs 1,40,40,263 last year. The increased profit was earned on a sales advance from Rs. 10.21 crores to Rs 12.10 crores and reflects largely the improved trading results on electrodes, the production of which increased during the year with better availability of core wire. Our requirement of electrode-quality billets are at present being obtained from Bhilai Steel Plant where rolling of this special quality steel has recently been started; and if continuity of supply is maintained by them a great deal of uncertainty in the timely procurement of this essential raw material will have been removed. The price of electrode-quality mild steel registered a sharp rise during the year and this, together with increases in the prices of other raw materials and in the dearness allowance paid to the staff due to the higher cost of living, reduced slightly the overall profit margin.

The tax provision for the year amounts to Rs 86,00,000, as against Rs 69,33,996 in the previous year. This large increase was due not merely to higher profits but also to the new Dividend Tax coupled with a smaller relief from Development Rebate this year and the absence of the credit of Rs 5,66,000 taken last year by transfer of the remaining balance in Tax Allowance Equalisation Reserve.

Net profit after taxation amounted to Rs 73,38,213 (previous year Rs 71,06,267), out of which Rs 10,00,000 (previous year Rs 19,00,000) has been transferred to the Development Rebate Reserve. After adding Rs 35,587 brought forward from the previous year and transferring Rs 57,170 to Fixed Assets Replacement Reserve, nearly the whole of the balance amounting to Rs 63,00,000 has been transferred to General Reserve leaving a sum of Rs 16,630 to be carried forward to next year.

After careful consideration of the Company's present and future resources position and all other relevant circumstances, your Directors have decided to recommend that the rate of dividend (subject to deduction of tax) should be maintained at 12 per cent. If this recommendation is accepted the dividend will be paid out of General Reserve.

Finance

Capital expenditure incurred during the year amounted to Rs 73,75,060. With the progress of the major projects covered by the Company's Rs 6 crore expansion programme spread over the four years ending 30th September, 1967, to which I referred in my Statement last year, the tempo of capital expenditure will increase during the next three years.

I am glad to say that the financial arrangements for the expansion programme, about which mention was made last year, are nearing completion. The agreement with The British Oxygen Company Limited for a sterling loan of £500,000 was formally executed during the year and the Company has already commenced drawing on this loan. Considerable progress has also been made with regard to the medium term loan of Rs 2 crores which The Punjab National Bank Limited has agreed to provide against pledge of debenture stock; and the necessary formalities for making withdrawals against the loan are expected to be completed shortly. I may add that even when the Company will have drawn fully on these various resources, our Debt/Equity ratio will remain well within the accepted limits of prudent industri-

al financing of growth and development.

Development and Expansion

In my Statement last year I mentioned that the construction of the new factory at Hyderabad was well advanced: I am now pleased to report that the dissolved acetylene plant went into production in March 1964 and the oxygen plant in November 1964.

The Loxite factory at Ranchi was completed on schedule and production commenced there in March 1964.

Erection of the new factory for the manufacture of welding and cutting equipment has begun at Taratala Road, Calcutta, and it is hoped that the project will be completed by the end of 1966.

In the field of electrodes, construction work of the new factory at Madras is proceeding satisfactorily and production is expected to commence there by about the middle of 1965. Expansion of the Khardah factory is expected to be completed early in 1966.

Orders have been placed with overseas suppliers for the argon purification plant to be installed at Bombay.

I am glad to report that we have now received 'letters of intent' from Government for substantial expansion of oxygen capacity at our Calcutta and Visakhapatnam factories and we hope shortly to receive 'letters of intent' for substantial expansion in our oxygen capacity at Madras and Kanpur and dissolved acetylene capacity at Kanpur. We have also received an industrial licence for the manufacture of nitrous oxide at Madras. Your Company's application for an industrial licence for the manufacture of air separation plants and associated cryogenic equipment is still under the consideration of the Government.

Management and Personnel

Since the last annual general meeting, two new directors have joined your Board, Mr S N Ray and Mr K Gopalakrishna; and I am sure you would like me to welcome them on your behalf.

During the year, agreements for wage revision were reached with the Unions of your Company's employees at Head Office and different branches. I am pleased to report that a new feature of these agreements is that they are also linked with agreements relating, inter alia, to productivity, interchangeability and re-deployment of staff. I am confident that this new understanding between your Company and the staff will set the tone for greater efficiency by a better awareness of the responsibility acknowledged to the organisation by the staff.

With the continuing growth of your Company, the need for management training assumes increasing importance. During the year under review two rapid management training courses covering seventeen officers were successfully conducted within the Company. Two officers attended the administrative Staff College at Hyderabad and two others attended residential courses conducted by the Calcutta Management Association. Twenty officers also attended short courses and seminars on various subjects organised by productivity Councils, Indian Standards Institution, All-India Management Association, Calcutta Management Association, Bombay Management Association and Indian Institute of Personnel Management. Nine members of the staff received specialised training in U. K. with The British Oxygen Company Limited; and in this connection, I would like to place on record our special appreciation of the technical assistance extended to us by British Oxygen, whether in training our staff, or in supplying technical 'know-how' and the benefits of development and research, or in making available to us the advice and assistance of their experts who visit India when necessary.

Prospects

It will be evident that we are now well poised for the major developmental effort which lies ahead of us. Almost all the industrial licences we applied for or appropriate 'letters of intent' have been received or will soon be in our hands. All necessary financial resources have been arranged. And technically, whether from the point of view of trained officers and staff or as regards the requisite 'know-how', we are well equipped. With these preparations, we have now entered upon a period of fairly large expansion, involving considerable capital expenditure. While we do so with faith and confidence in the economic future of our country, we should, at the same time, bear in mind the storms and stresses through which we have been passing recently and which are also likely to be encountered in the coming months. In this context, I entertain a feeling of restrained optimism about the prospects for your Company in terms of profits and growth.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.



SP/EEPC-10/64

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Thursday, Morning

DALAL STREET last week presented a distinctly steadier appearance, though the volume of business continued to be on a restricted scale and interest was almost entirely professional and extremely selected. Activity was virtually confined to half a dozen scrips in the forward list. The market as a whole has yet to move beyond the highest mark made in the New Year's opening session on January 4. But certain scrips, namely, National Rayon, Century, Premier Construction and Hindustan Motor did manage to hoist new peaks in the upward move which has been in progress since about the beginning of December. National Rayon have continued to be in the limelight mainly because of strong bull manipulation.

While neither the total turnover nor the nature of trading activity in the market indicates anything like a revival of confidence—outside participation remains conspicuous by its absence—trading sentiment is gradually veering round to the constructive side. This is based on the growing belief that the Government is now deeply concerned over the state of the capital market and it is eager to take measures to revive confidence in the investment market. The concessions recently allowed for attracting foreign capital and the decision to expedite processing of new applications for industrial projects have strengthened the stock market's belief regarding helpful change in the Government's attitude. The stock market is also pleased with Mrs Barbara Castle's assurance that the U K would be willing to step up the quantum of untied aid to India.

The mood has no doubt undergone a change. And if nothing untoward happens on the political front—the market is extremely allergic to political news, particularly relating to the northern border—the market can be expected to put on a firm appearance in coming weeks. Whether the current recovery will mark the beginning of an important upward trend will depend entirely on the February Budget. Will the market's optimism about fiscal relief materialise? Who can tell?

Cotton

Radical Change

A SIX-MEMBER delegation of cotton traders from the central zone, comprising the Vidarbha, Khandesh, Marathwada and Madhya Pradesh, accounting for nearly one-third of India's total production of cotton, is reported to have offered to sell the mill industry 3.5 lakh bales of cotton, including the much-sought-after 197/3 variety, at the basic ceiling prices. The delegation has expressed its readiness to the authorities to deliver all the cotton stocks with the trade at the appropriate ceilings, leaving the fixation of varieties to the regional committees set up for conducting varietal survey. It is meeting the Chief Minister of Maharashtra to apprise him with the present 'serious' situation and its possible repercussions on the trade and cotton farmers.

All this is in striking contrast to the situation obtaining in the cotton market some three weeks ago when mills were finding it difficult to secure their requirements of cotton even by paying fancy premiums above the ceiling prices (unofficially of course). For over two months ready cotton had been commanding premiums ranging from Rs 25 to Rs 125 per candy; neither growers nor traders seemed the least concerned about the price control order in the firm belief that the Government had neither the will nor the ability to administer the price control scheme.

Cotton farmers, cooperative societies and traders have, however, been shaken by the Indian Cotton Mills' Federation's firm determination to secure cotton at or below the ceiling prices through self-discipline. The Federation's 8-point plan has yet to be fully implemented. Even so, the situation obtaining in the cotton market has undergone a redical change, which supports the view repeatedly expressed in these columns that the fantastic rise in cotton prices was not due to any real shortage of goods; the shortage had emerged simply due to the withholding of supplies from the market, mostly by growers and cooperative societies. Holding of stocks had been encouraged by the policy of drift and inaction adopted by the Government. How else can one explain the price control order being reduced to a farce?

The joint committee of the representatives of the cotton mill industry and the cotton trade which held its first meeting on July 14 had recommended that all cotton ruling above the basic ceiling price should be requisitioned from the trade as well as from the mills having excess stocks. Action is proposed to be taken against the mills—they are said to number 51—which have failed to declare their stocks as desired by the Federation. Arrangements are also to be made for the redistribution of excess stocks amounting to 1.85 lakh bales lying with 117 mills.

Decline is Welcome

Not a single bale of cotton is known to have been requisitioned so far. It is difficult to say what sanctions will be invoked against the defaulting mills. But the Federation's scheme of self-discipline, the Textile Commissioner's directive asking licensed cotton dealers to declare their stocks and the prospect of requisitioning should it be deemed necessary at any time, have produced a significant impact on the market. Cotton prices have suffered a sharp decline over the past fortnight or so and nearly all the varieties are now quoted below the basic ceilings. And what is more, stockholders are anxious to dispose of their goods at the appropriate ceiling prices.

Far from being a matter of serious concern as has been made out by the delegation from the central zone, the decline in cotton prices is to be welcomed. The growers and traders need the stern reminder that the ceiling prices are the maximum that they can hope to obtain even under conditions of acute scarcity. The Government will be well-advised to bear in mind that it is only when prices decline to somewhere near the floor—a situation which is not expected to arise in the foreseeable future—that it need entertain any representation from the growers. There is nothing to bother about the market when prices keep within the lower and upper limits fixed by the Government.

It is not unlikely that though the current crop estimates have recently been revised down to around 57/58 lakh bales, the actual crop might not be less than 59/60 lakh bales. The crop movement is likely to gather momentum in coming week, particularly because there has been a change in the general market psychology. Cotton prices are likely to ease further. The growers should thank themselves if the Indian Cotton Mills' Federation does not change its mind about purchasing all the cotton offered to it during the season at 5 per cent below the basic ceiling prices. Whether the Federation will be able to absorb all the cotton offered to it at 5 per cent below the ceiling, it is difficult to say.

Oilseeds

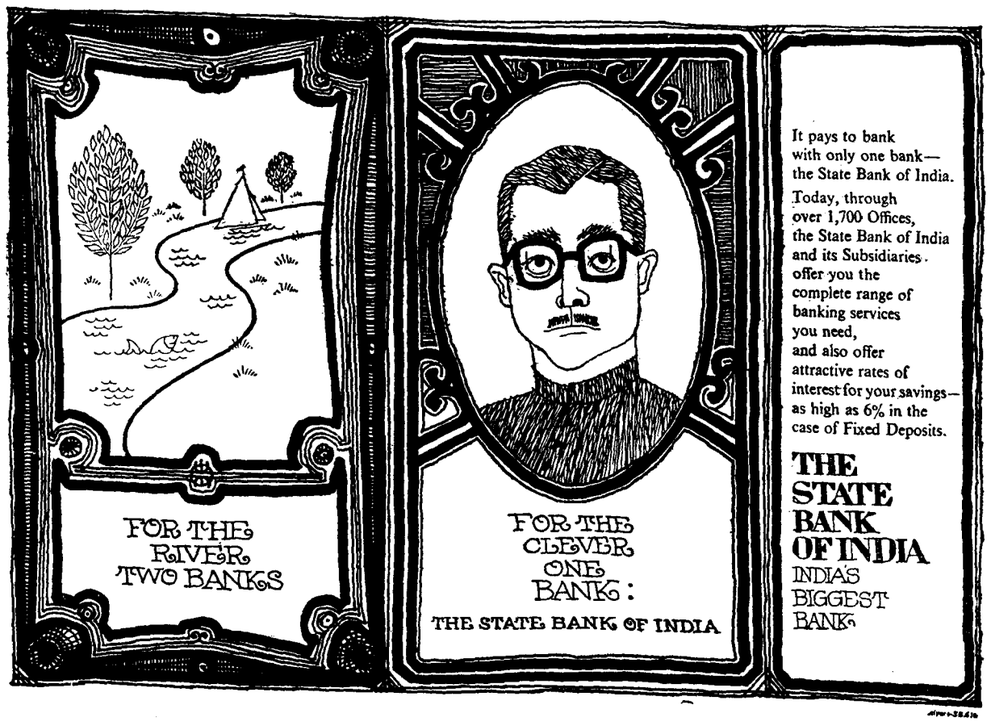
Drifting Lower

OILSEEDS prices continue to drift lower under the lead of mustard and rapeseed and linseed. Mustard oil ready lost another Rs 400 per tonne over the week, with the quotation moving down from Rs 3,900 to Rs 3,500. Linseed oil which had eased from Rs 30.50 to Rs 23.75 over the preceding fortnight or so declined further to around Rs 22.50 per 10 kilograms last week. The spot quotation for linseed was marked down to Rs 57 (per 50 kgs); not many weeks ago, linseed ready had been quoted as high as Rs 70. Groundnut oil ready was sold down to Rs 20.60 as against Rs 21.80 at the previous week-end. Prices were lower everywhere; castor futures provided the only exception to the general trend. Castor March which had been marked down to Rs 194.37 (per 250 kgs) in the preceding week recovered sharply to Rs 205.25 by the end of last week. The recovery in castor futures is essentially speculative. There has been no fresh exciting development in regard to export of castor oil; bulls seem to have been encouraged by the slower pace of arrivals in the upcountry centres. The up and down movements in castor futures do not really deserve any serious attention because they are guided mainly by the changing moods of a few powerful speculators and the trend in castor does not have any significant bearing on the price trend in the other important oilseeds.

The remarkable change that has come about in the oilseeds market in recent weeks is due primarily to forecasts of a record crop of mustardseed and rapeseed. Groundnut crop is already known to be an excellent one and the prospects for linseed and other crops are also considered to be encouraging. Reports from Gujarat indicate that while the pressure of the groundnut crop continues to be heavy, there has been a significant decline in the demand for groundnut oil, particularly from north India. Ready groundnut oil in Saurashtra has declined from Rs 23 to Rs 19.50 per 10 kgs.

The decline in oilseeds and oil prices is to be greatly welcomed. Prices had beeen pushed to fantastic levels and despite the recent fall, edible oil prices are still on the very high side. How oilseeds prices will move the flow of arrivals of soyabean oil in coming weeks will depend mainly on the flow of arrivals of soyabean oil from the U S and the Government's export policy for groundnut oil. The arrival of soyabean oil has been delayed by some weeks due to the dock workers strike in the U S and informed sources do not expect the first consignment to reach India before the end of February. Rumours that India will not be getting all the 75,000 tonnes of soyabean oil are baseless. When exactly all the oil will be shipped to India is of course rather uncertain.

Oilcake prices have also been showing an easier tendency in sympathy with the general trend in oilseeds. Groundnut expellers have come down



by about Rs 50 per tonne over the past few weeks. There has been a similar decline in groundnut extractions and other oilcakes. The export business in groundnut extractions, however, continues at normal pace, though overseas prices have been slightly subdued recently. Export activity in oils has been virtually at a standstill for some time. Cottonseed cake also have been inactive due largely to scarcity of supplies.

Money Market

Thursday morning

THE short-term money market was fairly comfortable during the week. Though the demand for funds continued, the pressure was not so excessive as in the preceding few weeks. Borrowers were able to obtain their requirements easily. The inter-Bank call money rate was ruling at 5 per cent but by Wednesday it was inclined to be slightly easier at 4.75 per cent with some stray dealings even at 4.50 per cent. Scheduled banks' borrowings from the Reserve Bank which reached on January 8 a maximum of Rs 90.16 crores in the current busy season declined by Rs 11.18 crores to Rs 78.98 crores on January 15. This might be a reflection of a temporary halt in the rising trend of the seasonal demand.

Scheduled banks' returns as on January 8 showed a further rise of Rs 16.90 crores in bank credit which in the current busy season so far has expanded by Rs 155.26 crores to Rs 1,862.56 crores. Though deposit resources fell by Rs 2.38 crores during that week, time deposits actually increased by Rs 15.36 crores, while demand deposits went down by Rs 17.74 crores. This might indicate that depositors' current requirements have gone less. Obviously, increased time deposits would be more helpful to banks in their lending operations and make them rely less on outside loan resources. However, during that week scheduled banks stepped up their borrowings from the Reserve Bank by Rs 22.31 crores and withdrew their balances also by Rs 14.03 crores. Such increased resources with scheduled banks in the absence of a correspondingly heavy demand might have resulted in a relatively comfortable position in the money market and also repayment of a part of the borrowings from the Reserve Bank.

Reserve Bank's statement as on January 15 shows that Notes in Circulation have gone up by Rs 4.18 crores though the rise is less in comparison with the previous weeks. The additional requirements have been fully met by the Banking Department. Besides, the Banking Department has shifted some Rs 20 lakhs of notes back to the Issue Department which has resulted in a fall in the Note Issue by a like amount. There being an outflow of rupee coins amounting to Rs 19 lakhs, the rupee securities in the Issue Department have diminished by only about Rs 1 lakh.

Deposits of Central Government have receded by Rs 49 lakhs but State Governments' deposits have moved up by Rs 11.85 crores. Governments' borrowings have fallen by Rs 12.98 crores.

Scheduled banks' deposits have moved down by Rs 7.39 crores, but at the same time their borrowings have been brought down by Rs 11.18 crores.

Foreign assets of the Reserve Bank have declined by Rs 1.90 crores, due to a fall in balances held abroad by a like amount.

Business Notes

Indian Rayon

INDIAN Rayon Corporation has earned a profit of Rs 3.67 lakhs during the year ended June 30, 1964 as against a loss of Rs 1.93 lakhs in 1962-63. The profit is, however, subject to provision for depreciation and development rebate. The carryforward of depreciation and development rebate is now Rs 76.78 lakhs and preference dividend (gross) is in arrears to the tune of Rs 19 lakhs. After adjusting the profit against the previous loss and other items, a loss of Rs 41,169 is carried forward.

Commercial production of the factory started from October 1963 and the Company produced during the year 7.02 lakh kg of viscose rayon yarn and sold about 4.58 lakh kg. The additional excise duty imposed from March 1, 1963 is stated to have affected the sales of the Company and the reduction of special duty on rayon filament yarn from October 1964 helped to clear off a large part of accumulated stock even at some advantageous rates.

The Company's plant is stated to have attained a daily average production of 4 tons from February 1964. A plant to expand the capacity to reach the licensed capacity of 10 tons of rayon yarn per day is in progress. Arrangement for a foreign exchange loan of 4.7 million dollars has been completed with Exim Bank. The Company hopes to raise the production capacity of the existing plant itself from 5.2 tons to 6.5 tons by improved processes without the addition of new plant and machinery through the cooperation of Von Kohorn Eastern Corporation.

India's production of rayon filament yarn is about 78.3 million lbs representing 2.8 per cent of the world production in 1963. Production of non-cellulose man-made fibres such as nylon is about 1.6 million lbs or 2 per cent of the total production of all man-made fibres in the country. The total licensed capacity for production of viscose filament yarn at present is about 40.5 million kgs and the actual production last year was 32.5 million kg as against a target of 60 million kg per annum indicated by the Planning Commission. The fears, if any, of excess production of viscose yarn in the country are unwarranted, states M J Vaidya, Chairman of the Company, in his statement. He anticipates good prospects for exports of rayon fabrics which have already increased from Rs 46.1 lakhs in 1957 to Rs 818.11 lakhs in 1963.
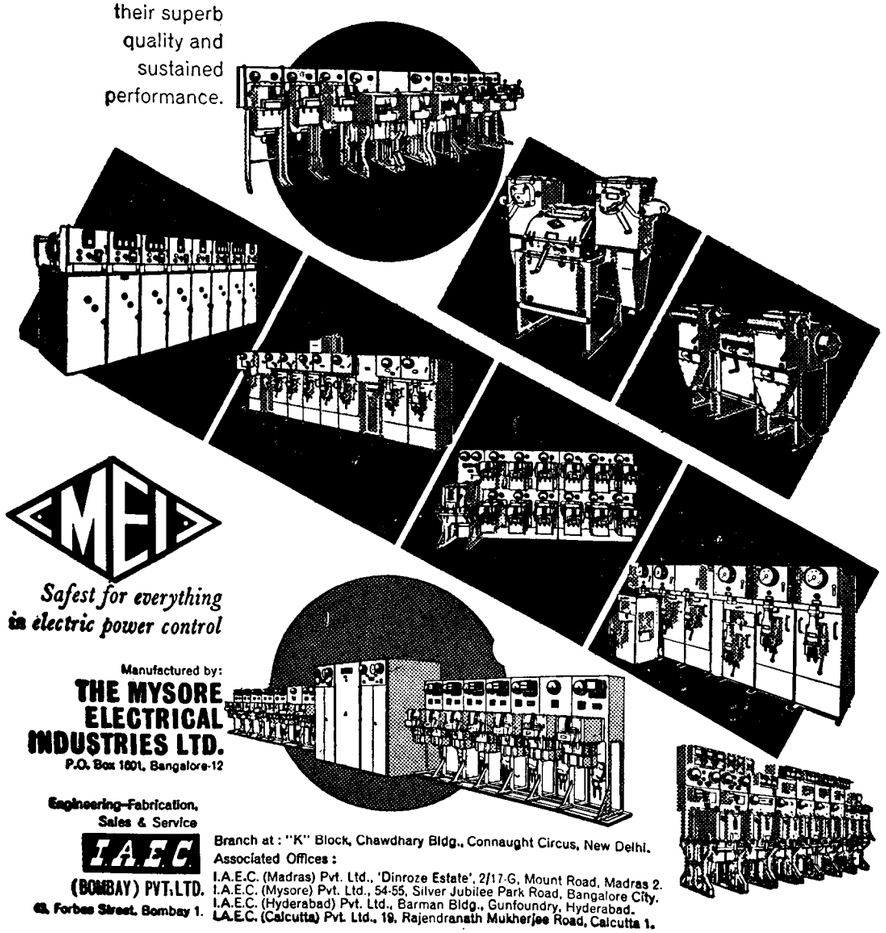
EID — Parry Group

THE EID-Parry group increased its sales of fertilisers by over 33 per cent in 1963-64 over the previous year, according to preliminary results just released. During the year the group sold over 2.5 lakh tons of fertilisers, mainly in the States of Madras, Mysore, Andhra, Kerala, Maharashtra and Gujarat.

The EID-Parry group is the foremost producer of fertilisers in the private sector and was the first to manufacture bone super, superphosphate and complex fertilisers. In addition to its ammonium phosphate plant at Ennore, which is now in full production, the group operates superphosphate factories at Tadepalli in Andhra and Ranipet. Fertiliser mixing centres are operated throughout the four southern states and in Maharashtra and Gujarat. The group's manufacturing operations are backed up by intensive propaganda and selling through a net work of over 2,000

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distributors and hundreds of salesmen. Believing that the most convincing propaganda for fertilisers is their use on the farms, the group operates numerous demonstration plots.

The EID-Parry group has on the anvil several schemes for expanding its output of fertilisers. It expects that its output will increase from about 2.5 lakh tons at present to over 5 lakh tons in another three years. Principal among the expansion schemes is, of course, the vast Vizagapatnam project of Coromandel Fertilisers in which EID-Parry is collaborating with International Minerals and Chemical Corporation and California Chemical Co, both of United States. The Vizagapatnam plant will be by far the largest fertiliser plant in the private sector and is expected to go on stream in 1966.

Voltas

VOLTAS has produced impressive financial results from its operations during the year ended August 31, 1964. Total proceeds from sales and services for the year aggregated Rs 37.31 crores as against Rs 32.42 crores in the previous year. Pre-tax profit has jumped up from Rs 178.87 lakhs to Rs 219.13 lakhs, i e, by Rs 40.26 lakhs.

Taxation provision including surtax and dividend tax has absorbed Rs 141 lakhs which is Rs 21 lakhs more than in the previous year. Even so, the balance available was more by Rs 19.26 lakhs at Rs 78.13 lakhs, and this enabled the Directors to make larger appropriations to different Reserves. Development rebate reserve got Rs 1.87 lakhs (Rs 1.56 lakhs); reserve for staff gratuities was stepped up substantially from Rs 3 lakhs to Rs 10 lakhs. General reserve was inflated from Rs 18.31 lakhs to Rs 28.26 lakhs. Dividend reserve also was raised from Rs 36 lakhs to Rs 38 lakhs from which the Directors propose to pay an enhanced dividend at 15 per cent including 1 per cent bonus (14 per cent in 1962-63).

Premier Automobiles

PREMIER Automobiles' turnover is stated to have improved during the first six months of the current year, July-December 1964, to Rs 15.5 crores. This compares with Rs 11.15 crores in the corresponding period of last year. Production is steadily going up as a result of the production-incentive scheme. The Company now produces about 500 cars a month and will be able to step up production to 600 cars a month in about two or three months. The lower production of cars in the earlier months was attributed to the introduction of a new model which affected normal production for about 2 months. Output of commercial vehicles will be increased to 8,000 to 9,000 units year in the near future. The trucks will be fitted with more powerful engines and are likely to prove more popular. The indigenous contents of cars and trucks are about 78 and 88 per cent, respectively.

Dharamsi Chemical

A NEW project involving a capital outlay of Rs 2 crores with an initial equity capital of Rs 94 lakhs will be shortly set up by Dharamsi Morarji Chemical for the manufacture of phosphoric acid, sodium tripolyphosphate and sodium hexametaphosphate. The project is deemed important as it would help the growth of synthetic detergents and phosphatic fertiliser industries. Albright and Wilson, U K, will be the main collaborators and will provide the technical know-how besides participating in the equity capital to the extent of 45 per cent for meeting the foreign exchange requirements. Dharamsi Morarji Chemical will invest about Rs 25.38 lakhs in the project.

The factory is proposed to be located at Ambernath, Maharashtra. The sulphuric acid requirements of this project, which will amount to 70 tonnes a day for 5 years and 140 tonnes a day later, will be met by Dharamsi Chemical for a period of 10 years by special arrangement. The new project will put up a phosphoric acid plant of 50 tonnes a day capacity.

Bombay Dyeing

BOMBAY Dyeing and Manufacturing is easily the largest exporters of cotton textiles from this country and has been holding this pre-eminent position since long. Its exports in 1963 amounted to 12.5 per cent of the country's total exports for the year. Its products find a ready market throughout Europe, America, West Asia, Africa and Asia. Australia and New Zealand are, however, the biggest customers. The Company has earned about Rs 27 crores in the export market during the past 5 years.

Due to the Company's far-sighted and aggressive export policy, it has been able to procure licences for the import of the best machinery which has helped it to modernise the spinning, weaving and finishing plants of the Company. Such modernisation helped to increase the turnover of the Company by over 50 per cent. The spinning mills of the Company have now about 136,040 spindles and 2,160 automatic looms, and the textile mills have 84,428 spindles and 2,328 waste plant spindles, 54 automatic looms for towels, etc, 1,514 ordinary power looms and 56 blanket looms. The Company's bleaching works also has a wide range of equipments. The Company has its own ginning and pressing factories at Nanded and Umri.

Started with a modest capital of Rs 1 lakh in 1879, the Company has now an issued capital of Rs 251 lakhs with about 7,129 shareholders.

The Company has now plans to make a public issue of Rs 250 lakhs 7 per cent First Mortgage Debenture Stock, 1973-75. The proceeds of this issue will be utilised for the company's modernisation, renovation and expansion programme.

The subscription list will open at the commencement of banking hours on February 5 and will close at the close of banking hours on February 15 or earlier at the discretion of the Directors, but not earlier than the close of banking hours on February 8.

The entire issue has been underwritten by Life Insurance Corporation of India, The Industrial Credit and Investment Corporation of India, Unit Trust of India, National and Grindlays Bank, Indian Guarantee and General Ins., Oriental Fire and General Ins., New India Assurance and Merwanjee Bomanjee Dalal jointly with Dhirajlal Maganlal Purshotamdas.

Central Chlorine

CENTRAL Chlorine and Chemicals, a new Company set up in Ballarpur in Chanda District, Maharashtra, for manufacturing heavy chemicals and their by-products has received industrial licences for 5,000 tonnes of caustic soda, 4,200 tons of chlorine and 720 tons of hydrochloric acid per annum. The plant and machinery will be imported from Japan under the second yen credit from that country.

The estimated capital requirements of Rs 112.45 lakhs for the project are to be obtained by the issue of shares of the value of Rs 65 lakhs, by taking a loan of Rs 40 lakhs from I F C and by borrowing from Banks Rs 6 lakhs. Loan and subsidy from the State Government are also expected to be received to the extent of Rs 1.45 lakhs.

CURRENT STATISTICS

Foreign Trade of India

PRINCIPAL EXPORTS

(Rs lakhs)

	October		April-October	
	1964	1963	1964	1963
Food	*2338.19*	*2586.09*	*14956.50*	*14088.38*
Live animals, chiefly for food	1.23	0.68	8.46	4.70
Meat and meat preparations	1.08	17.88	8.87	102.36
Dairy products, eggs and honey	0.32	0.13	0.86	0.67
Fish and fish preparations	84.78	80.04	343.61	327.18
Cereals and cereal preparations	1.39	7.13	30.65	23.37
Fruits and vegetables	358.09	246.55	2141.65	1723.65
Sugar and sugar preparations	74.10	102.64	1661.42	1915.92
Coffee, tea, cocoa, spices and manufactures thereof	1644.87	1956.77	8876.12	8284.19
Coffee	102.01	73.29	1078.17	533.16
Cocoa	0.49	0.54	3.94	5.22
Tea and mate	1423.05	1760.76	7030.54	7002.89
Spices	119.26	122.17	760.18	741.70
Feeding stuff for animals	170.88	172.99	1872.61	1699.39
Miscellaneous food preparations	1.44	1.28	12.24	6.94
Beverages and Tobacco	*154.96*	*147.63*	*1992.15*	*1906.84*
Beverages	—	—	2.46	0.29
Tobacco and tobacco manufactures	154.96	147.62	1989.69	1906.55
Crude materials, inedible, except fuels	1088.82	924.63	7592.90	6982.58
Hides, skins and fur skins undressed	62.36	55.75	497.86	557.98
Oilseeds, oil nuts and oil kernels	1.12	3.12	164.53	139.95
Wood, lumber and cork	17.65	25.86	115.18	163.82
Textile fibres and waste	203.04	120.10	1663.50	1537.83
Silk	1.25	5.87	17.54	26.17
Wool and other animal hair	85.11	44.30	564.68	283.38
Cotton	93.64	49.62	826.24	941.33
Jute, including jute cuttings and waste	0.55	—	43.31	106.23
Vegetable fibres, except cotton and jute	15.93	12.80	160.18	137.77
Synthetic fibres	**1.27**	**1.15**	**10.51**	**7.24**
Waste materials from textile fabrics, including rags	5.28	6.31	41.04	35.69
Crude fertilizers and crude minerals, coal, petroleum and precious stones	95.05	93.30	678.66	676.67
Fertilisers, crude	0.40	0.34	4.13	4.77
Crude minerals, excluding coal, petroleum, fertilizer materials and precious stones	94.64	92.96	674.52	671.89
Metalliferrous ores and metal scrap	540.24	442.53	3192.78	2709.19
Iron ore and concentrates	352.86	320.98	2015.60	1903.69
Iron and steel scrap	31.41	47.95	262.95	293.64
Ores of non-ferrous base metals and concentrates	155.35	73.57	898.19	509.21
None-ferrous metal scrap	0.61	—	16.03	2.65
Animal and vegetable crude materials, inedible, nes	169.36	183.86	1280.00	1196.71
Crude vegetable materials, inedible, nes	59.37	41.71	351.86	269.08
Crude vegtable materials, inedible, nes	109.99	142.15	928.14	927.63
Mineral fuels, lubricants and related materials	*74.09*	*63.94*	*675.72*	*543.76*
Coal, coke and briquettes	43.21	18.17	254.91	138.79
Petroleum products	30.88	45.76	420.82	404.96
Animal and vegetable, oils and fats	*47.32*	*78.01*	*530.14*	*1015.70*
Chemicals	*89.58*	*73.46*	*559.99*	*407.42*
Chemical elements and compounds	17.60	5.07	113.17	69.52
Inorganic chemicals	10.09	3.68	67.83	22.37
Organic chemicals	7.51	1.38	45.34	47.16
Mineral tar and crude chemicals from coal, petroleum and natural gas	0.20	0.72	4.03	14.92
Dyeing tanning and colouring materials	5.85	8.92	33.96	33.14
Medicinal and pharmaceutical products	24.13	7.48	127.51	66.40
Essential oils and perfume materials, toilets, polishing and cleansing preparations	33.45	41.65	217.42	200.73
Fertilisers, manufactured	—	—	0.26	0.59
Explosives and miscellaneous chemical materials and products	8.33	9.62	63.62	22.09
Manufactured goods classified chiefly by material	*2858.80*	*2918.69*	*20064.32*	*17948.69*
Leather, leather manufactures, nes, and dressed furs	178.82	236.53	1584.20	1483.37
Rubber manufactures nes	22.49	8.37	91.50	50.33
Wood and cork manufactures	1.50	4.01	16.13	10.32
Paper, paperboard and manufactures thereof	8.63	4.26	57.59	43.99
Textile yarn, fabrics, made-up articles and related products	2326.09	2398.26	16348.99	14950.11
Non-metalic mineral manufactures nes	9.44	20.52	107.69	80.32
Silver, platinum, gems and jewellery	121.65	149.91	900.13	903.96
Base metals	152.31	47.50	714.55	222.98
Iron and steel	145.00	33.53	659.61	108.67
Copper	4.85	1.39	32.41	15.22
Aluminium	1.20	12.56	11.95	95.25
Machinery and Transport equipment	*52.30*	*46.73*	*453.62*	*314.90*
Machinery other than electric	33.17	30.44	218.87	164.31
Power generating	12.98	7.41	68.22	37.61
Agricultural	0.37	0.06	1.79	0.30
Office	3.64	0.10	25.16	1.46
Metal working	1.08	1.83	8.71	6.33
Mining, construction and other industrial	15.09	21.04	114.90	118.57
Electric machinery, apparatus and appliances	9.81	8.26	114.27	96.13
Transport equipment	9.31	8.02	120.48	54.46
Road motor vehicles	4.41	3.97	60.46	24.44
Road vehicles other than motor vehicles	4.87	3.83	46.12	17.84
Aircraft	—	0.21	9.86	11.48
Miscellaneous manufactured articles	*137.48*	*142.24*	*1027.17*	*1007.66*
Clothing	32.52	45.11	192.21	267.32
Footwear	28.01	14.31	240.12	180.06
Miscellaneous transactions and commodities nes	*30.94*	*29.85*	*245.76*	*196.76*
GRAND TOTAL	*5872.51*	*7011.28*	*48104.68*	*44412.71*

Source: Department of Commercial Intelligence and Statistics, Government of India.

BANKING RETURNS

(Rs crores)

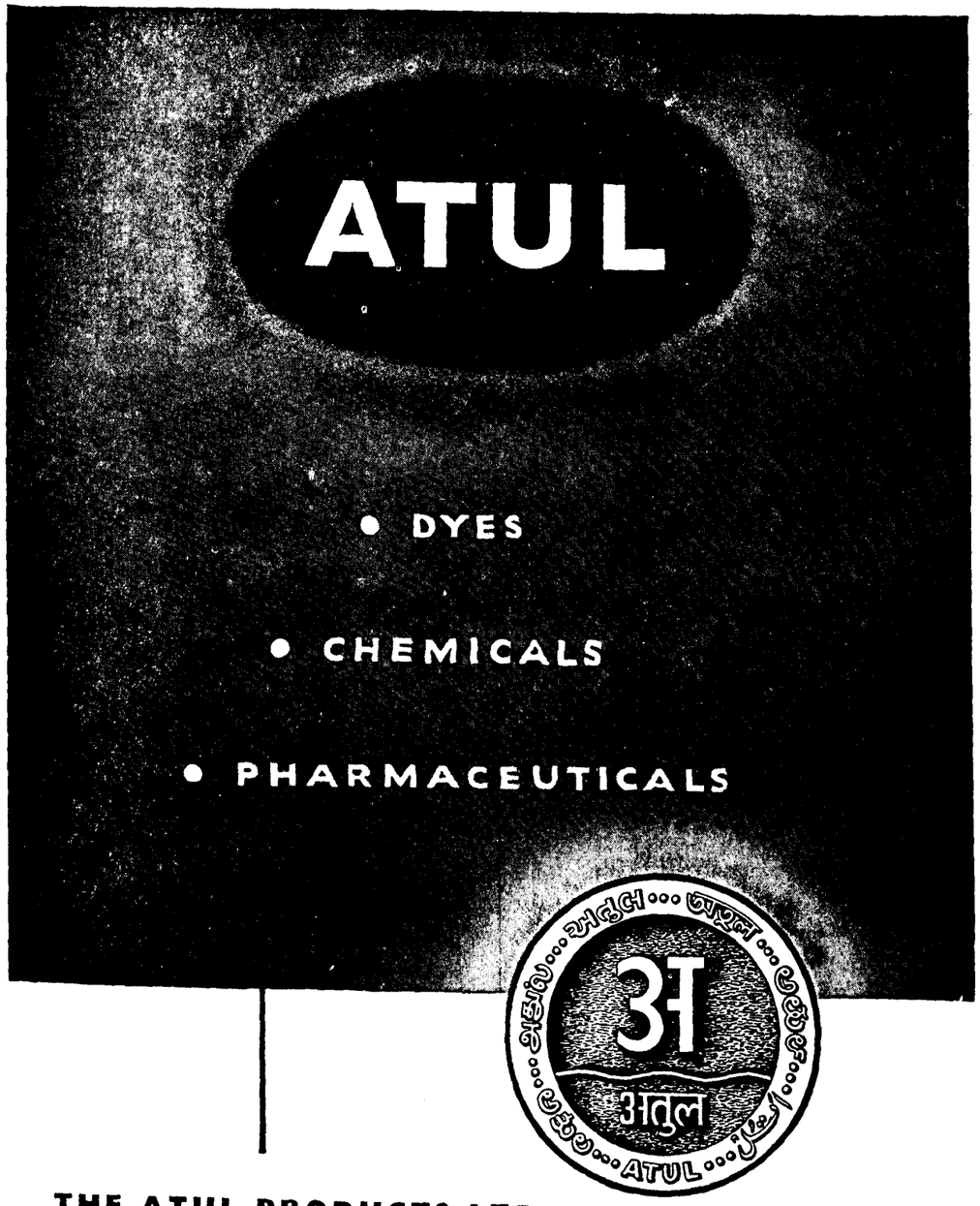
Reserve Bank	Jan 15	Jan 8	Dec 18	Jan 17, '64
1 Note circulation	2576.70	2572.52	2507.46	2414.87
2 Rupee coin	98.59	98.78	101.75	113.27
3 Deposits				
(a) Central Govt	50.07	50.56	54.31	52.66
(b) Other Govts	19.64	7.79	10.79	23.34
(c) Banks	91.38	98.88	92.80	85.12
(d) Others	149.37	147.01	143.72	174.62
4 Foreign securities	80.47	80.47	85.46	97.46
5 Balance abroad	7.86	9.76	9.86	12.24
6 Rupee securities	2286.39	2286.40	2216.13	2099.31
7 Investments	138.07	98.14	147.19	225.53
8 Loans and advances to Govts	58.87	71.84	67.09	57.15
9 Other loans and advances	248.65	249.07	195.55	175.18
Scheduled Banks	Jan 8	Jan 1	Dec 11	Jan 10, '64
1 Aggregate deposits (net)	2534.29	2536.67	2508.73	2247.45
Demand (net)	1198.89	1216.63	1174.80	1024.48
Time (net)	1335.40	1320.04	1333.94	1222.97
2 Cash in hand	69.56	74.27	64.86	57.28
3 Balance with Reserve Bank	89.44	103.47	97.92	80.63
4 (2)+(3) as % of (1)	6.27	7.01	6.49	6.14
5 Borrowings from Reserve Bank	87.51	65.20	21.99	31.35
(a) Against usance bills and/or promissory notes	7.51	8.94	1.60	14.17
(b) Others	79.99	56.26	20.39	17.18
6 Advances	1555.49	1553.72	1505.31	1373.49
(a) State Bank	370.89	365.81	346.61	276.79
(b) Others	1184.60	1187.91	1158.70	1096.70
7 Bills discounted				
(a) Inland	234.11	217.78	201.73	205.53
(b) Foreign	72.96	74.16	73.69	60.40
(c) Total	307.07	281.94	275.12	266.03
(i) State Bank	27.28	26.33	23.97	21.98
(ii) Others	279.79	255.61	251.45	244.05
8 (6)+(7) as % of (1)	73.49	72.76	70.97	72.95
9 Investments in Govt Securities	757.09	759.87	765.87	687.60
10 (9) as % of (1)	29.87	29.96	30.53	30.59

BOMBAY MONEY RATES

(Per cent per annum)

	Jan 8	Jan 1	Dec 11	Jan 10, '64
Call money from Banks	—	5.08	5.51	5.09
Deposits				
14 days	—	—	—	—
3 months	4.00	4.00	4.00	—
6 months	4.50	4.50	4.50	3.75

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On Viability

IT does not seem to be possible to get anything done in this country unless a crisis situation arises or is created. No one is yet losing his sleep over the weekly returns of the Reserve Bank, but for the past few weeks, those in high places have obviously been reading them. There is Voltaic reaction, as the foreign exchange reserve moves down to the danger point where transfer of gold from hidden reserves can no longer suffice and an approach to Parliament or a Presidential Ordinance may become necessary to condone the infringement of the reserve requirements, if not to do away with them altogether. That eventuality the authorities are desperately eager to avoid. Hence the SOS to the IMF for stand-by credit and the traditional motions of setting our house in order while the IMF Emergency Mission is on the spot for questioning and we have been put on the mat — jerking up the Bank Rate from 5 to 6 per cent, and imposing the 10 per cent levy on imports. All this exhibition of remorse and self-flagellation, the set motions in a puppet play in response to long distance pulls from the puppet-players could be amusing, had it not been so pathetic. And all the routine motions, one apprehends, would be gone through — tight money, balanced budget, stabilisation programmes, cut not in bloated administrative expenditure but in the vital sectors where it is easiest to operate, for its consequences do not appear here and now.

What is the crisis that has brought on these drastic emergency measures? About the balance of payments problem of any developing economy, the only emergency that may arise is from a sudden decline in export earnings. This is not a problem which has assailed India. On the contrary, India's export earnings have been going up, and going up in a manner which makes the export sector stand out as the most promising and hopeful sector in the Indian economy. The problem of dwindling reserves which has created the emergency situation today is not the work of factors involved in the basic strategy of planning or the growth of the economy. It is of much smaller dimensions, being primarily concerned with the technicalities of foreign exchange budgeting. That budgeting has gone wrong, according to the Finance Minister, because there were emergency imports of food and fertilisers, payments on account of defence imports (unanticipated?), larger repayment obligations (also unanticipated?). All these happened, if the Finance Minister is to be believed, only after July last year, for that was when our stand-by credit with the IMF came up for renewal and was not renewed, as it could have been done without embarrassing questions. The fresh investigation by an IMF Mission, which we are having today and for which, demonstrably, our house is being put in order with this package of unsavoury measures for tighter money and a levy on imports could have been avoided.

In July last year, it would be fair to infer from the non-renewal of the stand-by credit, the Government felt reasonably sure of balancing the foreign exchange budget for the next few months or a year — so sure, in fact, that it did not consider it worthwhile to pay the small commitment charge which such credit arrangements cost. It would be flippant to see in this the working of the accountancy mind; a decision like this must have meant a consensus of the financial authorities of the country, including the expert advisers.

With the wisdom and hindsight of which the editorial desk is supposed to be the repository, one may go on to ask a number of questions. What view could the Government have taken of the food situation in July last with all

the facts in its hand at a time when the Chief Ministers were called to Delhi to consider the food crisis? Could it have been anything but grim and dismal and could the Government possibly have missed the implications in regard to food imports and the considerable drain on foreign exchange? It is not pleasant to pretend to be all-wise or to claim the gift of hindsight, but one may still be pardoned if one asks, how could the alert Finance Ministry slip over repayments due on credit arrangements, not the least to the Fund itself, or misjudge the foreign exchange requirements of defence imports which had presumably been planned well in advance? Defence has obviously been plugged in, to make the Government case look more respectable, though the admission of larger repayment obligations, if not a slip, gives away how loose the foreign exchange bedgeting is.

What has happened on the foreign exchange front presents no worse than a technical problem brought about by the sharp rise in the Bank of England rate last October which is keeping out foreign exchange funds which normally should have come to the coffers of the Reserve Bank. This has to be handled at the expert level by operating on forward and spot rates for sterling. The drain on reserves, anticipated or not, has been aggravated by the prevailing high rates in the London money market. This can be seen in the comparatively larger forward sales of sterling to the Reserve Bank and the decline in spot sales, in sharp contrast to the normal seasonal pattern.

To repeat, the present exchange crisis is just a temporary snag and despite the urgent necessity it imposes for some stop gap arrangement, it is not a matter of great importance in itself. What is, is the need to keep up the tempo of the economy and add to and not undermine the strength it has been building up. All the economic indicators undoubtedly point to the economy gathering momentum. Food production has set up a record; the other indicators are not unfavourable. The monetary situation hardly calls for restraint—and how does the higher Bank Rate and stiffer credit help the balance of payments, any way? Neither would exports be stimulated by tighter credit nor imports hit by it or by the 10 per cent levy. There is a case for taxing imports and at a much higher rate—selectively, not indiscriminately at a flat rate.

That our foreign exchange situation is grave is a fact. That we have to obtain temporary succour from the Fund is also to be admitted. But did we have to present our economy with the formidable bill of fare that consituted the monetary measures this week, even if, as one suspects, this was done with a view to placating the Fund rather than addressing ourselves to the problems of our economy?

A cardinal point in the Fund theology is the inseparability of a domestic inflation and a balance of payment deficit. In an aggregative and *ex post* sense, this is a near-tautology but clearly we would have expected our policy makers and advisers to know that in an *ex ante* sense the emergence of domestic inflation and an external deficit as reflected in the foreign exchange reserve position is not the near-identity crude monetary theorists would have us believe. That this needs to be stated at this stage of the game in India is a sad reflection on the economic expertise that makes our decisions.

There is little point, however, in bemoaning our acts of omission then. There is, one feels, greater point in objecting to our acts of commission now. For what we have done, viz, to approach the Fund for a fresh stand-by credit "to the maximum possible extent" carries with it the bitter pill of a stabilisation programme. A stabilisation programme to cure domestic inflation so as to correct a payments deficit makes sense in a free economy without import regulations. In the Indian context, it is a surrender to the opponents of planned economic growth. It is the wrong medicine for a wrongly diagnosed malady. The cure may sound right to the monetary pundits but the patient will get worse. No, the state of our exchanges does not warrant the severe internal measures.

If the state of the exchanges does not warrant the internal levies, does the internal situation? That there has been a rise in prices last year is an undeniable fact. The monetary expansion was clearly in excess of the economy's absorption capacity, and the gap was reflected in the price increase. The expansion in real output this year may be nearer 7 per cent and what is the order of monetary expansion we are planning for? The rate of monetary expansion should clearly match the needs of the economy. To suggest that because the expansion last year was higher than real output, it should be lower than real income this year is to ignore the time dimension in economic activity. The price increase last year has already occurred. Are we trying this year to bring about a sharp and sudden price reduction through deflation or hold the level of prices with a gradual easing with the pick up in production ahead? There are indications that the much needed respite in prices is appearing. Much is made of the failure of post-harvest prices to decline. What we are witnessing is possibly a delayed reaction to the overcoming of the scarcity psychology. What was required was an alert and watchful response rather than ham handed intervention. There is danger that the credit measures would bring about a real squeeze and hamper production. Credit demand in several important sectors is yet to pick up; credit expansion so far, *pace* the Reserve Bank, is still much smaller than last year. Why this scare then? Are the authorities really convinced that credit levels are higher than they should be? If so, they should have taken the public into confidence as they did in September last.

The monetary measures would be meaningless, without fiscal controls. How do we achieve this — through a budget surplus? And how will TTK ride the Fund horse of a budget surplus along with the private sector horse of tax relief to revive the capital market and yet be loyal to the objective of growth? Are we going to cut defence expenditure — or is it possible to touch administrative costs? One fears the politically easy way out will be taken and investment expenditure will suffer a deceleration in its rate of growth. Already we are seeing in the emergence of a surplus in railway capacity, in the lower levels of coal output and demand the failures of the past in meeting our investment targets. A budgetary surplus at the cost of investment may reduce monetary expansion today but it will make the ascent of the economy to higher levels later more difficult. Let there be no mistake about it. A stabilisation programme at the behest of the Fund is the antithesis of our growth policy; it is the flagrant violation of our resolve not to accept aid with strings. A government dedicated to the interests of the Indian people should have been able to convince the Fund that internal inflation was *not* at the root of our external problem — that it was the investment plan for growth that put our payments under pressure. To cut our investment to achieve balance is more than shortsightedness. It would be betrayal of a solemn commitment.

Railway Budget

THE "inflationary pressures" of which the Finance Minister spoke in such grave terms on Wednesday are one aspect of the performance of the economy; the other, and more important aspect perhaps, is the slackness, even stagnation, in important sectors of industry. T T Krishnamachari was exercised over the need for fiscal and monetary discipline to check the rise in prices, but it was the Railway Budget presented on Thursday which drew pointed attention to the other problem. Goods traffic on the railways was expected to increase by 17 million tonnes in 1964-65. In the event, the actual increase is likely to be no more than 3 million tonnes.

The slackening of the demand for coal in the beginning of 1964 persisted and coal traffic in the first nine months of 1964-65 was actually 2.5 million tonnes lower than in the corresponding period of the previous year. Movement of raw materials to the steel plants has also dropped. Nor has the anticipated increase of a million tonnes in carriage of mineral ores for export materialsed; the actual increase was just about one-fourth of this figure. Other revenue earning traffic also increased much less than the anticipated 5 million tonnes; in the first nine months of the year it was higher than in the previous year by one and a half million tonnes. Clearly, the shortfall in freight traffic is the result of development programmes lagging behind schedule in such vital sectors as steel, cement, fertilisers, mineral ores, etc.

Even allowing for the "signs of revival of traffic", the best estimate of increase in goods draffic during 1964-65 is 3 million tonnes. And in 1965-66, the last year of the Third Plan, the Railway Minister expects that goods traffic will rise by 10 million tonnes. Even if this estimate proves correct, the total goods traffic in the last year of the Plan will be only about 205 million tonnes — far lower than the revised target of 245 million tonnes, not to mention the original Plan target of 260 million tonnes.

The smaller-than-expected increase in goods traffic has been reflected in freight earnings turning out to be Rs 24.5 crores lower than the Budget estimate. The shortfall, however, has been to an extent made up by a higher-than-expected increase in passenger traffic. The 1964-65 Budget had expected passenger traffic to increase by about 4 per cent. Actually, suburban traffic has increased by 8.6 per cent and non-suburban traffic by 5.8 per cent and earnings from passenger traffic are likely to be Rs 16 crores higher than expected. The overall shortfall in gross traffic receipts will thus be about Rs 8 crores.

This deficit in earnings is magnified into a Rs 17 crores shortfall in net revenue as a result of an increase of Rs 18 crores in working expenses — the lower-than-expected goods traffic notwithstanding. The rise in working expenses is attributed by the Railway Minister almost entirely to a higher wage bill owing principally to two revisions of dearness allowance of railway employees. There have been increases in the price of coal and electric power for traction, but these have been

Railway Finance in Third Plan

(Rs crores)

	1961-62 Actual	1962-63 Actual	1963-64 Actual	1964-65 Budget Estimate	1964-65 Revised Estimate	1965-66 Budget Estimate
(1) Passenger earnings	150.88	169.19	185.15	184.00	200.00	221.50
(2) Goods earnings	306.90	349.52	395.30	432.00	407.50	441.90
(3) Other coaching earnings	29.10	32.54	34.12	35.00	35.00	34.60
(4) Sundry other earnings	13.61	16.68	17.47	18.00	18.50	19.00
(5) Suspense	+0.01	−1.14	+0.17	−1.00	−1.00	−1.00
(6) Gross traffic receipts	500.50	566.79	632.21	668.00	660.00	716.00
(7) Working expenses	390.51	429.52	472.27	516.82	527.35	555.00
(8) Net traffic receipts	109.99	137.27	159.94	151.18	132.65	161.00
(9) Net miscellaneous expenditure	10.24	13.95	14.75	17.08	15.64	15.86
(10) Net revenue	99.75	123.32	145.19	134.10	117.01	145.14
(11) Payment to General Revenues	75.35	81.26	95.95	103.23	104.52	115.90
(12) Surplus	24.40	42.06	49.24	30.87	12.49	29.24
(13) Operating ratio*	78.00	75.80	74.70	77.40	79.90	77.50
(14) Capital at charge	1,682.98	1,896.81	2,159.93	2,389.40	2,411.55	2,651.55
(15) Ratio of net revenue to capital-at-charge	5.90	6.50	6.70	5.60	4.90	5.50

* Ratio of working expenses to gross traffic receipts.

Financing of Railway Investment

(Rs crores)

	1961-62 Actual	1962-63 Actual	1963-64 Actual	1964-65 Revised Estimate	1965-66 Budget Estimate	Total Third Plan	Total Second Plan	Total First Plan
Investment	233.88	324.38	374.30	365.00	345.00	1,642.56	1,043.69	423.23
Financed from								
Railway funds	102.08	123.67	145.04	121.38	140.95	633.12	390.80	282.37
Government of India funds	144.90	214.89	260.52	251.92	240.00	1,112.23	598.67	143.16
Change in Railway funds' balance	+13.10	+14.18	+31.26	+8.30	+35.95	+102.79	−74.22	+2.30

to an extent offset by what the Railway Minister describes as "economy measures" and by the level of traffic being below anticipation, to give a net increase of Rs 18 crores in working expenses.

After paying Rs 104.5 crores to General Reserves, which is about Rs 1 crore higher than the Budget estimate, the surplus in 1964-65 is estimated at Rs 12.5 crores compared with the Budget estimate of Rs 30.9 crores and the 1963-64 actual figure of Rs 49.2 crores. At existing levels of freight rates and passenger fares and given the estimated increase in goods traffic by 10 million tonnes and in passenger traffic by 4 per cent, the surplus in 1965-66 would dwindle further to about Rs 8.8 crores. It is this dismal prospect which the Railway Minister adduces to justify increase in freight rates and fares.

Passenger traffic will contribute Rs 13.5 crores of the increase while higher freight rates will fetch Rs 6.9 crores. The impact of the fare increases has been to make fares slightly more telescopic over distances longer than 800 kilometers for third and second class travel and over 1,000 kilometers and 1,200 kilometers for first class and air conditioned travel. The Railway Minister has been at pains to point out that the increase in fares has been well spread out and that it will be only marginal for all individual journeys. Yet the fact remains that the travelling public as a whole will be paying some Rs 14 crores more on account of the higher fares and it is only to be expected that in view of the general rise in prices this burden will hardly be accepted without demur. The Railway Minister has shrewdly let the highly vocal suburban commuter traffic get off relatively lightly, though it is well known that while passenger traffic as a whole does not pay its way, suburban traffic does so even less. Indeed the rise in the proportion of suburban traffic in total passenger traffic in recent years has been one of the developments with disconcerting implications for railway finances.

The other development is the growth of the so-called low-rated goods traffic as a proportion of total goods traffic. In 1964-65, it is possible, the trend may have been halted or even reversed as a result of the large shortfall in traffic in such commodities as coal and mineral ores, but this is almost certain to prove a temporary aberration from the trend which has been clear. Between 1956-57 and 1961-62 the proportion of low-rated traffic to total traffic increased from 63 per cent to 73 per cent with a corresponding fall in that of high-rated traffic.

The railway administration has been acutely aware of this trend and recent changes in freight rates have been in the direction of narrowing the difference between the low and high rates. Only last year the rates for coal moving over distances longer than 500 kilometers were raised and this was accompanied by a downward adjustment in the classification of certain high-rated goods. The freight increases this year follow the same pattern. Rates have been raised on heavy merchandise like iron and steel, cement, stone, limestone, ores, petroleum products, etc. The conspicuous exceptions are coal, on the ground that the rates for coal have been raised more than once in recent years, foodgrains, kerosene and iron ore for export. Like last year, higher rates for low-rated commodities are accompanied by a reduction in rates for certain high-rated goods — mainly manufactured goods including cotton piecegoods.

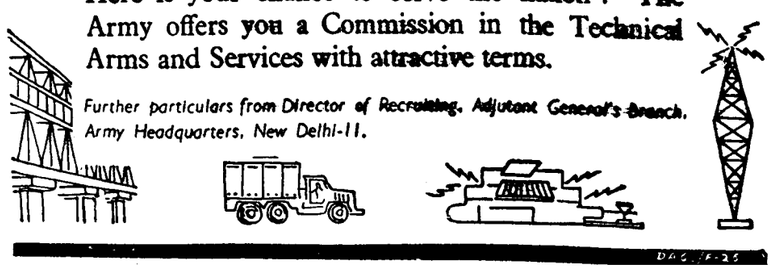
These changes reflect the need to preserve the financial viability of the railways in the face of the continuous rise in the proportion of low-rated traffic and fall in that of high-rated traffic — some of it as a result of competition from road transport. Without statistics of the average unit cost of carrying different commodity groups, however, it is not possible to say which pay their way and which do not. For instance, it is certainly not true that low-rated traffic is necessarily unremunerative. Haulage of low-rated materials to steel plants over short to medium distances is not uneconomic as is seen from the financial results of the Eastern and South-Eastern railways which rely on these commodities for a good proportion of their revenue, but are able to make intensive use of available facilities. In fact these two railways are more profitable than most other zonal railways. Even low-rated traffic comprising bulky and heavy materials like coal, ores, etc, may pay if movement is organised in full train loads and at fast speeds.

Reliable estimates of average unit costs are necessary, for only then will it be possible to identify commodities which are subsidised and those which are charged in excess of costs. With such information a more rational freight structure can be evolved, on the basis of deliberate decisions about which commodities to subsidise and how much.

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Weekly Notes

Corporate Taxes as Incentives

ON the need for rationalising the various concessions in corporate taxation and making them more selective, in order to encourage investment in some directions and not in others, R K Hazari writes:

The Finance Minister has already announced his intention of modifying the coverage of development rebate after March 1966. The purpose of the development rebate (originally 25 per cent, now 20 per cent, except 40 per cent for shipping and 35 per cent for coal mining) was to compensate selected industries for the inadequate depreciation permitted on the historical cost of fixed assets and to give an incentive for fresh investment. The grant of an extra depreciation allowance last year (after its lapse in April 1959) has partially met some of the complaints on this account. To allow development rebate uniformly to all industries, as has been done so far, is to lose sight of priorities in investment and negative the useful function which this delicate instrument can perform in the allocation of private investment — a function which can never be performed adequately by licensing policy. Development rebate may be abolished altogether in those industries where growth is either not material or does not need tax incentives, and graded from 10 to 40 per cent of the value of new equipment installed in other industries, depending upon their relative priority. Income-tax revenue statistics do not indicate the amount of deduction permitted for development rebate. There is little doubt that this concession is widely availed of and that the amount involved must be substantial.

The tax holiday (up to six per cent of capital employed in a new undertaking for five years after commissioning of plant) also needs looking into. It is far too indiscriminate because almost every industry is entitled to it but, at the same time, it is hardly a meaningful incentive for most units, particularly those with long gestation periods, because depreciation, development rebate and losses are prior charges on profits. In 1961-62, 1,131 assessees (against a total of nearly 11,500 companies assessed) got this concession on an income of Rs 11 crores and saved only Rs 4 crores, an amount which equalled the tax exempted in super tax on inter-corporate dividends. As in the case of development rebate, the tax holiday must be selective and for those who get it, it should be meaningful. It should be *nil* for those industries which would be denied development rebate, for 7 years up to 6 per cent of the capital employed for a few others, and for 10 years up to 8 per cent of the capital employed for high priority industries.

Taxation of narrowly held companies also needs revision. The application of section 104 (formerly 23A) of the Income Tax Act requires modifications particularly in the light of a recent decision of the Income Tax Appellate Tribunal that companies which are listed on the stock exchange but have large foreign holdings are to be treated as narrowly held companies. In the 1964 Budget, section 104 companies engaged in industrial production were exempted from compulsory distribution of most or all of their profits but were subjected to 60 per cent tax against the standard 50 per cent. They do not have to pay the 7½ per cent tax on equity dividends but are liable to surtax. The application of section 104 has created numerous complications in the case of narrowly owned public companies (private companies are covered automatically) and it should, therefore, be clearly laid down that no public company shall come within the mischief of section 104 so long as its shares are listed at a recognised stock exchange and at least 33 per cent of its share capital has been offered to and subscribed by the public.

Abolish Surtax

IF development rebate and tax holiday are changed as suggested above, there would be no justification for continuing the 10 per cent extra tax on section 104 companies and surtax on all companies. These two imposts have affected business sentiment far beyond their revenue potential. The principle underlying them has been neither clear nor logical. A narrowly owned company can, with some justification, be compelled to distribute its current profits on the reasonable suspicion that otherwise the shareholders would be avoiding high personal tax but there is no justification for discriminating, through a higher tax rate, against relatively smaller and up-and-coming businessmen. The surtax was a hangover from Morarji's ill-conceived super profits tax, applying a wrong principle of progressive taxation to companies, and thereby encouraging wasteful expenditure. The revenue loss would be about Rs 20-25 crores — Rs 8 crores under surtax and Rs 14 crores for section 104 companies (see *The Economic Weekly*, March 7, 1964, p 488). But this loss would be recovered by partial withdrawal of development rebate and tax holiday, and removal of the extra incentive to boost costs when corporate profits are taxed at 65 to 75 per cent.

The 7½ per cent tax on equity dividends has attracted a lot of criticism as an incentive to retain profits and raise capital in forms other than ordinary shares. Judging by the overall performance of leading companies in 1963-64, this tax has done practically no damage, notwithstanding the fancies of stock exchange operators to the contrary.

NOTICE

WITH effect from March 1, 1965 the price of *The Economic Weekly* will be raised to 75 paise. Correspondingly the annual subscription will be Rs 36 in India, Pakistan and Ceylon, and the half-yearly subscription Rs 20. Foreign annual subscription rates will be £3 10s or $10.

For the last 16 years, the price of *The Economic Weekly* has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control now force us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager

There is a case for concessions in two other directions. The rebate allowed for profits from increased exports is too meagre to be effective and deserves to be doubled. As for the taxation of inter-corporate dividends (on which super tax was entirely removed last year), foreign investors are taxed at a concessional rate of 15 per cent if they invest in a basic industry, against the standard rate of 25 per cent. Indian companies should be placed on par with foreign investors in this respect.

The tax on royalties and technical fees received by non-residents was reduced last year from 63 to 50 per cent. The position about technical fees, however, remains very confused because it is taxed at 50 per cent if deemed to be delivered in India and is entirely free of tax, if deemed to be delivered abroad. The deeming provision creates a lot of uncertainty, to avoid which foreign collaborators take good care to see that all drawings, etc, are delivered abroad, and avoid getting technical work done locally; besides, they are encouraged to cash in on technical fee rather than royalties. This is a rather complicated question but given the ingenuity of the Finance Minister, it is not beyond solution.



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Jute	Rs 4,37,00,000
Coal	Rs 3,16,00,000
Plantations	Rs 2,40,00,000
Shipping & Transport	Rs 82,00,000
Railways	Rs 66,00,000
Co-op. Housing Societies	Rs 24,00,000

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GATT's New Chapter

THE new chapter of G A T T, accepted on November 26 and now signed by almost all the countries on February 8, is a new chapter in more than one sense. For, it marks the end of the era when there was no official recognition in GATT of the special trading needs of the developing countries. The lack of such recognition had forced developing nations to insist, at the last year's UN Trade and Development Conference, that the time had come to dissolve GATT; their demand was withdrawn only on the understanding that the Agreement would soon be modified.

The new chapter has the following main features: The developed countries are asked to give high priority to reducing the tariff and other barriers against present *and potential* imports from developing countries. Thus there is now official recognition of the need for developing countries to find markets for their new manufactured products. Further, the developed countries are asked to refrain from imposing any new tariffs or other disabilities on present or potential imports from developing countries. But what constitutes the most important change is the provision that the developing countries need not reciprocate the concessions the developed countries grant them. This abandonment of the principle of reciprocity is the most important concession to the developing countries. A new Committee on Trade Promotion has also been appointed. Its main purpose will be to ensure the implementation of the new provisions by thinking up helpful measures. One important task it has already been assigned is that of examining the feasibility of drawing up a scheme of preferences for the trade of developing countries.

However, how soon and how far the developed countries will want to implement the new provisions is a different question. Already a qualification is provided in the new chapter: the developed countries need not observe the new provisions "when compelling reasons, which may include legal reasons, make it impossible" for them to do so. For, it does seem that in making the stipulated concessions, for the manufactured products particularly, the developed countries will have to pay the cost — in the short-run at least — of increasing unemployment at home and of disturbing some vested interests. Hence it is too soon to be very optimistic about the final results of the new provisions. They have certainly created a favourable climate of world opinion for the kind of concessions the developing countries demand. To that extent we can be more hopeful now about the Kennedy Round of tariff talks. But the French refusal to sign the new chapter (on the ground that it is not generous enough to the developing countries) and the progress made so far in the Kennedy Round, emphasize the need for the developing countries to continue to press their case for more liberal trade policies on the part of the developed countries.

US and Vietnam Crisis

PRESIDENT Johnson has reiterated once again that the U S does not seek to expand the war in Vietnam while maintaining, at the same time, that she will honour her 'commitment' in South Vietnam. Now, if the course of the tragic war in Vietnam has proved anything it is that this is a contradictory position, since it has been established beyond doubt that the U S cannot defeat the Vietcong in S Vietnam without escalating the conflict.

The recent U S air strikes at North Vietnam are proof of this. The pretext that the attacks were aimed at army establishments which had actively assisted the successful Vietcong attack on the U S military base at Pleiku was so patently untenable that even the State Department has not pushed it too hard. Pleiku was another in the chain of defeats which the Vietcong have been handing out to the Americans and the decrepit Government and army of South Vietnam. There was little the Americans could do about it, for though far superior in weaponry they lack the one factor which accounts for the Vietcong's unbelievable success — the support of the people, particularly the peasants.

To their Pleiku defeat the U S retaliated in the only way open to them — by striking at North Vietnam from the air. In the swamps of South Vietnam they have no answer to the Vietcong. Similarly a land war extending beyond S Vietnam's borders will lead them nowhere. But in air and naval power they are clearly superior to any force in the region.

Unfortunately for the U S, superior air power is no answer to the military problem in S Vietnam. It can only extend the war and at best perpetuate a stalemate at heavy cost in human and material terms. Far from helping to honour the American 'commitment' in S Vietnam without extending the war, tactics such as those which guided the air attacks against North Vietnam will most likely extend the war without achieving the objective of defeating the Vietcong.

The U S is not unaware of this, yet so deeply is she committed to hopelessly unrealistic policies in south-east Asia that the only way out of the tragic stalemate — a political settlement with China — still appears unthinkable to her. Nor is it the U S alone who would settle the Vietnam problem without reference to China. In his latest well-meaning pronouncement, Lal Bahadur Shastri has repeated his appeal for U S—Soviet talks on Vietnam. To imagine that the U S and the Soviet Union can settle the Vietnam issue is to ignore the lessons of the failure of the 1954 Geneva agreement which the U S refused to sign.

The fact is that the principal parties involved in Vietnam are China and the U S and no agreement which is unacceptable to either can be effective. Yet the U S would continue to behave as if China did not exist at all! There can be no end to the war in Vietnam and no abatement of tensions in south-east Asia till the U S decides to normalise her relations with China and to give up policies aimed at surrounding China with hostile regimes.

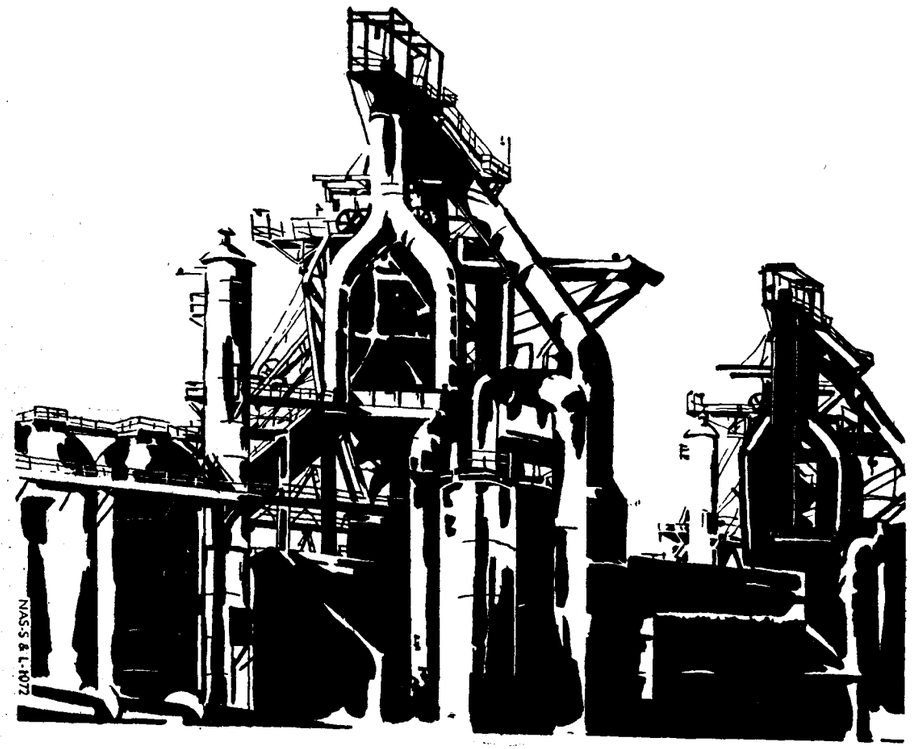
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Capital View

The Revolt of the Angry South

Romesh Thapar

WHERE does one begin to tell the story of the last few days which almost witnessed the wrecking of the unity of this sub-continent? I have been asking myself this question for some hours now — and am none the wiser.

Should I highlight the ease with which an aggressive lobby in the Capital persuaded Shastri and Nanda to tom-tom the 'arrival' of Hindi as the official language? Or would it be more to the point to underline the extraordinary insensitivity of the present Congress leadership to the feelings of the non-Hindi speaking peoples of the South and the East, an insensitivity which persuaded it to dismiss the slogans of the DMK as 'exaggerated', 'inconsequential'?

Maybe, I need to go back several years, to the discussions in the Constituent Assembly, to cover the rift as it developed and how Nehru healed the wounds. I should then discuss the deep fears generated widely by the chauvinistic Hindi-ists who imagined that they alone could cement the unity of a sprawling and varied sub-continent.

Perhaps, the incompetent, puerile handling of this explosive question will be best understood if I record the background against which the crucial Cabinet meetings were held on the evening of February 11 and the morning of February 12.

Warnings Ignored

Reports had been pouring into Nanda's Home Ministry suggesting that the anti-Hindi stir in the South was not confined to the usual DMK circles, that the demonstrating students, drawn from all sections, reflected the general sentiment of the towns in the South. Economic and other frustrations were seen as feeding the anger of the demonstrators. Independent observers claimed that the Bhaktavatsalam ministry was isolated and that Kamaraj was being compelled to disassociate himself from the Hindi policies of the Centre.

These very accurate assessments were, however, dismissed by Nanda and his experts, even described as an attempt to panic the G O I. Shastri, unwilling to take a position contrary to the powerful Hindi lobby, accepted the Home Ministry's view that a detailed explanation of the language policy would be enough to isolate the 'mischief-makers'.

No one at the Centre insisted on visiting the 'affected areas' in Tamilnad. The fact that Chief Minister Bhaktavatsalam was busy discouraging Shastri's plan to send Nanda to explain the Centre's policy was not interpreted as proof that the Congress writ was no longer valid in Madras. Cowardice dictated that only South Indian leaders visit South India. And T T Krishnamachari, in the midst of budgeting, was ordered to ferret out the facts even as the army moved in to prevent a total collapse of law and order.

Crisis In Cabinet

In this atmosphere, the Cabinet met to approve the text of the broadcast which Shastri was to deliver that evening. Despite the clarifications and the belated resort to the 'Nehru Formula', Subramaniam, Chagla and Sanjivayya attempted to persuade their colleagues that the situation had moved beyond clarifications and assurances, that in the absence of Nehru there was a lack of trust in the declarations of the G O I, that some kind of statutory guarantee should be promised to assuage feelings in the non-Hindi speaking regions and to prepare the way for serious rethinking. This intelligent and rational plea was not only scoffed at but the irresponsible Mahavir Tyagi was permitted to make a near-hysterical counter-attack.

Shastri and Nanda, it is reported, sat in stupefied silence as Tyagi, declaiming in *Shudh* Hindi, demanded that for a change the interests of the Hindi-speaking peoples should be considered, that the rebels in the South should be shot down, and that if the Southerners wanted to go they could go (interpreted by some to mean that they could secede!) This performance, coming as it did after the victory calls outside of Deputy Education Minister Bhakt Darshan and Shastri's earlier 'assurance' that Hindi's imposition would be speeded up, created a critical situation within the Cabinet which adjourned without any censure of Tyagi and his henchmen.

Subramaniam, in a highly distressed state, decided within half an hour of the Cabinet meeting to send in his resignation — that is, before Shastri's scheduled broadcast. Unfortunately, the news leaked out even as Shastri spoke over AIR and the impression was created in local political circles that Subramaniam, joined by Alagesan, was acting in a thoroughly opportunist manner, almost giving a head to the revolt in the South. Within hours the report was circulating that the South Indian ministers were resigning in a bloc, that Shastri was about to resign too.

By the morning of February 12, the situation in Madras had deteriorated further and the violent agitation threatened to spread to the adjoining States. Krishnamachari had spoken over Madras radio, but to no effect. The demand for statutory guarantees, was gathering force — even in the Cabinet. The Cabinet meeting in the morning was interrupted by Indira Gandhi, back from a tour abroad, who declared that she was flying to Madras to investigate the situation — a decision taken in the teeth of opposition. At last, someone from the North was getting to grips with the problem; an observer, perhaps not incorrectly, described her as the only man in the Cabinet!

Shastri's Retreat

By now, that is within 12 hours of his broadcast, Shastri was in retreat. He, however, maintained that a change, in the official language policy, even an amendment of the Official Language Act, should be handled by the Chief Ministers. A meeting to consider the question was fixed for February 23. Mahavir Tyagi visited Subramaniam, presumably to explain his conduct. Chavan made clear that his sympathies were with Subramaniam. Indira Gandhi declared emphatically in Madras that Hindi could not be pushed at the risk of disintegrating India, for the original motivation behind the policy was only to strengthen the integration of the sub-continent. How completely this ob-

vious truth had been lost sight of was only too apparent.

Even as the Students' Action Committee called off its agitation, the specialists in double-think got to work. Encouraged by the TTK report that the situation in the South had been exploited by disruptive and subversionist groups, that it was merely a law-and-order problem, the myth was spread that the left communists were behind the violence. This ludicrous attempt to play politics made no impact, not even in Congress circles, for it is well-known that this section of the communists is weak in Tamilnad. Indeed, had there been active participation by the left communists, the disturbances would have spread rapidly to adjoining Kerala and Andhra Pradesh.

Soon, the Hindi lobby was at work, pointing to the dire consequences of a 'surrender' to the South, collecting signatures to a petition which insisted on the carrying through of 'approved' Hindi policies, and implying that a law-and-order situation could be created in Uttar Pradesh and Bihar. Coupled with this campaign was the demand that Subramaniam's resignation be accepted, Subramaniam who is now the ruling party's most effective link with the angry South.

President's Wise Lead

The so-called Congress leftists remained surprisingly quiet in the Capital, even those who are now described as 'atom bomb leftists'. The C P I under Dange, true to form, was conducting an anti-US demonstration on Viet-Nam developments as the revolt sharpened in the South. The PSP, too, was nowhere on the scene. Only Lohia and his lieutenants clapped, convinced that these troubles would help end Congress rule. What does it matter if anarchy prevails, if India ceases to exist as a single unit — so long as the cry of death is in *shudh* Hindi?

The wise words of President Radhakrishnan during the crisis, with which he highlighted the failure of political leadership and warned against attempts to rule without a consensus, were drowned in the headlines of the daily newspapers which were content to emphasise the obvious — his denunciation of violence. And to top it off, the demonstration of solidarity by various Congress chieftains around the fasting Vinoba Bhave added the macabre touch. India, it seemed, was back to normal. Far from it. The fiery passion of the South had made a profound impact on the North.

True, the militant Jan Sangh and the rabid R S S refuse to face the facts and have now raised the bogey of English being imposed on the North. True, the DMK-ists have scored heavily and at the expense of Kamaraj and his friends. True, fears are being generally expressed about the possibility of secessionist movements between now and the next General Election in 1966-67. But this does not detract from that other truth: the angry revolt in the South has given us the shock-treatment we needed. We must now see that our political leadership moves with feet firmly on the ground.

The Crucial Issues

Despite the nonsense being talked about bi-linguism, multi-linguism and uni-linguism, several crucial issues are involved in this business of forging a language to cover the country.

First, English, or whatever truncated form of it remains in India, can at best be a link language until some other 'link' so necessary for communication is accepted by all the regions.

Second, primary and creative expression for many generations will continue in the various mother tongues of the sub-continent, including Hindi, but Hindi will not be accepted as a link language.

Third, the consensus on a language for the sub-continent will increasingly be described as a consensus on a *link* language rather than a *national* language, and to begin with the link language will possess little else than a basic vocabulary.

Fourth, in a situation in which the various mother tongues of the sub-continent assert their development, a new consensus for a stronger Centre will have to be secured to prevent disintegration.

And, fifth, the central leadership will have to apply its mind to evolving a Roman script for the link language. This is the reality of a continental State which embraces many developed communities and groups who are zealous in safeguarding their rights.

The demand for statutory guarantees is a democratic demand. It is possible that in the implementation of the language policy unthinking elements from the Indo-Gangetic plain may succeed in creating a constitutional paralysis, but there are other safeguards which could be effectively employed. A permanent, high-powered control commission, with powers to prevent the violation of the assurances given, could be established. Referandum procedures could be worked out to ensure that no qualitative change in language policy will take place without a reference to the peoples' wishes. The North and South have to learn to give and take on the language issue and the handicaps must be equalised as far as possible in the interests of a developing unity.

Who will draw the correct lessons from the tragic happenings of the past few days? New political alignments are bound to crystalise. To survive, increasingly the ruling party will have to rally behind those who rise above parochial, narrow interests. This applies to language as to all other issues. It is the crux of the political challenge facing India — and the Congress Party.

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As already notified the Register and Transfer Books for Ordinary Shares will remain closed from the 15th to 27th February, 1965 and the Interim Dividend will be paid on or after the 8th March, 1965 to those shareholders whose names appear on the Company's Register of Members on the 27th February, 1965 or to their mandatees.

The Directors wish to stress that this distribution represents merely an interim payment of Dividend to shareholders to alleviate their current income position and must not be taken as in any way indicative of the trend of profits for the current year or the final Dividend that will in due course be recommended for declaration at the Annual General Meeting.

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From the London end

European Suspicions of Foreign Capital

ONE of the more interesting features of General De Gaulle's attack on the Gold Exchange Standard is that it brings out more sharply than anything else the fundamental difference in the approach of industrialised and developing countries to the subject of foreign private investment. For no one really believes that the General is advocating a return to the pre-war, pristine gold standard; and indeed, world foreign exchange and bullion markets have remained undisturbed by De Gaulle's attack. There is, however, no doubt that his attack on Gold standard is intended to emphasize France's (and other Common Market countries') objection to the working of the present international gold exchange standard system where dollars and sterling act as reserve currencies, and dollar balances which the U S would prefer not to be converted into gold, provide an indirect means of increasing American private capital investments in France. And, it is the fear of the growing spread of such investment and the resulting control of French industry by American capital that lies at the back of France's violent antipathy to the present system of international monetary payments.

Fear of US Domination

The developing countries, whose balance of payments position is so desperate, and who urgently require foreign exchange to go ahead with their projects for industrial development, are now prepared to change their attitude to foreign private investment. And indeed, they are going out of their way to encourage such investment so that they can meet the gap not only in their foreign exchange requirements, but also that in scientific and technical know-how. Industrial countries like France, with a healthy balance of payments, on the other hand, are becoming increasingly suspicious of the control over their own industries passing into foreign hands through the investment of foreign private capital.

In his statement, General De Gaulle pointed out that under the present monetary system, countries holding dollars and sterling in lieu of gold are persuaded not to convert all their dollar holdings into gold. The excess of dollars thus held leads to increasing control of industrial enterprises by American companies because the dollar balances held somewhat unwillingly by European central banks finance a high proportion of U S direct investment abroad. It is common knowledge that America's balance of payments deficit is in large part due to the outflow of private capital for, for many years now, the U S A has been running a large surplus on current account.

In the circumstances, it would be interesting to examine how far American capital has penetrated into the European countries. In recent years both industry and Governments of Western Europe have become increasingly concerned at the growing importance, in certain key sectors of their economy, of America-based companies. The key industries include chemicals and pharmaceuticals, electronics, oil refining and cars.

Rising American Investment

Of the $40,000 millions of American investments placed abroad by the beginning of 1964, only 25 per cent, went to Europe but in 1964 alone, no less than 60 per cent of American capital invested abroad went to Europe. These investments earn an average rate of profit of as much as 11 per cent. As compared with pre-war American investment in Europe which was concentrated in banking and the petroleum industry, it is electronics, food-processing, engineering, metal trades, chemicals and petrochemicals, and car production that attract the greatest interest. In a recent study conducted by Booz, Allen and Hamilton — a management consultancy concern — on American investments abroad over the years 1960-64, it was shown that 20 per cent of American firms' new foreign operations have been devoted to the non-manufacturing sector with special emphasis on the establishment of company-oriented wholesale and retail trading activities. During this period, 4,644 new foreign activities were undertaken by a total of 1,897 U S companies. About one-half of the total went into Western Europe — the U K topping the list by providing locations for 13 per cent of all new operations started abroad.

In France it is understood that U S investment is around $2,500 million, but it should be noted that new industrial investment doubled from $632 million in 1959 to $1,250 million in August 1964. What is causing particular alarm in France is the American takeover of whole factories and the deep penetration into technologically advanced industries. It appears that a major move by the French authorities to cut down further United States investment in French industry — particularly the acquisition of French companies, is now under way. While investment creating new activities may be looked at with a fairly friendly eye, outright takeovers of French firms will be frowned on.

Smaller Companies Enter Europe

There is no doubt about the recent enthusiasm of American companies to invest in France. Following the post-war wave of big company investment, medium and smaller size companies are now seeking to mark out their stake in Common Market prosperity. Equity participations are far more popular than licensing agreements, and according to the Chase Manhattan Bank, the trend now seems to be to exchange the right to a new product for the right to a new market. Thus, although in the immediate post-war period America was able to supply much needed capital and technical know-how to a war-ravaged Europe, the situation is now completely changed. A formula which is now being discussed is one in which Americans and Europeans would invest on a 50—50 basis as this might help to curb American excesses while at the same time helping European industry. Indeed, it is very similar to the joint collaboration ventures which now have the blessings of the Government of India.

The fear of American industrial invasion is beginning to spread to other Common Market countries and the President of E E C, Professor Hallstein said in Amsterdam on February 4th that while Europe "welcomes a certain amount of American investment, excessive concentration in any single branch" should be avoided. The German attitude is perhaps a little less strong than that of France, but it is also beginning to change. The German business community feels

that the reluctance of the German Government to exchange part of German dollar holdings into gold, as France has done, has helped US competitors to buy their way into German industry. Total United States investment in Germany was estimated at $1,700 million at the end of 1963, representing some 4 per cent of total industrial investment in Germany. While German industry admits that American investment is a stimulus to modernize and a compliment to the profitability of the German economy, competition from powerful American groups create dangers for medium and small-scale companies in Germany. In a recent speech Dr Herman Abs of the Deutsche Bank proposed the setting up of an organisation which would collect and maintain up-to-date information on foreign investment in Germany.

Investigation by E C E

It is also understood that in view of the growing concern, the Economic Commission for Europe is to undertake a new investigation into the whole question of foreign investment. In the past, the Commission had contended that foreign investment did not present any global problems for the Community, though sectoral difficulties might arise. Since existing information on the subject is inadequate, a new study is to be made. The experts will now try to discover the extent of foreign penetration into all sectors of the Common Market economy. The results of the new survey should be available in about three months time.

There are a number of steps which European Governments can now take to control foreign investment by exercising stricter control over foreign direct investment projects. Recently, for example, an American plan for buying a $1 million French company was rejected. Far from being an isolated instance, this is believed to be one of a series of refusals of requests to buy. Again, if Continental capital markets could be better organised, American bidders would lose the competitive advantage they now possess by being able to provide immediately large sums of money, and the European companies would be able to do the same. Another positive measure might be to lower tariff barriers and thus reduce the temptation of the foreign investor to invest within the market itself in order to jump the tariff barriers.

British Exports Rise

BRITISH exports continue on a rising trend, imports have been reduced, and the trade deficit is now lower than in recent months. These are the main points to emerge from the provisional overseas trade figures for January issued by the Board of Trade.

Exports in January were valued at £ 368 million (seasonally adjusted). They show a fall from the high December total of £396 million but the average of £378 million for the three months November-January (which brings out the trend) was 2 per cent more than in the previous three months. It now seems clear that a moderate growth in exports has occurred in recent months following the slightly falling trend in the summer of 1964.

On towards progress . . .

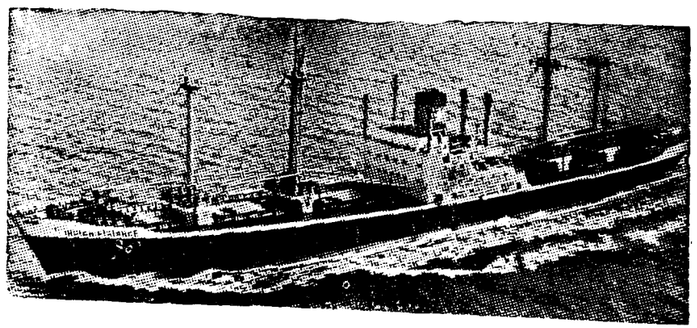
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Village Politics in Kerala—I

Kathleen Gough

The arrest of 800 Leftist Communists at the end of 1964, 150 of them from Kerala, raises such questions as who supports the Leftists, why, and how political parties operate in Kerala's villages.

I shall discuss these questions with reference to a village in central Kerala, using comparative data from a second village in the northern part of the State. My first acquaintance with these villages was in 1948 and 1949. I returned to restudy them between April and September 1964.

It is not suggested that these villages are typical of Kerala communities. Both, for example, contain a majority of Leftist Communist supporters, and both form wards within Leftist-dominated panchayats. (I do not know what proportion of Kerala's 922 panchayats are dominated by the Leftists, but probably rather less than a third, judging by estimates received from district party offices).

In both villages only one other party, the Congress, has an active organization. In both, the S S P and the Rightist Communists each, in 1964, had only one or two supporters; in the northern village, some half dozen Muslim families supported the Muslim League. Kerala's smaller parties, such as the Revolutionary Socialist Party and the Christian Karshaka Thozhilali Party, are more locally based and in these villages had no supporters at all.

Situated in the midland farming areas, the two villages can also afford no insight into politics on the large tea and rubber estates to the east, the coastal fishing or coir or cashew-nut processing communities, or the bigger ports.

Finally, this paper offers no analysis of political parties as state-wide institutions, but only of some of their operations at the level of village and panchayat.

What is hoped, however, is that the study may provide general insights into how and why villagers of different castes and classes, in the farming and suburban areas, support the Congress or the Communist Parties; how the inter-party conflict is pursued through local institutions, and what factors hold it in check.

[The Congress and Communist Parties polled respectively 34.5 per cent and 36.7 per cent of the vote in 1960 (K P Bhagat: "The Kerala Mid-term Election of 1960," p 147). Both are now split. The Leftist Communists appear to lead a much larger proportion of rural supporters than the Rightists. The Kerala Congress Party had not yet seceded from the Congress Party at the time of my study.]

PALAKKARA lies four miles from Ambalapuram, a town and district capital in central Kerala.* Its population has increased from 1289 to 1932 between 1949 and 1964, largely through natural increase, but partly as a result of the construction, in 1958, of a block of government offices in an adjacent village. This event brought several new families of government servants and uprooted landless labourers to live in Palakkara. The increase has made the village very crowded, while the entry of a few rather wealthy families has raised the price of land. About 60 per cent of men in Palakkara work in Ambalapuram or neighbouring towns; less than half did so in 1949. Their work ranges through a great variety of wage or salary occupations.

Parambur, the second village, lies in a rural area in the foothills of the Western Ghats in North Malabar, sixteen miles east of a coastal town which is also the district capital. There is wet paddy farming in the valleys, as in Palakkara, but the bulk of cultivation is of hillside gardens of cashewnuts, coconuts, arecanuts and pepper. About 63 per cent of the men are landless agricultural labourers, in contrast to Palakkara's 24 per cent. About 88 per cent of the men have more or less traditional rural occupations. Parambur's population has increased less than Palakkara's in the past fifteen years — namely, from 1,320 to 1,510. Its economy has also changed less, although there has been expansion of cashewnut farming on formerly waste lands.

* I have used pseudonyms for all proper nouns except the names of famous leaders, to protect the identity of my informants.

"As Bad as Ever"

When I asked middle-aged people in both villages, "Do you feel better or worse off now than when I saw you in 1949?" the most characterstic answer was a laugh and "As bad as ever." There were, in fact, modest improvements in both villages' public property and services. Palakkara has electric street lights, better country roads, a radio house, reading room, children's playground, and some minor irrigation developments. Parambur has several new roads, replacing mountain footpaths — one of the first things I was told is that it is now possible to get a jeep from the main road to the largest paddy-flat, and that two have been down there, one, the Block Development Officer's, and the other, a Congress Party speaker's. Parambur also has a small reading room and a large co-operative society building. Both villages have more frequent bus services to the town. In both, more of the children are in school.

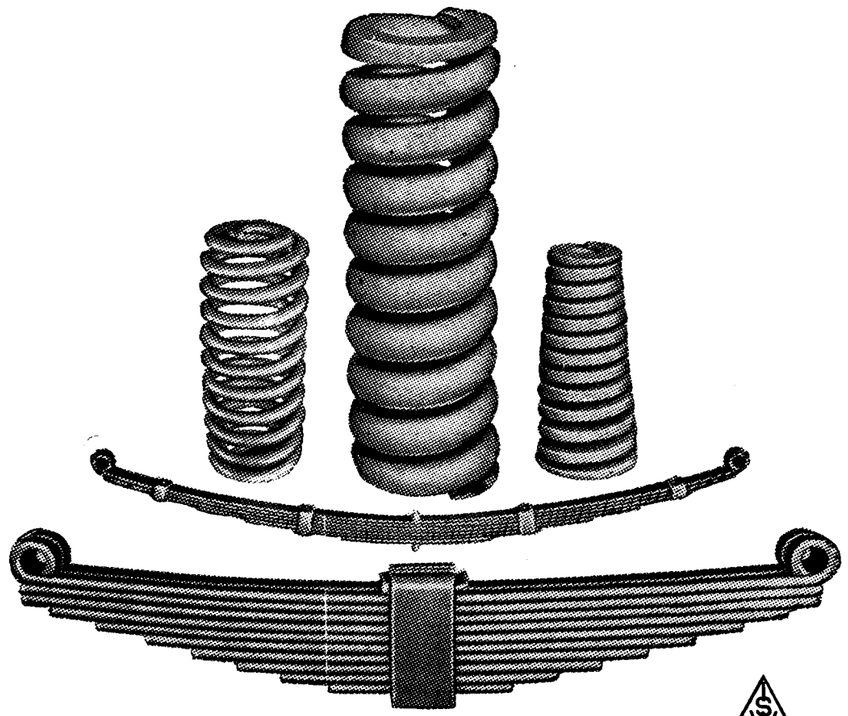
Regarding private wealth, the real wages of landless day labourers — the poorest stratum of the employed — have no doubt somewhat increased. Yet there is if anything more insecurity of employment than formerly in this class. Many families still suffer acutely for two to three months during the monsoon, and some of the less fortunate are almost destitute most of the time. Demands and expectations in this group have risen enormously, and there are perpetual complaints against employers.

At the opposite end of the scale, Palakkara's "upper class" consists of some 26 families of small landlords, of owner-cultivators possessing more than five acres of land, of higher ranking government clerks, and of small businessmen (a spinning-mill owner, a jewel-cutting shop owner, and a lorry-owner) — employing more than a dozen workers. Seventeen of these families are indigenous to the village. Most of them have improved their wealth since 1949 through a fortunate combination of farming with white-collar jobs. Palakkara's only indigenous landlord is a Namboodiri Brahman whose forebears were village headmen. The family contains no educated urban workers, and has been

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obliged to sell some gardens since 1949. Its members still own about 60 acres. In spite of lower rents and higher labour costs, the head has been able to hold on to a modest affluence by personally farming a portion of the estate.

Increased Wealth

Among the half dozen bigger landlords of neighbouring villages, the impression I received was one of increased rather than of decreased wealth. In 1949, for example, a wealthy Namboodiri family of an adjacent village owned 600 acres of coconut gardens and wet paddy land. They were obliged by the Communist Agrarian Relations Bill of 1959 to sell 150 acres to tenants. The rest has been parcelled out among relatives and brings a rich livelihood, most it is now being farmed with hired labour rather than through tenants. The family's wealth has been further increased by professional employment, and by investment in shop buildings and rental houses in the town.

Similarly, Parambur's one very wealthy landowning joint family, of Nayar caste, has retained or increased its wealth through a combination of subdivision of the property to maximize holdings under the land laws, of personal farming of large acreages, of professional employment, and of intensive cultivation of plantation crops such as cashewnuts, which are exempt from land-ceilings. The net effect in both areas is that while landlords are deeply concerned about threats to their estates from future land laws, few have suffered so far from the ceilings imposed either by the Communist Agrarian Relations Act or by the subsequent, and much more moderate, Land Reform Act of the Congress government of April 1964.

It is in the middle ranks in both villages that economic deprivation is most bitterly lamented. These ranks include small owner-cultivators having less than five acres, tenant farmers, village craftsmen and other village servants, petty brokers of cash crops or livestock, and individual keepers of small grocery stores or of tea shops. Palakkara's "middle class" also includes lower ranking clerical workers, "peons", and workers in restaurants or in industries. While there is minor variation, in only a few special cases has the livelihood of these families substantially improved since 1949. Among the latter are, for example, a half dozen enterprising carpenters and masons who have gained wealth from the new government building, and a half dozen workers in a metal parts factory whose Communist union has secured substantial wage increases. The rest complain of low wages, high prices, loss or subdivision of land plots, unemployment of some members, heavy indebtedness, poor food and frequent illness, and inability to maintain the most modest middle class standing in spite of hard work and thrift. For such people, the picture is further darkened by a sense of loss of morale and of local co-operation, of growth of corruption and of cut-throat competition for land, jobs, influence and education. They feel that they have been left behind by the few fortunate rich, yet are threatened by the unskilled manual labourers, who, under Communist influence, grow ever bolder in their demands. An elementary school teacher summed up the position when he said. "Seventeen years ago we had troubles but we told you it was a transition period. At least we had hope. Now we do not know what lies ahead — we are looking into darkness."

Castes and Religious Groups

The two villages encompass the main ethnic groups of Kerala. We may divide these into five broad categories. Among Hindus, the Nayars and their congeners (including the small castes of Namboodiri Brahmans and Temple Servants) have traditionally been a landed aristocracy of government servants and religious specialists, about 19 per cent of the people. Below them come the Iravas and a number of allied castes (25 per cent), occupied as tenant farmers, landless labourers, artisans, or in the coir and cashewnut industries. With the mobility of wealth that market relations have brought to Kerala, some Iravas have become merchants, landlords or small industrialists, while many Nayars are now wage earners. At the bottom of the caste scale fall the Harijans, some 9 per cent of the people. They are landless labourers in villages or on the tea and rubber plantations.

Muslims, concentrated in North Kerala or Malabar, form 20 per cent of the people. They have progressed less rapidly than Hindus or Christians in education, and include, as well as rich merchants, many poor and preliterate labouring families in the ports and inland bazaars.

Christians form 24 per cent of the people. They are divided into Roman Catholics (about 90 per cent) and several sects of Syrian Christians and Protestants. Much of the modern capitalist enterprise of Southern Kerala has been carried out by Christians, but Christians span the class structure and include almost every occupation.

Palakkara contains 94 households of Nayars and allied high castes. In traditional parlance they are the "good" or "clean" castes, and the Nayars proper have been the dominant caste in this village. The bulk of Nayars descend from seven ancient matrilineages, whose ancestors owned some land and leased more from the Namboodiri Brahman landlord and head of the village. Today, only about a dozen Nayar families retain paddy fields or more than a single garden, the majority being clerks, mill-hands or urban service workers. Correspondingly, more than three-quarters of Palakkara's wet land and almost half its dry land is now owned by absentee landlords, chiefly Christian merchants or Nayar or Brahman professional men of the town.

Palakkara's 51 Christian households rank socially, and in some contexts ritually, between the Nayars and the Iravas. Their ancestors moved to Palakkara from a nearby Christian village eighty years ago, and they were never fully integrated into its traditional social life. Unlike the aristocratic Syrian Christians and the older Catholic families of Ambalapuram, Palakkara's Christians are believed to have once been Harijans and Iravas who were converted to Catholicism within the past two hundred years. Only three of Palakkara's present day Christians have wealth and high school education, and they have arrived since the government offices were built in 1958. The rest are tenant farmers, brokers, or semi-skilled manual workers in the town.

Irava and Harijan Groups

The 115 households of the "Irava group" were once tenant cultivators and village servants under the Brahmans and Nayars. I have included among them the small service castes who rank close to the Iravas, such as Smiths, Astrologers, Masons, Barbers and Washermen. Some retain their traditional occupations; others trade, or fill town jobs of the same type as the Christians. Some half dozen have completed high school and now hold clerical posts.

The Harijans of Palakkara, finally, comprise 33 households of the Vettuvan and Parayan castes. Once agricultural serfs, hereditarily bound to



GENTLEMEN PREFER
MAFATLAL GROUP
POPLINS AND SHIRTINGS

NEW SHORROCK, (SHORROCK), Ahmedabad · NEW SHORROCK, Nadiad · STANDARD, Bombay · STANDARD (NEW CHINA), Bombay
STANDARD, Dewas · SASSOON, Bombay · SASSOON, (NEW UNION), Bombay · SURAT COTTON, Surat · MAFATLAL FINE, Navsari

Aiyars MGSP 1839 GIA

Nayar and Brahman households, they are today mainly coolies or landless labourers. Most of the younger children are in elementary school, but none has attended high school.

The Irava and Harijan groups traditionally comprised the polluting castes. There was wide social distance between all of them and the Nayars. Within this category, however, the Iravas and their congeners were sharply separated from the Harijans — a fact today reflected in the government classification of the Irava group as "Backward Classes" but not as Harijans. In Palakkara the social distance between Iravas and Christians has always been much less than between either of them and, on the one hand, the Nayars, or on the other hand, the Harijans.

Simpler Caste Structure

Parambur's caste structure is simpler. There are no Christians, and only one house of Harijans. The vast bulk of the village falls into either the Nayar group (53 houses) or the Irava group with 132. As in Palakkara, the Nayars have been the dominant caste of small landowners and tenant cultivators, leasing some lands from a leading family. A hundred years ago, the leading Nayars were a Parambur matrilineage, formerly village headmen under the local Rajas. With the mobility of wealth brought about by export crop farming in the late nineteenth century, the local headman's lineage lost most of its land to a bigger landlord lineage of a village five miles away. This lineage made wealth in the timber trade and "ate up" the surrounding villages. Today one of its branches occupies a large house on a hill-top overlooking Parambur, and the lineage as a whole owns much of the village land. The local Nayar households, of lower social status, own small plots or lease gardens from the landlords, or in some cases work as coolies. The majority of the Iravas are landless agricultural coolies or very small tenant farmers. In both Nayar and Irava castes, a few men are cash crop merchants, shop-keepers, school teachers, hand-loom weavers, bus-drivers, postmen or constables.

Finally, on the eastern boundary of the village, near the river bank, live 25 households of Muslim, culturally and economically affiliated to the small Muslim bazaar town across the river. Sixteen years ago Parambur's Muslims were 'timber coolies" for Muslim merchants. They swam downstream with logs to the port, returning with trade goods. In the past five years timber transport has been taken over by lorries. Parambur's Muslims are therefore very poor and insecurely employed. They pick up day jobs as coolies for Nayar farmers or Muslim merchants across the river, or peddle dried fish between coast and interior.

How the Parties Came

When I came to Palakkara in 1948, there was only limited franchise and political parties had not galvanized social life. Cochin and Travancore, as native states, had played less part in the Independence struggle than had Malabar, and its excitement had scarcely penetrated the village. A few Nayars belonged to the Cochin Praja Mandal, or States Congress Party, but most were cold to the Congress Party because it had recently opened temples to the lower castes. In these latter castes four youth, the only ones to have passed through Primary School, supported the Indian Socialist Party. They were a Carpenter, two Astrologers and a Washerman. Starting out as Congressmen after Independence, they had become disgusted with what they regarded as Congress corruption, its favouring of wealthy and high caste supporters, and its failure to control the prices of food.

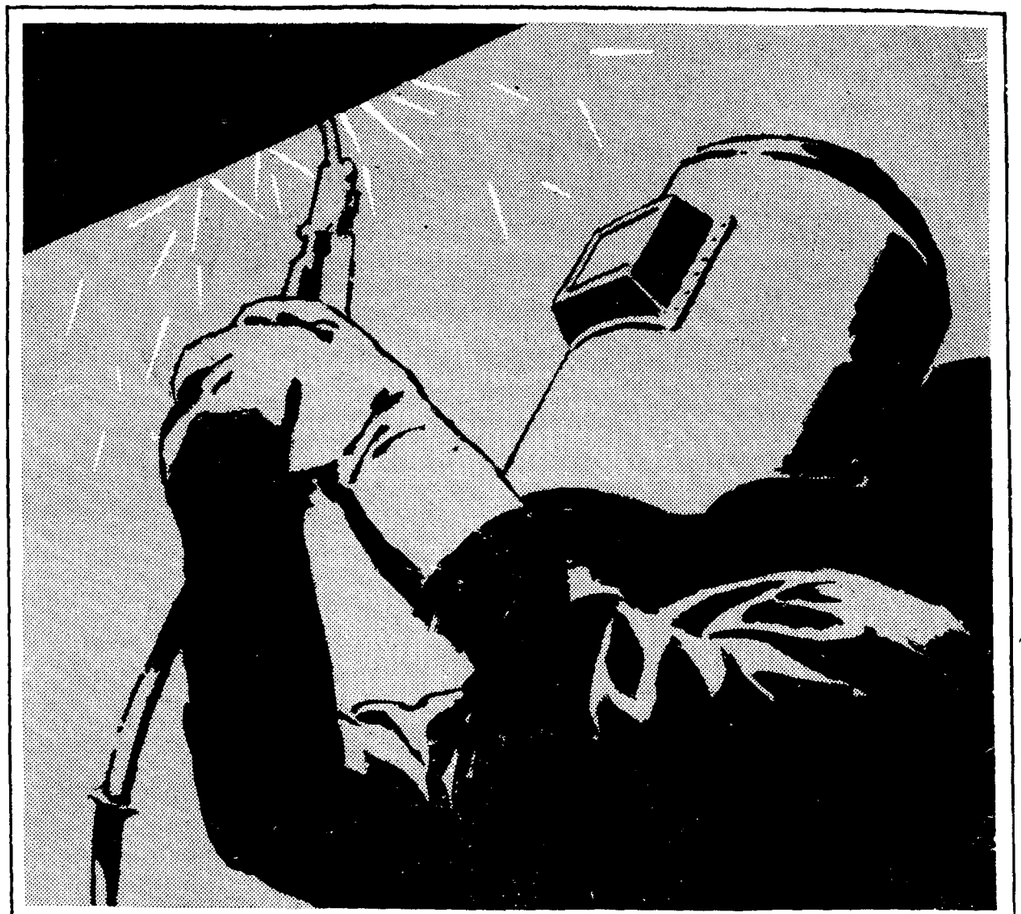
About six youths, Nayars and Iravas, supported the Communists. They worked in a textile mill and belonged to the AITUC union, were rebellious against caste restrictions, and in town demonstrations, marched proudly behind the flag. They set in low caste teashops, played cards in the road, and tested the Temple Entry Act by bathing together in the village temple tank. Most Nayars, especially women, condemned them as crazy and sinful, shaking their heads over the supernatural dangers to the village of youth who transgressed religious laws. When a slimy, noxious weed appeared in the tank in the dry season, Nayar women stayed away and blamed it on the deity's wrath against the Communists.

Most of the Iravas were accepting of the Communists, but disinterested. For the past ten years, Palakkara Iravas had belonged to the Sri Narayana Guru movement (S N D P), a famous caste association based on the creed "One God, one caste, one religion." The S N D P required monogamy of Iravas, Sanskritization of their religious rites, repudiation of caste inequalities, and a kind of Protestant (and indeed capitalist) ethic of thrift and independent enterprise. Under SNDP influence the Iravas paid monthly dues to their statewide association, attended its temple in a nearby village, and employed its Irava priest to perform Sanskrit life-crisis rites. They had ceased to take part in animal sacrifice or other "low caste" ceremonies at the village temple festival. The Iravas had, in fact, partly abstracted themselves from Palakkara's traditional caste system — both economically, through wage work, and also morally through the S N D P. They did not, however, attack Nayar dominance head on, but lived in a kind of quiet, back-to-back relationship with the Nayars, fulfilling their tasks and keeping social contacts to a minimum. While few could vote, Iravas tacitly supported Irava candidates who were recommended by the S N D P and who ran as Congressmen or Independents. The Christians, similarly, were deeply involved in their parish church in the next village and supported only church-approved Christian candidates, who at that date ran chiefly as Independents.

Party Tactics

In 1948, Palakkara's Harijans had no interest in political parties. All were pre-literate and worked only within the village. Engaged in relations with small owner-cultivators, they had never been contracted by the Communist peasant unions which, on the larger estates, were in this turbulent period attacking the privileges — and the granaries — of wealthy landlords.

Just beyond the southern boundary of Palakkara lived a strange young man called "Communist Namboodiripad". Aged 25, he was the younger son of a landlord house in a neighbouring village. As a boy he had served as priest in one of Palakkara's temples. At 13 he ran away because his father would not allow him to attend high school and learn English. Visvanathan joined and worked for the Congress youth movement, lived in the Congress Party office, ate in the houses of Christian, Muslim or Hindu party workers, and somehow pulled himself through high school. At 19 he quarreled with the Congress Party because, he said, local leaders were absconding with its funds. He was inspired by a speech by A K Gopalan, the Communist peasant-organizer, followed him on a demonstration, was arrested, and soon joined the Communist Party. "I came to know that



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only thus could we stop the inequalities." He was instructed in Marxism by a local Namboodiri leader, who seems to have stood to him as a *guru*. Following party policy, Visvanathan later joined the British army and fought in the Burma campaign, but was court-marshalled and imprisoned for organizing strikes in protest against British officers' superior conditions. Returning to Kerala, he formed trades unions among factory and plantation workers. In 1948 he married (within the caste but without dowry), obtained a share of family property, and settled on the edge of Palakkara. I saw him only twice, for he was usually underground or in prison. He had almost no contact with Palakkara people. Most thought him mad, and he thought them hopelessly backward.

When I returned to Palakkara in 1964, I found more than half the village supporting the Leftist Communists. Visvanathan is now President of the local panchayat board. In his party he is prominent on the district committee. Palakkara is now considered a hot-bed of Communist influence in the mainly working class neighbourhoods which surround Ambalapuram.

Political Consciousness

The change to widespread political consciousness came in Palakkara with the introduction of universal franchise and the entry to the village of units of the Congress and Communist parties at the end of 1951. Political interest much increased when, in 1953, Palakkara became one of seven wards in a newly organized panchayat, whose board members were for the first time elected through universal franchise. Four of the wards elected Communists; three of them, Congressmen. Palakkara elected as ward member Gopalan, a young Nayar ex-constable who was by that time one of three Communist Party members in Palakkara. Panchayat elections were not held again until December 1963; the elected board was suspended during the Chinese Emergency and its functions carried out by a government Panchayat Inspector. In 1963 the panchayat elected a new board of eight members, six of them Communists or Independents with C P support. Two additional nominated members, representing women and Harijans, were Leftist Communist supporters. Palakkara's Gopalan was re-elected, and Visvanathan for the first time became panchayat president in his role as ward-member from the next village. The Communists have steadily increased their support; by 1963, only 337 Palakkara people voted for the Congress candidate, and 513, for the Communist.

The parties came to Parambur in a different way. There, as in Palakkara, half a dozen educated and prosperous Nayars (teachers, landlords and owner-cultivators) joined the Congress Party during the Independence movement on nationalist ideological grounds. The difference from Palakkara was that Parambur lay in a region dominated by very large landowners. Its tenants were swept up in the peasant unions of the mid-1930's. These unions were led by A K Gopalan and other eminent mass leaders, then of the Congress Left. They agitated against the landlords for lower rents, fixity of tenure, and the abolition of feudal levies. They also attacked the landlords' right to administer village justice and to impose beatings and fines.

The unions were extremely active until World War II, and in Parambur mobilized 200 Nayar and Irava tenants. Their activism seems to have been related to the growth of export crop farming, the consequent monetization of tenancy and labour relations, the increasing gap in wealth between the great landlords and their masses of impoverished tenants and labourers, and, therefore, the labourers' increasing resentment against the old-style levies in kind and against the landlord's paternalistic "justice". Village members of the *karshaka sangams* almost all became Communist supporters when their organizers left the Congress and joined the C P I in 1939. From about 1942-6, *sangam* activism subsided, partly because the war-boom brought gains to the cultivators, and partly because the C P I ceased its most militant forms of agitation while collaborating with the Allied war effort. The sangams were revived in 1946 and reached the peak of their militancy in 1948. Following C P I national policy, they harvested crops for the benefit of the tenants, ransacked granaries, and waylaid grain lorries to distribute food to the landless. Parambur itself actually had rather little violent "trouble". The local landlord, an Independent M L A of understanding and high character, adopted the enlightened policy of freely distributing stocks of grain to his tenants. But in some neighbouring villages there were bloody encounters between tenants and police, arrests, and two famous cases of martyrdom of Communist leaders. The period became burned into the memories of villagers as one of bitter class struggle between the landlords and the Communist-led tenantry.

When I reached Parambur in mid-1948 the main battles were over. Most Communist Party members were in jail or underground. I was, however, well aware that most tenants secretly supported the C P I. Parambur, like Palakkara, had its budding Communist leader, Parameswaran, a Nayar youth of 27. But whereas Visvanathan looked for his following to urban factory workers and rubber plantation workers of several miles away, Parameswaran's was already established in his village.

After 1951, party units developed in Parambur much as in Palakkara. In 1953 the village became a ward of a larger panchayat, first of three and later of eight villages. From the first, the panchayat elected a Communist dominated board. In December 1963, the Communists further increased their vote, securing seven seats out of eight. Parameswaran has been the ward-member for Parambur since 1953. In 1963, 490 people voted for him, and 227 for the Congress candidate.

Party Units in the Villages

The structure and activities of village units of the Congress and Communist parties in some ways resemble each other. This is natural, as both participate in the electoral system. In each party, village units are responsible to higher committees of the party which tend to parallel the main administrative divisions of the state and nation. Thus, Congress Party members of a ward, which is usually coterminous with a village, elect delegates to a committee of the *mandal*, which is usually coterminous with the panchayat. Mandal committee members elect delegates to committees of the district, state and nation. The Communist Party is similarly constituted, except that the C P seldom has an independent unit at the level of the village or panchayat-ward. Its smallest unit is a branch, which (as in the case of Palakkara and Parambur) is often drawn from a whole panchayat. Branch members elect delegates to committees of the district, state and nation.

When we look into matters, important differences emerge. An obvious one is that in each village, the Congress Party has a large number of enrolled members — 76 in Palakkara and 99 in Parambur — but a relatively small number of firm supporters. The C P I, by contrast, has only two or

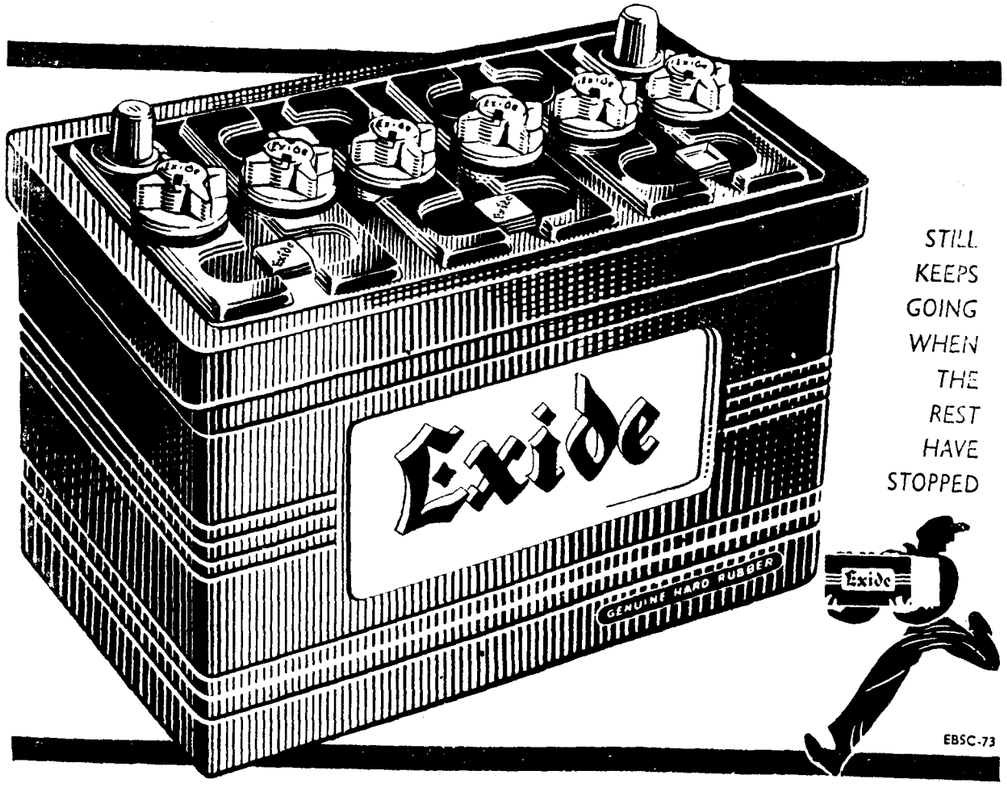
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three party members in each village, but a large number of followers. There are several reasons for this. One is that the CPI has apparently, in most periods, restricted its membership to a small organization of trained and proven Marxists, appropriate to a revolutionary party with secret activities. Party members told me that this was necessary because most ordinary men, engaged in everyday relationships, could not be trusted to be loyal to the party if they got into difficulties. Party members must be ready to suffer hardships and observe strict codes of conduct which tend to set them apart from others. Even in the past decade of parliamentary participation, demonstrations against Congress policies have often landed them in prison. Many were there for brief periods during my stay, after organizing demonstrations during the food crisis. Party members who drink heavily, steal, gamble or otherwise create public trouble, or who criticize party leaders or policies to outsiders, are subject to temporary or permanent suspension. There are similar rules of conduct for Congress members, but my impression was that they are less strictly observed. The risks and discipline required of CP members cause some men to abstain from joining who would readily be accepted. A Nayar factory worker who had supported the CPI for 17 years told me, for example, that Gopalan often urged him to join it. He refused because, he said, "The party takes the whole man." He was also afraid of endangering the educational chances of his younger brother, who held a government scholarship.

Party Membership

From 1957-9, during the period of Communist rule, efforts were made to widen the party membership and to create a "popular" democratic party. CPI membership in Kerala is said to have reached 60,000. After 1959 it dropped again to about 25,000 — people say, because "bogus members" who merely wanted favours from the government changed sides when it fell, and because the party grew weaker as a result of the ever-widening Right/Left division. When the split finally came, in April 1964, the Leftists appear to have carried off a large majority of Kerala CP members, although they had only a minority in the leadership. In both Palakkara and Parambur two or three members had tacitly left the party during the Left/Right dispute. Because the leadership was too busy arguing to maintain close contact with the villages, they simply stopped paying dues. All were, however, Leftist supporters after the split had occurred, and said that they would probably try to rejoin after its policy became clarified.

As a party permanently devoted to parliamentary democracy, the Congress has enrolled as many members as possible. It was said to have about 15 lakhs in Kerala. In both villages almost all were primary or "Four-anna" members. Only the ward-presidents and one or two others were "active members" who had fulfilled the criterion of paying Rs 10 to the party or of enrolling 50 primary members.

In fact, primary members in the Congress Party are in some respects comparable to a category of villagers called "Communist *anubhavis*" (supporters), a phrase heard on everyone's lips. A Communist *anubhavi* is one who is not afraid to publicize his Communist allegiance. He is close to the local party unit, canvasses in elections, and takes part in public demonstrations. If suitably qualified, an *anubhavi* may run for office in the panchayat with CPI backing — three or four had done so, and won, in both the panchayats where I worked. I had the impression that Communist *anubhavis* work harder for the party than do Congress primary members. Many of the latter pay their 4 annas and then remain in a kind of sleeping partnership, attending party meetings only when required to vote for the active members who enrolled them. The fact that locally prominent men wish to have a large number of personal supporters who will vote them on to the *mandal* or some higher Congress committee seems, indeed, to be the main reason why so many primary members are enrolled. Several Congress district secretaries with whom I talked admitted this openly, and I noticed that two automatically referred to primary members as "bogus members". It will be interesting to see whether the new ruling of June, 1964, which forbids primary members to vote for Congress office-bearers above the level of the Community Development Block, will affect enrollment in villages. Perhaps not, for village primary membership seems to be already mainly relevant to the election of "small big men" at the panchayat level, rather than to elections to the district or state committees.

Communist *anubhavis* are also often members of Communist labour unions. In Parambur about 100 *anubhavis*—small tenant farmers—belong to the peasant union which dates back to the 1930's. They pay dues to the union, elect their own officers, and attend meetings at which they evaluate and criticize the achievements of Communist Party members of the panchayat board. Palakkara formed a similar peasant union of 40 members for the first time in 1963, during the *panchayat* election drive. In both villages, however, the events surrounding the Left/Right split had so absorbed the energies of party members that they allowed their *sangam* work to lapse, and the peasant unions were temporarily inactive. When I left in September, Leftist party members were beginning to reorganize the tenants to demand their legal rights under the new Congress Land Reform Act, and to prepare them to argue for these rights before the government constituted land tribunals.

Peasant Unions

Peasant unions are naturally the most prominent kinds in villages. In Palakkara, however, about thirty men belong to one or another AITUC industrial union. By contrast, villagers' support for Congress unions was very weak. The Congress Party does have its kisan unions, but I was told they are insignificant in Kerala and that, after the CPI, only the PSP has any strength in peasant organizations. The Congress Party also, of course, runs unions in almost all industries and on the tea and rubber plantations. In Palakkara, about six men and an equal number of women belonged to recently organized Congress unions, in a local undershirt factory for women and in a newly started spinning mill. Both of these factories refused admission to known CPI supporters, so that to date the CPI had been unable to establish unions there. Unionism was in general, however, a much more lively interest of Communists than of Congress members.

Within each village, the two parties tend to carry out the same range of formal and informal activities, but with different emphases and goals. Most of these differences spring from the contrast between the Congress as a democratic party which has tried to "absorb" the traditional power structure and gain maximum consensus while only gradually changing the status quo, and the CPI whose village members (in spite of a decade of parliamentarism) have retained the

outlook of Marxist revolutionaries.

In each village both party units of course carry on the political tasks of fund-raising and propaganda through public speeches and door-to-door canvassing. These activities are intensified just before an election, and tend to lapse in between. On the whole, C P canvassing appeals to the class interests of the propertyless and the desire for radical changes leading to greater economic and social equality; Congress canvassing, to self interest and to the desire for public welfare of a more traditional kind. C P I canvassers rely much more on rousing public speeches, demonstrations of protest, organization for militant struggles, and solidarity with charismatic leaders who have conducted such struggles. Congress workers rely more on quiet appeals to the vested interests of those who own property, however little, and for the rest, on personal influence and friendship and on favours, monetary or otherwise, to potential party supporters. It is true, however, that this contrast has to do not only with ideology but with whether or not the Congress is already in power, for the 1960 "liberation struggle" against the Communists did involve large and vociferous demonstrations of an unusual kind.

Political Favours

Moreover I do not mean merely to echo the Communist allegation that the Congress gains its supporters through bribery, corruption and general appeals to self interest, while the Communists gain theirs through idealistic dedication to the working classes. It is more complicated than that. C P supporters, like Congress, do gain personal favours from party members and did so especially during the period of C P rule. Occasionally such favours involve acts which are, strictly speaking, illegal. Most often they are a matter of favouritism in the use of personal influence and the distribution of scarce resources which party members control. An example of the former would be the fact that in Palakkara, with the recent overcrowding many landless families have encroached on government wasteland by the roadside and built small huts there. Leaders in both parties have provided legal aid, and tried to influence employees of the village land-office and the district revenue department, to make such claims "stick" on behalf of their own followers, but to have followers of what each calls the "anti-party" evicted. Examples of mere favouritism are the fact that in Parambur, in the C P period, the panchayat board saw to it that Communist supporting landless labourers were the first to receive gifts of free housing from the government. Similarly, in both villages co-operative societies have given jobs as clerks and fair-price shop managers to supporters of the party whose members happen to dominate the co-operative society's board. The Communist panchayat boards have in both villages also given contracts to build roads and irrigation works to Communist-supporting contractors and labourers.

The difference is that in the case of the Congress Party, my evidence suggests that only propertied persons are likely to join and support it for the sake of either class interests or ideological conviction, whereas propertyless people (as well as many of the propertied) join or support the party *in the first place* to gain good personal relations with, or favours from, party leaders. Communist supporters usually become so because they believe in the party's policies and in the benefit it may bring to their *class*, whereas personal favours come to them as secondary rewards. Instances to the contrary are, of course, available. Thus the managers of two large firms in Ambalapuram—a textile store and a transport company—are said to have switched to the C P I during 1957-59 to gain contracts from municipal and state governments, and then to have reverted to the Congress after 1959. In general, however, in the neighbourhood of these villages, it is assumed that property-owners, and those who have special relations with them, will support the Congress, and the rest of the propertyless, the Communists.

Other activities of the parties show the same kinds of surface similarities, with underlying differences which stem from their different ideologies and class-bases. Both parties stress that in addition to political canvassing it is their members' duty unselfishly to "serve" the public. But Congressmen tend to see their duty in terms of voluntary philanthropy or bringing "help and benefits" to the village: Communists, in terms of "conducting struggles" against the wealthy, or of forcing benefits out of the government on behalf of the poor. Thus in Palakkara, Congressmen were proud that wealthy, urban members of their party had recently built a clinic within the boundaries of the panchayat: and that after the death of Pandit Nehru, the Palakkara Congress party unit gave a mourning feast, prepared in the Congress office, to the villagers as a whole. The Communists, by contrast, are proud that in both villages, their agitations have wrug higher wages and fixity of tenure out of the landlords, and have lowered the house-taxes of people of low incomes, and raised those of middle incomes.

Benefits for the Poorest

By virtue of their control of the panchayat board, the Communists have, of course, brought certain "benefits" to each village with the aid of government funds. But these again have tended to be heavily biased in favour of the poorest sections of the villagers. Examples would be a new road in the Harijan quarter, or a new tank for the low caste washerwomen, while the high caste tanks went unrenovated—benefits which in themselves made it necessary to "conduct struggles" against the privileged before they could be achieved.

Similarly, when communist members do undertake private philanthropy they tend to do it for the lowest and poorest (their own followers), whereas the philanthropies of Congressmen usually end by benefiting the upper and middle ranks of the villagers. The clinic, for example, must charge fees to cover its expenses. These, although small, are prohibitive for the poorer people. Congress members in the village raised funds to build a reading room in the Nayar area, which is — quite naturally—attended only by literate people, mainly from that area. By contrast, the Communist ward member runs a drama club which is located in a mixed street of Iravas and Christians, and is patronized by mainly preliterate Iravas, Harijans, and a few Communist-supporting Christians and Nayars.

(To be Concluded)

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Economic Growth and Rural-Urban Income Distribution

1950-51 — 1960-61

V K R V Rao

A significant relationship between economic growth and income distribution is the change that takes place in the proportions of urban and rural income to total income.

The more developed an economy the higher is the proportion of urban income, and the lower that of rural income.

The increase in the proportion of urban income is largely due to the increase in the proportion of the urban labour force to the total labour force, though to some extent it is also a result of the smaller proportion of rural per capita income to urban per capita income.

It must be added however that an index of the degree of development is not only the growth of the urban share in the national income but also a reduction in the disparity between urban and rural per capita incomes.

It would be interesting therefore to consider the effect of Indian economic development during the first two Five Year Plan periods on the growth of urban and rural income as also the change, if any, in their relationship.

[This article is based on the author's forthcoming book : "Distributional Aspects of Economic Growth in India: 1950-51 — 1960-64".]

IT is not easy to allocate India's national income between the urban and rural sectors nor the change in their respective magnitudes over the ten year period. Fortunately, the two terminal points of our period coincide with the decennial Census and it is possible to make a somewhat rough estimate of the relevant magnitudes. There are however differences in definition of the urban area between the two Census of 1951 and 1961 that prevents a straight comparison of the urban population in the two years. The 1951 Census had included in the urban sector all places with a population of 5000 and over as also some places with a smaller population but possessing definite urban characteristics. In the 1961 Census, while all places like municipalities, cantonements and other areas possessing recognised local administrations continued to be treated as urban, for other places the criteria for inclusion were made stricter. Thus, in order to count as urban, they had to have a population of not less than 5000, have a density of not less than 1000 per square mile, and have at least 75 p c of their working populations engaged in pursuits other than agriculture. On this definition, urban population in 1961 was only 17.8 p c as compared with 17.0 p c in 1951. On a reclassification of the data for 1951 in terms of the definition of 1961, however, it is found that the increase during the decennium is higher, being 17.8 p c in 1961 as against only 15.6 p c in 1951. It was therefore possible to identify the increase in urban population on a uniform basis.

Proportion of Workers

When it came to the number of workers, it was more difficult to bring about comparability. The 1951 Census had classified the population under three categories, namely, 'self-supporting', 'earning dependent' and 'non-earning dependent'. A 'self-supporting' person was defined as one who earned enough at least to maintain himself, the 'earning dependent' as one who had some income, while the 'non-earning dependent' had none. The 1961 Census abandoned this classification and instead introduced only two categories, namely, 'working' and 'non-working'. The principal means of livelihood was no longer linked with the proportion of the income earned but to the activity to which the respondent devoted the major part of his working time. This resulted in a large increase in the number of workers in the 1961 Census, mainly under female workers in agriculture, the index number of female cultivators which stood at 109.9 in 1951 with 100 as base in 1900 now jumping to 194.7 in 1961. It must be added that, as the bulk of the abnormal increase was accounted thus under agriculture, the definitional difference is not likely to have affected to any significant extent either the comparability of workers in other sectors or their distribution between urban and rural areas.

In any case, for calculating urban and rural incomes, we have used the proportion of workers and their income differentials in each individual industrial sector and not the actual number of workers in the urban and rural areas. The proportion of workers has been based on the paper (mimeographed) by B R Kalra on "1961 Census and its implications in terms of labour force, growth and employment" along with the official 1961 Census paper No. 1, and the official country statement for India presented before the Asian Population Conference in 1963.

Net Output in Sectors

For determining the distribution of net output in individual sectors, our figures are based on the estimated income per worker. In the more organised sectors like mining, factories, railways, communication and government administration, where income does not depend upon location, no wage differentials are assumed to exist. For agriculture and allied activities, the net value of output has been taken, while for the remaining sectors like small industries, construction, trade, unorganised transport, professions and liberal arts, data on income differentials have been gleaned from a number of miscellaneous and scattered sources for 1951 and from individual reports of the National Sample Survey for 1961. These data are admittedly rough, are not strictly comparable, and do not always pertain to the specific years 1951 and 1961. Nevertheless, we have been compelled to use them for want of more reliable

HINDUSTAN STEEL'S

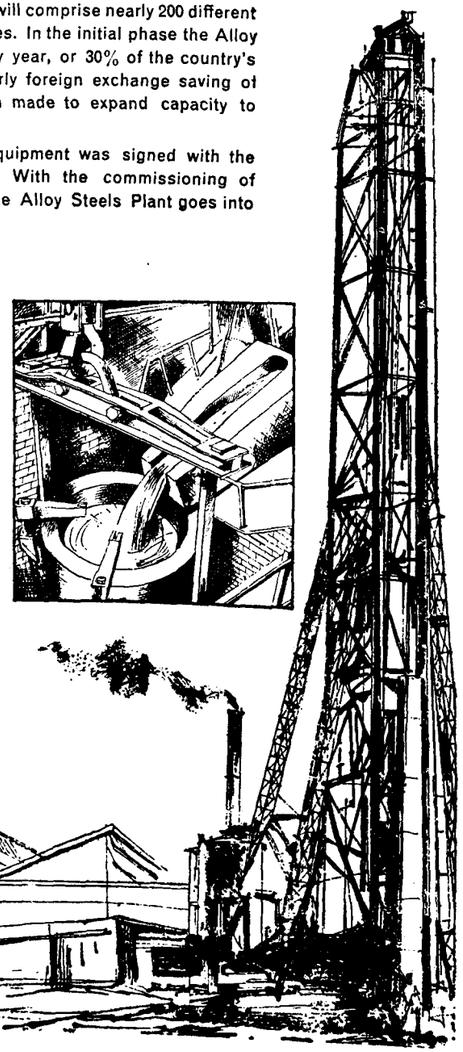
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The contract for supply of main Plant & Equipment was signed with the Japanese Consortium in September 1963. With the commissioning of one of the units of the steel melting shop, the Alloy Steels Plant goes into production.



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data and also because, in our judgement, they do broadly represent the relevant orders of magnitude.

For such sectors where no income differentials are used, income originating in urban and rural areas have been obtained on the basis of the ratio of workers in the two areas as given by the Population Census results. For those sectors where income differential is assumed to exist, the method adopted is to work out the ratio of rural sample earnings to the coresponding urban figure in each such sector, and the ratio of rural workers to total workers in each sector, and combining the two ratios determine the share of rural income in each sector.

The urban income in each sector is then derived as a residual. Table (1) gives the result of our calculations for urban and rural income in 1950-51 and 1960-61.

Disparity Widened

It will be seen that while urban income has increased from Rs 2,790 crores to Rs 4,803 crores or by 72.15 p c, the increase in rural income is only 39.0 p c, being Rs 9,396 crores in 1960-61 as against Rs 6,760 crores in 1950-51. The share of urban income in the national product has increased from 30.3 p c to 33.8 p c over this period. In per capita terms, the urbanites have fared even better, the increase being 43.2 p c, as compared to only 12.6 p c in the case of rural residents. In spite of a slight fall in the proportion of rural to total population and an increase of nearly 19 p c in the national per capita income, rural per capita income which was 0.843 of the all India per capita income in 1950-51 declined to 0.805 by 1960-61. During the same period, the ratio of urban per capita income to the rural counter-part increased from 1.83 to 2.33.

These figures are of course qualified by the extent to which the size of the net transfer of income from urban to rural areas increased over its 1950-51 level, but this does not appear to have been of a significant magnitude. It is also true that the comparison is between two terminal points, but as 1960-61 was not a bad agricultural year — indeed it was particularly good year for foodgrains — this should not lead to any underestimation of the comparative position of rural income. The conclusion emerges therefore that in spite of ten years of economic planning, the disparity between the urban and rural sectors has widened significantly with urban per capita domestic product standing at Rs 607 in 1960-61 as against Rs 261 of its rural counterpart or more than 2.3 times the rural per capita domestic product as against 1.8 in 1950-51.

In order to get clearer understanding of how this has come about, it is necessary to examine the changes in the net domestic product of the two sectors by their industrial origin. Relevant data are presented in Tables (2) and (3).

Fall in Rural Industries

It is seen from these tables that as far as the rural sector is concerned, its highest increase has been in its income from government services, being as much as 290 p c, indicating clearly the extent to which the bureaucracy has been enlarged and expanded in the rural areas for promotion of development. Increase in the income

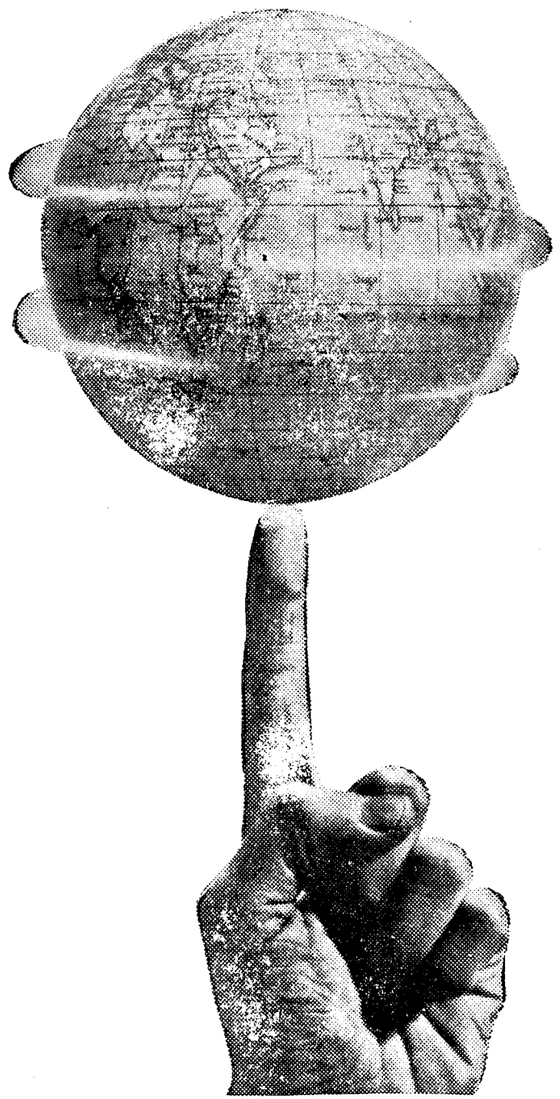
Table 1: Share of Urban and Rural Incomes in Net Domestic Product

	Income (Rs Millions)				Percentage to Total Net Output by Each Sector			
	Urban		Rural		Urban		Rural	
	1950-51	1960-61	1950-51	1960-61	1950-51	1960-61	1950-51	1960-61
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Agriculture and allied activities	1,700	1,580	47,200	67,320	3.5	2.3	96.5	97.7
Mining, manufacturing and small enterprises	6,700	15,940	8,600	10,030	42.5	61.4	56.5	38.6
Commerce, transport and communication	10,500	16,430	6,400	7,040	61.8	70.00	38.2	30.0
Other services	9,000	14,080	5,400	9,570	63.0	59.5	37.0	40.5
Net domestic product at factor cost	27,900	48,030	67,600	93,960	30.3	33.8	69.7	66.2
Index of per capita income with all India =100	424.2*	607.5*	231.6*	260.9*	175.3	187.5	84.3	80.5

* Per capita income in rupees.

Table 2 : Net Domestic Product of Rural Areas by Industrial Origin
(in millions of Rs)

	1950-51	1960-6!	Percentage of rise
(1)	(2)	(3)	(4)
Agriculture and allied activities	47,200	67,320	42.6
Mining & Factory establishments	3,200	5,130	60.3
Small enterprises incl. construction	5,400	4,900	— 9.3
Railways and communication	700	1,180	68.6
Organised banking and insurance	200	460	130.0
Other commerce and transport	5,500	5,400	— 1.8
Professions and liberal arts	2,100	2,920	39.0
Government service	900	3,510	290.0
Domestic service	400	940	135.0
House property	2,000	2,200	10.0
Net domestic product	67,600	93,960	39.0



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from agriculture has been substantial but not in per capita terms in view of the big increase in population during the period and the insignificant fall in the ratio of rural to total population. It is significant that there has been an actual fall in the income arising from small industries, construction, commerce and transport, while the negligible rise in the income from house property indicates the want of progress in rural housing. The increase in the income from domestic service is substantial being as much as 135 p c, but this is probably due to the fall in employment in commerce, rural industries and even rural transport of the traditional variety, as also to the opportunities opened out by the emergence of a comparatively well-off, though not numerically very large rural middle class.

In striking contrast, the urban sector shows a significant rise in the income originating from organised industry. It seems clear that faster progress in the modern sectors of the economy and their larger presence in the urban areas has contributed significantly to the comparatively higher rate of economic growth in the urban sector.

Urban Share of Gain

The larger share that the urban areas have obtained of the gains from development during the first ten years of planning is seen even more clearly from Table (4) that sets out the share of the urban and rural areas in the overall national increase in the net domestic product during the period.

It will be seen that except for agriculture, domestic service and government service, the rural areas have had roughly only about a fourth of the national aggregate of the increased income in the different sectors of economic activity. There has been a significant fall in its share in the income from small industries and construction, the increase in the urban share being 124 p c of the difference between the two years in the national aggregates of the income from this sector. The rural sector does not also appear to have had any share of the aggregate increase in the income accruing from commerce and transport other than railways. It is also remarkable that if we leave out the increase in the income from agriculture, as much as 41.8 p c of the increase in its income from all the other sectors comes from government service. Evidently, planning has led to a large increase in the number of government employees and their income in the rural areas, but this does not seem to have a sufficiently stimulating effect on the growth of income in other sectors in the rural economy.

The case for more effective attention being paid to rural development, both in the agricultural and non-agricultural sectors, seems clear from this analysis. The analysis also shows that urbanisation is attended with a faster rate of growth of per capita income for the urbanites, but this alone cannot be a remedy for the Indian situation, as it will take many Five Year Plans to increase the proportion of

Table 3 : Net Domestic Product of Urban Areas by Industrial Origin

(in millions of Rs)

	1950-51	1960-61	Percentage of Rise
(1)	(2)	(3)	(4)
Agriculture and allied activities	1,700	1,580	—7.1
Mining & factory establishments	3,000	9,670	222.3
Small enterprises incl. construction	3,700	6,270	69.5
Railways and communication	1,500	3,030	100.2
Organised banking and insurance	500	1,150	130.0
Other commerce and transport	8,500	12,250	44.1
Professions and liberal arts	2,600	4,490	72.7
Government service	3,400	5,490	61.5
Domestic service	900	1,000	1.1
House property	2,100	3,100	47.6
Net domestic product	27,900	48,030	72.2

Table 4 : Distribution Between Urban and Rural Areas of Increase in Net Domestic Product Between 1950-51 and 1960-61 by Industrial Origins

(in millions of Rs)

	Urban	Rural	Total of Urban and Rural Income	Percentage to Total of Each Head	
				Urban	Rural
(1)	(2)	(3)	(4)	(5)	(6)
Agriculture and allied activities	— 120	20,120	20,000	— 0.6	100.6
Mining and factory establishments	6,670	1,930	8,600	77.6	22.4
Small enterprises including construction	2,570	— 500	2,070	124.2	—24.2
Railways and communication	1,530	480	2,010	76.1	23.9
Organised banking and insurance	650	260	910	71.4	28.6
Other commerce and transport	3,750	— 100	3,650	102.7	— 2.7
Professions and liberal arts	1,890	820	2,710	69.7	30.3
Govt. service	2,090	2,610	4,700	44.5	55.5
Domestic service	100	540	640	15.6	84.4
House property	1,000	200	1,200	83.3	16.7
Net domestic product	20,130	26,360	46,490	43.3	65.7

urban to total population in India to the level reached even in the latest among the developed countries while meanwhile disparities will widen between the urban and rural areas and threaten the whole process of economic development with political and social instability.

Our study of the incidence of economic planning on rural and urban areas makes it abundantly clear that India from placing prime emphasis on rural development in order to have there is no escape for a country like economic growth with stability.

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Official Paper

Synthetics vs Natural Materials

Ashok V Desai

The State of Food and Agriculture 1964, Food and Agricultural Organisation of the United Nations, Rome, 1964, Pages IX+240; $ 6. 30 s.

BESIDES the usual survey of world agricultural conditions, this issue of "The State of Food and Agriculture" carries special studies on the world's needs and prospects of protein nutrients and the effect of synthetics on agricultural trade.

In the study of protein requirements, a tentative departure has been made from the method of averages used hitherto. Averages are utterly uninformative and misleading in the estimation of population requirements, for comparing the average requirements with average supplies gives a gross underestimate of the shortfall. The water consumption per head in Bombay is over 50 gallons a day, or more than enough for ten baths. It would be absurd to conclude from this that the people of Bombay have too many baths, or even enough baths. Yet this is the way in which estimates of dietetic shortfalls have been made.

The appropriate method is not to assume away all deviations from the average, but to assume that these deviations will take a particular shape and estimate the minimum supplies necessary to ensure an adequate supply of protein to those with the lowest consumption. The FAO study gives some information about deviations. It gives average protein requirements at different ages as well as figures 20 per cent above and below the norms to cover individual variations. Information regarding protein consumption in households at different income levels has also been collected for 13 countries.

However, this information is too scrappy to be used to estimate world protein requirements, which have been calculated from averages. As a result, "it appears that the available supplies exceed average requirements on a per caput basis in all of the countries for which there are data except Ceylon...". Just how misleading this conclusion might be can be judged from Sukhatme's finding, also cited in the survey, that "on the basis of the distribution of households in Maharashtra according to protein intake in relation to requirements, it has been estimated that between a quarter and a third of the households do not receive enough protein. The proportion of persons with inadequate protein supplies would be slightly higher, since the distribution of protein within households is not likely to be in accordance with requirements." The average protein intake in Maharashtra exceeds average requirements.

Growth of Synthetics

The study of synthetics deals with rubber, apparel fibres, fats and oils and hides and skins, and analyses the competition between natural and synthetic materials by countries and markets. The country pattern is uniform: synthetics have advanced most in the markets of North America, next in Western Europe and least in centrally planned and developing economies. The availability of natural materials, e g, cotton and hides in the United States, makes no difference; nor does the size of the market. Behind the differences in the rate at which synthetics capture national markets must lie differences in the growth rates of their output.

What determines the growth rate of output of synthetics? And how much of the market would they ultimately capture? The survey gives only stray indications of the answer. It is interesting to note the pricing policy of synthetics: their prices are set close to the average price of their natural competitors, but are kept unchanged for many years at a time. Thus, the price of SBR in New York has remained the same since 1953 at a level below the lowest price of natural rubber; the British price of rayon has been close to and below that of cotton, and prices of other synthetic fibres to that of wool.

It thus seems that producers of synthetics charge the highest prices at which the markets for natural materials are open to them — prices which allow them the highest profit margins consistent with unimpaired possibilities of underselling. Prices are then reduced as demand bottlenecks are encountered.

If this is the price policy of synthetic producers everywhere, the relative profitability of production of synthetics cannot be higher in the United States and cannot, therefore, explain the higher growth rates of output there. Nor can there be systematic differences in investment-output ratios. The rapidity of expansion of synthetic production in the United States must, therefore, be explained by a higher response of investment to profits. This cannot be fully substantiated either out of the FAO survey or otherwise because comparable statistics are not available for different countries; but the share of profits in value added in manufacturing in 1950-60 was 40.1, 31.9 and 23.5 per cent in West Germany, the United Kingdom and the United States, whereas the proportion of investment in mining, manufacturing and construction to GNP was roughly 9.6, 5.4 and 7 per cent espectively.* Since manufacturing production forms a smaller part of the American GNP, it is certain that the average investment-profit ratio in the United States is far higher than in Britain or West Germany. Our guess is, therefore, that innovations make more rapid headway in the States because American industrialists invest more and consume less out of their profits. To this we should add a number of side-conditions, *viz*, that the design and manufacture of new machinery poses no problems, and that there are no holds barred in competition and no statutory support to declining industries.

As regards the share of the market likely to be captured by synthetics, the FAO survey shows that they have more restricted uses than their natural competitors, and compete with them only in a part of their market. Thus, SBR is a close and winning competitor of natural rubber in the production of tyres for passenger cars, but not for goods vehicles, rayon has an edge over

* Calculated from A Maddison, "Economic Growth in the West", New York, 1964, Tables II-5, and III-4, pp 53, 74 and 79.

cotton in tyre cords, nylon in fishing nets; detergents have encroached rapidly on the market for washing soap but have left toilet soap untouched. Within the sectors where it competes directly, the synthetic product is capable of capturing the entire market; its entry into other sectors, however, depends on the development of competitive variants. A competitive price is generally not enough for the total victory of synthetics: superior quality is also necessary. For this reason, the more successful synthetics come from firms with strong research organisations which can tailor products to suit uses.

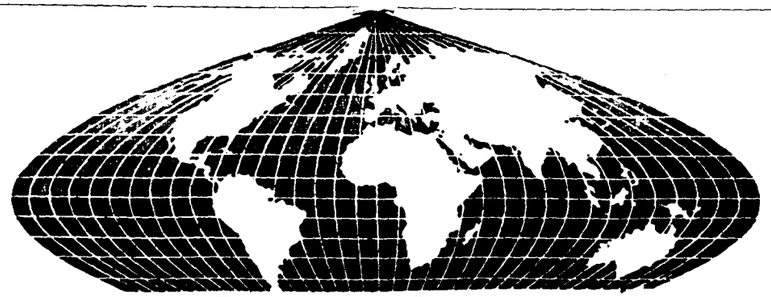
Many consumer goods have a hierarchy of qualities sold to different income groups; one would expect that owing to their policy of maximum profit rates, synthetics producers would enter markets for such goods at the top end. This seems to be true where the synthetic product has been designed as a substitute for the natural one. Thus, all the artificial fibres have entered the textile market at high prices and only rayon has yet become as cheap as cotton. But synthetics often find new uses, as it were accidentally; in such uses they are not necessarily higher priced. Synthetic rubber, whose main demand is in tyres, is quite cheap as a soling material for shoes. Perhaps such accidental uses of synthetics are more important than designed ones: firms develop products and then find uses for them rather than the other way round.

The demand prospects for natural materials depend on the expected expansion of the total market, possibilities of substitution between natural and synthetic materials and rate of investment in synthetics. FAO's projections of total demand make it optimistic about the demand prospects of natural rubber, cotton, wool, oils and fats; it is also optimistic about exports of rubber, cotton and wool from developing countries. It would like to be cheerful about hides and United States is likely to slaughter more animals and thus have more hides to export; and Dupont have introduced, with much fanfare, Corfam, a new synthetic which is supposed to be an excellent substitute for leather in shoe uppers—in fact, a more versatile one in respect of shape and colour. For the present, however, Dupont have decided to go in only for expensive shoes. So the peculiar people who go about Bombay in Impala cars might soon be seen stepping out of them in red-and-yellow Corfam shoes: whether its impact will extend further is, however, uncertain.

Petroleum Complex

THE foundation stone for Polyolefins Industries Limited (PIL) was laid recently by Arvind N Mafatlal, Chairman of the Mafatlal Group of Companies. PIL is a part of the integrated Mafatlal Petrochemical complex and is formed by NOCIL (National Organic Chemical Industries Limited) and Farbwerke Meechot AG. of West Germany with an issued capital of Rs 3.6 crores in which the Indian public will participate upto one-third of the capital.

PIL will manufacture 20,000 tonnes of High Density Polyethylene per annum when completed. Aluminium Organic Compounds widely used as catalysts in polymers formation are also to be manufactured. Engineering for PIL will be done by Friedrich Uhdo of West Germany.



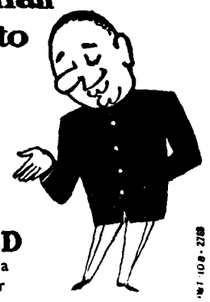
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The Family, Equity and Income-Tax

'Rustic'

Equity cannot abstract from individuals, and equity in taxation requires that the tax rate should be related to the personal circumstances of taxpayers.

The characteristic we have come to regard as important for equity in taxation is the actual or potential standard of living; the quantum of consumption indicates the level of material well-being, and equity, it is believed, lies in equalising it to a greater or less extent.

Efforts to equalise consumption will fail if a tax fails to affect consumption.

Hence taxes ideally designed for equity must take some indicator of consumption as their yardstick, and they must be incapable of being shifted.

THE only important Indian tax from the point of view of equity is the income tax; while the equity bearing of taxes on expenditure, gifts, wealth and inheritance is indisputable, they are all insignificant in the larger picture. A reading of the Income-tax Act also makes it clear that equity considerations are paramount in its framing and are given a higher priority than comprehensibility or administrative simplicity. And yet, the income tax is not a tax on consumers only; it also covers business institutions very remote from consumption.

One would think *prima facie* that the most appropriate subject of income tax was the family; it would be, in most cases, the unit for which consumption decisions are taken. Even if we were to take individuals as the proper subject of taxation, family taxation would be a good approximation to the taxation of persons since inter-family differences in consumption standards are far greater than differences within families.

Yet, the family is not directly taxed under the Income-tax Act. The primary subject of taxation is the individual, and each member of a family can have himself taxed separately if he wishes. This might well be justified on the grounds that the family as a consumption unit (and not as a collection of kins) is more difficult to define than individuals are. But there is a reasonable presumption that a husband and wife living together form a single consumption unit, and they should not be able to pay tax as individuals unless they are separated or divorced. It might be argued that if the freedom of the husband and the wife to be taxed separately is taken away, the incentive to divorce and separate will be strengthened. However, since marriage entitles men to a tax-free slab of income, joint taxation of husband and wife will increase tax rates in the higher income brackets only, and will affect a relatively small number of people. Besides, the husband and wife are taxed on their joint income in Britain, but divorces on tax grounds are unknown. Indian marriages, being a less flexible institution than British ones, would stand the burden of taxation better.

Hindu Undivided Family

One would imagine that what the Income-tax Act calls the Hindu undivided family would be an excellent subject of taxation. It is not, however, both because it is defined as a collection of close kins rather than as a consumer unit, and because the membership of a Hindu undivided family does not preclude a person from being taxed as an individual on income purported to accrue to him alone. Close kins are, if they so wish, treated as a Hindu undivided family even if they maintain separate residence; and they are afforded an incentive to be so treated because they can thereby extend their tax exemption limit to the sum of their individual exemption limits plus the limit allowed to the Hindu undivided family. The extension is not automatic, but it is not difficult either; all it requires is a suitable distribution of income-earning assets between family members. I S Gulati and Kuldip S Gulati have estimated that as a result of such devices, tax-paying Hindu undivided families paid less than 43 per cent of the tax they would have paid in 1958 if duplication of exemption limits were not allowed; the tax avoided by families with incomes below the (extended) exemption limit could not be estimated*. This is a drain for which there is no justification in equity.

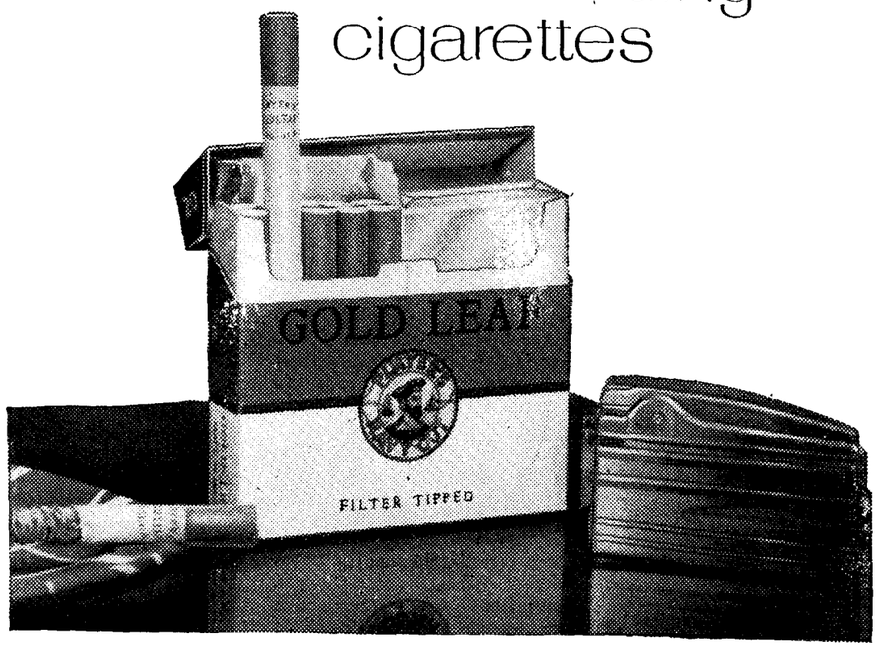
Taxes on firms and companies *per se* can have only a remote bearing on equity. The reason for assuming that they have any is that business incomes generally accrue to people who are relatively well off; there is some rough justice in their taxation, it is believed. But this belief is correct only insofar as taxes are not shifted; and firms that earn their income by selling goods have the opportunity of passing on tax increases to their customers by raising prices. The opportunity may not always be utilised; whether it is or not depends on whether the firm sees it, as well as on its market position — whether it is operating in a competitive or an oligopolistic market, in a seller's market or a buyer's market etc. But the possibility that business taxes are shifted cannot be ignored, especially when tax rates go as high as 70 per cent of profits. In fact, business taxes are so distant from personal income tax and close to commodity taxes that it would be better to have flat-rate corporation or profit taxes divorced from considerations of equity.

The power to shift the tax belongs to any seller in a stronger position than his buyer, and it is quite possible that the income-tax is shifted by individual sellers such as panwallas and accountants. In so far as it is, its equity objective is defeated. Unfortunately, we have no information about how far the income tax gets shifted.

What would we do if we found that the shifting was appreciable? I think equity would lead us then to the taxation of personal consumption or such parts of it as cannot be shifted. Here it would help to presume, as we could without much risk of error, that buyers are generally in a weak position *vis-a-vis* sellers, and that purchase taxes are paid by buyers. Hence we would think in terms of purchase taxes varying according to which income class tends to buy the goods, and of periodic taxes on the use of consumer durables such as cars and houses, also graduated according to the probable income of consumers.

* I S and Kuldip S Gulati, "The Undivided Hindu Family: A Study of Its Tax Privileges," Bombay 1962, P 22.

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JWTGL 1953AR

Rediscovering Kaldor?

I S Gulati

The Pundits who had rejected outright his recommendations for a comprehensive tax reform now seem to be re-discovering Kaldor. They now seem to find considerable virtue in what Kaldor had said nine years ago, although at the time they saw nothing but mischief in it.

One cannot quarrel with those who have had a real change of heart, i e, those who now genuinely believe that Kaldor's recommendations for tax reform will do the country good. It is those who drag him in disingenously, and quote him out of context to reinforce their own point of view that need to be exposed.

Support for the case for lowering the existing rates of individual and corporate taxation is sought by referring to Kaldor's proposal that the maximum rate of tax on income should not exceed 45 per cent. The Financial Editor of a well known daily takes this proposal of Kaldor to mean that direct tax burden be restricted to about 45 per cent. Does it really?

KALDOR suggested a ceiling of 45 per cent for income taxation not because he thought that a marginal rate higher than 45 per cent would militate against economic growth, granting that he attached great importance to maintaining economic incentives, but because he strongly believed that "instead of placing the main weight of progressive taxation on a single tax—the income tax—(it is proposed that) progressive taxation should be levied on a number of 'yardsticks' of taxable capacity like total wealth, income, expenditure, etc". The adoption of a comprehensive tax base would, he had argued, "inaugurate a more truly equitable and progressive tax system, as well as bring in a great deal of additional revenue." In fact, it can be demonstrated fairly easily that at the level where a tax-payer is liable to the highest rates of taxes on income, wealth and expenditure, the marginal rate of total direct tax liability would be around 90 per cent.

The point is not that therefore there is no case for lowering the present high rates of tax on income but that the case loses its appeal if it is built on false and irrational premises.

To argue, for instance, that the Kennedy Tax Cuts in the USA demonstrate the fallacy of the 'old fashioned' fiscal theory that income tax rates must be increased to provide larger revenues ignores that the basic premise of the Kennedy Tax Cuts was that the unemployment rate in the USA was persistently high since mid-1957 because the rate of growth in aggregate final demand had been lagging behind the rate of growth in potential supply made possible by increases in capital stock, labour force and productivity. The main objective of tax cuts in America has been to stimulate demand so that the full output potential of the economy is realised.

The position in India is precisely opposite to that in America. What is old fashioned in America might therefore be quite the thing to do in the Indian situation. The problem here is to create larger and larger supply potential, agricultural as well as industrial, with a view to meeting expanding final demand.

And then why do these Pundits not refer to the additional tax cuts that President Johnson now wants to make? He has given firm notice that he intends cutting down excise duties. Why? Because his economic advisers have told him that a dollar restored to the tax-payer through reduction of excise duty stimulates final demand much more strongly than a dollar restored through a cut in the rate of income tax.

Case for Tax Cut

All this should not be taken to mean that there is no case at all for reducing the existing rates of income-tax on individuals and even companies. And Kaldor's support can genuinely be invoked. Kaldor regarded it as a major consideration of tax policy "to prevent the tax system from becoming too much of a disincentive on effort, initiative or enterprise." He said in no uncertain terms that he regarded high marginal rates of 80 to 90 per cent to the "wholly pernicious" in their disincentive effects on work, saving and enterprise. That is why he suggested a combination of a moderately progressive income tax with the highest marginal rate of 45 per cent, with an expenditure tax whose highest rate would be 300 per cent and a wealth tax whose highest rate should be 1.5 per cent.

As things stand today the highest marginal rate of the expenditure tax will be 20 per cent (it is 15 per cent until the end of the current expenditure-year) but the highest wealth tax-rate is 2.5 per cent. On the basis of the same assumptions that yielded the total marginal direct tax burden of 90 per cent for Kaldor's package of three direct taxes, it does appear that to keep the total direct tax burden at the same level the highest marginal rate of income tax should not exceed 54 to 55 per cent. Let us straightaway concede however that under a different set of assumptions, particularly with regard to the typical rate of return on capital earned by income groups to whom the highest marginal rate of wealth tax applies, a higher rate of income tax might be justified. May be, one could argue, for a celling rate of 65 per cent. But on the same assumptions Kaldor's own proposals would impose a total direct tax burden lower than 90 per cent.

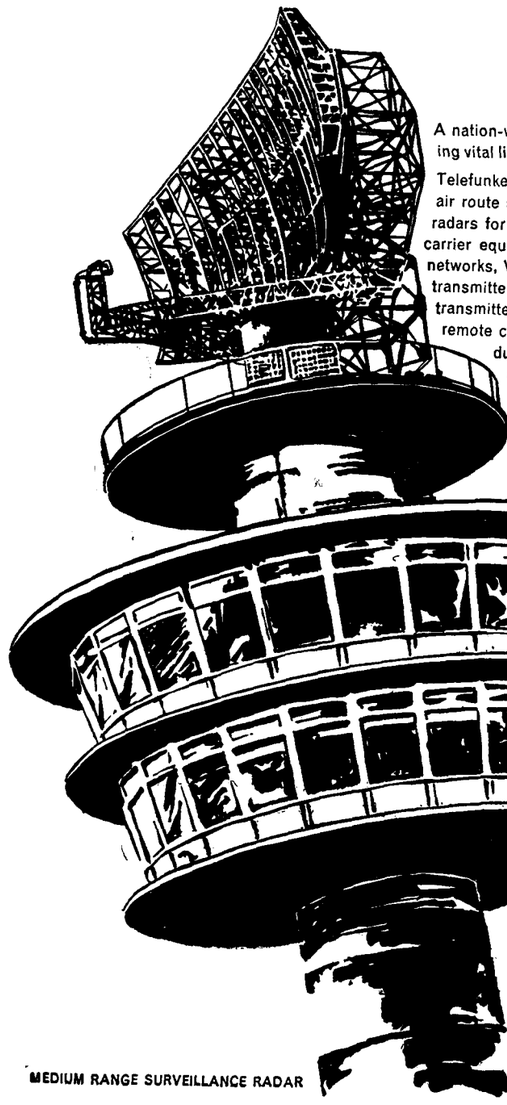
In any case, it is clear that the existing high marginal rates of income tax on individuals ought to be scaled down. And the very first measure (which ought to have been taken alongside the imposition of the wealth tax) is the complete abolition of the surcharge on unearned income. There is absolutely no justification for its continuation. This step should itself bring down the marginal rate of tax from the present 88 per cent to 82.5 per cent. And if alongside, the surcharge of 10 per cent on earned income in excess of Rs 1 lakh is also abolished, the highest marginal rate would settle at 75 per cent. This is the minimum that we would urge the Finance Minister to do in the Budget due next week.

As regards the rate of tax applying to companies, while there is a case for reducing it to 45 per cent for all companies, there is a much, much stronger case for reducing it to a distinctly lower level for small companies from the existing 42.5 per cent, which, to say the least, is ridiculously high for a company whose income is Rs 25,000 a year or below. In com-

parison, a US corporation with income of $ 25,000 or below pays just 14 per cent by way of income tax. We feel that the lower rate should apply to all companies, public or private, with suitable safeguards against abuse in the case of private companies.

New and small companies deserve to be treated differentially from both the social and economic points of view. Right now, the position of new concerns is that they can avail themselves of either tax holiday or developmental rebates since both run concurrently. While there is a very weak economic case for giving developmental rebate in an economy short of capital or suffering from largescale unemployment, there is a strong case for a more liberal tax holiday. The present ceiling of 6 per cent on tax exempt profit is rather low compared to what other under-developed countries are offering. Also, following Kaldor, one could argue against a tax on dividend. If, on the other hand, one subscribes to the view that some tax differential in favour of corporate retention is necessary to have, the appropriate thing to do would be to revert to the old practice of giving rebate on the standard rate.

Details are important. But more important is the fundamental issue: the reconciliation of the objectives of growth and equality in such a way that growth is not sacrificed for equality that cannot be effectively enforced. The Budget this time provides the Finance Minister an opportunity which very seldom comes by. Let us hope he will take it with both hands.



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Around Bombay Markets

Dalal Street Marking Time

Thursday, Morning.

DALAL STREET has had to struggle hard for nearly four weeks simply to regain the ground it had lost in the first two opening sessions of the year on January 4 and 5. It had not fully recovered the lost ground when it slipped badly without any serious provocation and within four working days it was back again almost from where it had started. For the past week or so, the market has simply been idling away its time in the hope — fond hope perhaps — that the Finance Minister Krishnamachari will anyhow provide adequate tax concessions in the coming Budget in order to restore confidence in the investment market. It is mainly because of this optimism that the market has been able to present a remarkably steady appearance recently in face of the violent disturbances over the language issue and has reacted very mildly to Wednesday's surprise announcement about the one per cent increase in the Bank Rate and the 10 per cent rise in the customs levy on all articles except foodgrains, fertilisers, pesticides, books and accessories for family planning.

It can be argued that with the regulatory customs duty of 10 per cent estimated to yield between Rs 65 crores and Rs 80 crores over a full year, the Finance Minister will be in a better position to give tax relief. But the tenor of Shri Krishnamachari's statement suggests that the increase in the Bank Rate and in the customs levy are only the beginnings of the counter-inflationary drive and that further measures for enforcing stricter fiscal and monetary discipline might be woven into the Budget to be presented on February 27. Whether or not the stock market's expectations in regard to tax relief will be realised, it is anybody's guess. But it appears that in its mood of optimism, the stock market has not assessed the impact of the higher Bank Rate and the enhanced import levy which are bound to affect adversely industry's profit margin by pushing up costs of production. Besides, the increase in the Bank Rate to six per cent will bring into sharp focus the average yield of 7 per cent available on equity shares which is far from being attractive in the context of the present interest rates structure. It is difficult to visualise possible changes in fiscal policy which alone can bring about a revival of confidence in the capital market. The question is not merely of offering inducements to invest in equities. The main problem is how to restrict the scope for the employment of funds in commodities, real estate and other less desirable lines of activity.

Cotton

Prices Above Ceiling

COTTON continues to make news. The setback in prices which occured about the middle of last month following the formulation of the Indian Cotton Mills' Federation's 8-point plan aimed at securing cotton at or below the ceiling through strict self-discipline has proved to be a short-lived affair. Prices have again risen beyond the statutory ceilings and the unofficial premiums range between Rs 25 and Rs 50 per candy. It is true that the Federation's scheme has not been fully implemented and quite a number of mills are known to have failed to abide by the rules laid down by the Federation. But this is not because the Federation has not been earnest about enforcing the code of self-discipline on its members; the blame rests entirely with the Textile Commissioner. The Federation's scheme had no legal sanction behind it and this shortcoming was sought to be overcome through the Textile Commissioner's intervention. The Federation is known to have kept the Textile Commissioner informed about the names of mills which failed to submit their returns and/or did not surrender their surplus stocks for redistribution among the needy mills. But the Textile Commissioner is not reported to have taken any action against the erring mills. Since the responsibility for administering price control over cotton rests entirely with the Textile Commissioner it is shocking that he should have failed to discharge his duty even when he had been assured of the fullest co-operation from the Indian Cotton Mills' Federation. It is difficult to imagine a situation when price control could have been enforced more easily than this season as the industry had on its own decided to observe self-restraint in regard to the buying of cotton and holding of stocks. Even so, the authorities have allowed price control to be reduced to a sham.

No less disquieting than the failure on the part of the authorities to administer price control is the manner in which the Governments of Gujarat and Maharashtra have been entertaining representations from the growers and traders for helping them secure proper prices for their produce. Cotton merchants of the Central Zone kept off the market for as many as 21 days—business has been resumed only very recently. The Gujarat Agriculture Minister is reported to have drawn the Central Government's attention to the accumulation of stocks in Gujarat. It is difficult to understand how growers can have any cause to complain about the marketing of their crop when the industry is willing to take up the entire produce at the appropriate ceilings or at 5 per cent below the ceiling at the worst. Nor is it easy to appreciate how stocks of even desirable qualities get accumulated when the supply position does not appear to be quite comfortable; it is pertient to ask why the prices of varieties whose stocks are reported to be piling up are quoted above the ceilings.

Whatever be the supply position of cotton—it is not as desperate as is generally made out—there is no reason why prices should be allowed to rule above the ceilings. Will the Textile Commissioner explain why he has not resorted to requisitioning of cotton when prices have been quoted above the ceiling prices since about the beginning of November? The only comforting news about cotton is the excellent export performance despite high domestic prices. Exports of Bengal Deshi total around 1.65 lakh bales.

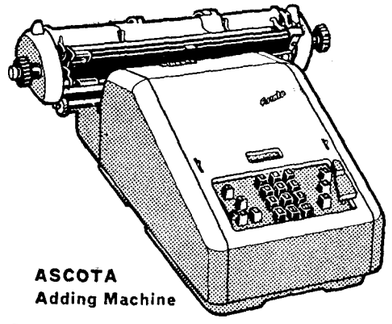
Oilseeds

Mixed Pattern

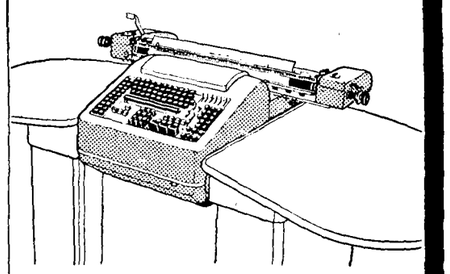
THE oilseeds market has been displaying a mixed price pattern recently. Castor futures have been keeping remarkably firm while linseed have been distinctly easy. Groundnut have been quietly steady whereas mustardseed have been rather subdued. The strength in castor futures which took the March contract to Rs 206 on February 17—the contract had

been quoted around Rs 200 about a week earlier—was attributed to strong bull manipulation induced mainly by the idea that the bears would be unable to tender goods against the maturing contract because of the higher spot prices in the producing centres. The spot material has been keeping firm despite the virtual absence of any export business in castor oil for a long while. Market reports are that castor oil is being increasingly used for mixing with other vegetable oils—edible oils included. Exporters seem very pessimistic about selling castor oil abroad except to the Communist countries, Indian castor oil being uncompetitive in other free markets.

Linseed prices have been gradually drifting lower—the March contract was sold down to Rs 44.62 (per 50 kgs on Wednesday)—because of the steady improvement in the flow of mustardseed; arrivals of mustardseed will be in full swing after about a month or so. Mustard oil which had touched a high of Rs 4,800 per tonne not long ago was marked down to Rs 2,650 about a fortnight ago but it has recently recovered to around Rs 2,950. Prospects of any further significant rise in mustard oil prices are generally discounted.

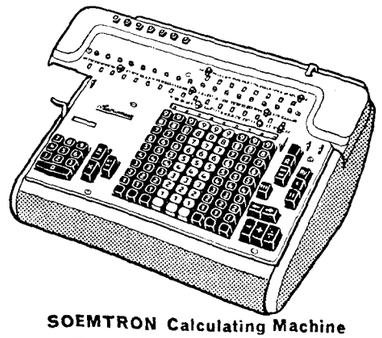


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CURRENT STATISTICS

BANKING RETURNS

(Rs. corores)

Reserve Bank	Feb 12	Feb 5	Jan 15	Feb 14,64
1 Note circulation	2597.91	2580.96	2576.70	2451.19
2 Rupee coin	96.01	96.88	98.59	109.40
3 Deposits				
(a) Central Govt	52.41	50.32	50.07	49.40
(b) Other Govts	17.65	10.77	19.64	15.36
(c) Banks	95.74	94.07	91.38	85.25
(d) Others	149.04	148.28	149.37	176.24
4 Foreign securities	74.79	74.79	80.47	102.46
5 Balance abroad	4.60	5.78	7.86	20.89
6 Rupee securities	2306.39	2306.39	2286.39	2134.69
7 Investments	178.92	166.11	142.52	202.77
8 Loans and Advances to Govts	72.38	74.13	58.87	63.16
9 Other loans and advances	250.97	245.18	249.15	200.97

Scheduled Banks	Feb 5	Jan 29	Jan 8	Feb7,'64
1 Aggregated deposits (net)	2543.26	2557.68	2534.29	2265.56
Demand (net)	1211.55	1220.26	1198.89	1026.95
Time (net)	1331.71	1337.47	1335.40	1238.62
2 Cash in hand	75.95	74.65	69.56	157.71
3 Balance with Reserve Bank	96.51	87.81	89.44	84.26
4 (2) (3) as % of (1)	6.78	6.35	6.27	6.27
5 Borrowings from Reserve Bank	75.04	55.31	87.51	49.13
(a) Against usance bill and/or promissory notes	12.55	8.52	7.51	19.59
(b) Others	62.49	46.79	79.99	29.54
6 Advances	1597.66	1580.31	1555.49	1430.77
(a) State Bank	386.97	379.46	370.89	311.17
(b) Others	1210.69	1200.85	1184.60	1119.60
7 Bills discounted				
(a) Inland	234.95	235.25	234.11	220.40
(b) Foreign	74.91	74.14	72.96	62.03
(c) Total	309.86	309.39	307.07	282.43
(i) State Bank	25.37	25.96	27.28	20.45
(ii) Others	284.49	283.43	279.79	261.98
8 (6) + (7) as % of (1)	75.00	73.88	73.49	75.62
9 Investment in Govt securities	734.81	745.55	757.09	656.63
10 (9) as % of (1)	28.89	29.15	29.87	28.98

BOMBAY MONEY RATES

(Per cent per annum)

	Feb 5	Jan 29	Jan 8	Feb 7, '64
Call money from Banks	4.58	4.55	4.76	5.68
Deposits 14 days	-	-	-	-
Three months	4.00	4.00	4.00	-
Six months	4.50	4.50	4.50	3.75

INDEX NUMBER OF WHOLESALE PRICES

(Base : 1952-53=100)

	WEEK ENDING			
Group and Sub-groups	23-1-65	16-1-65	26-12-64	25-1-64
Food Articles	**167.0**	**168.9**	**167.2**	**138.7**
Cereals	144.9	145.7	142.3	118.8
Pulses	195.2	196.2	204.8	123.3
Fruits & Vegetables	173.2	174.4	178.4	151.7
Milk & Ghee	156.1	154.8	147.8	127.0
Edible Oils	213.2	222.2	225.3	151.4
Fish, Eggs & Meat	182.6	179.4	180.8	159.1
Sugar & Gur	177.8	184.8	195.2	182.8
Others	184.3	187.1	173.3	180.8
Liquor & Tobacco	**138.8**	**138.8**	**135.3**	**122.7**
Tobacco	137.0	137.0	133.2	120.1
Fuel, Power, Light & Lubricants	**146.6**	**146.7**	**145.7**	**139.5**
Industrial Raw Materials	**169.2**	**172.8**	**174.0**	**141.5**
Fibres	145.9	145.5	142.0	135.3
Oil Seeds	211.1	220.7	229.0	153.5
Minerals	129.3	129.3	129.3	91.6
Others	137.1	137.5	134.5	134.2
Manufactures	**140.7**	**140.9**	**140.6**	**132.0**
Intermediate Products	**160.6**	**162.7**	**161.7**	**140.5**
Finished Products	**137.4**	**137.3**	**137.1**	**130.6**
Textiles	134.7	134.5	135.0	128.9
Cotton	136.6	136.6	136.6	135.9
Jute	122.3	121.8	124.4	101.7
Woollen	169.2	169.2	169.2	162.4
Silk & Rayon	144.5	144.5	142.8	143.9
Metal Products	169.5	169.5	169.5	163.0
Chemicals	122.3	122.4	120.6	199.2
Oil Cakes	227.9	226.5	220.6	165.0
Machinery & Transport Epuipment	128.1	128.1	128.0	125.5
Others	129.0	129.0	128.2	128.0
All Commodities	**158.5**	**160.1**	**159.2**	**136.9**

JOINT STOCK COMPANIES

New Registrations and Liquidations

(Monthly Averages or Calendar Months)

	Nov'64	Oct'64	Nov '63	1963
Incorporated and registered				
No of Companies	99	74	121	104
Authorised capital *	108,72	11,17	7,83	17,77
Ceased to work				
No of companies	-	65	43	63
Paid-up capital *	-	38	51	58
Over all Variations in paid-up capital of all companies	-	-	+13,11	+15,31

* Capital in Rs lakhs.
Source: Ministry of Finance.

EMPLOYMENT EXCHANGES

	Oct '64	Sept '64	Oct '63	1963
No of Exchanges	365	365	352	355**
No of Registrations	261.1	344.8	311.5	345.9*
Applicants on Live Register	2599.6	2671.6	2663.3	2518.5**
No of Vacancies notified	73.4	77.4	80.1	75.7*
Total Placements	46.3	50.5	58.9	45.4*

Note: All figures except no of exchanges are in thousands.
* Monthly Average
** Year-end figure.
Source: Ministry of Labour and Employment.



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AGRICULTURAL PRODUCTION

(Crop years ending June, unless otherwise stated)

Crops	1963-64		1962-63		1960-61		1955-56		1950-51	
	A	P	A	P	A	P	A	P	A	P
Rice	35,474	36,489	34,934	31,914	33,568	34,198	31,522	27,557	30,811	20,575
Jowar	18,174	9,227	18,021	9,621	17,273	9,363	17,362	6,725	15,571	5,495
Bajra	10,810	3,736	10,800	3,892	11,425	3,228	11,339	3,428	9,024	2,595
Small Millets	4,614	2,031	4,693	1,860	4,897	1,975	5,335	2,070	4,605	1,750
Wheat	13,305	9,708	13,657	10,829	12,969	10,992	12,367	8,760	9,746	6,462
Barley	2,794	1,985	3,022	2,423	3,223	2,866	3,418	2,815	3,113	2,378
TOTAL CEREALS	92,081	69,555	92,050	67,008	90,037	68,318	87,346	55,804	78,232	42,414
Gram	9,242	4,478	9,177	5,343	9,406	6,324	9,780	5,418	7,570	3,651
Tur	2,418	1,292	2,418	1,592	2,390	2,081	2,286	1,861	2,181	1,719
Other Products	12,108	4,105	2,364	4,505	11,408	4,247	11,150	3,766	9,340	3,041
TOTAL FOOD GRAINS	115,849	79,430	116,009	78,448	113,241	80,970	110,562	66,850	97,323	50,825
Potatoes	...	...	415	3,131	369	2,747	280	1,859	240	1,660
Sugarcane	2,214	101,606	2,280	94,470	2,343	104,127	1,847	60,543	1,707	57,051
Tabacco	397	336	416	366	400	312	410	303	357	261
Groundnut	6,804	5,291	6,864	4,821	6,257	4,461	5,133	3,862	4,494	3,481
Castor Seed	449	101	438	101	420	90	574	125	555	103
Linseed	1,954	385	1,899	433	1,794	395	1,529	420	1,403	367
Cotton[1]	7,919	5,426	7,845	5,309	7,637	5,390	8,086	3,998	5,883	2,910
Jute[2]	862	5,957	851	5,449	612	3,982	704	4,198	571	3,283
Mesta[2]	385	1,819	379	1,697	279	1,131	231	1,153	...	...
Tea[3]	...	...	...	...	331	321	316	285	314	275
Coffee	...	...	144	32	114	43	101	34	91	25
Rubber[3]			...	...	129	25	70	22	58	14
Cocoanut[4]	...	...	801	4,492	717	4,593	648	4,370	622	3,582

Note: Variations in coverage and refinements in methods of estimating the area and production of crop during the last decade have introduced an element of non-comparatability overtime.
A=Area (in '000 hectares) P=Production (in '000 tonnes)

(1) Production of Cotton in terms of lint cotton and in thousands bales of 177.8 kgs each.
(2) Production of Jute and Mesta is in terms of dry fibre and in thousand bales of 181.4 kgs each.
(3) Figures of tea and rubber relate to calendar year.
(4) Production of Cocoanuts is in million nuts.

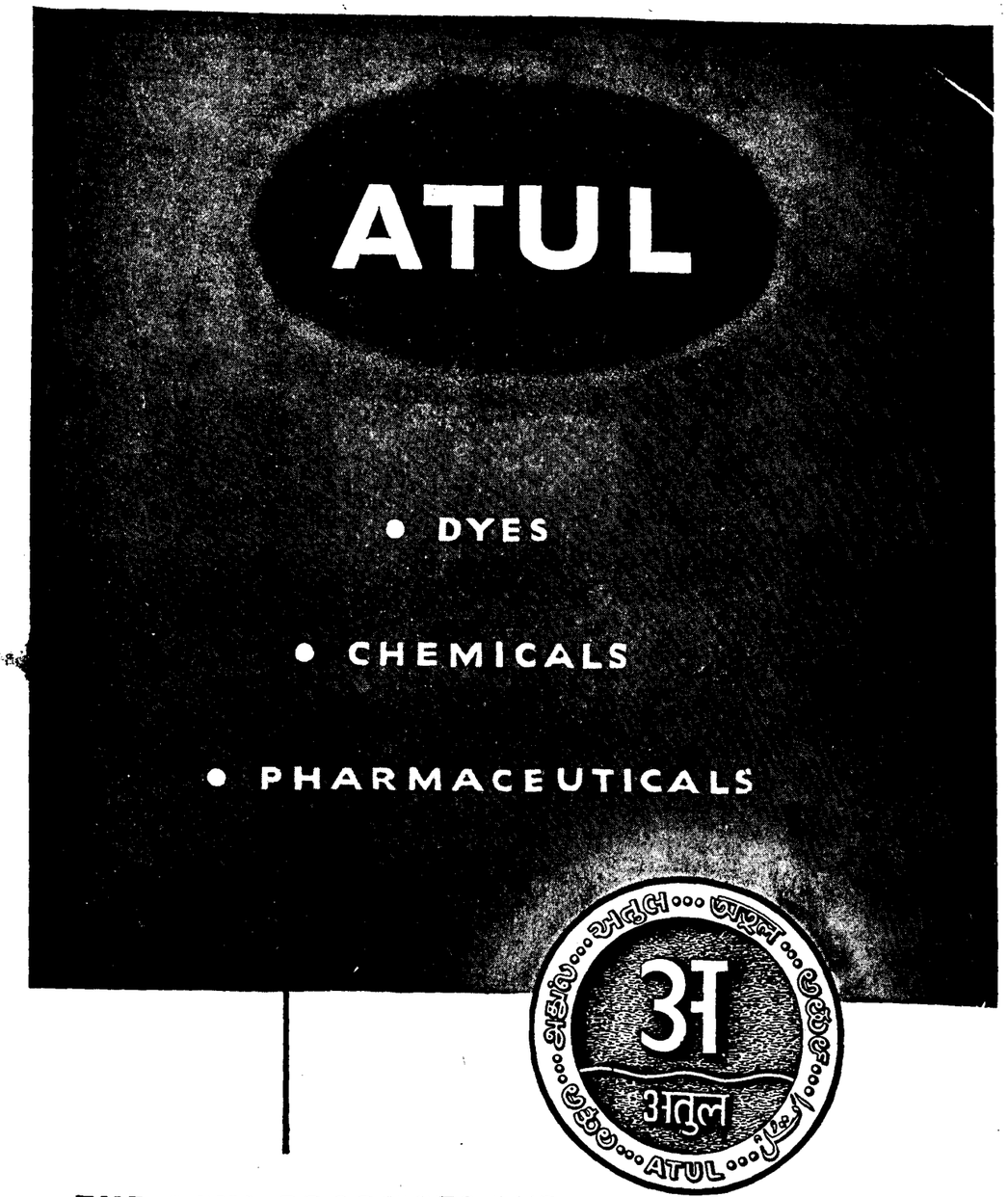
LAND UTILISATION

(Year: July to June) *(million hectares)*

	1950-51	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62 *
Area according to village papers	284.3	291.8	291.8	292.1	292.4	293.7	293.8	297.4	299.0	298.8
(1) Forest	40.5	51.1	50.7	51.6	51.7	52.5	52.6	55.2	55.7	55.8
(2) Not available for cultivation (a + b)	47.5	49.7	48.6	48.0	47.0	47.0	46.4	47.3	48.6	48.9
(a) Land put to non-agricultural uses	9.3	13.3	13.4	13.2	13.3	13.4	13.5	14.1	14.1	14.4
(b) Barren and unculturable land	38.2	36.3	35.2	34.8	33.7	33.6	32.9	33.2	34.5	34.5
(3) Other cultivated land excluding fallow land (a + b + c)	49.4	39.6	39.7	39.3	39.5	39.9	39.4	39.1	38.9	37.7
(a) Permanent pastures & other grazing lands	6.7	10.9	11.2	11.5	12.2	12.9	13.1	13.7	14.0	13.9
(b) Land under miscellaneous tree crop and groves not included in net area sown	19.8	5.8	5.7	5.6	5.5	5.9	5.7	5.5	5.2	5.7
(c) Culturable waste	22.9	22.9	22.8	22.2	21.8	21.1	20.6	19.9	19.7	18.1
(4) Fallow lands (a + b)	28.1	24.8	24.9	24.4	23.7	25.7	24.1	23.5	23.1	21.3
(a) Fallow lands other than current fallows	17.4	12.8	13.0	12.5	12.0	12.6	12.3	12.1	11.3	10.6
(b) Current Fallows	10.7	12.0	11.9	11.9	11.7	13.1	11.8	11.4	11.8	10.7
(5) Net area Sown (6−7)	118.8	126.8	127.9	128.8	130.5	128.6	131.3	132.3	132.7	135.1
(6) Total Cropped Area	131.9	142.5	144.1	146.7	149.1	145.3	151.0	152.1	152.2	155.6
(7) Area sown more than once	13.1	15.7	16.2	17.9	18.6	16.7	19.7	19.8	19.5	20.5

* Provisional.
NOTE: Geographical Area according to Surveyor General of India is 326.3 million hectares.
Source: Directorate of Economics & Statistics, Ministry of Food and Agriculture.

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On the Eve

BY the time this issue gets into the hands of most readers, the Budget proposals would have been out. There is, therefore, little point in speculating on the eve of the Budget on what would no longer remain a matter of speculation by then. At the moment, however, what one should look forward to is not the changes in particular taxes or duties which usually excite the most speculation on such occasions but what view the Budget takes of the general and much more important question of guiding the country's economy in the direction of development and growth. Politically it is not a good year for imposing burdens as can be seen from the trend of the State Budgets which have been presented. This is not to suggest, however, that the Centre can afford to be as cynical and as irresponsible as many of the States have been.

But there are commitments of two sorts. First, commitments for continued development and strengthening the base of the Plan from which point of view this happens to be a crucial year. For the present Budget will decide whether the Fourth Plan starts off from a sound base or is left to take care, as best as it can, of today's omissions and commissions. The need for a proper phasing is implied in any plan of development. This is, of course, a truism. But the jerks and jolts to which the government, not knowing its own mind, is continuously subjected makes it difficult to keep to the right track. But time moves only one way. The Finance Minister has another type of commitment, such as the revival of the capital market, which may not be of his own choice but which he has taken upon himself. This will mean some concessions or revision of tax incentives.

About the pressures on the economy there is no room for doubt; they are being felt by everybody and every day. But where do they arise from and how are they to be eased? Of that, despite the advance publication of the Economic Survey one cannot be so sure. From some recent Planning Commission papers, released by the favoured ones who get hold of them, it appears that far from there being a shortfall in private sector investment, calling for incentives and all that, there has been an excess and this has been an important factor—though not the only one — in accentuating the inflationary pressures. The relative shortage of resources is, therefore, in the other sector which has been sought to be made good so far by continuous drafts on the banking system and though such drafts over the last nine months have been lower than those in the comparable period in the previous year, they are too large to be ignored. So even if the Finance Minister would like to give fiscal incentives, his primary pre-occupation should still be to ensure at the same time an adequate surplus to contain inflation.

The need for additional taxation, however, does not dismiss the case for fiscal incentives—incentives to producers and investors, perhaps also to taxpayers to pay their taxes, to complement the steps that are now being taken for more energetic collection and detection of evasion of taxes. It is a matter of judgment and of one's own experience which must necessarily be limited. But the time has now come to put it to the test whether dis-incentives to non-payment cannot be made more effective by some incentive to voluntary payment. To repeat, the question is one of judgment but it is difficult to be persuaded that barring really hard cases at one end and regular payers—by

choice or necessity—on the other, there is not a sizable intermediate range where a judicious combination of both may not be worth a trial.

And whatever be the case for personal taxation, that for saving calls for a stronger incentive than there is today, say, for company savings. Companies generally have a higher propensity to save than individuals but even here, the marginal propensity to consume visibly increases beyond a point and this applies very strongly to the sur-tax on company profits which must inevitably—phony arguments about equity notwithstanding—weaken the incentive to control costs.

Any relief in corporate taxation to promote greater retention of profits must necessarily safeguard against the use of these augmented resources in low Plan priority or non-Plan investments. The solution may be to restrict investments to an approved list which could be varied according to the needs of the day. It may be coal and heavy industries today, chemicals tomorrow so that a fair measure of support may be forthcoming for the particular industries which are considered essential. There is no reason why public sector units should not be included in the approved list. This would be in effect a move in the direction initiated in a token manner by the differential rates of taxation for private companies introduced in the last budget. To make the scheme effective, the investments made by the companies to take advantage of the tax remission on retained profits will have necessarily to be held for a minimum period of years.

Although a scheme like this would help to increase the flow of funds into the capital market, there is also the need to rectify the present discrimination against profits from industries in that they are taxed twice, once in the hands of the company and again in the hands of the shareholders as dividends, while urban property for instance, held by individuals directly, is taxed only once. The Finance Minister has to return to the old established principle of grossing up which was abandoned by his predecessor.

There is thus undoubtedly scope for some play with direct taxes without loss of revenue because by far the bulk of the revenue earners are today the indirect taxes and a small percentage increase in the latter can more than compensate for some relief in the former and they need not fall on the poor. There is actually a case for substantial increases on items which go largely to sustain luxury consumption. In fact, the conventional notion that indirect taxes are necessarily regressive needs reconsideration. By a judicious choice of items the impact of indirect taxes can be made to fall on selective sectors of consumption. But as a measure for restricting consumption, indirect taxes are nearly played out and the time has come when not only food but a lot of other things will have to be brought under controlled distribution.

The present Budget, to repeat, is the jump off for the Fourth Plan and the Finance Minister must necessarily look before and not after.

More on Viability

THE latest statements of the scheduled banks provide further evidence of the slackening of the pace of credit expansion in the current busy season compared to the last. Thus up to February 12, 1965 the seasonal credit expansion amounted to Rs 208 crores as against Rs 260 crores in the same period last year—a rise of 12 per cent over the pre-seasonal level as against 18 per cent. True, comparison with last year which witnessed an abnormal expansion is not appropriate, but neither is it relevant that credit expansion so far has been higher than in the whole of the 1962-63 season. The economy has been functioning at a higher level of activity than in the 1962-63 season—industrial output, though growing at a slower rate, is still growing at roughly 6 per cent, agricultural output is distinctly larger and we are operating at a price level which on an average is some 15 per cent higher. In the face of these factors, a slower expansion of credit (both absolutely and much more so relatively) than last year would have seemed adequate even without the necessity of further measures. Monetary expansion should be in keeping with the needs of the economy and it certainly does not follow that since monetary expansion exceeded the rise in output last year, it has to be smaller than the increase in output this year.

Despite slower credit expansion, there has been a larger recourse to the Reserve Bank by the commercial banking system; on February 12, 1965 this had amounted to Rs 95 crores as against Rs 62 crores at this time last year. It is known, however, that the State Bank has been primarily responsible for this larger borrowing because of its larger commitments (as indicated in the Chairman's Annual Address to the Shareholders of the Bank) to public sector enterprises and to State Governments and others for financing procurement of foodgrains—activities which it is not the intention of credit policy to discourage.

The slower pace of credit expansion has its corollary in a slower growth of money supply this season. Until the first week of February money supply had risen by a little over Rs 200 crores as against over Rs 260 crores last year. There is reason to believe, on the basis of what the Economic Survey has to say, that the operations of the Government have had a smaller expansionary effect this year; the external deficit itself would have had a contractionary effect this year as against a moderate expansionist effect last year. The pace of monetary expansion would thus appear to be restrained even before the monetary screw was given another twist. Prices too since the first week of January have begun to recede, the fall in the month up to the first week of February being roughly 4 per cent; the fall in food articles being, significantly, slightly greater at over 5 per cent. This may be a delayed reaction to the bumper harvest and though in the present situation, new monetary measures might accelerate the process to the point of causing a sharp break in prices, a watchful response was more in order than sledge hammer methods. The danger that the credit measures may bring about a real squeeze and hamper production cannot be ruled out, particularly as credit demand in certain very important sectors is yet to pick up.

The crisis is, as was pointed out last week, temporary, technical and in the sphere of international reserves. The response to that should have also been to tide over a temporary technical difficulty by obtaining short term funds without disturbing the process of the economy reverting to more normal price relationships. Far more important is the need to maintain and step up the tempo of economic activity and add to the strength that has been built up.

Time for Tax Reform

I S Gulati writes:

THE Union Finance Minister, T T Krishnamachari, deserves to be congratulated on his decision to present the 'Economic Survey' to the Parliament a week ahead of the Budget. The public as well as the Parliament will thus be in a position to appreciate whatever Budget proposals the Minister chooses to put forth next week.

As is pointed out in the Survey, the Third Plan period has witnessed a considerable tax mobilisation in that the ratio of taxation to the national income has increased from a little below 10 per cent at the end of the Second Plan to between 13 and 14 per cent now. At the same time, Government current expenditure on goods and services has risen from 7 per cent to 10 per cent of national income with the result that the Government sector's own contribution to the flow of saving has, at best, remained at the same level as at the end of the Second Plan.

While one might not join issue with the observation that "with a rate of saving of 10 to 11 per cent of the national income at present, the potential for raising resources further in the future cannot certainly be considered exhausted", it will, no doubt, raise considerable debate and controversy whether at the current levels of taxation, especially in the urban sector where, on informed calculations, the proportion of total income taken away in taxes certainly exceeds 20 per cent, there exists much potential for raising resources through the medium of additional taxation.

In fact, while emphasising that strenuous efforts have to be made to contain the pressure of demand on the economy, the survey acknowledges that "in a situation where rapidly growing demands have been pressing against inadequate improvement in production, even traditionally non-inflationary modes of finance such as taxation tend to exert an upward pressure on prices".

In his statement to the Lok Sabha on the opening day of the current Budget session, the Finance Minister argued for "the strictest fiscal and monetary discipline" and indicated that the financial operations of the Government as well as of private and public enterprises "will necessarily have to be guided by the overriding consideration of avoiding inflation".

Now, if taxation, in the Government's own reckoning, tends to exert an upward pressure on prices in the present state of the Indian economy, why, it may well be asked, did Krishnamachari have to impose a 10 per cent regulatory customs duty on imports? Does he seriously believe himself that the duty will slow down imports?

No serious observer of the Indian economic scene will take Krishnamachari seriously even if he were to say categorically that the regulatory customs duty is a temporary measure and that he will withdraw it as soon as the foreign exchange reserves improve. The regulatory customs duty is regulatory in name only. It is, to all intents and purposes, a revenue duty, a duty which with one stroke, as it were, will yield an additional revenue of between Rs 100 and Rs 125 crores next year. Viewed as a purely revenue impost, according to the Finance Minister's own assessment of the current state of the economy, the measure is difficult to justify. The new duty coupled with the increase in railway passenger and freight tariffs is bound "to exert an upward pressure on prices" and thereby defeat the very objectives of imediate economic policy underlined by the Finance Minister.

The Budget for 1964-65 had to provide for an increase of Rs 200 crores in curent expenditure. Of this increase, Rs 120 crores were accounted for by extraordinary claims which are not likely to recur. Defence and developments together accounted for less than Rs 50 crores. At the same time, total Plan outlay for the curent year was to be stepped up by Rs 284 crores over the figure of Rs 1,700 crores for 1963-64. Even allowing for the customary over-estimation of Plan outlay in the Budget, the Plan outlay for 1965-66 would not have to be stepped up by more than Rs 50 crores, may be less, to reach the revised target of Rs 8,000 crores for the public sector.

It apears more or less certain that the additional demands on the Budget for the next year will be very modest compared to those arising last year. If this reading of ours is reasonably correct, the additional revenue already raised through the regulatory customs duty should be more than enough.

The real question which ought to have been exercising the Finance Minister's mind over the past one week is not what aditional taxes he should raise but what changes he could effect in the existing tax structure to provide maximum incentives for effort in the right directions, even though such changes might involve foregoing a part of this additional revenue.

The 'Economic Survey' underlines, for instance, "the need for rigorous export promotion". Now the existing tax concessions on exports are, firstly, a 10 per cent rebate on income and super tax on profits derived from exports and, secondly, a rebate to only specified goods of income and super tax. The first concession is obviously available to *all* exports. But not the second. But even the second is not related directly to additional export earnings. In several countries tax concessions to exporters have been so devised as to relate them directly to *additional* export earnings and this has enabled the Governments concerned to give sizeable larger remissions in income tax.

In the case of small or new companies, too, the Finance Minister could afford to be a little more generous if he really means to help them. The present tax concession of 2.5 per cent to public companies with total income not exceeding Rs 25,000 a year is frivolous. Also, it might be worthwhile examining if the taxation of foreign companies could not be so patterned as to offer maximum encouragement to retention and ploughback in India. The overall rate of tax on foreign companies stands now at 65 per cent. If instead the foreign companies, like Indian companies, were required to pay tax at the rate of 50 per cent only and in addition a withholding tax of 20 per cent were levied on their distributions, they might find it to their advantage to retain in India as much of their profits as they can.

As regards taxation of individual incomes the step that Krishnamachari must not postpone is the abolition of surcharges on unearned income. It has absolutely no justification to exist alongside a wealth tax with such high rates as obtain in India. At the same time, he could take this occasion to plug the important loopholes in the tax treatment of the Hindu Undivided Families.

Weekly Notes

Companies Amendment Bill

THE Select Committee on the Companies Amendment Bill has not made any major changes in the Bill which would shortly be taken up for consideration again by Parliament. As expected, the Swatantra and Communist members have appended separate minutes of dissent attacking the objectives of the Bill from opposite extremes. As originally presented, the Bill had sought to relax many irksome procedural formalities but at the same time to tighten up the provisions relating to the 'objects' clause in company memoranda, blank transfers and nominee holdings, audit, cost audit and investigation, appointment of superannuated directors, inter-company loans and take-over bids.

To avoid inconvenience to existing companies, the Select Committee has suggested that the division of the 'objects' clause into the main and other objectives (with a special resolution required for taking up the latter) should apply only to new and not existing companies. The purpose of this amendment was to prevent certain odd kinds of diversification, sometimes at the expense of shareholders. It is true that any major project requires an industrial license and once that is obtained, it is an approved project. That does not invalidate the proposition that shareholders have a right to be consulted before a major activity, basically different from the one pursued so far, is taken up. An existing company finances new projects mainly from sources other than fresh share capital (which require shareholders' approval), i e, mainly reserves, depreciation and loans. Shareholders have no control over the disposition of reserves and depreciation and can regulate loans only to the extent of laying down the maximum borrowing powers of the company. The once-for-all procedural formality notwithstanding, there is no reason why existing companies should be exempt from a necessary check on company managements.

The Bill had also originally provided that every public company must maintain a separate register for the shareholdings of (besides directors and managing agents, etc) every person who is a beneficial owner of 5 per cent or more of the equity share capital. This provision was taken from a U K report; its purpose was to enable the company and its shareholders to know the identity of large shareholders and the nominees acting on their behalf. The Select Committee in its wisdom has deleted this clause instead of expanding its overage to include private companies as well.

No Choice in Kerala

THERE is a farcical quality about next week's elections in Kerala. Sixteen political parties and 556 candidates are contesting the 133 Assembly seats. Yet the Kerala electorate has no real choice; in effect the choice it is being offered is between a Congress government after the elections and continuance of President's rule.

Among the major parties the Congress is the only one fighting the elections on its own. It has no alliances, but has set up candidates for all the 133 seats. The Right Communists have an understanding with the Revolutionary Socialist Party; they have set up 76 candidates while the RSP has put up 14. In addition, the Right CPI-RSP alliance is suporting a few independents. The Left CPI has 74 candidates and has an understanding with the Samyukta Socialist Party which has 29 candidates of its own. The Left CPI and the SSP are also suporting a number of independent candidates, including those set up by the Karshaka Tozhilali Party and the Malnad Karshaka Union, two peasant-based parties. The Left CPI is also backing a few independent condidates whose principal support comes from the Muslim League. This is, in fact, the extent of Muslim League-Left CPI understanding in the elections. All the 16 official Muslim League candidates are being opposed by the Left CPI. The Muslim League's election alliance is with the Kerala Congress which has set up 60 candidates.

The major parties or groups are thus the Congress (133 candidates), Left CPI-SSP (105 candidates), Right-CPI-RSP (90 candidates) and Kerala Congress-Muslim League (76 candidates). The chances of the Congress winning a majority of the seats to enable it to form a Government are understandably rated very law even by Congressmen themselves. With an administrative record which is no small liability, the Congress has focussed its appeal on the theme that it alone can offer Kerala the prospect of political stability. There is, it must be admitted, an element of truth in this claim, for none of the three major opposition groups can reasonably hope to win a majority. The Left CPI-SSP alliance will probably win more seats than Right CPI-RSP, but with 30 of its candidates in jail under the DIR its role after the elections remains highly uncertain. In fact, Home Minister Nanda has hinted more than once that the Left Communists would be prevented from forming or participating in any Government in Kerala even if the election results make this possible. The prospects of the Right CPI-RSP alliance forming a Government with the support of the Left CPI are very remote as will be clear to anyone who knows anything of the bitterness and viciousness of the Communist faction fight in Kerala which is partly reflected in the fact that the two factions are opposing each other in no less than 61 of the constituencies. That leaves the Kerala Congress-Muslim League alliance; but its chances of being able to form a Government are the slightest among the three major opposition groups.

Yet it is possible that after the elections the Kerala Congress may find itself in a position to play a crucial role. This could happen if the official Congress party wins a large enough number of seats to be able to form the Ministry with the support of the Kerala Congress. In such a situation the pressures on the Congress leadership would be very severe to make concessions to the rebels. It will be interesting to see how the Congress leaders will then reconcile their present lofty attitude towards the Muslim League with the Kerala Congress's deep involvement with the League and also how the Kerala Congress and the Muslim League sort things out among themselves. These problems need not, of course, rule out a post-election coming together of the official Congress and the Congress rebels. In any case, the Kerala Congress has no independent long-term role in Kerala politics and if it doesn't return to the Congress, it must in course time disintegrate and disappear.

State Bank and Rural Credit

WHILE recommending a public majority holding in the Imperial Bank, the authors of the Rural Credit Survey had contemplated the creation of a strong, integrated, State-sponsored commercial banking institution with branches spread over the whole country to take over cash work from non-banking treasuries, to provide extended remittance facilities to co-operative and other banks—and to funnel urban funds into rural development. These expectations have been broadly fulfilled by the State Bank since its inception in July 1955, though the last objective is hardly mentioned now.

From July 1955 till 1964 the Bank opened 651 new offices, bringing the total number of its offices to 1,147. Of these, as many as 217 offices are at places with a population of less than 10,000. In 1964 itself, 30 branches were opened under the second branch expansion programme, as compared with 20 in the previous year. Out of 145 branches proposed to be opened during the period July 1960 to June 1965 under this programme, 100 have already been opened. To extend further banking facilities to rural and semi-urban areas, the Bank has embarked on its third programme of opening 319 branches at non-banking treasury and sub-treasury centres over five years beginning January 1964.

The Bank's progress in 1964 has, indeed, been phenomenal. Total advances increased from Rs 290 crores to Rs 393 crroes in 1964 and the credit deposit ratio rose steeply from 49 to 60 per cent. Deposits expanded by Rs 64 crores to Rs 659 crores. Its operations have been especially prominent during the current busy season; it has accounted for 45 per cent of the total bank credit expansion and two-thirds of outstanding borrowings from the Reserve Bank.

Commercial operations of the State Bank have no doubt been spectacular during all these years but developmental assistance, especially to co-operatives, agriculture and smallscale industries, is still relatively insignificant. The amount outstanding from co-operative institutions was only 2.5 per cent of total advances at the end of September 1964, in absolute terms Rs 10 crores against Rs 5 crores in 1960. For small industries, the amount outstanding was Rs 31 crores. The limits for rural and small industry finance are, of course, much higher: at the end of 1964 Rs 62 crores to co-operative institutions and Rs 130 crores to small industries. Whereas the Bank has been able to mobilise savings in rural and semi-urban areas by its intensive programme of branch expansion, the credit extended in these areas has thus not been commensurate. On the other hand, the State Bank has been lending very heavily to industries in the private and public sector, supplementing and competing with other commercial banks. During 1964 the Bank's advances to industry increased from Rs 211 crores to Rs 286 crores and their proportion to total advances rose to 76 per cent.

This represents to some extent a diversion of funds from the rural to the urban sector, contrary to one of the objectives laid down in 1955. However, realising that the bottleneck lies in the cooperative movement itself, the Bank has decided to go directly into rural credit with Pilot Centres, which will be set up in areas where existing rural credit institutions are weak or lagging behind. Together with the Bank's decentralisation programme, this measure should help to step up the flow of institutional credit to less developed areas.

Nagaland: First Gains

THIS is a suitable time to reflect on the progress that has so far been achieved in the Nagaland peace talks. The ceasefire is in force until March 6, and will most probably be extended. A parliamentary delegation has visited Nagaland—to assure the Nagas that New Delhi is interested in them and their State. The Peace Mission has come out in favour of Nagaland remaining within the Indian Union, thus scotching the accusation that it is nothing but a meddlesome, anti-Indian, and trouble-seeking body. Most important of all, the reply by the Naga leaders to the Peace Mission's proposal has been encouraging. The phrase "the Nagas are prepared to enter into any kind of relationship with India" suggests that the Naga leaders are willing to consider something less than independence for Nagaland.

None of these factors can give hope that the problem will be solved immediately, without further protracted negotiations. But things are moving, if not as rapidly as could be desired, at least slowly and steadily in the right direction. The most tangible asset so far is the continuance of the ceasefire. Peace in Nagaland gives the Government the opportunity to carry out much-needed development, which the years of warfare have completely prevented. Roads can be built, schools and hospitals provided, and freedom of travel for Nagas and other Indians can open Nagaland's windows onto the world, instead of isolating it from all outside influence. Once the population and this includes members of the guerilla force too, has felt the benefits of peace, it is likely to view with disfavour any further efforts at warfare.

The efforts of the Peace Mission have brought Naga affairs to the talking point, instead of the fighting point. It is vital that nothing should occur to disrupt this state of affairs and negative the progress of the last few months. In this context, the concern of some MPs over the handling of Naga affairs by the External Affairs Ministry is somewhat misplaced. At this juncture, the situation is very delicate, and the government should do nothing which might anta-

NOTICE

WITH effect from March 1, 1965 the price of *The Economic Weekly* will be raised to 75 paise. Correspondingly the annual subscription will be Rs 36 in India, Pakistan and Ceylon, and the half-yearly subscription Rs 20. Foreign annual subscription rates will be £ 3 10s or $ 10.

For the last 16 years, the price of *The Economic Weekly* has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control now force us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager

gonise the Nagas again. Those who hold that India should take a 'strong line' have apparently learnt nothing from the years of frustrating warfare. Another important point that has received relatively little notice is the tentative attempts being made at unity among the Nagas themselves. The December meeting between the rebels and other Nagas did not end in complete agreement — no one expected it to — but it indicated their concern to end their quarrels.

The outlook for the future is hopeful, as long as the talking continues. Talks should go on, likewise the ceasefire. Each side has been ready to enter the talks without reservations so far. No pressure should be put on the Government of India to try and force the pace of progress, or worse still to try and issue any ultimatums. India's best hope of achieving what she wants is by showing the Nagas the real benefits of association with India. As this is only possible while the ceasefire lasts, it should be a matter of concern to all that it does last indefinitely, thus enabling the Nagas and India to arrive at the best solution of a complex, but by no means insoluble problem.

Story of a Railway Project

IN 1956 the Railway Board decided to set up a Loco Component Works at Varanasi to manufacture components for steam locomotives. The following history of this project is taken from the Comptroller and Auditor General's latest report on the Railways, released this week:

April 1956: Engineer-in-Chief appointed and the nucleus of the organisation set up.

March 1957: Project reviewed by the Railway Board in the background of the policy of progressive dieselisation and decision taken to go ahead with the project on grounds of operational necessity although the Ministry of Finance did not regard it as of sufficiently high priority for release of foreign exchange.

September 1957: Work relating to construction of building commenced.

April 1958: Project estimate for Rs 4.79 crores approved fixing March 31, 1961 as the date for the completion of the project.

Work temporarily suspended from February 1959 to June 1960 due to difficulties in arranging adequate power supply.

Work suspended again from May 1961 to February 1962 due to difficulties in settling the design of some shops.

Meanwhile, an expenditure of Rs 28.01 lakhs was incurred on the pay and allowances of the staff employed between April 1956 and March 1962 and Rs 14.54 lakhs on other general charges against the provision of Rs 37.94 lakhs and Rs 23.56 lakhs respectiveiy on this account in the project estimate. The expenditure on the construction of workshops and stores buildings and procurement of workshop equipment was, however, only Rs 28.19 lakhs and Rs 29.14 lakhs respectively against the provision of Rs 133.22 lakhs and Rs 168.11 lakhs in the project estimate.

No loco components were actually produced upto the end of March 1962. An attempt in May 1960 to undertake manufacture of 10,000 super heater elements for Chittaranjan Locomotive Works proved abortive, resulting in an expenditure of Rs 12,630 on freight and handling charges for collecting and returning raw materials, etc. In another attempt at production, 52 axle box bodies were machined for a private company at a cost of Rs 20,847 in 1961, but a payment of Rs 2,775 only was received as the private company did not agree to the actual cost incurred.

By the end of 1961-62, a total expenditure of Rs 1.95 crores, or slightly over 40 per cent of the project estimates, had been incurred on the works. Then it was decided to abandon the project and the project accounts were finally closed on March 31, 1962!

Letter to Editor

Foreign Private Investment

ANANT NEGANDHI, presumably an Indian, has attempted to present his findings on the Government's decision-making apparatus as seen "through the foreign investor's eyes" (*The Economic Weekly*, January 23, 1965) after a fruitful stay abroad at the University of Michigan. May I, a foreigner who has spent a few years in India, attempt to present some aspects of foreign investment as seen "through the eyes of government officials"?

Negandhi argues that red tape, bureaucracy and the lack of a clear-cut foreign investment policy are the factors inhibiting the flow of private foreign capital into India. In a planned economy, however, the foreign investment policy is incidental to and an outcome of plan priorities and since these priorities evolve over time, the sectors in which foreign investment is welcome also change *pari passu*. Thus, a sector in which foreign investment would be welcome a decade ago would not warrant the same facilities today. As Negandhi would have it, the Indian government should specify the sectors in which foreign investment would be welcome and then adhere to this policy, at least for a few years.

Again, the costs of servicing foreign equity investment are known to be extremely high in many sectors of Indian industry and one cannot but have sympathy for the "bureaucrats" and their "red tape". The fact that foreign private capital and technical know-how comes into India notwithstanding the hurdles mentioned by Negandhi is an indication not of the samaritan spirit of the foreign companies as much as the highly lucrative Indian market. In this context regular readers of *The Economic Weekly* (and one hopes that Negandhi is one) will recall Michael Kidron's 'Behaviour of Foreign Capital' (*The Economic Weekly*, Special Number, July 1964). A reading of Kidron's exhaustive study should convince Negandhi that what is required is perhaps an even less certain foreign investment policy, more red tape and more bureaucracy—if this could ward off the foreign investor! Foreign investment in India hardly needs to be encouraged; it has to be suffered as a *quid pro quo* for Government aid. While public pronouncements discouraging foreign investment cannot be made for reasons only too well known, at least intelligent young Indian economists should know better.

MARIA LUTRICIA

Bombay,
February 14.

Capital View

The Politics of Language

Romesh Thapar

DO not imagine that this controversy over language is a passing phenomenon, that it is capable of resolution through slip-shod or piecemeal compromise among the faction leaders of the ruling party. A terrible confusion grips the ministerial and organisational wings of the Congress machine now locked in what threatens to become a continuing conflict with no clearly demarcated lines. Whether in the Cabinet, in the Working Committee or at the level of the Chief Ministers the pattern is the same—heated, over-emotional, self-centred interventions which have little relation to current realities or to long-term perspectives.

Initiative with Extremists

Shastri's silence, his reluctance to enter the fray until the balance of forces is clearly visible, has in a sense placed the initiative in the hands of the extremists in the north and the south. The energetic efforts of Indira Gandhi to bridge the gulf between north and south and to discipline the aggressive Hindi protagonists in the north, and of Subramaniam to warn the south against linguistic excesses, together with Chavan's worthwhile attempt to project the need for a more relevant link language capable of enriching itself by absorbing words from the many distinct regions of the subcontinent, are sought to be neutralised by the men of the Syndicate who remain wedded to the notion that a solution to the crisis can be confined to a remoulding of the linguistic concepts thoroughly exposed during this past fortnight.

The lack of organised support for the rational, thinking elements within the ruling party—elements which even now command a majority at ministerial level in the GOI—cannot but be contrasted with the manipulations of the unprincipled *dadas* of the party who seem to be concerned only with the thought of preserving their positions of profit and patronage. Politically, over the past week, the Congress Party has shown itself to be sick, very sick. Shastri is reduced to off-stage whispers. Nanda awkwardly woos the Hindi lobby. TTK tails a nervous Kamaraj. Krishna Menon absorbs himself in those legalistic doodles which Morarji Desai so admires. K D Malaviya convinces himself that his future is with the screaming herd from Bihar and Uttar Pradesh. Patil and Atlulya Ghosh watch, strangely amused.

Other Voices

While this Delhi drama was being enacted, the stupor of Indian politics was disturbed. All manner of small fry started testing their muscle. In Delhi, the activists of the Jan Sangh got busy smearing English sign posts with tar. In Chandigarh, the dormant Akalis suddenly broke the linguistic truce, insisted that the Governor, Hafiz Mohammed Ibrahim, address the legislature in Punjabi. In Lucknow, the dull ministers of the U P government declared that invitation cards in English will be returned to the senders. On an all-India plane, limelight-lover Lohia called for a crazy division of the country into Hindi and English speaking zones. An hurriedly assembled pressure group in the Capital thought it fit to move for an Urdu-speaking area with Delhi as the starting point.

At one stage of the parleys in the Capital, it certainly appeared as if India was heading for one of those showdowns which have the effect of weakening central power and building the image of regional leadership. Indeed, some were convinced that Shastri's government would not survive the crisis. Conscious of this mood, the Syndicate decided that the Working Committee of the Congress Party should lay down the line, although care was taken to have the Chief Ministers fully represented in the Committee.

Linguistic passions were high on the first day of the Working Committee's deliberations, with the disgruntled Morarji Desai and the still ambitious Jagjivan Ram on the offensive. However, sensing the trend for compromise, these 'Hindi Now' stalwarts played it soft on the second day. The inevitable sub-committee was formed to devise the exact nature of the amendment to the Official Languages Act, an amendment which would require a two-thirds majority in Parliament. The strategy of the Syndicate is expected to pay off, but is this the end of the story?

An Issue for Dissidents

Congress dissident groups in every State have been handed an issue which has all the necessary ingredients for making the kind of easy mischief which in our country can apparently isolate or topple governments. In Bihar and Uttar Pradesh, in Bengal, in Tamilnad, Kerala and Andhra Pradesh, in Punjab, every political trickster will be able to seize upon the linguistic errors of omission and commission to mount emotionally surcharged agitations. The refusal to face the problem squarely, to re-assess past commitments, to evolve a viable policy on the question of language, leaves inflammable material within easy reach of those who fail to understand the foundations upon which the government of this sub-continent rests.

The formula which has been evolved—at least, the formula which is being touted around at this moment of writing—represents an agreement among the factions to give legal shape to Nehru's assurance that English will continue as an associate official language so long as the non-Hindi-speaking peoples consider it necessary. The feelings of the Hindi lobbyists are partially assuaged by the additional commitment that the teaching of Hindi will be intensified as part of the so-called three-language scheme which is designed to impose equal burdens on North and South.

The messy patchwork can be seen for what it is, but there is a dangerously explosive element in the formula too. I refer to the lunatic proposal to fix quotas for States in the all-India services. It is bad enough to allow all languages as media in UPSC competitive examinations. It is utter madness to destroy the administration with quotas of incompetence. In fact, we are merrily sowing the seeds of dissension, disruption and secession merely because a bunch of second-rate politicians, elevated to national status, cannot work up enough courage to challenge the vociferous lobbyists who by no means represent the people. The people want a sensible plan to cope with the problems of the transition in language — and they expect their leaders to evolve such a plan.

What could this sensible plan be? We could have returned to the position as on January 26, not before or after; Hindi had been recognised as the official language in association with English. A categorical assurance could have been given that no change would be countenanced without reference to a high-powered, fully representative, permanent language commission; this language commission could have been entrusted with the task of coping with all the many problems related to the use of mother tongues, the build-up of the link language and the relevance of the proposal (still to be enunciated) for a single Roman script. An atempt could have been made to rally the people on a sane and thoughtful policy, despite the activity of the extremists.

But when the national leadership refuses to lead — is, in fact, led — then there is no hope. Language becomes a matter of politics, of whipping up emotions, isolating this or that leader, a weapon of blackmail. This is exactly how the language question has been used by the leading members of the Working Committee, by members of Shastri's Cabinet, by the Chief Ministers and by the Members of Parliament. The see-saw debate at the level of what is now never referred to as the 'High Command' provides ample evidence of this snuster, unprincipled manouvering. Will the obvious lesson be leraned or will we stumble from one absurd position to another until we are cornered by an assortment of adventurers who are determined to wreck the dynamic, growing consensus which Jawaharlal Nehru attempted to forge as the foundation of our democratic, secular, socialist society?

No Time for "Linguistics"

It is time to ask ourselves this question, for unless the sane, thinking elements in our political life assert their will, the battle will be lost. This mobilisation against the fanatical linguistic lobbyists, the opportunist elite groups which in their narrow-mindedness are prepared to sacrifice the unity of India, would soon strengthen the healthy instincts of the people, particularly if the mobilisation cuts across party labels. Political workers can no longer ignore this paramount task. The events of the past few days have made this abundantly clear.

Everyone is scanning the gloom-enshrouded political horizon for the signs of an alternative focus of ability, coherence and power. With economic policy being kicked around among the Finance Ministry, the Planning Commission and various chambers of commerce, local, foreign and international, with foreign policy dependent on our submission to the manipulations and pressures generated by the interests of the dominant nations, particularly those in the West, with defence policy based on the divided favours of Moscow, London and Washington, we cannot continue to be diverted on a diet of linguistics, jingoism and that handy standby, opportunist pragmatism, which covers the entire field of internal policy.

And so in this mood we await the Budget, the Kerala election result, the Kairon murder enquiry, the details of the CBI report on affairs in Orissa, and what have you . . .

Letter from South

Three Faces of Linguism

TAMILNAD, and to a far lesser extent Andhra, have gone through days without splendour, without love. These have been the days of death. Revival will come but the shock will not pass soon nor easily. Few could have imagined that so much hate lurked beneath.

The basic impulse was frustration. And those who feel that frustration most keenly are those who have felt the possibility of opportunity, who have not given themselves a vision but known all the lure of lucrative careers within an underdeveloped country. In the forefront of the anti-Hindi agitation in Tamilnad as well as in the Rayalaseema region of Andhra were the students of the medical and engineering colleges. These are certainly the students who have done best in their examinations and for whom job opportunities are the greatest. Why should they be the foremost vehicles of hate?

It would take one too far afield if one attempted to describe the corruption, the slackness and the stagnation that creates the atmosphere in most of our medical colleges and engineering institutions. The majority of the teachers provide anything but an edifying example. One has only to talk frankly to the students to discover a situation quite close to horror and shame. Even worse is the aim with which most of the students have taken to these particular branches of study. There is a nakedness about the search for the highest possible income. It is a fairly frequent phenomenon that the studies are being paid for out of dowries already given or promised. The tragedy is that this conversion into a commodity amuses, perhaps annoys, but seldom angers the student.

Combined with those who feel that they have a reasonable chance of getting into one or another of the central services, quite a formidable number of better students gets formed. This is the social base of the slogan "English-ever, Hindi-never". And in India as it has developed since Independence this social base has an importance quite out of proportion to its actual numbers or even significance for the evolution of the Indian nation.

It has to be stressed that this social base does not love English but it hates Hindi as an obstacle to its scramble for the goods of life. This social base is not distinguished by any genuine urge for westernisation or moved by the beauties and possibilities of English. Its approach to language is purely instrumentalist. This is the ugliest face of linguism even if some of the worse acts of carnage and burning would be beyond the capacity of this group.

Increasinly Rajaji is emerging as the astute leader of this group. Its ambitions and orientations coincide almost perfectly with the combination of discourses on the Ramayana and belief in the U S as the saviour which Rajaji passes off as the distilled wisdom of eighty years. Mediaevalisation of private life with Anglicisation of public activity—that is the India of this group's and his dreams.

But linguism has another face. There is a powerful segment of opinion in Tamilnad and Andhra, to mention the two States most affected by the recent upheaval, that rightly senses danger in the move from Delhi to make Hindi take over from English. This would be

quite as fatal to the burgeoning of their own languages as the domination of English has proved to be. It may be that Tamil is a fairly developed language with a distinguished modern literary tradition. It has not become, however, the vehicle of the more intricate and subtle thoughts of modern man, whose make-up includes a large portion of science, sociology, economics and the more intellectually demanding aspects of politics. It is still largely—as are most other Indian languages—a language of the vaguer feelings, of the looser emotions and is not bound tight yet by the rigorous demands of intellect.

To develop into that dimension, a language has to confront the task of conveying all the achievements of modern thought directly and without allies. It is fantastic to expect it to develop and then take over this task. It is the taking up of this task that develops it. Anything or anybody who comes in the way of this challenge being accepted is rightly to be regarded the enemy of the language.

It is true that a good percentage of intellectuals doubt whether this challenge can be accepted at all, betraying a sense of self-respect that appals quite as much as it amuses. Yet there are many good people and true who consider that any attempt to rush through Hindi before regional liguistic development has had a chance is an enemy to be fought.

Wise Move in Andhra

It is significant that observers in Coimbatore as well as in Kakinada reported that many among the crowd who attacked the trains or burnt the post offices believed that from January 26, 1965 Hindi was to replace Tamil and Telugu as rapidly as possible. It is, of course, true that they had no anger against English which remains the main barrier to India's linguistic growth. But Hindi was seen as a new threat.

It was very wise, therefore, on the part of the Chief Minister of Andhra, Brahmananda Reddy, to quickly accept the plea of the Communist opposition to hold a meeting of the leaders of all parties and then announce that a crash programme would be undertaken to establish the supremacy of Telugu in the State. Any honest attempt to implement this programme would immediately encounter the resistance of the present supremacy of English. This attitude was far removed from the stand taken by the Union Steel Minister, Sanjeeva Reddy. This worthy member of the 'Syndicate' who is believed to aspire to displacing Nanda as the first step towards the Prime Minister's job, made the most reckless pro-English statements that Andhra has heard since the demise of the Justice Party.

Genuine Apprehension

The third face of linguism is a genuine apprehension as to the possibility of linguistic national integration on the basis of Hindi as the official language. There is the fear that the ramifications of any all-India official language are such that the Hindi-speaking people would inevitably evolve into ruling people in India. However hard a Tamilian or an Andhra might try he could never hope to be as at ease in Hindi as somebody whose mother-tongue it was. There is little hope that a time would ever come when, as had happened with English, a Tamilian or an Andhra or a Bengali would know Hindi better than his own language. The idea is that English, at any rate, would be equally disadvantageous for *all* the linguistic nationalities of India.

It is recognised that at present command over English is largely a matter of class privilege. But there could be a policy of scholarships and special merit clauses which could cut at the roots of this privilege and make proficiency in English vertically dispersed. It is argued that already wider social strata are able to command English than was the case fifteen years ago. A greater dose of egalitarianism in education could considerably hasten the process.

Whatever the final outcome the immediate needs of the situation, almost universally accepted, are that what is called the 'Nehru assurance' should be given statutory form and a big push should be given to the development of the different regional languages. This alone could turn the tide of hate and bring back the pendulum to a point of sanity.

From the London End

Advice from the Governor

A MAJOR controversy on the role of the nationalised Bank of England has been started by the political implications of Governor Lord Cromer's outspoken and obviously unvetted speech to a gathering of bankers in Edinburgh last week in which he stated quite categorically that Britain should defer public spending in order to preserve monetary stability. After referring to his negotiations for the renewal for three months of the $3,000 million credit granted to Britain last Novemhber, he said that he could take no pride in the fact that these credits had been renewed. Rather, he was inclined "to look askance at the fact that we, in the United Kingdom, should have run our affairs in such a way that we need to seek short-term banking accommodation abroad". He went on to say that if at home central and local governments subordinate costs to other considerations in an attempt to meet "the desires as well as the needs of the citizen," and if, at the same time, the Government shoulders overseas commitments with insufficient regard to the nation's earning performance, "then one day there has to be a reckoning with the rest of the world . . . We got uncomfortably close to that day of reckoning last November".

The political implications of this speech are quite clear coming at a time when a major tussle is going on between the Treasury and George Brown's Department for Economic Affairs over the question whether the forthcoming budget should work for disinflation or expansion. The Treasury has taken a cautious view whereas the Ministry of Economic Affairs is pushing for expansion. The clear meaning of Lord Cromer's speech was that the Government could certainly not expect the approval of either the City of London or foreign bankers unless it adopted a deflationary policy by slashing public spending. That this might mean the abandonment of many of the proposals outlined by the Labour Government in the Queen's Speech, seems to have been a matter of no moment to the Governor of the Bank of England.

Whatever the advice Lord Cromer may give to the Government in private, it is surely not his place to speak up in public and dictate the lines on which the British Government should conduct its financial policy. It is, therefore, not surprising that this public pronouncement at this particular time should have caused a political storm and should have led to demands, particularly from the Labour Party's Left Wing, that Lord Cromer should go and that it should be made quite

clear that it is the Government and not the Bank of England which ultimately decides the lines of policy which are to be followed.

When the Bank of England was nationalised in 1946, the late Sir Stafford Cripps referred to it as "my creature", but went on to add (prophetically), "but like many creatures, it tends to go its own way". The Bank of England has always found it difficult to accept that as a result of nationalisation it should merely become an instrument of the Government. At the time of the Radcliffe Committee on the Working of the Monetary System in 1959, the Bank of England argued that complete independence from political influence should be guaranteed to the central bank—a view which was not shared by the Radcliffe Committee. The actual legal position is that after nationalisation in 1946, the Government has the power to issue a directive to the Governor, and if he is not prepared to accept this, the only way out for him is to resign.

Cromer's Strong Card

In theory, therefore, the Government if it so wished could ask Lord Cromer to resign, but everybody knows, particularly Lord Cromer, that such action would at the present moment have most unfortunate repercussions on the international front which might gravely reduce the Labour Government's ability to manoeuvre in the difficult balance of payments situation it now faces. This is the strong card that Lord Cromer is now playing. The Third Earl of Cromer, Harold Macmillan's appointee in November 1960, is the youngest Governor of the Bank for well over a century, and now seems to regard himself as the keeper of the nation's financial conscience — on lines that seem to suit the interests of international high finance.

One of the most distressing features of the Governor's intervention at this critical time is that it is likely to influence the attitudes of foreign bankers. The latter will certainly look askance if the Government disregards a warning from the Bank of England about the need to cut back Government expenditure. This will make a difficult situation considerably worse for the Labour Government. To begin with, foreign central bankers will be even less enthusiastic than they are at present about providing assistance to the United Kingdom under the international financial collaboration scheme. Lord Cromer's comments, coming at a time when confidence in the pound abroad is at a low ebb, will certainly have a damaging effect on Britain's balance of payments. It is strange indeed that the self-appointed custodian of the nation's financial interests should threaten to rock the boat thus.

It is no secret that European officials at the O E C D have been urging more drastic action by the U K, particularly in the field of additional deflationary measures in the Budget to correct the balance of payments. Unless this advice is followed, it is doubtful whether the Group of Ten's General Arrangements to Borrow will be activated.

Government's Reaction

The Government's reaction to Lord Cromer's speech are awaited with interest. Both Wilson and Callaghan have pointed out that while the advice of the Governor will be listened to, it is the Government which must finally decide on policy. Without mentioning Lord Cromer by name, both the Prime Minister and the Chancellor effectively snubbed him on his gratuitous advice on the need to curb Government spending.

In a tough campaigning speech in London, Wilson replied to Lord Cromer in clear terms and prepared international opinion for increased public expenditure. Referring to Lord Cromer's advice, Wilson said he recognised "the necessity to relate total national expenditure, public and private, capital and current, to resources", but he scoffed at suggestions made by Lord Cromer that public expenditure is more inflationary than private expenditure. "A million pounds spent on schools, housing, or roads, or productive capital investment in a publicly-owned industry, is no more inflationary than the expenditure of the same resources on a vast block of offices, or a private housing scheme, or productive investment in private industry". The Government would take effective measures to limit the rise in public expenditure to what the country could afford, but, he added significantly that it was the Government and Parliament who must finally decide. "The decisions that have to be taken at national level will be taken—taken by the Government which you elected with a mandate to get these things done. We shall welcome and give full consideration to advice we receive from those who have the right, indeed the duty, to give us advice ... But it must be the Government after seriously weighing all the advice that may be tendered to us, which takes these decisions and bears responsibility for them in Parliament and in the country".

A similar view was taken by Callaghan in a speech at Cardiff when commenting on advice given to the Government about policies it should follow. He always hoped to profit by such advice, but added: "I must say some of the voices seem a little more shrill now than they did before the days of a Labour Government". He thought also that some of the advice was "rather off beam" because it assumed that all public expenditure was bad and all private expenditure good.

There is no doubt that Lord Cromer's exercise in political power was most unfortunate. It is encouraging, however, that both the Chancellor of the Exchequer, and more especially the Prime Minister, have made it clear who is, and must be, the master of the house.

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Book Review

Fiscal Policy in a Vacuum

Arthagnani

The Highest Taxed Nation by N A Palkhivala; P C Manaktala & Sons Private Limited, Bombay, 1965; pp 93; Price Rs 5.

THIS book deals with taxation in India—or, rather, one part of it, namely, direct taxation. Its central theme is clear: Rates of direct taxation in India are the highest in the world, excluding, perhaps, only Ceylon. To illustrate this, the author gives comparative tables of taxes payable in India and other countries by an individual at different levels of income and of tax rates on companies in different countries. In addition, the author argues that the direct tax framework also has other drawbacks; uncertainty, complexity, imposition of unduly high burdens which encourages dishonesty, injustice and lack of discretion in administration.

From the above, the author goes on to draw the conclusion that the direct tax system, by discouraging rewards from work and saving, has stifled the growth of the Indian economy. He refers to the examples of Japan, West Germany and (in the last year) the U S A whose economies have grown rapidly as a result of reduction in levels of direct taxation. He, therefore, argues for lower rates of direct taxes in India in order to foster growth.

The argument, as presented above, might appear facile; it is no weightier as presented in the book. The fallacy lies both in the presentation of findings and in the conclusion drawn.

Untenable Comparisons

Palkhivala is by profession a lawyer and he presents arguments which seek to make his case. The comparisons of tax burden and tax rates he gives in the book are valid—in an absolute sense. But is the inter-comparison of income utility implied in such comparison—and that, too, among individuals in different countries—valid in economics? Is an individual (that, too, married and with two children) earning an annual income of, say, Rs 50,000 in the same position in the U K, the U S A, Canada and Japan or in Pakistan, Burma, Malaya and Brazil as in India? The amount of goods and services he can buy with this income would vary in the different countries, and, so also, his relative position in the societies, with widely differing *per capita* incomes in the counties. If that is the case, would it really matter that he has to pay 39.5 per cent of his income as tax in India, against, say, 23 per cent in the U K and 11.9 per cent in Malaya?

If comparisons are to be made, it can also be said that many countries (in fact, all in Palkhivala's list except Pakistan) derive tax revenue which is a larger proportion of their national income than in India. Morever, all these countries derive a larger proportion of their tax revenue from direct taxes (and personal income taxes) than India. Would this justify imposing more taxation in India or more direct taxation?

Small Base of Taxation

If comparisons have to be made, they have to be much deeper than mere mathematical computations of taxes at given levels of income. In equalitarian societies progression has less meaning than in societies with gross inequalities. If the Russian tax rates are held out as examples of rectitude in taxation (as they are on p 41), would the author accept the other parts of the Russian system? As Will Rogers put it, Soviet Russia does not have an income-tax because Russians do not have an income to pay it on. And where other tax sources (for example, exports in export-oriented economies like Malaya) are important, direct taxation can play a lesser role.

Taking India as a case, it lacks a single source from which to derive large revenue painlessly. And with very low *per capita* income among the mass of the people, the Finance Minister can afford to get away with highly progressive rates of income-tax. After all, direct taxation affects less than 0.3 per cent of the population in the country. And an individual (married and with two children, as mentioned by Palkhivala) becomes liable to personal income-tax in India only when he earns 10 times the per capita income in the country, while he becomes so liable in the U K at two times the per capita income, and in the U S A at the same level as the per capita income. Or, to take another example, at 100 times the per capita income, the tax percentage is 24.6 in India, 31 in Ceylon, 69 in the U S A and 78 in the U K. Statistics is a slippery base to conduct an argument from.

Case Based on Exceptions

The author further has a tendency to make his case on the basis of exceptions rather than the general rule. The Table given on p 33, reflecting the dividend received by a shareholder from a company which has a wholly-owned subsidiary, tries to juxtapose two exceptions to make its point—a company liable to the maximum rate of corporation tax and an individual liable to the maximum rate of personal income-tax. Moreover, the calculation itself is wrong insofar as 88.12 per cent is the highest *rate* of tax and the average tax liability of the individual on his whole income would be less; if any particular rate is to be applied, why not deem this part of the income as income which is included in exempt income and income from some other source be shown as liable to the marginal income-tax rate? And, is there really no escape from the hardship? Presented with the case, Palkhivala as a lawyer would promptly advise the wholly-owned subsidiary to merge with the parent company and the parent company not to distribute any dividend.

The same difficulty arises on the argument about closely-held companies. While the definition is based on the number of persons who hold controlling interest, Palkhivala tries to rebut the provision by referring to the fact that such a company might have a large number of share-holders for the balance shareholding. If the controlling shareholders feel the provisions regarding closely-held companies to be penal, the remedy is clearly in their hands—by disposing of a part of their shareholding. In fact, in India a major anti-concentration measure would be to bring about a divorce between ownership and management of enterprises by requiring the divesting of shares held closely.

Similarly, one has to recognise the exception arising out of the difficulty in determining the status of Raghuvanshi Mills Limited for the assessment year 1943-44. The difficulty may lie not so much in the complexity or incomprehensibility of law as the ingenuity of lawyers. After all, people have been known in the U S A to have avoided the electric chair a decade after their conviction and sentence. So also, almost every example of irrationality of depreciation cited on p 21—for example, the fact that depreciation rate on furniture is higher than on machinery—can be justified as logical. So also the argument against the 1963 Budget which was framed to take care of an emergency.

If the development of the argument is vitiated, so also is the conclusion derived from it. The low tax rate system cannot become a dogma merely because Palkhivala calls it "the modern fiscal method". And, behind the West German and Japanese miracles lie many vital factors like the past accumulation of technical knowledge and skills, besides the low tax rates to which alone Palkhivala attributes these miracles.

This explains the entire fallacy of the logic presented in the book—the habit of abstracting from the many factors which govern a nation's progress and to seek to explain the situation by reference to one factor alone. Palkhivala, like a lawyer, has a brief which he tries to present within a narrow framework. It is an argument which reads like a special plea for a client: and it is an argument which appeals to a narrow group of intelligentsia in metropolitan towns. Palkhivala, in short, is basically concerned with *fiscal law*.

Narrow Vision

However, the politician (and a Finance Minister cannot but be that) is basically concerned with *fiscal justice*. He has to weigh the incidence of direct taxes on one class of people with that of indirect taxes on the others. He has to take the distribution of income and wealth into account and make a judgment, basically political, on how he will divide the burden of taxation among different classes. His brief, therefore, is far wider than Palkhivala's.

There is much in what the author says, particularly the need to rationalise the direct tax structure and lower the rates; this would have to be done within the framework of the objectives of planned growth and social justice. The main consequence of a system of high tax rates is to encourage tax avoidance certainly and perhaps, to a large extent, tax evasion. As Titmuss showed in his "Income Distribution and Social Change", it is possible to avoid the impact of high tax rates, keeping within the framework of tax laws. High tax rates, therefore, neither bring in revenue nor make for equality. What India needs is not less taxation but low tax rates spread on as wide a base as possible. This is the only basis on which an economic rationale for fiscal policy can be presented.

By restricting the argument within a narrow sphere, Palkhivala starts upon a self-defeating course. Moreover, the enunciation of the argument in an ornate, flowery language, while apposite in a lecture to a converted audience, reads flamboyant in a book, and gives it an air of superficiality. A case for lower tax rates has to have a wider vision than what the author brings to the subject.



The Economy in 1964-65

S K Nath

Last year's Economic Survey contained this hopeful sentence: "the overall picture is one of promise of **rising** *growth rates" (emphasis added).*

The Economic Survey for 1964-65 reveals that the promise has not been fulfilled.

THE rate of growth of industrial production during 1964-65 may at best work out to be 8 per cent; this will be 1 per cent *less* than the rate for 1963-64. Agricultural production during the current fiscal year "should be substantially higher than in the preceeding years"; but we do not yet know if its rate of growth will exceed that of 1963-64, namely, 2.4 per cent. In short, the latest survey reveals no sign of the badly needed acceleration in the growth of the economy's two major sectors. National income according to the Third Plan target should rise by 34 per cent in five years. Its annual rate of increase during the first two years of the Plan was 2.5 per cent. During 1963-64 national income rose by 4.5 per cent. For the current fiscal year, the Survey says that the rate of increase "should on all accounts be better"; but it contains nothing to justify this expectation.

Prices

While growth has failed to pick up speed, prices and the balance of payments have been getting out of hand. Prices went up by 9.1 per cent in 1963-64; this rate of rise has been accelerating so that between the end of March 1964 and January 23, 1965, prices rose by 14 per cent. Of course, the biggest rises have been in the prices of food articles and industrial raw materials rather than those of finished goods. The rise in the prices of the former two between March 1963 and January 1965 has accounted for 87 per cent of the rise in the general level of prices. It is true that prior to 1962-63, the producers of agricultural commodities can be said to have suffered in some sense, because for about ten years their prices rose much less than other prices. The price of wheat in fact fell by 14 per cent in the ten years preceding March 1963. So, some rise in the prices of agricultural commodities was due. But the actual rise over the last two years has been much too fast not to affect the morale of the urban population at least.

The other problem which has become unusually serious during recent months concerns our balance of payments. During 1963-64 there had been some optimistic developments: our foreign exchange reserves had increased a little (by Rs 10.8 crores) and we had also repaid a modest sum (of Rs 23.8 crores) to the International Monetary Fund. During the current financial year our exports have continued to rise, but a large part of this increase has earned no free foreign exchange because it has gone to the rupee payment countries. In the meantime, the government has had to pay shipping and other charges for the greatly increased imports of foodgrains and fertilisers; payments of international debt charges have also been increasing.

Decline in Reserves

A combination of these (and other not fully known) circumstances has resulted in a steep decline of our foreign exchange reserves. From April to September 1964, foreign exchange reserves declined by Rs 55.4 crores. These early months of a fiscal year are always a lean season for exports; the trend of the following six months is usually different. But between October 1964 and January 1965 the foreign exchange reserves declined further by Rs 32.6 crores. At the end of January 1965 they stood at only about Rs 100 crores. This is a critical position particularly because the next six months are going to be a lean season for exports and because over the next 16 months there is a repayment obligation of Rs 95 crores to the IMF.

Most of the increase in imports between April and September 1964 was on Government account; private imports rose only a little. Increased government imports were mainly of food and capital equipment (the latter reflecting an increase in aid utilisation). Among private imports the major increases were in the imports of raw cotton (Rs 5.5 crores), vehicles (Rs 4.3 crores), food, drink and tobacco—mainly dairy products (Rs 3.8 crores), and textile yarns (Rs 2.7 crores). But the following commodity groups showed notable declines; machinery (Rs 6.2 crores), mineral oils (Rs 5.4 crores) and electrical goods (Rs 1.3 crores). Indeed, the record in import substitution has not been too bad; though it has been worse than it could have been if some important industries had expanded according to the Plan. The worst in this respect has perhaps been the chemicals industry. The import substitution record, such as it is, is summarised in the table on page 405.

India's exports have at last been rising significantly over the last three years or so. They stood at Rs 660 crores in the last year of the Second Plan. In 1963-64 they had risen to Rs 794 crores. This amounted to an increase of 20 per cent in three years. During April-September 1964 there was a further increase of Rs 38 crores, compared to the corresponding months of 1963.

Our debt service charges (involving foreign exchange) were Rs 49.9 crores in 1960-61. They jumped to Rs 93.8 crores in 1961-62. In 1963-64 they had only risen to Rs 95.5 crores. But the estimate is that for 1964-65 they would have steeply increased to Rs 140.0 crores. It is expected that during 1965-66 they will increase further.

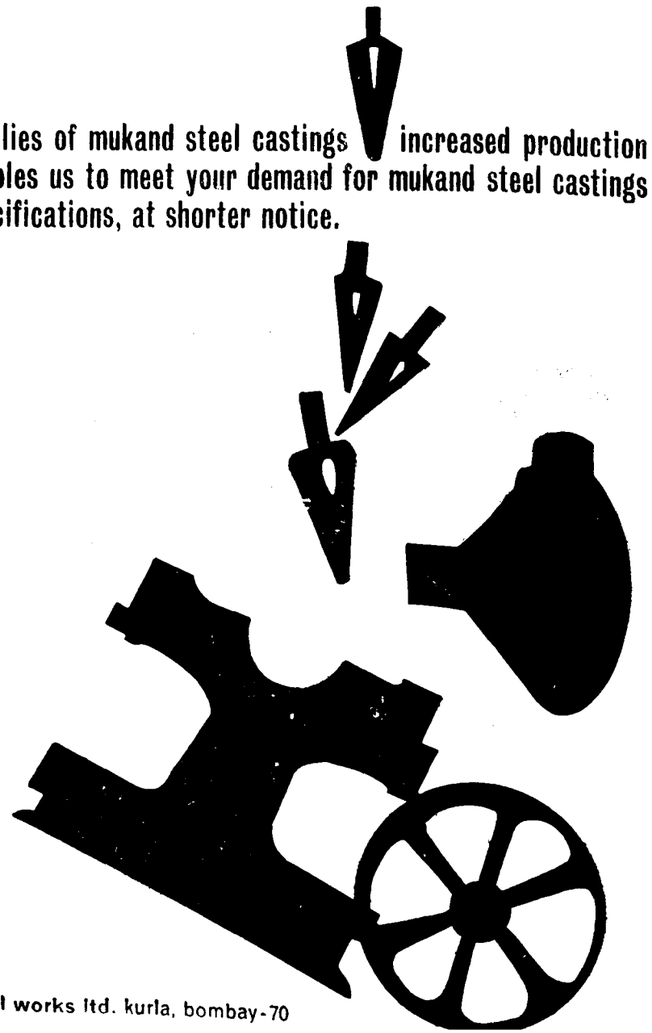
Aid Utilisation

Though there has been some improvement in aid utilisation recently, there is still a wide gap between approvals and utilisation. The Aid-India Consortium has pledged Rs 489.5 crores for 1964-65. It had already pledged Rs 1,627 crores for the three years of the Third Plan. This brings the total of their pledged aid to Rs 2,117. Authorisations—i e, actual agreements signed against these pledges —amounted to Rs 1,684 crores up to the end of September 1964. The value of orders placed against this aid amounted to Rs 1,147 and payments made against these orders to Rs 756 crores. There has also been some help promised by the non-Consortium countries. From the Second Plan there was a carry-over of assistance of Rs 687 crores; the Survey promises that "there will be a sizeable carry-over of assistance committed during the Third Five Year Plan into the Fourth Plan period"!

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Agriculture

The recent story of agriculture is already familiar. In 1961-62 agricultural production had increased by 1.2 per cent, but in 1962-63 it declined by 3 per cent. During 1963-64 it recovered a bit and increased by 2.4 per cent and just about reached the level of the last year of the Second Plan. But in that year (1963-64) rice output reached a record figure of 36.5 million tons. During the current year (1964-65), rice output is expected to increase further to about 40 million tonnes. The wheat crop, however, was very bad in 1963-64, and is not expected to show a great rise during the current year either. The same seems to be true of other crops like pulses, mustard seeds and sugarcane. The performance of cotton and jute was only slightly better. Apart from rice, the only other significant increase has been in groundnuts. With the total output of foodgrains in both 1962-63 and 1963-64 lower than in 1961-62, their imports have had to be increased from an average of 4 million tonnes in previous years to 6.27 million tonnes in 1964. At the same time, Government stocks of foodgrains have declined by 1.4 million tonnes. According to the Third Plan the output of foodgrains in its last year should be 100 million tonnes; in 1963-64 (the third year of the Plan) their output was still only 79.43 million tonnes. Incidentally, it is clear that some States have made much greater progress than the others in raising agricultural outputs. The Survey says: "Already large parts of States such as Gujarat, Punjab, and Madras have achieved a growth rate in agriculture of more than 5 per cent per annum over the past 12 years or so" (p 10). Why has no information been gathered either in this Survey or elsewhere to suggest the factors which have been responsible for this atypical progress?

Industry

The 9 per cent rate of expansion of industrial production during 1963-64 was the highest achieved under this Plan. In 1962-63 the rate was 8.1 per cent, and in 1961-62 only 6.6 per cent. The Plan target of annual increase is 11 per cent. In the current fiscal year the rate of expansion, instead of accelerating as had been hoped, has declined again; it is likely to amount to about 8 per cent. Not all industries ever expand equally in a growing economy. The greater share of the burden of industrial growth always falls on a few industries, which are usually "new" in the sense that their products or processes are the result of recent scientific discoveries. The rate of technical improvement tends to be highest in these industries. Some examples would be chemicals, petroleum products, synthetic fibres, electricity generation, electrical machinery, and automobiles, etc. It so happens that most of these industries are also highly important to India for their import-saving potentialities.

During January-October 1964 — as compared to January-October 1963 — the output of petroleum products increased by 11.5 per cent; of metal products by 11.5 per cent; of machinery also by 11.5 per cent; of electrical machinery by 16.1 per cent; of electricity also by 16.1 per cent; but the output of chemicals and chemical products actually fell by 0.9 per cent. The performance of chemicals is of course deplorable: but that of the other industries cited is not very encouraging either. They have expanded only a little faster than the rate (11 per cent) at which the output of the industrial sector as a whole was envisaged to expand annually: and yet these very industries are meant to be the leaders of industrial advance; therefore, their own rates of advance should have been very much higher. Though the Survey does not at all facilitate comparisons of this kind, it is revealing to compare the outputs achieved by some of these industries with their targets for the last year of the Plan. The output of steel ingots in the third year of the Plan was 5.9 million tonnes while the target for the fifth year is 9.2 million tonnes: that of copper was 9.6 thousand tonnes while the target for the fifth year is 20.0 thousand tones; that of machine

Import Substitution: Percentage of Imports to Estimated Total Supplies

	Unit of Account	1950-51		1955-56		1963-64	
		Total Estimated Supplies	Percentage of Imports to (a)	Total Estimated Supplies	Percentage of Imports to (a)	Total Estimated Supplies	Percentage of Imports to (a)
		(a)	(b)	(a)	(b)	(a)	(b)
Bicycles	'000 Nos	264	62.5	661	22.4	1260	0.1
Sugar-mill machinery	Rs lakhs	100	100.0	419	95.2	650	4.6
Cotton mill machinery	Rs lakhs	n.a.	n.a.	1196	66.6	3750	48.0
Petroleum products	Million litres	2725	92.9	4173	42.2	9620	27.9
Soda Ash	'000 tonnes	75	40.0	154	46.7	297	7.7
Bleaching powder	'000 tonnes	9.4	61.7	8.2	61.0	8.4	13.1
Iron and steel	'000 tonnes	1391	25.2	2219	41.5	5280	18.6
Caustic soda	'000 tonnes	34	64.7	97	62.9	228	28.5
Aluminium	'000 tonnes	14.7	72.8	23.5	68.5	78.7	31.4
Machine tools	Rs lakhs	356	91.6	523	84.7	5075	60.4
Newsprint	'000 tonnes	76.3	100.0	84.0	95.6	125.5	76.1
Raw cotton	Lakh bales of 188 kgs	39.5	27.6	45.5	13.2	58.2	12.9
Foodgrains	Million tonnes	56.24	6.5	67.25	0.6	83.6	4.7
Raw jute	Lakh bales of 180 kgs	57.3	35.3	57.1	25.9	62.1	4.3
Sewing machines	'000 Nos	56	41.1	125	11.2	284	0.7
Paper and paperboards, etc	'000 tonnes	151	23.2	260	26.2	503	5.0

Notes: (1) In the case of raw cotton and raw jute, the total estimated supply is for crop/agricultural/years; in the case of foodgrains, production is for agricultural year and imports for the financial year.
(2) In the case of raw cotton, raw jute and foodgrains, figures under 1950-51 refer to the average of three years viz 1949-50, 1950-51 and 1951-52 and those under 1963-64 refer to the average of 1961-62, 1962-63 and 1963-64.
(3) Petroleum products include only motor spirit, kerosene and diesels.

tools was Rs 201 million while the target for the fifth year is Rs 300 million; and electricity generated in the third year was 25.9 billion kwh whereas the target for the fifth year is 45 billion kwh. As for fertilisers (which come under the general heading of chemicals) the gap between the target and the achievement by the end of the Plan is likely to be the widest.

Budgetary and Monetary Trends

Central and State Government expenditures were budgeted to increase in 1964-65 by Rs 407 crores as against the increase of Rs 900 crores in the previous fiscal year. This increase — as the price behaviour over the following months was to show — exceeded the safe limit, given the behaviour of agricultural and industrial outputs. Central and State Governments did introduce additional taxation which was expected to yield about Rs 50 crores during the current year. The Income-Tax Annuity Deposit Scheme was expected to collect deposits of Rs 67 crores. These two together would have covered about 30 per cent of the increased expenditure. The overall deficit of the Central Government according to the Budget was Rs 97 crores. During the year the Parliament has had to vote additional amounts to cover increased expenditure on the rehabilitation of refugees, the purchase of foodgrains, and the greater dearness allowances of Central Government employees. However, receipts from the direct and some other taxes have also been better than expected so that the overall deficit of the Central and State Governments during the current year is likely to be smaller than the Budget provision.

Similarly, during the current fiscal year money supply has expanded more slowly than recently. In 1962-63 money supply increased by 8.5 per cent, and in 1963-64 by over 14 per cent. Up to January 15, 1965, money supply during this fiscal year had increased by 5.6 per cent; whereas the figure for the similar preceding period was 10.1 per cent.

Conclusion

We arrive back where we started. It was hoped at the end of the Second Plan that by the end of the next Plan the character of the economy will be significantly changed: perhaps something like the pre-conditions for a take-off would be all more or less nicely settled. Unfortunately that promise has not come true. The fiscal year (1964-65) which has approached its end was the fourth of the Plan. In most respects the economy's performance was worse during it than during the third year of the Plan.

Though performance in many crucial industrial fields (like chemicals) has also been very poor, the basic problem remains that of our backward agriculture. Each year some new ideas are tried. Last year's Survey mentioned an Agricultural Production Board to integrate agricultural policies and to secure effective coordination between the Central and State Governments. This year's Survey makes no mention of the Board. Instead, the newly formed Agricultural Prices Commission is mentioned. Once again, and naturally, a great deal of hope is pinned on this body. But whether this body — and other bodies concerned with improving the tone of the implementation of our economic policies — will be paid the unusual compliment of having their suggestions systematically adopted, remains to be seen.



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Agricultural Growth and Stagnation in India

C H Hanumantha Rao

The object of this paper is two-fold:

(1) to analyse the trends in agricultural growth in the country as a whole and in different States during the period 1949-50 to 1961-62 with a view to bringing out the main ingredients of past experience; and

(2) to examine some of the current explanatory hypotheses relating to the relative stagnation of the agricultural sector. An attempt is made in this process to suggest the policy implications of the explanations that are found to be more relevant.

THE All-India and State index numbers of agricultural production, area and productivity issued by the Ministry of Food and Agriculture fill a significant gap in available knowledge regarding the trends in growth. These index numbers are constructed after making due adjustments in the original data for changes in coverage and methods of estimation and are, therefore, comparable over time. For the purposes of this study All-India growth rates have been obtained by fitting a linear equation $y=a+bx$ to these series of index numbers.

Two Seven-Year Periods

Separate growth rates have been estimated for two seven-year periods 1949-50 to 1955-56 and 1955-56 to 1961-62. These estimates given in Table 1 reveal that the rate of foodgrains output had already slowed down from 4.4 per cent in the first seven-year period to 3.8 per cent in the later years, so that the growth rate of aggregate crop output remained more or less constant (4 per cent) despite an acceleration in the rate of growth of non-foodgrains from 3 per cent to 4.5 per cent. Another significant fact to note is that the growth of area under crops slowed down considerably from 2.8 per cent to 0.9 per cent between the two periods.

It would be interesting to know the relative contributions of area and productivity to the growth of output in different periods. If productivity per acre remained constant, output would grow at the same rate as the growth of area. Therefore, the growth of output attributable to the changes in productivity is given by the difference between the growth rates of output and area. The percent contributions of area and productivity to the growth of output computed on this basis show that although for the 13 year period under study, area accounted for 48 per cent of growth in output, its contribution declined significantly from as much as 72 per cent to 23 per cent between the two periods. Thus, increases in productivity per acre accounted for as much as 77 per cent of output growth in the later period.

It would appear from this that the increase in area as a source of growth has almost exhausted itself in the Third Plan period and that further growth of output could be achieved mainly through the increases in productivity per acre. Although the growth of productivity accelerated between the two periods studied, it is clear that only a much higher rate of growth in productivity could have accelerated the growth of output in the Third Plan period. The Mid-Term Appraisal of the Third Plan revealed significant shortfalls in the supply of two main productivity increasing factors, viz, irrigation water and fertilizers. There was an element of spontaneity in growth so long as area was an important factor. Increase in productivity, on the other hand, requires input intensification involving large outlays—both public and private—as well as considerable organisational and administrative efforts. The difficulties associated with input-intensification in this new phase seem to lie at the root of the present stagnation in agricultural output.

Marked Departures

The inter-State disparities in the growth of agricultural output are quite marked. The growth rate ranges from about 5 per cent per annum in the case of Punjab and Madras to just around one per cent for Assam, Orissa and West Bengal (see Table 2). That productivity per acre has become a predominant factor in growth is evident from the fact that all the seven States where growth of output is above the national average reveal higher growth rates in respect of productivity also. Except for Andhra Pradesh, the growth in productivity among the remaining eight States of slow growth was below the national average. No such correlation is found between the growth rates of output and area: the growth of area was lower than the national average for at least four of the Seven states in the higher range.

Another important feature of agricultural growth in this period is the marked shift in the crop-patterns in different states. Table 3 shows that Kerala and Andhra Pradesh whose growth of aggregate crop output was below the national average, were well ahead of the national average in regard to food grains output. Likewise, the growth rate of non-food grains in Gujarat, Uttar Pradesh and Rajasthan was above the national average despite their slow overall progress.

Output and Yield

Again, the growth of output is found to be significantly correlated with the growth of productivity both in the case of food and non-food grains. On the whole, it would seem that high overall progress is associated with balanced growth between food and non-food grains. Punjab, Madras Madhya Pradesh and Mysore represent such a category. On the other nand, the areas of lowest overall progress, viz, Assam, Orissa and West Bengal are those whose performance is below the national average both in respect of food and non-food grains.

How would one explain these disparities in growth between different States? A State is a highly heterogeneous unit and may very often conceal significant differences in growth between its constituent units. Although the study of growth factors would be precise and more fruitful at a much disaggregated level, it should nevertheless be possible to discern factors which have a fair degree of validity over space. The hypotheses discussed in this connection fall broadly into two categories, viz, those which emphasise the institutional factors, move specifically the incentives associated with farm size and tenure conditions and those which emphasize material inputs—traditional as well as modern. It is true that the average size of farm is low in quite a number of States recording slow progress viz, Kerala, Uttar Pradesh, Assam, Orissa

and West Bengal (see col 6 of Table 4). But it will be seen that the net value of agricultural output per acre in these States is invariably higher than the All-India average (col 5). In fact, in the case of Kerala and West Bengal it is nearly twice the All-India average. Therefore, in a vast country like India where there are extreme regional variations in the soil-climate-crop complex, farm size is not a sufficient indication of income level. Moreover, Madras and Bihar where the average farm size is lower than the national average recorded satisfactory progress. Besides, Kerala with extremely low size of farm showed an impressive performance in regard to food grains while Uttar Pradesh was above the average in regard to non-food grains. It is hard to reconcile the resilience shown by these States with the 'disabilities' of size.

Size of Farms

The size problem may become relevant in a different sense within each homogeneous region. The Farm Management Studies conducted in various parts of the country have shown that output per acre is generally higher among the smaller farms and that it shows a significant decline with the increase in farm size. That this should be so is understandable in view of the prevailing labour-intensive techniques and when there is abundance of labour among smaller farms. Also, large farmers encounter supervisory and managerial bottlenecks as they have to operate with a large number of paid labourers. The logical implication of these findings is that output and productivity can be maximised if ceilings on land holdings are imposed at a sufficiently low level and surplus lands distributed among small farmers. But if a significant redistribution of land under the existing socio-political conditions in India is ruled out, then an alternative size policy suited to the immediate requirements of growth would have to be pursued. Even though the application of labour may be higher among smaller farms they may lag behind the larger ones in regard to the application of technologically new inputs such as fertilizers, improved seeds and insecticides, etc, owing to their low investible surplus. But this problem cannot be solved by merely amalgamating the existing small farms into larger ones unless an opperessive policy of extracting surpluses is adopted. Since smallness of size *as such* does not offer any technical hindrance to the application of modern inputs, the provision of credit to the smaller farms in a liberal way should meet the ends of growth. The enormous agricultural progress achieved by Japan despite the smallness of farm size should dispel many misconceptions in this regard. Although the large farms may be relatively quick in taking to improved techniques, progress may still be restricted owing to the managerial difficulties. The supply of mechanical power through small tractors and pump sets would promote the intensive use of land by lessening the managerial and supervisory difficulties. Such a technology may even increase the overall employment of labour by making possible the extension of intensive methods of cultivation such as irrigated farming to new areas. The structure of employment may alter but the volume of employment may not necessarily decline. The provision of credit to the small farmers in a liberal way and mechanical power to large farmers could well be the two main elements in a growth oriented size policy.

Estimates of cultivated area under pure tenancy are available for different states from 1961 Census. Consi-

Table 1: All India Linear Growth Rates of Crop Production, Area and Productivity

	1949-50 to 1955-56	1955-56 to 1961-62	1949-50 to 1961-62
Production :			
(i) Foodgrains	*4.4*	*3.8*	*3.6*
(ii) Non-foodgrains	*3.0*	*4.5*	*4.2*
All Crops	*3.9*	*4.0*	*3.9*
Area :			
(i) Foodgrains	*2.5*	*0.7*	*1.6*
(ii) Non-foodgrains	*4.3*	*1.7*	*3.1*
All Crops	*2.8*	*0.9*	*1.8*
Productivity :			
(i) Foodgrains	*1.8*	*2.7*	*1.8*
(ii) Non-foodgrains	*—1.0*	*2.0*	*0.8*
All Crops	*1.0*	*2.6*	*1.7*

Source : Ministry of Food and Agriculture, *Agricultural Situation in India,* July 1963.

Table 2: State Linear Growth Rates of Agricultural Production, Area and Productivity During 1952-55 to 1961-62
All Crops

State	Production	Area	Productivity
1	2	3	4
(1) Punjab	*5.6*	*2.6*	*2.6*
(2) Madras	*4.9*	*0.7*	*4.0*
(3) Himachal Pradesh	*3.8*	*0.8*	*2.8*
(4) Madhya Pradesh	*3.6*	*1.4*	*2.1*
(5) Mysore	*3.6*	*1.3*	*2.1*
(6) Maharashtra	*3.5*	*0.5*	*2.9*
(7) Bihar	*3.4*	*1.1*	*2.2*
ALL INDIA	*3.2*	*1.3*	*1.8*
(8) Rajasthan	*2.9*	*3.9*	*—0.8*
(9) Kerala	*2.4*	*1.2*	*1.2*
(10) Gujarat	*2.2*	*0.7*	*1.5*
(11) Uttar Pradesh	*2.1*	*0.9*	*1.1*
(12) Andhra Pradesh	*1.9*	*—0.1*	*2.0*
(13) Assam	*1.3*	*1.6*	*—0.2*
(14) Orissa	*1.2*	*0.5*	*0.7*
(15) West Bengal	*0.9*	*0.2*	*0.5*

Source : Economic and Statistical Adviser, Ministry of Food and Agriculture, G O I, "Growth Rates in Agriculture" (mimeographed).

derable degree of precision attaches to these estimates as the information was elicited directly from the tenants themselves. Figures of area under mixed tenancy are not yet available but they may reasonably be assumed to vary between different States in the same direction as the area under pure tenancy. These figures do not reveal any precise relationship between the tenurial conditions and agricultural development. Although some States of slow overall growth, notably Kerala and West Bengal, account for very high ratios of cultivated area under pure tenancy (see col 1 of Table 4) there are significant exceptions notwithstanding the fact that it is difficult to reconcile this with the impressive performance of Keraia in regard to food grains. Pure tenancy is above the All India average for States of highest growth, viz, Punjab and Madras. Similarly the ratios are quite low for many States revealing slow progress, viz, Orissa, Uttar Pradesh, Rajasthan and Gujarat.

Fertility and Tenancy

The 1961 Census revealed that the proportion of tenanted holdings were particularly concentrated in the fertile coastal belts (see P S Sharma, "A Study of the Structural and Tenurial Aspects of Rural Economy in the light of 1961 Census," mimeographed). A precise study of the relationship between land fertility and tenancy would be possible only at the field level. But even at the State level one finds a strong positive association between the proportion of area under tenancy and the productive capacity of land (see Table 4). Among all the seven States where the proportion of area under pure tenancy is distinctly higher than the national average, the proportion of area irrigated is also well above the national average. In as many as five out of seven States where the area under tenancy is below the average, the proportion of irrigated area is also below the average. Further, the States where tenancy is significant, viz, Kerala, West Bengal and Assam account for very high annual rainfall. It will also be seen that except for Punjab and Mysore, the remaining six States are characterized by high density of rural population. Also, the net value of agricultural output per acre for these States is distinctly higher than the national average.

These facts provide, in the first place, a rationale for the concentration of tenancy in fertile areas: land should be fertile enough to yield sizable surplus to feed both the tenant and the landlord. Also, since the element of risk and uncertainty is considerably reduced because of the assured rainfall and irrigation, this would result in the high density of agricultural workers owing partly to the large-scale original settlements on fertile soils and also presumably to the higher rate of population growth resulting from the assured supply of food. All this would encourage tenancy because the rents would more or less be equated to the surplus that landlords would alternatively get by cultivating the lands themselves through hired labour.

Exaggerated Fears

The next important implication is that owing to the excessive demand for land, it becomes extremely difficult to obtain proper records of tenancy and to regulate rents through administrative action. Any administrative decree in this respect would most certainly drive tenancy underground with secret arrangements between the landlord and the tenant because of the real possibility of subsistence for both.

Lastly, from the standpoint of growth these facts should serve to dispel certain exaggerated notions regarding the discouragement of inputs among tenanted holdings. Since labour is abundant with hardly any opportunity cost, its application will add to the income of the tenant so long as the marginal product of labour is possitive. The Farm Management Studies have revealed that the input of labour is highest for predominantly tenanted holdings and their output per acre is higher than for larger holdings operated through hired labour, as the input of labour among the latter can be extended only upto the point where the net marginal product is equal to the wage rate. There is no reason to believe that the fear of resumption of land by the landlord would discourage investments by the tenants in the input factors which are mobile such as bullocks and implements. In theory, the investments in permanent improvements on land would be discouraged but this becomes largely irrelevant when the tenanted holdings are situated in fertile coastal or irrigated areas. Again, the investments in modern inputs such as fertilizers, improved seeds etc would, in principle, be discouraged if the tenants have to bear the full costs on them. But if landlords share such costs in the same proportion in which they realise rents from gross produce, then it would be profitable for both the tenants and landlords to invest in such factors until the marginal cost equals marginal revenue.

The practice of sharing inputs between landlords and tenants is not un-

Table 3: State Linear Growth Rates of Agricultural Production and Productivity Dining 1952-53 to 1961-62
Food and Non-Foodgrains

Food Grains			Non-Food Grains		
State	Production	Productivity	State	Production	Productivity
1	2	3	4	5	6
Madras	*4.6*	*4.2*	Punjab	*9.1*	*3.7*
Punjab	*4.5*	*1.8*	Maharashtra	*5.6*	*4.3*
Himachal Pradesh	*4.2*	*3.3*	Madras	*5.6*	*2.8*
Kerala	*4.1*	*3.7*	Gujarat	*5.4*	*—1.3*
Madhya Pradesh	*3.5*	*2.0*	Mysore	*5.2*	*3.6*
Bihar	*3.4*	*2.3*	Uttar Pradesh	*4.7*	*2.5*
Andhra Pradesh	*3.3*	*2.2*	Madhya Pradesh	*4.5*	*2.8*
Mysore	*2.9*	*1.5*	Rajasthan	*4.4*	*0.4*
ALL INDIA	*2.7*	*1.5*	*ALL INDIA*	*4.4*	*1.7*
Rajasthan	*2.6*	*—1.0*	Bihar	*3.8*	*0.6*
Maharashtra	*2.6*	*2.0*	West Bengal	*3.5*	*—0.3*
Orissa	*1.4*	*0.8*	Assam	*2.0*	*0.4*
Uttar Pradesh	*1.1*	*0.4*	Kerala	*1.8*	*0.1*
Assam	*0.6*	*—0.9*	Himachal Pradesh	*1.0*	*—2.0*
West Bengal	*—0.2*	*—0.2*	Orissa	*—0.3*	*1.2*
Gujarat	*—1.1*	*1.9*	Andhra Pradesh	*—1.0*	*3.4*

Source : Economic and Statistical Adviser, Ministry of Food and Agriculture, G O I, "Growth Rates in Agriculture" (Mimeographed).

common in this country. In fact, the so called "concealed share-cropping tenancy" is characterised by the system of sharing inputs. A recent study made by Wolf Ladejinsky in the Package districts where nearly 60 to 80 per cent of cultivated area is irrigated revealed that although about 50 per cent of cultivated area is under tenancy mainly through "off the record" arrangements, the expenditure on fertilizers is generally shared equally between the landlords and the tenants.

Japanese Experience

The Japanese experience in this respect has a particular relevance to Indian conditions. During the whole period of over half a century right from the Meiji Restoration to the close of Second World War, when the technological break-through in agriculture was effected mainly through the extensive use of fertilizers, improved seeds etc, the area under tenancy continued to constitute nearly 50 per cent of cultivated area (See Takekazu Ogura Ed, "Agricultural Development in Modern Japan"). However, there is no gainsaying the fact that if somehow ownership rights can be conferred on the tenants in India such as had happened in Japan after the Second World War, agriculture would become more dynamic. But if past experience in India rules out this possibility for a reasonable period of time, then we need to have a more pragmatic and growth oriented tenure policy, the objective of which should be to promote input-intensification by insisting that the landlords share the expenditure on improved improvements at least to the extent of 50 per cent. Also credit should be extended to the tenants liberally in order to enable them to avail of these inputs.

Among the material inputs, irrigation is known to bear the highest correlation with productivity. Unfortunately, the latest published statistics on irrigation in India do not extend beyond the year 1958-59. But some interesting information on this aspect is contained in the Food Ministry's "Growth Rates in Agriculture". According to this Bulletin, between 1952-53 and 1961-62, the increases that took place in the gross irrigated area in the first seven States of above average growth are much more than those in the States of slow progress. In Punjab and Madras gross irrigated area went up by 23 per cent and 33 per cent respectively; in Maharashtra it increased by 37 per cent; by 17 per cent in Madhya Pradesh; by 58 per cent in Mysore; and by about 15 per cent in Bihar. Among the States of slow growth, Rajasthan and Assam recorded some increase in the sown area without a corresponding increase in irrigated area leading to the negative growth of productivity. In Kerala, although there was some increase in the gross irrigated area, the per cent of net area irrigated to net area sown showed a marginal decline. Likewise in Gujarat although gross irrigated area increased appreciably, it failed to have significant impact on productivity because irrigated area constituted hardly 6 per cent of sown area. In Uttar Pradesh gross irrigated area showed a decline of 3 per cent. In Orissa and West Bengal too, there is no evidence of an increase in the proportion of area irrigated. Andhra Pradesh is the only state which despite an increase of 48 per cent in the gross irrigated area and the consequent increase in productivity, failed to show significant growth in overall production. This is explained by the fact that in the dry regions of the State where cash crops used to be grown extensively, net sown area declined by 1.5 million acres between 1956-57 and 1961-62 owing to the continuous failure of rains. On the whole it would appear that the growth in productivity and output in different States is found to be significantly associated with the increase in the proportion of area irrigated.

Role of Irrigation

At present, the irrigated area in the country constitutes around 20 per cent of sown area. It has been estimated that about 50 per cent of cultivated area can be brought under irrigation (see Planning Commission, "Memorandum on the Fourth Five Year Plan"). It is evident from the Farm Management Studies that output per acre for irrigated crops is significantly higher than from dry ones ranging from 150 per cent to 400 per cent in different regions. Besides, irrigation increases output by making possible the cultivation of land more than once in the year. Assuming that, on an average, irrigation would raise output per acre by at least 200 per cent, aggregate output in the country would grow at the rate of 4 per cent per annum if two more acres are irrigated each year out of every hundred. According to a survey of minor irrigation made by the Programme Evaluation Organization of the Planning Commission, over 60 per cent of cultivators in various parts of the country felt that the main problem faced by them in regard to irrigation was the construction of feed channels and the renovation of old tanks and wells. These rural works require community action on a big scale and it is here that the most difficult organizational problems are encountered. The breakdown of traditional leadership provided by the ex-landlords and the failure of Village Panchayats to fill in this vacuum has created a sizable bottleneck in the sphere of community capital construction. Without planned direction and enforcements combined with necessary incentives it is doubtful whether the democratic institutions will, on their own initiative, apply themselves to these tasks. So far as irrigation is concerned it is of utmost importance to reduce the dependence on the usual administrative channels by entrusting this to the technical-cum-representative bodies at the district level constituted exclusively for this purpose with adequate resources as well as powers.

Table 4: Area Under Pure Tenancy Land Fertility, Population Density and Income Levels

State	Area Under Pure Tenancy as Per Cent of Cultivated Area (1961)	Irrigated Area as Per Cent of Net Sown Area (1958-59)	Average Annual Rainfall (inches)	Rural Population per 100 Acres of Net Sown Area (1961)	Net Value of Agricultural Output	
					Per Acre (1960-61)	Average Farm Size (acres)
	1	2	3	4	5	6
(1) Kerala	*34.7*	*19.2*	100	370	445	1.8
(2) West Bengal	*10.2*	*25.8*	70	270	313	4.1
(3) Punjab	*9.8*	*39.8*	21	110	156	13.8
(4) Assam	*9.4*	*30.0*	92	230	348	4.8
(5) Bihar	*7.4*	*30.0*	48	240	162	4.8
(6) Jammu and Kashmir	*7.1*	*46.1*	40	220	231	—
(7) Madras	*6.6*	*39.0*	34	240	283	4.6
(8) Mysore	*4.8*	*7.6*	42	90	138	10.5
ALL INDIA	*4.2*	*17.8*	—	—	*161*	*7.7*
(9) Maharashtra	*3.8*	*5.6*	47	60	132	12.9
(10) Andhra Pradesh	*3.7*	*25.8*	35	130	157	8.0
(11) Madhya Pradesh	*3.3*	*5.3*	32	80	106	10.6
(12) Orissa	*2.9*	*17.4*	58	130	181	5.2
(13) Rajasthan	*2.6*	*11.5*	21	60	71	16.0
(14) Gujarat	*2.6*	*5.6*	32	60	138	12.5
(15) Uttar Pradesh	*1.7*	*28.8*	40	180	167	5.3

Sources: For Cols 1, 3 & 6: P S Sharma, "A study of the Structural and Tenurial Aspects of Rural Economy in the Light of 1961 Census" (mimeographed); for Col 2: Ministry of Food and Agriculture, G O I, "Economic Survey of Indian Agriculture 1960-61;" for Col 4: S N Sen, "Regional Disparities in Agricultural Development and Productivity in India" (mimeographed); and for Col 5: National Council of Applied Economic Research, "Agricultural Income by States 1960-61".

The role of science and technology in promoting agricultural growth in India is being increasingly realised. Theodore W Schultz in his recent book "Transformation of Traditional Agriculture" has advanced a rather persuasive hypothesis to explain the slow growth of agriculture in many of the underdeveloped countries. The basic elements of his hypothesis are: (1) the rate of return on the investment in traditional factors of production has declined to such a low level that there is no longer any incentive for cultivators in poor communities to save a larger proportion of their income to invest in such factors; (2) the only way to stimulate agricultural growth in such communities is to raise the investment opportunities by supplying new agricultural factors — both material and human — that embody improvements in technology and are therefore profitable for farmers to adopt; and (3) these two classes of investment are beyond the means of the individual cultivators and therefore require considerable public expenditures and the organisation of particular public activities to serve the agricultural sector.

Techniques Suited to India

As already mentioned, output can still be expanded profitably through the traditional irrigated farming. Even here, Schultz's hypothesis is relevant as the supply of water on an adequate scale is possible only through the modern means such as irrigation dams, tube-wells and pump sets which are beyond the means of individual cultivators. However, an important difference between these and the other modern factors is that once the water is provided, output can grow through the application of traditional skills at the farm level. It is heartening to note in this connection the crucial role assigned to science and technology in the future agricultural development of the country (see "Draft for the Fourth Plan"). However, without large scale public investments and community action at the village level for irrigation and soil conservation through afforestation and drainage schemes it is difficult to stimulate growth even through the use of modern factors of production as the profitability of the latter depends crucially on the availability of the former. Considerable public investments in the supply of modern inputs and improving human capabilities are nevertheless required right now for a number of reasons. For one thing, investments in research have a long gestation period and have, therefore, to be undertaken far in advance. Besides, farm children attending schools now will form effective labour force only after two decades or so and will remain in the labour force for several decades thereafter.

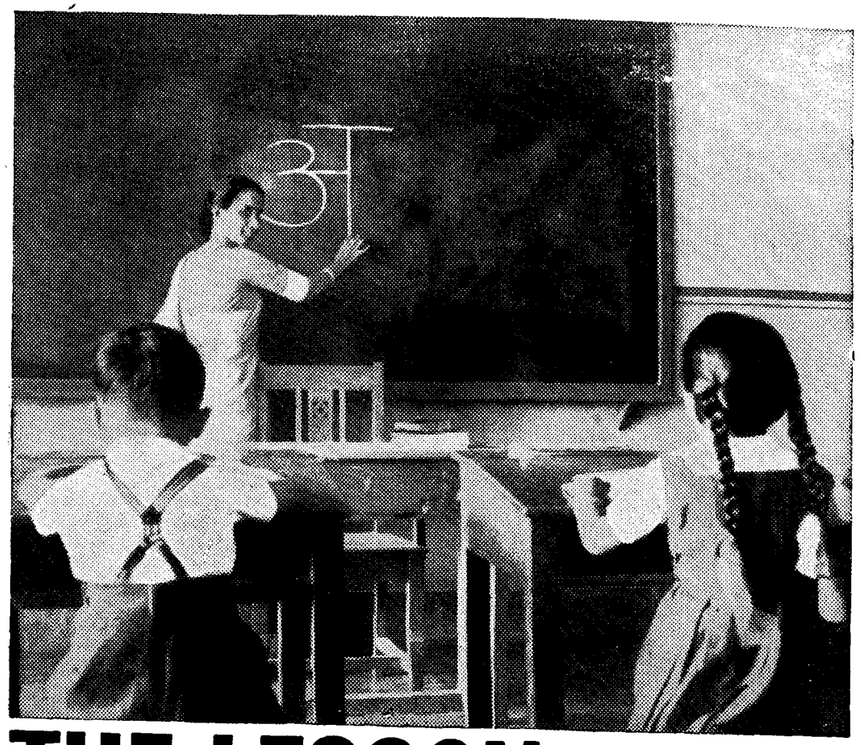
Considerable research is needed for evolving techniques suited to the Indian conditions. In a situation where there is considerable uncertainty and risk, and where the ruling interest rates are very high, the profitability of new techniques will have to be quite high for making them acceptable to the cultivators. It may be noted that the Rice Revolution in Japan and the Corn Revolution in the United States were the results of entirely new varieties of seeds suited to their local climate and distinctly fertilizer-consuming. Also, there was a technological break-through in the production of fertilizers leading to an appreciable reduction in their costs. The experiments conducted by the Indian Council of Agricultural Research have shown that under the existing price structure, the application of fertilizers was relatively more profitable for rice than wheat. This explains why the rice growing States of Andhra, Madras, Mysore and Kerala which had about 25 per cent of irrigated area of the country accounted for as much as 50 per cent of fertilizer consumption in the country in 1961 (See Planning Commission, "Third Five Year Plan"). On the other hand, Punjab which had about 9 per cent of the irrigated area of the country consumed only about 3 per cent of country's fertilizers.

These facts suggest the need for strengthening research both for evolving fertilizer-consuming seed varieties suited to different climates and for reducing the costs on fertilizer production. One of the main reasons why Community Development Programme failed to make an appreciable impact on agricultural productivity is that it was extended too soon to too many areas with too little of effective techniques at hand. The solution lies in evolving and promoting profitable technology and not merely in raising the status or salaries of Village Level Workers. All this implies that considerable resources should be allocated to scientific research. It is time the emphasis shifted from the role of agricultural surpluses in economic development to the role of science and industry in the development of agriculture. Agricultural surpluses would automatically emerge through the increase in agricultural productivity.

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Village Politics in Kerala—II

Kathleen Gough

This study of village politics in Kerala, the first part of which appeared last week, attempts to provide general insights into how and why villagers of different castes and classes, in the farming and suburban areas, support the Congress or the Communist parties, how the inter-party conflict is pursued through local institutions and what factors hold it in check.

These questions are discussed with reference to a village in central Kerala with comparative data from a second village in the northern part of the State. The author's first acquaintance with these villages was in 1948 and 1949. She returned to re-study them between April and September 1964.

The Leaders

THE origins and social networks of village party leaders cast light on their influence and roles. In both panchayats, the top Communist leaders have a double advantage. They come from ancient, high caste, local families who were formerly prominent landlords and village headmen. At the same time, they promulgate policies designed to aid lower caste and poorer villagers in their struggles against the privileges of the very classes from which their leaders came.

In the Palakkara panchayat, Visvanathan, the panchayat president, is a Brahman from a formerly wealthy — and still moderately prosperous—village headman's family. Gopalan, the Palakkara Communist ward-member, comes from the most ancient, and by far the biggest, Nayar matrilineage in the village. His ancestors were once prosperous military commanders of Palakkara's Nayar soldiers and also bailiffs of the Brahman village headmen to whom these Nayars were attached as retainers. Gopalan's lineage, and he himself, are now almost landless, but their ancient name and overwhelming numerical preponderance over the other Nayars of the village give his leadership a kind of local authenticity.

In Parambur, Parameswaran, the Communist ward-member and former panchayat president, hails from Parambur's former village headman's lineage, who lost much of their land in the nineteenth century to an "alien" lineage of Nayars.

All three of these men broke completely from orthodox but educationally backward families in their adolescence. They left their villages and underwent a kind of *brahmacharyam*, submitting to the rigours of party discipline and elders' intellectual training, the alienation of imprisonment, and the uncertainties of poverty or of hiding out in the homes of Communist supporters—often of the lower castes. Their marriages and return to their villages shortly preceded the beginning of the Communists' parliamentary period in 1951. With their honourable family histories, local origins and intimate knowledge of the villagers, yet their revolutionary convictions and identification with the lowly, they were ideally suited to guide the ferment toward social and economic equality which was beginning in the lower ranks of their local societies. The fact that all hailed from "feudal" families which had experienced loss of land to the new capitalist classes of cash crop farmers and merchants perhaps aided their identification with the poor. It also helped them to attract some followers from their own caste and class similarly situated to themselves. It need hardly be mentioned that E M Sankaran Namboodiripad and A K Gopalan, the two Communist leaders in Kerala who tower above all others in the popular imagination, come from similar Brahman and Nayar backgrounds and had similar, if more spectacular, personal careers.

Newer Type of Supporter

Such men still hold the reins in both the panchayats and, I believe, in a large proportion of the Communist dominated panchayats of these areas. A newer type of Communist and C P supporter is, however, appearing on panchayat boards and in district offices. The panchayat to which Palakkara belongs has five such men on its board, and the Parambur panchayat, four. They come from the Irava group; they lack both the aristocratic traditions and the revolutionary experience of their high caste mentors; but they are locally born and have a primary or high school education. Occupationally they include private school teachers, unionized factory workers, village teashop keepers and landless labourers. They obviously illustrate the push toward local power and social equality on the part of propertyless, but increasingly educated, low caste people which the older high caste Communists helped to liberate.

The Congress Party's village leaders have similar social origins to the Communists, but different networks of relationships. Until recently, Congress leaders in both neighbourhoods came from ancient, high caste, local landlord families of the same traditions as those of the Communists. Where these were not already Congressmen, the Congress Party immediately after Independence seems in fact to have co-opted the rural gentry and tried to take over their bailiwicks intact. In both neighbourhoods the top leaders of those days were men of the wealthiest Nayar or Brahman landlord families; their subordinates, junior men of their own lineages or heads of lesser landlord lineages of the locality. Visvanathan's elder brother won a place as a Congress candidate on the Palakkara panchayat board in 1953, and in Parambur Parameswaran has been opposed by Congressmen of his own lincage. The difference between such men and the Communists was, of course, that while sometimes reformist in outlook, they had never broken sharply with the conservative values of their castes and families. They relied for followers on traditional kinds of authority, rather than on revolutionary experience coupled with rejection of such authority.

Two Changes

In the past few years, two changes seem to have occurred on the local scene and in the Congress Party's policies. One is that capital owners such as bankers, merchants, industrialists and export-crop planters—often Christians or "upstart" Hindus, but sometimes drawn from the older landed gentry—are gaining influence in the higher ranks of the party. The other change is that, with the modern pressure of the propertyless toward social and economic equality, multitudes of villagers now refuse to support their own local landlords of Congress persuasion. The party must, therefore,

seek other kinds of candidates for the panchayat elections. In the neighbourhood of Parambur its choice has tended to fall on Nayar, Irava or Muslim owner-cultivators or village merchants. In the more urban neighbourhood of Palakkara, it has fallen on Christian or Nayar owner-cultivators, white-collar workers, store-keepers or mill-owners, most of whom work in the town.

Most of these men lack the aristocratic mode of life of the old-style landlords, as well as their traditional authority. Engaged in private enterprise, they have a more bustling manner and egalitarian etiquette. Although most have moderate to great wealth, some of the lesser leaders are of poor or low caste origin.

Congress Disadvantages

In Palakkara, a disadvantage of these men is that their top leaders are not locally born. The president of the Congress *mandal* is a Christian of 24 whose father came to live in the panchayat 20 years ago. The family, located in Ambalapuram, are extremely wealthy owners of rice and oil mills, a timber business, and stores for electric and motor parts. The *mandal* secretary is a Nayar timber merchant with a workshop making plates for electric switches. This man hails from 60 miles away and arrived three years ago. When I first met him, he did not know how many wards there were in the panchayat or who headed some of them, although he was collecting petitions to the district Collector to complain about the Communist panchayat board's failure to clean out the public wells.

A second disadvantage was the Congress leaders' alleged involvement in the use of improper political influence and in corruption. The president was accused of using his party-role to obtain government licences and subsidies for his various businesses. Both president and secretary had founded a farming cooperative of 46 local small landowners. The group had received Rs 20,000 from the Community Development Block to buy improved tools and fertilizers on condition that they engage in joint cultivation. In fact, no joint cultivation was done, most of the labour being by coolies, and a large part of the grant was said to have been "swallowed" in personal expenses.

It must be said that Communists, too, are often accused of double-dealing with government agencies as well as with the public. A Congress member in Ambalapuram accused Visvanathan of pocketing funds from rubber workers' unions, although I never heard this allegation in Palakkara. Gopalan was accused of making money illegally out of a government cement permit, and Parameswaran, of having shared surplus funds from the Communist government's housing scheme with the coolies to whom the houses were allotted. In the Parambur panchayat, 100 Iravas formed a co-operative to make jaggery and sell it to the local Communist-run multi-purpose cooperative. In fact the group used their government toddy-tapping permit in order to sell the fermented liquor illegally to the public. They paid the cooperative manager the amount he might have made if he had bought the jaggery and sold it at standard prices.

There does, however, appear to be a difference of scale between the corruptions of which Congress and Communist members, respectively, are accused. Congress members are more often initially engaged in substantial private business than are Communists, and so have far greater access to government contracts and the "gravy" that comes with them. Under a Congress State Government they also, of course, wield greater influence to obtain such contracts.

The Congress leaders of other villages of the Palakkara mandal are locally born and of modest means. Palakkara's own Congress ward president is a Nayar owner-cultivator, formerly a motor-mechanic but now a paid party worker. He comes from a smaller lineage than Gopalan, and is an inconspicuous figure in the village. His secretary is the Carpenter-school-teacher who, seventeen years ago, belonged to the Indian Socialist Party. The teacher's elder brother, an actual carpenter and a Congressman, receives contracts through the timber merchant who is the mandal secretary. Earlier he gained wealth through the new building associated with the government offices, and he is now the most prosperous carpenter in the village. My point is that even when the village Congress leaders are locally and humbly born, their concern with private enterprise cuts them off from the mass of propertyless labourers. Their ties to more powerful Congressmen outside their village tend to be at least partly a matter of personal financial advantage, and, directly or indirectly, bind their interests with those of the wealthiest urban capitalists.

A similar though less mercenary situation exists in Parambur. The village Congress president is a Nayar owner-cultivator of modest means. He comes from the same lineage as Parameswaran and ran against him unsuccessfully in the panchayat elections. Balachandran's disadvantage is that, while evidently honest, he has no strong networks of influence in the village except with his own kin and labourers. His father was a bailiff for the wealthiest local landlord and, on their behalf, opposed the rise of the peasant union in the 1930's. His mother's brother was a former village headman, loyal to the British and to the landlords. Balachandran in his turn tends to be viewed as a party-functionary who canvasses on behalf of the landlords, cash crop merchants, store-keepers and more prosperous cultivators who finance the local party unit. In the wider neighbourhood, the Congress mandal treasurer is a member of one of the two greatest Nayar landlord lineages of the region, as well as the owner of two cloth stores. Such a man, however well intentioned, naturally tends to protect the claims of both landlords and merchants against those of landless labourers and small tenants. Towering above him in the town sixteen miles away are higher-echelon Congressmen involved in the really big money of textile manufacturing, whose long arm of influence was said to reach into the legislature, and even the cabinet.

The Voters

Most men in both villages have a definite party allegiance. More than half of those over thirty have maintained the same allegiance for a decade. I found none who had shifted from Communist to Congress since 1957; a number have switched from Congress to Communist in the same period. This paper concerns only men, for I found it more difficult to discover the political allegiances of women. Most women are said to vote as their husbands or other close kinsmen do, but I am unsure how true this is.

"Party allegiance" means the party for which a man said he voted in the state and national elections, or for which he was reliably reported to work. The data were collected by myself and my research assistants, from the individuals or from their close friends or kinsmen. I realize

that some of my information may be false. If anything, it errs by favouring the Congress Party. Some men with government jobs fear what is called "police verification". They believe that if they are reported to be Communist supporters, they or their kin may lose their employment. For this reason some men who wish to enter the army or to become postmen or police constables even enroll as Congress members to impress the authorities, while voting for the Communists.

In addition, some men who gave their normal allegiance as Congress actually voted for Gopalan, the Communist candidate, in the panchayat elections, because he was a kinsman, or a lineage-mate, or because they admired him personally. These facts partly explain why my own figures show a more even breakdown between Communist and Congress supporters, while those for both men and women voters in the panchayat elections favour the Communist more strongly. Moreover, I was unable to obtain the information for 32 male voters, while 28 more said that they had "no politics" but may actually have voted in the panchayat elections. Most men, however, vote for the same party in panchayat as in State and national elections.

Caste and Party Allegiance

Table 1 shows the male voters of Palakkara by party allegiance and caste-category. The table shows a moderately strong and highly significant association between caste and party affiliation, with higher castes favouring the Congress. I have not yet analysed my figures for Parambur, but the trend is in the same direction and is, if anything, more pronounced. The Parambur picture is complicated, however, in that some of the Muslims support the Muslim League. I was unable to discover exactly how many, because in the last panchayat elections the League had an alliance with the Communists and supported Parameswaran as its candidate. Some Muslims are actually Communist rather than League supporters, but I am unsure how many. Only two Muslims support the Congress. In Parambur as in Palakkara, a much larger proportion of the "Nayar group" than of the "Irava group" support the Congress.

The correlation between caste rank and party support raises the question of "casteism" in Kerala politics. The leadership of the Congress Party has been *internally* divided — and in late 1964, finally split — between competing groups dominated by Iravas, Nayars and Christians. The League is an openly communal party. The Communist Party is sometimes accused of favouring Iravas and Harijans *as castes*, and it has in the past at times made electoral "adjustments" with the League.

I cannot argue the question here except to acknowledge that all the parties, in their effort to control more seats, jockey for influence with one or another of the communal associations (Nayar Service Society, SNDP, Muslim League and Catholic church.) What I wish to point out, however, is that in these villages I found that once they have begun actively to support the Communist Party, men have greater *political* allegiance to it than to their caste or to any organized communal association. Communist supporters are also in general men who wish to abolish both inter-caste competition and social inequalities between the castes. Space prevents me from quoting the many instances in which this was illustrated, but I may mention one. The Irava Congress Chief Minister, R Sankar, fell from office in September. Communist supporting Iravas, as well as Nayars, in Parambur rejoiced exceedingly. Some went sixteen miles to the town to join the celebration with bonfires and fireworks. Irava coolies jubilated that "Now our EMS (a Brahman) and AKG (a Nayar) may come back to power." It was only among Congress supporters that I heard discussion of the communal implications of Sankar's fall and of the secession from the Congress Party of the 15 dissident Nayar and Christian legislators of Central Kerala, who later formed the nucleus of the Kerala Congress Party.

The Communist Party's problem seems to be, therefore, not what to do about communalism among its own followers, but about that of the poorer classes of Muslims and Christians who are more influenced by their own religious leaders than by the class doctrines of the Communists. Of late this problem has become less acute with regard to the Christian poor, for since 1960 many have disregarded Church teaching and come to support the Communists. Palakkara is especially instructive. Most of the Christians still attend the Catholic church, but a majority now openly support the Communists, as their priest told me he was aware. "What can I do about it?" he asked. "They are good people: I leave them alone." Still other Christian tenants and workers of this area (though not in Palakkara) support the Karshaka Tozhilali Party of Father Vadakkan, a class conscious organization which has come increasingly to align itself with the Communists.

Communists and Muslim League

Among the Muslims, however, many of the poor still appear to be without politics or to support the conservative leadership of the League. The question for the Communists is whether to sacrifice principle and maximize their chances in any given election by making "adjustments" with the League, or to reject its communalism and make a drive to convert its followers.

Leftists differed on this question. Parameswaran said mildly that he supposed the Leftists must ally with the League to win the elections, but admitted that this made his life more difficult. Between elections he worked to persuade Parambur Muslims that the League was against their interests, but at election time had to announce alliance with its leaders. He saw that electoral alliances freeze the *status quo* of the parties and turn the Communist Party into a machine rather than a revolutionary movement. In Palakkara, Visvanathan's approach

Table 1: Caste and Party Allegiance

Palakkara Men

	Communist	Congress	PSP	No politics	Unknown	Totals
Nayar Group	46	131	1	5	7	190
Christian	45	29	0	6	7	78
Irava Group	100	44	1	15	14	174
Harijan	38	7	0	2	4	51
Totals	229	202	2	28	32	493

was one of hard-boiled cynicism. "We must use them (the conservative League leadership) to smash the Congress, and then we can easily smash them." When I discussed this view with Leftist supporters in both villages I met some troubled reactions. A teacher said with disgust, "It is bad — it is cheating the people. It is simply telling lies to the people." He added that electoral opportunism and deceiving those who do not agree with them are the worst faults of the Communists and the main reasons he did not try to join the party. "What is your idea?" he asked sadly. "My idea is that we should get rid of *all leaders*. All are old-fashioned, corrupt. We should raise up a new leadership from the schools and countryside." This view was shared by some other Leftist *anubhavis* who were disillusioned by the vaccillations of policy and internal disruptions of the Communists. Nevertheless, there was no doubt that they would go on supporting the Leftists unless a more principled leadership appeared with the same programmes. Writing in February, 1965, it is interesting to note that to date the Rightist Communists apear to have taken a more principled position than the Leftists with regard to the coming elections. I do not know what effect this is having on Leftist supporters. I am doubtful, however, if many village Leftists will switch to the Rightist party, for they doubt the Rightists' general intention to press for revolutionary changes.

Caste and Class

The correlation between caste rank and party support rests chiefly, it seems, on two factors, neither of which signifies competitive "casteism" in the usual sense of the term. One is that caste rank is still closely related to socio-economic class, and the Congress/Communist cleavage is at least partly based on class. The other factor is that the Communists have, more than all other parties, attacked the traditional religious and social rank discrimination between high and low castes. It has been the Communists in Kerala, above all, who have visited Harijan houses, fraternized in low caste tea-shops, and upheld irregular marriages between persons of high and low caste.

Table 2: Occupation and Party Allegiance

Palakkara Men

	Communist	Congress	Other	Totals
Category I	4	45	2	51
Category II	94	126	25	245
Category III	40	18	8	66
Category IV	91	13	27	131
Totals	229	202	62	493

A Palakkara Nayar Congress supporter commented wryly on this. "See this Visvanathan, what a clever fellow he is! He will go even to the very huts of Vettuvas, and enter in when they are eating. And he will say, 'What, man, what is this you are eating? Is it good or is it bad, what you are getting from your landlord? Let me taste that *kanji?*' And he will taste it. Then these Vettuvas think, 'Who is this Namboodiri? He is coming into our huts and eating our food!' And then they will adore him like a god — is it not natural? And they will think, 'Surely we must do everything for this Namboodiri.'" The appraisal, although cynical, hits on an important reason why so many Palakkara Iravas and Vettuvas do "adore" "our Visvanathan", and follow him for other reasons than the meagre economic benefits he has been able to confer on them. This was shown, I think, on another occasion when I asked a wretchedly poor Irava coolie woman why she voted for the Communists. Had they helped her in any way? She answered soberly, "Nobody really helps us. But we feel that the Communists are thinking of us. They are friendly, and have good hearts."

Table 2 shows the male voters of Palakkara by party allegiance and occupation. I have ranked occupations into four categories, based on rough estimates of household income, including income from land and other property. Category I contains landlords, businessmen employing more than 12 people, bigger store-owners, owner-cultivators with more than five acres, and white collar workers of higher grades. Category II contains owner cultivators of smaller holdings, lower grade clerks, skilled urban workers, highly skilled craftsmen and village servants, and businessmen with 5 to 12 workers. Category III contains tenant-cultivators, petty brokers, individual shop-keepers and the less skilled village servants. Category IV contains unskilled day labourers and the unemployed.

The table shows a moderately strong and highly significant association between occupation and party affiliation*. Although the association between occupation and party is slightly stronger than that between caste and party, there is no satisfactory way of assessing whether the difference between the two associations is significant. Nevertheless, Table 2 supports my view that although both Congress and Communist Parties have originally been led mainly by high caste men drawn from land-owning families, the contemporary struggle between them is based substantially on a struggle between propertied and propertyless classes. There is no doubt that the trend in Parambur is the same.

The Issues

Among preliterate and propertyless Communist supporters, economic issues are prominent. In both villages the poor cite benefits received during Communist rule in 1957-59. They included debt-relief, fixity of tenure, a ten cent plot for landless labourers, higher agricultural wages, free housing for the homeless, lower food prices than subsequently, ceilings on land ownership, and for tenants, the prospect of buying some land. Some of these benefits were carried over into the Congress period after 1960, but most have been seriously diluted or made impracticable by the more moderate Land Reforms Act of 1964. The runaway rise in food prices in summer 1964 confirmed the poor in their belief that the Congress is opposed to their interests — although few needed the confirmation after seeing "their" government ejected in 1959. The food crisis since September, followed by the arrests of their leaders, can only have deepened their bitterness.

"Equality", often talked of, vaguely defined, is the objective of the village poor, and they believe that the Communists will bring it. It means the end of *mudalalithwam* (capitalism, or more literally, "rule by big men"), which to the poor means both rule by the Congress government and the more immediate exactions of the landed, mercantile and industrial rich. "Equality" means the end of the rank distinctions, of privilege and etiquette, and of all traces of the religious discriminations of caste. But it also — and in a quite simple and literal way — means equality of wealth: land, wages and profits, they believe, should be equally divided, and there should be no more rich and poor.

* Chi square for Table 1 is 92.239, significant at better than the .001 level; for Table 2, 104.524, significant at better than the .001 level. Phi was used as a non-parametric measure of association. The association between caste and party is .46, and between occupation and party, .49.

Among party members, educated Communist supporters, and the younger and more informed labourers, discussions entered realms of theory embodied in the Tenali draft platform, which cannot be reproduced here. Briefly, one thing was certain to them: the Congress is the captive of the national and imperial bourgeoisie, and cannot bring socialism to India. It must be removed, "somehow". The Rightist Communists were seen as revisionists who had surrendered revolutionary ideals and, on the national scene, were "compromising" with the Congress.

Left Communist Stronghold

There were no Rightist Communists in Palakkara, and only one in Parambur. Communist supporters followed the Leftists for two reasons. First, both their own local leaders, and also E M Sankaran and A K Gopalan, the most popular state-leaders, were Leftists. For most people, this was evidence enough where their own allegiance should go. Second, there was a popular revulsion against any hint of compromising radical programmes. Significantly, Leftist village Communists and their supporters, in August-September 1964, did not want a United Front with the Rightists. As a party member in Parambur put it, "Yesterday we ate from the same leaf with the Rightists, but today they call us Chinese dogs. Why should we join with them tomorrow?" As for the Samyukta Socialist Party, they were seen as "not a party at all", but an opportunistic clique, and "even more reactionary than the Congress." For this reason I heard, and heard about, covert grumblings among some village Communists in late August and early September as electoral alliance began to be talked of. Among the preliterate, less sophisticated Leftist supporters, uninitiated in party-manoeuvres, the reaction was still stronger: the Leftists should go it alone with their own programmes and methods, and win or lose the elections on the merits of their appeal to the people. I do not know how these villagers, with their urgent need and simple revolutionary fervour, have reacted to the recent vaccillations over a United Front.

Not a Live Issue

The Chinese invasion was not a "live" issue among the less educated Communist supporters. China was far away, and the details unknown to most people. When I suggested that non-Communists accused the Leftists of national betrayal, the most common response was that this accusation was designed to confuse the real, local issues of land, wages and prices. In Parambur a tenant farmer did try to come to grips with the issue. He told me, "Often in our country two men plant cashewnut trees on a hillside. Eventually they meet near the summit. Each knows his trees and they do not worry about it. The trouble comes in the next generation. And then it is very, very difficult to draw a boundary on these hills. I am thinking that the Chinese and Indian quarrel is of this kind." He thought that it should be arbitrated in the same way that a village arbitrator *(madyesthan)*, disinterested, but with friendly ties to both parties, would try to settle a local boundary dispute.

Among Leftist party-members and those in their confidence, there seemed to be more deep-seated anxiety about China and a greater range of disagreement. A prominent woman Leftist told me with tears that China had betrayed the Indian Communists and India must defend herself at all costs. It was right for India to buy weapons from any country — even the United States — provided she paid for them, although meanwhile, negotiations to settle the border issue were essential. At the other extreme was a Leftist who told me that both India and China had been at fault and the border should be internationally arbitrated, but that China's actions should not deter the Leftists from pressing towards socialist revolution in India. His personal view, which he distinguished from party policy, was that Indian revolution should not, and could not in the nature of things, be instigated by a foreign power, but that when it began, "Certainly we shall need and will receive all help from our Chinese comrades." Most Leftists to whom I talked took a less definite position. Most held that (1) China had been largely at fault on the border, but China was not out to conquer India, and international arbitration, not war preparations, was the answer; (2) in general the Chinese line on world socialism was correct, the Russian, revisionist, and Khrushchev, "not at all a Marxist"; and (3) it was unlikely that India would reach socialism through the present electoral process, but that its channels had not been exhausted and the time for revolution was not in sight.

The Congress Supporters

Among persons who supported the Congress, there seemed to be a wider range of reasons and of political positions. Two types of reaction were common among lower caste Congress supporters. One was that of the younger or middle aged man who, through personal enterprise or the patronage of superiors, was improving his lot in society. Such men saw the Communist poor as thriftless and parasitic. Why should they clamour for equality and free benefits, when everyone knew that life was a struggle and men advanced through perseverance? A second type of Irava or Harijan Congress supporters, usually older men, comprised those able to retain security and favour through traditionally "moral" relationships, for example, loyalty to a long-term employer.

Among high caste, but less educated and less prosperous Congress supporters, there was often a wish to hold on to traditional caste privileges, which the Communists were out to destroy. With this frequently went the view that the individual's own property and status had been undermined by Communist assaults. This was especially true of Nayar owner-cultivators and small non-cultivating landowners who had been impoverished by the Communist land act — obliged to give fixity of tenure to a recalcitrant labourer, or to sit quiet while a tenant withheld or delayed his rent. For such men Communism meant violence, irresponsibility, and even plain robbery, and support of the Congress, the only hope of stemming the frightening tide of rebellion.

A small number of prosperous, high caste Hindu or Christian landlords and merchants opposed both Congress and Communist policies, but voted for the former as the lesser evil. For them socialism was a farce and democracy (as a lawyer landlord put it) "the anarchical nonsense of the multitude". Such men had opposed Independence in the first place, and would

have preferred India to be ruled by the army, or Kerala to be under permanent President's rule.

For all of these people, support of the Congress meant, primarily, opposition to the Communists. Their objections to the Communists were regularly coupled with two other highly charged accusations: atheism and national betrayal. There was also a more discriminating category of men, most of them white collar workers, who expressed positive faith in democracy and socialism. Most were pre-Independence Congress supporters or, if young, were informed about and proud of the Freedom struggle. Some of these men had opposed the 1959 "Liberation Struggle" against the Communists because they considered it undemocratic. Some approved of both the Communists' Land and their Education Acts, and opposed Communism chiefly because they thought it involved oppressive dictatorship. For such men, eager to maintain faith in the electoral process, the factionalism, corruptions and economic failures of the Congress in Kerala were extremely distressing. Memories of the Independence struggle, and reverence for Gandhi and Nehru, were the mainsprings of their support. As one Nayar put it, "In my youth I have touched the robe of Mahatma Gandhi when he came to visit my high school. From that day I vowed that I would not depart from this Congress."

Working Out of the Party Conflict

The party-conflict is the deepest in both villages, and ramifies through almost all institutions. It takes two forms: (1) a long-term struggle for power between propertied and propertyless classes, with the Communist Party usually championing the propertyless, and the Congress Party, or individual Congress Party members, usually defending the traditional rights of property-owners but sometimes nervously challenging them or conceding points to the propertyless; and (2) a struggle between actual local political factions (which are not solely based on economic class) for control over available resources, goods and people. These two types of struggle are not always mutually compatible. In different contexts now one, now the other, predominates.

Struggles to control land are naturally prominent in both villages. On the "class struggle" front, the Communists try to get land or its produce away from landowners and give it to tenants and labourers. Visvanathan, for example, fought a struggle in court against his own elder brother, a Congress candidate in the 1963 panchayat elections and a Congress ward-representative on the previous panchayat board. The struggle was to have sixty Harijan families, domiciled on the latter's land, provided with 10-cent plots and new small houses when they were evicted from their old sites in order that a spinning mill could be built. Each brother employed a "party lawyer" who takes cases only from members or supporters of the party that he himself favours. It is struggles of this type which bind the landless, as a class, ever more closely to the Communist Party, and alienate them from the Congress Party. On the "party factional" front, however, both local party units try to obtain plots of waste or government land to house their own supporters or to augment the gardens which their supporters already own. With the acute shortage of land in Palakkara, this often means struggling through the courts or through influence with government officials, to have supporters of the "anti-party" evicted.

In Factories and Offices

In the urban context of which Palakkara is part, struggles inside factories and government offices resemble those over land. From the class-angle, both N G O's and factory workers press for higher pay from their employers. Factory owners are almost all Congress supporters, while government has usually, and of late, been a Congress government. In both contexts Communist unions wage the most uncompromising struggles. On the party-factional front there are, however, rival Congress unions which compete with the Communist ones for influence among workers and for some measure of benefits from employers. These unions sometimes ally with the Communists in strikes, but sometimes reach separate compromises with the management. In Palakkara, Congress unions are widely regarded as "management unions". Thus, the Congress-supporting Christian owner of a local handloom mill closed down the mill in the Communist period because the Communist union demanded higher wages and various other concessions. When Congress came to power he re-opened the building as a power-mill in which village women now make undershirts for very low wages. In 1963 a Communist union formed in the mill, with local party instigation, but its registration was legally suspended after the owner had fought a battle in the courts. In 1964 the Congress *mandal* secretary was forming a new union among the women, to "get some help and benefits" from the management in the form of tea-breaks and medical care. As he was himself a businessman and as the mill-owner was a Congressman, local Communists thought his actions completely bogus. A Congress supporter remarked that there was always an element of self-interest in all union organizers' activities, Congress or Communist but that the secretary might sincerely help the women in order to gain their votes.

Control of Public Funds

Another area of party conflicts is that for control over public funds obtained from local taxes or provided to the village by government agencies. The most important are (1) the panchayat budget, (2) special-purpose grants from the block development office, and (3) loans and grants to co-operative societies. The first set of funds concerns such matters as road maintenance, rural sanitation, electric lighting, public wells, etc. In all panchayats, parties campaign strenuously to gain control of the panchayat board, and whichever party wins tends to favour its own followers in the distribution of public benefits. In Palakkara and Parambur, where Congress supporters have consistently lost the panchayat elections, they have tended to seek control of alternative funds through co-operative societies and block development projects. In general, block development funds tend to go more often to individuals and groups who support the Congress Party, because such individuals usually have a better credit rating, and security is required for loans from the development fund. There is therefore a growing tendency for the Communist party units to ignore or to fight the block offices on the theory that they are unable to help the poor.

Party conflict erupts, again, over the control of churches, mosques and temples. This may seem strange, for the authorities of all these institutions charge the Communists with atheism. Some are, indeed, militant atheists. Visvanathan is said to have made a microphone speech on the green two years ago in the middle of the village goddess festival, beseeching the people to abandon such foolishness. But I found that many village Communist members are vague about belief and

quietly practice religious observances. Gopalan worships at a shrine dedicated to the spirits of his parents, and goes on pilgrimage to Rameswaram. Parameswaran made a vow to Kondungalur Bhadrakali when he had smallpox, and fulfilled it a year ago.

Religious Institutions

What seems to happen in the case of religious institutions is that movements form among lower ranking Communist supporters for more democratic control of the institution, which are partly *sui generis* and partly indirectly stimulated by Communist teachings about equality. The Party itself may be unconnected, or its members may take individual stands. In Palakkara, for example, the Harijans last year staged a campaign to perform their own annual temple festival inside the village Bhagavadi temple, with appropriate Sanskritic rites, rather than performing it with traditional rites to a Harijan diety several hundred yards away. Their unsuccessful petition to the Congress-dominated Nayar temple committee to be allowed to do this was signed by eleven Nayar Communist members and party supporters, but the party members did not actually attend the festival when it took place outside the locked temple gate. In Parambur, a struggle was being carried on by Communist-influenced Muslims against elders of the mosque to stop the latter from making propaganda for the Muslim League in the Friday sermons. In the town near Palakkara, a similar struggle was occurring inside the Chaldean Syrian churches between a conservative faction who support a Middle Eastern patriarch now living in America, and a left-wing faction who support an indigenous patriarch. I was told that although the parties may not be directly "behind" this schism, members of the American faction tend to support the Congress, and those of the left wing, the Communists. The interesting point is that even where the parties do not themselves engineer fission, the different value-premises of their supporters cause the fundamental conflict to ramify through every aspect of public life.

The same kind of conflict occurs in connection with the caste associations of Nayars and Iravas. As Communism gained strength in Palakkara, Irava allegiance to the S N D P weakened, and the local branch faded out a decade ago. In 1959, however, an Irava government servant came to live in the village and tried to restart a branch with the aid of the Congress Party unit. The group's aim seems to have been to raise the educational standards of Iravas and try to "rescue" them from Communism. Funds were collected from Ambalapuram Irava businessmen to build any office and reading room. When the office was half erected, Palakkara Iravas voted in a local Communist President and office bearers, and physically drove off the Congressmen. The sponsors withdrew their funds in dismay, and for five years the building has stood uncompleted. In a nearby village, Communist Iravas "captured" the S N D P temple and reading room some years ago through elections, and have turned both into multi-caste facilities used mainly by Communist subscribers. Carpenter-Blacksmith and Irava-Christian marriages have been conducted in the temple. The branch retains its allegiance to Sri Narayana Guru, but operates autonomously. Its members have broken their connection with the statewide, Congress leadership of the S N D P, in response to a hullabaloo at the election of the State leaders in 1962. Communist S N D P members, who appear to be the majority of the rank and file, accuse the Congress leadership of having held on to its power by fraud and police intimidation at the elections. Since 1962 many S N D P local branches have dissociated themselves from the official body. The S N D P was never strong in North Kerala and appears to have virtually disappeared.

Nayar Service Society

The Nayar Service Society, beginning in 1924, expanded greatly in the 1950's. It became a powerful corporation owning schools, colleges, a hospital, rubber plantations, a sugar mill, and areas of forest land which have been newly colonized by Nayars. Always a secular organization, its goals have been Nayar education, the development of capitalist enterprise, and economic and political competition with Christians and Iravas under the new democratic dispensation. As a joint-stock company, it jockeys with the S N D P and with Catholic corporations to obtain educational and development funds from the government. In rural areas its branches have tried to revive ancient Nayar art forms, temple organizations and caste assemblies. They thus foster Nayar separatism from the lower castes while easing the transition from "feudal" dominance to capitalist competition. At the same time they recruit a portion of the electorate for support of N S S — sponsored candidates for state and local offices. While superficially similar to the S N D P, the N S S, a high caste organization, has never had its crusading faith in social equality nor its popularity among the poor. Its leadership influences right wing pressure groups both inside and outside the Congress Party and was, of course, with the Catholic hierarchy, instrumental in ousting the Communists from office. The N S S and a portion of the Catholic church are now dominant power-groups in the new Kerala Congress Party.

Constant Tension

The N S S made its debut in Palakkara two years ago under the influence of an R S S-supporting leader from Ambalapuram, but with the sponsorship of the Palakkara Congress unit and the Congress-supporting Nayar village temple committee. An initial meeting was held and plans made to start a reading room and local office. Evidently, Congress members hoped to use the N S S and its urban sponsors as an educational and financial bulwark against the Communists. At the first meeting, however, Gopalan cheerfully turned up with his followers and, playing on his panchayat authority and lineage membership, got himself elected to the executive committee. The urban sponsors appear to have withdrawn, and the N S S has made no further headway in Palakkara.

All of these power struggles between Congress and Communist factions occasion a constant state of tension in both villages. Villagers on both sides lament that the tensions produce stalemate in many activities and prevent the village from carrying out its goals of production increase and public welfare. The stalemate is especially noteworthy in land-relations. With the see-saw changes in land laws under the successive Communist, P S P and Congress ministries between 1957 and 1964, conflict and litigation have increased phenomenally. Some tenants in 1964 refused to pay their rents at all, hoping the government would change before the Congress Act of 1964 was fully implemented. Land revenue had not been collected for two years. Landlords tended to lose interest in the care of their land, and to exploit tenants and labourers to the maximum, fearing that their land might be taken from them within the next few

years. Several village projects, too, were abandoned or delayed by the mutual sabotage between the parties. So demoralizing was this state of affairs that I had the impression of witnessing a terminal period of some kind in Kerala's political relations, although I had no idea what would follow it. The sudden collapse of the Congress government, the alarming food crisis in the period of President's rule, the new fissions and vaccillations in both the Congress and left-wing parties, and the arrests of the Leftist leaders, must have greatly increased the villager's frustrations.

Covert and Restrained

It must be said that most of the time, tensions between the parties remain remarkably covert and restrained. In Palakkara, however, with its overcrowding and unemployment, they do periodically erupt in violence. Each party faction has a few expert fighters as henchmen. Fights are most likely to occur just before or after an election, and several took place in 1960. A series of episodes also occurred in 1964 soon after the panchayat elections. A mixed party of Nayar and Irava men attended the wedding of a Palakkara Nayar in a village some miles away. Coming home in the private bus (actually, a borrowed police-van) a drunken Nayar accused the Communist panchayat board of incompetence, and a fight broke out between the factions. For several weeks thereafter Congress and Communist supporting Nayars hired Christian and Irava men from Ambalapuram or elsewhere to beat members of the "anti-party" of each on their way home from work in the dark. Four such incidents occurred, two on each side, before the conflict temporarily subsided. The injured persons filed complaints at the police station but no action was taken, although "investigations" were going on. I was never able to discover the extent of responsibility of the local party leaders for these incidents. Each faction leader denies his own responsibility for such assaults, attributing the blame to lesser individuals, while accusing the other party's leaders of financing and engineering counter-assaults, and sometimes of bribing the police to take no action. My information suggests that party leaders of both sides may occasionally hire henchmen to carry out assaults on party-enemies, but that most such assaults are made by *ad hoc* groups of faction supporters who feel that they are defending the pride and interests of themselves and their party. It is interesting to notice that whereas some decades ago, Nayars of opposed lineages sometimes employed their hereditary lower caste tenants and labourers to fight for them, today they may employ lower caste political supporters of the village, or even politically unaffiliated mercenaries, to prosecute their inter-party feuds.

Mutual Restraint

In spite of these eruptions, a cheerful, kindly temper, stoical endurance, mutual restraint, and orderly prosecution of routine tasks prevailed in both villages most of the time. In the midst of hunger, unemployment, and the general struggle for survival, such personal strength could only evoke admiration. I am unable to "explain" and can only pay tribute to these individual moral qualities, but may suggest some social reasons why, in spite of the basic cleavage, the parties do not engage in more continuous and overt conflict.

One reason is of course that some relationships do cross the party cleavage, and in individual cases prove temporarily stronger than party-allegiance. In Palakkara, Ammini was a strong-minded, dominant Nayar Communist supporter who had made an unorthodox marriage with an Irava factory worker. Early in the fights referred to, she boasted to me that her husband was a henchman of the Communist faction, and could beat up any Congressman within miles. But when her own father's brother's son, a Nayar Congressman, was hospitalized after being beaten by an Ambalapuram Communist Christian, Ammini became subdued and hastened to tell me that her husband was not involved, and that "some outside people have bad customs and are giving blows without reason." She blamed it on alcohol, but from that day withdrew her support of the vendetta.

Similarly, neighbours and occupational companions, as well as kinsmen, often have reciprocal interests in helping each other out in emergencies, and personal friendships which override party. Moreover, most people simply do not wish to be at loggerheads with others most of the time. Parameswaran, an unusually affectionate and mild-mannered leader, prided himself that he had no personal grudge toward the younger lineage-brother who ran against him as Congress candidate for the ward. They greeted each other on footpaths and had never broken the pattern of mutual visits and help at life crisis. Visvanathan did stay away from his family for most of two decades, but in the end went home to make peace with his mother.

Present System Cannot Continue

Everyone, moreover, especially the panchayat board, has an interest in maintaining peace and at least trying to carry out public development projects. The panchayat board wishes to be re-elected; its members wish their panchayat to be a credit to them and a rival to other panchayats. They do not want to be accused of trouble making and continuous negativism. That is why panchayat board members always claim to outsiders that in their panchayat "party really does not matter" and that all of them represent the panchayat as a whole, rather than their separate party factions. In fact, of course, they do both, prosecuting the party conflict when it is a question of defending their own supporters, and co-operating for the panchayat when they need to wrest money from the government or to satisfy an impatient public. Parameswaran, for example, had a hard time explaining to his own followers, as well as the Congressmen, why two minor irrigation projects failed because of poor engineering. He is now struggling to persuade higher officials to finance some needed adjustments.

This does not mean that the present system in Kerala can continue indefinitely. My own impression is that the Communist period so deepened the existing class struggles and liberated propertyless people from their old ties of subordination, that traditional relations of private property, tenancy and wage labour cannot now be made to work harmoniously. Especially if the economy does not rapidly develop and spread its benefits, the poor will now, of their own initiative, sabotage efforts aimed at restoring the class-relations of pre-1957. The arrest of Leftist leaders will not, therefore, solve the political crisis in Kerala. Deeper measures, aimed to harness rather than repress the strivings of the common people, will be needed to bring this about.

(Concluded)

Around Bombay Markets

Dalal Street Makes New Low

Wednesday, Morning

DALAL STREET's initial reaction to the one per cent increase in the Bank Rate and the imposition of a 10 per cent regulatory import duty had been very mild. But it did not take long to realise that both these measures along with the increase in the railway freight rates would have a significant impact on corporate profits because of the rise in costs of production resulting from costlier credit and higher prices of imported components and raw materials. On second thoughts, market men also felt that the upward revision of the interest rate structure will make the yield on equities, which had never been really very attractive, look more unattractive than before thereby necessitating a reassessment of the outlook for equities.

Sellers predominated almost throughout the week and the market broke through its January 5 low and moved down fairly close to its important December bottom. While the decline in prices was caused mainly by anxious bull liquidation, bears too took their chance though they were not aggressive. The market was at its worst on February 22. Lower levels induced bear covering and some replacement buying and a small rally ensued at the week-end.

The rally appears to be essentially of a technical nature. How far this rally might go and whether this rally will develop into an important upward move will depend to a very large extent on the Central Budget due to be presented on February 27. The generally optimistic note struck by the Economic Survey for 1964-65, Government's concern about the poor state of the capital market and the Finance Minister's emphasis on the need for stimulation of private investment have raised hopes of substantial tax relief in the Budget. The belief is widespread that the Finance Minister will try his utmost to devise measures to restore confidence in the capital market. It is true that the subdued trend in the capital market over the past two years has not reduced the amounts actually raised by non-Government companies from the market. But this became possible mainly because of increased underwriting activity. With the public response to new equity issues inadequate to match the increasing demand, underwriters have had to take up substantial portions of the new equity issues with the result that the resources of various financial institutions have been considerably strained.

Fortunately, the budgetary position is not uncomfortable and the new 10 per cent ad valorem import duty alone is expected to yield about Rs 100 crores in a full year. But considering the Finance Minister's determination to do without deficit financing in the new fiscal year and also the pressing need for mobilisation of resources for the massive Fourth Plan, any undue optimism about tax relief in the coming Budget should be avoided. Moreover, from the point of view of the stock market, it is not merely the amount of relief that matters, far more important is the nature of tax relief. Fiscal concessions designed to promote corporate savings need not necessarily be conducive to a marked and sustained recovery on the stock market.

Cotton

Cold War Continues

THERE has been no important change recently in the situation obtaining in the cotton market. The cold war between the industry and growers and traders continues and its end is not yet in sight. Excepting Combodia and L 147, all other varieties of cotton are quoted well above the statutory ceiling. But the authorities entrusted with the task of administering price control remain virtually unconcerned about the open violation of the price control order. Nearly half the cotton season is through but no firm action has yet been taken to deal with the situation though it was quite early in November that prices had pierced through the ceilings. The Indian Cotton Mills' Federation has been unable to implement effectively its scheme of buying cotton at or below the ceiling prices through self-discipline because the Textile Commissioner has not cared to take any firm action against the erring mills; the scheme itself had no legal sanction behind it.

With the prices of Cambodia A and B of L 147 quoted below the ceilings, the Federation has relaxed restrictions of their purchases by the mills. These varieties are allowed to be purchased freely up to the end of March outside the purchase authorisation under the 8-point scheme. Excess purchases will, however, be adjusted in equal instalments in the mills' purchase authorisations in the four months beginning with April.

Reports that the issue of purchase authorisation for allowing import of American cotton under P L 480 is imminent have failed to affect the trend of cotton prices. It is not merely because the quantity involved is not very large—1.38 lakh bales are being imported under the proposed arrangement; foreign cottons will become costlier by Rs 150 to Rs 200 per candy because of the recent 10 per cent ad valorem import duty. Shipments of U S cotton under P L 480 are expected to reach the country some time in June or July.

A proposal to abolish the present ceiling and floor prices and to introduce in their place appropriate support prices will come up for discussion at a meeting of the representatives of State Governments, the trade, growers and the industry called by the Textile Commissioner and due to be held in Bombay on February 27. Cotton growers have always been agitating for the abolition of price control on the argument that the rise in cotton prices has been less marked than in other agricultural commodities and that this in turn is hindering an increase in cotton production. The trade is opposed to any kind of control for the simple reason that it restricts freedom of their operations. The industry too has never very strongly favoured price control over cotton because whenever a shortage has emerged it has been forced to purchase cotton above the ceiling prices. The Government's record in regard to the implementation of the price control order has been extremely disappointing. Opinion therefore is becoming increasingly in favour of the abolition of ceiling prices of cotton. Not many people, however, seriously believe that higher prices will bring about any improvement in cotton production, not without upsetting the programme of other agricultural crops in any case. A very thorough study of

farm accounts alone can provide an indication about the economic relationship between the prices of various agricultural crops. It is to be hoped that the Agriculture Prices Commission will give urgent attention to this problem.

Oilseeds

Steadier Tendency

THE oilseeds market last week displayed a slightly steadier tendency mainly because of the further strength in castor futures. The March contract in castor was bid up to Rs 209.37 (per 250 kgs) — the highest rate for several weeks. The rise in castor futures is due entirely to strong bull manipulation based mainly on the idea that bears will not be able to tender goods against their sales in March because of the premium enjoyed by the spot material. The time factor is no doubt in favour of bulls but the bulls might find it very risky to insist too much on deliveries because of the likely increase in the tempo of arrivals in coming weeks. The movement of the castorseed crop is beginning to pick up in Rajasthan, Uttar Pradesh and Bihar and spot prices have already eased from around Rs 43 to Rs 41.50 per 50 kgs over the past few days. This in turn has also had an unsettling effect on futures and the March contract itself has eased from Rs 209.37 to Rs 206 within two days. With export activity in castor oil at a standstill — shipments from Bombay since January 1 total only 36 tons so far — and overseas demand unlikely to revive in the near future because of the wide disparity between Indian and overseas prices of castor oil, it is difficult to take a bullish view of the outlook for castor. This is probably why the distant contract in castor — June delivery — is quoted at a discount of about Rs 12 per 250 kgs.

Linseed March moved irregularly between Rs 46.25 and Rs 45.62; the contract had touched a low of Rs 44.50 in the preceding week. The steadiness in linseed was due to the steadier tendency in groundnut oil which fluctuated between Rs 21.40 and Rs 21.70 per 10 kgs most of the time. The delay in the arrivals of soyabean oil from the US has led to increased demand for groundnut oil from vanaspati manufacturers. Now that soyabean oil will start moving in because of the end of the 32-day dock strike in the US, groundnut oil prices are unlikely to show any marked strength in the near future unless, of course, the Government lifts the ban on the export of groundnut oil and vanaspati. Hopes of a substantial decline in the prices of vegetable oils as a result of the supply of 75,000 tons of soyabean oil and 50,000 tons of mutton tallow by the US have been belied. This is partly because the price of soyabean oil itself has registered an impressive rise in recent months. Soyabean oil is not much cheaper than groundnut oil any more.

Export activity remains confined to groundnut extractions and cottonseed cake. Business has been going on in these two items on a satisfactory scale though there have been no important changes in overseas prices in recent weeks. Some business has also been reported in linseed extractions, the UK being the main buyer.

Business Notes

Associated Battery

OVER the past year and a half the price of lead has shown a sustained upward trend. Lead being a major raw material in the manufacture of storage batteries, the industry is naturally apprehensive of the high cost of imported metal at a time when both indigenous and export demands have markedly increased. Without satisfactory home production, manufacturers find it difficult to compete in export markets; such indigenous metal and scrap as are available cost nearly double the average world prices for similar metals. It is felt that lack of supplies of lead will endanger production of a wide range of essential manufactures.

The general industrialisation in India and the increased manufacturing programmes of motor vehicles and railway coaching stock have meant increased demands for batteries. In addition, keen demand for stationary batteries continues for telephone exchanges, railway signalling and electrification control systems and for emergency and control duties in power stations. Moreover, the various units now established to produce electrical industrial trucks have raised the demand for industrial batteries.

In the context of this situation, the factory of Associated Battery Makers (Eastern), a leader in the industry, has been working at high pressure with a view to achieving higher output by the increased use of automatic production facilities together with improvements in process methods and material usage. During the company's financial year ended August 1964, the lead recovery plant produced nearly a third of the factory's total metal requirements from lead scrap, and efforts are being made to increase further this contribution to meeting raw material requirements.

Despite rising costs, the year's results have shown a significant improvement. Sales at about Rs 3 crores have increased over the previous two years by 18 per cent and 32 per cent and trading profits of about Rs 69 lakhs by 28 per cent and 35 per cent, respectively. Both sale and profits for 1963-64 are the highest figures in the company's history. Despite the removal of the Super Profits Tax, the imposition of the Surtax and the new Super Tax on dividends has created a heavy tax liability which, as in the previous year, has syphoned off nearly 62 per cent of trading profits. Even then, after-tax profits are Rs 26.34 lakhs compared to Rs 15.70 lakhs previously. The dividend raised by 1.5 per cent to 16.5 per cent absorbs Rs 19.47 lakhs.

In his annual statement, H R Gregson, managing director, has pointed out that due to severely increased lead prices product costs have risen appreciably and that this has been brought to the Government's attention. If the raw material shortage is eased, the company has a very good future ahead. The management is taking steps to implement the scheme for increasing the output of automotive batteries. The company has already produced various new items including a special range of aerobatic aircraft batteries for the defence services. Additions to the range of injection moulded polystyrene battery and cell containers and other components have been introduced, and designs for certain special purpose batteries also progressed. Exports of batteries and components have also shown considerable improvement. Buoyant demand for the company's full production range continues.

Rallis India

DESPITE a sizable increase in production, Rallis India's profits for the year ended August 1964 have

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THE BUDGET : LOST OPPORTUNITY

NEW TAXES GOLD BONDS BLACK MONEY

ENGLISH, HINDI AND REGIONAL LANGUAGES

CHINA'S PERIOD OF CONSOLIDATION

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Lost Opportunity

THE Finance Minister apparently derives no little satisfaction from the fact that the Budget he has presented "holds every promise of being a balanced one — if not a surplus one— taking both the revenue and capital accounts together". He values this achievement particularly because he had to provide for a larger Plan outlay next year and at the same time give "a measure of relief in direct and indirect taxation". This claim needs to be examined.

First, the balance secured in the Budget is not due to a better performance on revenue account. The surplus on revenue account will be just Rs 4 crores larger than the revised figure for 1964-65. What has made the balance possible is a fortuitous receipt of Rs 191 crores on account of PL 480 deposits as against only Rs 11 crores in 1964-65 — a circumstance which, one fervently hopes, will not repeat itself.

Further, as the Finance Minister himself concedes, a part at least of the Government's long-term borrowing "represents deficit financing rather than the mobilisation of the voluntary savings of the people". In the past few years a not inconsiderable part of the market loans floated by the Government has had to be taken up by the Reserve Bank. In the current year, for instance, as against the net Government borrowing (market loans plus treasury bills) of Rs 178 crores, the Reserve Bank's holdings of Government securities seem to have increased by Rs 128 crores, after allowing for the substitution of foreign securities and balances in the Bank's portfolio by rupee securities. Thus 70 per cent of Government borrowing can be said to be actually deficit financing. On this basis, of the net Government borrowing of Rs 100 crores proposed in 1965-66 as much as Rs 70 crores could turn out to be concealed deficit financing. If this proves to be so, the Budget next year will not be really balanced. In any case, as argued above, even the present *apparent* balance has been achieved as a result of a purely fortuitous circumstance.

Turning to the Budget proposals, the Finance Minister has claimed that they are designed to erect in all its essentials the framework to meet the demands of the Fourth Plan. This framework, according to him, "must be consistent with our desire to harness every possible source of dynamism and enterprise — whether domestic or foreign, public or private — to the task of rapid economic growth". He acknowledges that in spite of the "several changes to reduce the severity of our corporate taxation" introduced last year, the feeling persists that "corporation taxation is high and that some of its features inhibit the progress of the corporate sector". What has he done to improve the situation? Principally, a ceiling of 70 per cent on income tax payable by public companies, addition of five industries to the list of industries liable to corporation tax at the preferential rate of 45 per cent and reduction of penalty tax rates on Section 104 companies. In addition, Parliament has been asked for executive powers to give tax credit certificates for increased production and exports. All these concessions taken together are not likely to cost the exchequer more than Rs 5 crores (apart from the loss on advance payments) on the Finance Minister's own calculation. Admittedly, it is difficult to say how far this will go to invigorate the corporate sector without a much more detailed examination of the concessions than is possible here, but one's first impression is that they add up to too little to produce any marked difference by themselves.

Let us take a look at the measures intended to give relief to companies. It is doubtful if the ceiling of 70 per cent will benefit more than a microscopic number of public companies. It is possible that in introducing this ceiling of 70 per cent, the Finance Minister was offering no real relief but just making a gesture to appease that vociferous section of the critics of the tax structure which holds that tax rates on companies are too high.

The extension of the list of industries subject to corporation taxation at the preferential rate is a move in the right direction as is the tax credit

on additional production. The items on which the tax credit will be available are yet to be specified, but the concession, if liberally extended, will certainly mean a substantial saving to beneficiaries. But it does not appear that the Finance Minister means to extend the concession liberally because in that event he will lose much more revenue than he is prepared to. The Minister could consider the suggestion that the tax credit on exports should be linked not to the total value of exports but to additional exports. If he does so, he will be able to offer a much larger tax credit, say around 50 per cent if not more, without losing more revenue.

And now we come to reliefs in personal income tax. There is no doubt that the reliefs, particularly the reduction in basic rates, go much farther than the reasonable expectations of most. The only sufferers in the process are bachelors and unmarried women with income falling between Rs 2,000 and Rs 3,000 a year because under the proposed new system they would be liable to tax. While thus the lowest income-tax-paying group will suffer, the benefit of the new scheme becomes greater at higher incomes. The 'simplification', let us face it, has been introduced only at the expense of progressivity.

The same applies to the change made regarding rebate on contributions to life insurance and provident fund. By allowing 50 per cent of annual contribution as a straight deduction, the tax-rebate may now be as high as 40 per cent to an individual approaching the highest rate of income tax whereas formerly the maximum rebate was restricted to 25 per cent, i e, the maximum of what was until now known as 'income tax'. This certainly is a type of change that ought not to have been introduced on the flimsy plea of simplification. Surely, the Minister cannot be unaware of the highly regressive character of this relief?

The additional wealth tax on urban residential property has been introduced with a view as much to raising revenue as to achieving "wider social purposes". The tax is to be levied at progressive rates rising from 1 per cent to 4 per cent but lands and buildings used for business or professional purposes are excluded. Will land and buildings rented out for residential purposes be included or not? If yes, will it not lead to attempts to raising rents? If not, will it not make a farce of the whole measure? The answers to these questions will, we hope, become clear as Parliament starts debating the Budget.

The overall impression that the Budget leaves is one of missed opportunities. Even if the reliefs in personal income taxation had not been given, the Finance Minister could not have really balanced the Budget. But it is difficult not to feel that a very considerable sum of revenue has been forgone fruitlessly. Could not the same amount of tax cut have been applied in a way better calculated to further the objectives the Finance Minister has set himself?

Left Communists after Kerala Election

RESULTS of the mid-term election to the Kerala Legislative Assembly have begun to trickle in as we go to press. Those known so far give the Left Communists the largest number of seats among all the parties, including the Congress. It is possible, though not likely, that ultimately the position may be reversed and the Congress may emerge as the largest single party, though without absolute majority. But the Left Communists are unlikely to be very far behind. The significance of this remarkable performance by the Left Communists, which is underscored by the unexpectedly good showing by the SSP with whom they had an electoral alliance, naturally extends far beyond the question of the shape of the coming Government in Kerala.

All the first and second rank leaders of the Left Communists, with the exception of E M S Namboodiripad, have been under arrest since January under the Defence of India Rules on the ground that they are pro-Chinese —in thought, speech and action—and, therefore, constitute a threat to the security of the country. The arrests were explained to the country in a 'broadcast to the nation' over the All-India Radio by Home Minister Nanda. Subsequently, leading members of the Government, including the Prime Minister, have justified the arrests in public statements in an attempt to educate the people on the activities of the Left Communists. Early in the current session of Parliament the Government tabled a brief document purporting to give a part of the evidence against the Left Communists which it had earlier refused to reveal. In the document the Left Communists were for the first time officially addressed by the term "pro-Peking". Of course, the Home Minister was careful to emphasise that the Government had in its possession much more evidence which it did not consider in the public interest to publish.

The arrest of the Left Communist leaders and the statements of the Prime Minister and the Home Minister were fully exploited by the other opposition parties ideologically and politically antagonistic to the Left Communists—not least by the Right Communists led by Dange. Their alleged anti-national character and activities naturally constituted the principal plank in the attack on the Left Communists by the other parties in the Kerala election campaign. It was against this near-comprehensive, highly powerful and politically very active opposition that the Left Communists contested the election with 74 candidates, 30 of whom were in jail and so were prevented from participating in the campaign. In contrast, the Congress contested all the 133 seats and the Right Communists 76. At the time of writing, news agency reports show the results from 108 constituencies of which the Left Communists have won 35, Congress 33 and the Right Communists one! Among the Left Communists returned are a number of those in detention.

In the context in which the election was fought, the implications of the victory of so many Left Communists are obvious. Before the election the Home Minister had often expressed the confident hope that the people of Kerala would reject the Left Communists and thus vindicate the Government's punitive actions against them. It is hardly necessary to await the results from the remaining 25 or so constituencies to state categorically that such vindication has not been forthcoming. Will the Home Minister accept this or will he exploit the immunity granted by the Emergency and the Defence of India Rules to ignore public opinion so unequivocally expressed?

Weekly Notes

Will Gold Bonds Click?

THE Finance Minister was not exactly revealing a secret when he admitted in his Budget Speech that the Gold Bonds issued in November 1962 in the wake of the Emergency after the Chinese aggression had flopped. The Bonds had then been issued, in the first instance at least, with little to commend them to the economic calculations of the people. It was assumed that people with gold would buy them out of the patriotic urge to help the Government to pay for urgently-needed defence imports. This hope, as it turned out, was sadly disappointed and, on the Finance Minister's own admission, the collection of Rs 8.61 crores during the three and a half months the Bonds were open to subscription (November 12, 1962 to February 28, 1963) "did not come up to expectations". Why then has the Government decided to float Gold Bonds once again, particularly when the new Bonds are not more attractive than the old ones in any respect, except one relatively trivial one? The new Bonds will carry interest at 7 per cent instead of at 6.5 per cent. Surely, the Finance Minister does not expect that this slight increase in the rate of interest, which is in fact offset by the general rise in interest rates in the economy since the last issue, will make all the difference between failure and success of the Bonds?

No, he does not. When the old Bonds were floated, there was a free market in gold where one could get about Rs 109 per ten grammes against the rate of Rs 53.58 — the I M F rate — at which Gold Bonds were offered. It was only on the day following the floatation of the Gold Bonds that forward trading in gold was banned and it was not till January 10, 1963 that the Gold Control Rules were promulgated under the Defence of India Act. The Rules required all those possessing non-ornament gold in quantities in excess of a prescribed limit, to declare their possessions and also banned trading in gold. The free market in gold thus came to an end formally, leaving the Gold Bonds the only legal outlet for those who wanted to dispose of gold. It is difficult to be sure, but there is some evidence to show that perhaps subscriptions to Gold Bonds picked up somewhat in the period between January 10 and February 28, 1963 when subscriptions to the Bonds were closed.

Of course, the improvement could not have been particularly marked since the enforcement of Gold Control was never particularly effective. The amount of gold declared during the period fixed for declaration was microscopic — worth about Rs 8.15 crores at the international price, according to the Report of Informal Group on Gold Control. Nor did even trading in gold come to a stop. A black market flourished, functioning fairly openly with even "unofficial" prices published in the newspapers. The prices were higher than earlier, naturally, in view of the risks of detection and punishment.

The clandestine market in gold continues and, in fact, the "unofficial" price of gold is reported in the newspapers to have risen to as high as Rs 120 per 10 grammes following the floatation of the Gold Bonds. Ironically, perhaps this augurs well for the Bonds since the new demand for gold in the black market is said to come from those who want to convert unaccounted money into gold for investing in the Bonds. Since no questions are to be asked about the gold presented for subscription, subscribers to Gold Bonds would be moved by two motives, principally. First, those who have undeclared gold, the possession of which is illegal and punishable, and who have now got cold feet might surrender it for the Bonds. Second, those with unaccounted money may find it worthwhile to buy illicit gold for conversion into Gold Bonds instead of taking advantage of the new proposal for declaration of unaccounted wealth. Since the tax on such declared wealth is fixed at 60 per cent, it can be calculated that at a certain price of gold this may involve a smaller loss than straight-forward declaration.

The point is that both these predominant motives for subscribing to Gold Bonds will be the stronger the greater the risk of detection of undeclared gold or unaccounted money. From this point of view, the ideal climate for floating the Bonds would have been after an intensive and widely-publicised drive to bring out illegal gold and other wealth. While effort in this direction has been no doubt stepped up recently, it would be too much to claim that there exists in the country today the psychological atmosphere which would impel tax-evaders and illegal holders of gold, particularly the big and the influential ones, to accept the very considerable losses which both subscription to the Gold Bonds and declaration of unaccounted money involves. It is to be hoped that during the three months that subscription to the Bonds will be open, the Government will continue and indeed step up its efforts in this direction. Without that the new Gold Bond scheme may not do much better than its predecessor.

Inducement to Change Colour

THAT the Finance Ministry was working on a scheme for voluntary disclosure of unaccounted wealth was known for some time. The scheme has now been outlined in the Budget. Any person (or company) can surrender 60 per cent of such wealth to the Reserve Bank and credit the remaining 40 per cent to his (or its) accounts after informing the income-tax department. If the surrender is effected by March 31, the rates would be 57 per cent and 43 per cent, respectively. Those who cannot surrender 60 per cent cash immediately can furnish a bank guarantee for six months. No further questions would be asked by the department in relation to such disclosure.

The Finance Minister himself has recognised that this scheme is unfair to the honest tax payer but he has to give an opportunity to those who wish to break away from their past, as a prelude to more vigorous tax enforcement. The Budget takes no specific credit for collections from this source. How successful the measure would be in diverting wealth from surreptitious and less productive channels into productive investment is a matter of conjecture. Leaving business psychology and behaviour aside, there is, first of all, the procedural hurdle that the Finance Bill (clause 68 deals with the scheme) will take quite some time to get through Parliament, perhaps not till the end of March. Second, a cash payment of 60 or 57 per cent of accumulated wealth is not easily made, nor are bank guarantees available for the asking. Assuming that the errant tax payers are sud-

denly overcome by remorse, they could sell ornaments and put the gold in the new gold bonds, but how will they find ready customers for real estate or suddenly forsake their *benamidars* with a long record of fidelity?

It has been suggested that the 60 per cent tax is too high. But, then, the black money (except the currency notes hoarded by the less enterprising or more timid) has been earning interest at *bazzar* rates all this time and the disclosure would, in any event, pertain to marginal income in the highest ranges where it would normally have been taxed at a higher rate.

A similar scheme to encourage disclosures of black money was proposed in the late forties under the supervision of Mahavir Tyagi when he was Minister of State for Finance. Roughly Rs 23 crores were then collected. True, things were more difficult for the authorities then. War fortunes had been salted away in princely states, the income tax authorities had much less powers and the Income-tax Investigation Commission had been struck down by a Supreme Court judgment. Now tax evasion is admittedly more risky.

If the present scheme is a success, trade, industry and the market could be relieved of many strains which have been undermining their stability and business practices. Whether it succeeds or fails, a few hundred evaders prosecuted and jailed are an absolute necessity. It would be interesting to know in this context, how many prosecutions have been launched since evasion became a criminal offence?

Tax Credit on Exports

ONE cannot say yet whether the export rebate granted in the Budget is a substantial one or not, for only the maximum rate — 15 per cent of the value of goods exported—has been specified yet. But it marks an important departure from export incentives granted by the Finance Minister hitherto, insofar as it is no longer necessary for an exporter to make profits or pay tax in order to earn the rebate. The "tax credit certificates" will be issued to exporters of commodities to be specified, and the value of the certificates can be set off against the tax liability arising in the year. If their value exceeds the tax liability, the balance will be refunded to the assessee. The concession, therefore, amounts to an unconditional export subsidy.

By taking a commodity-by-commodity approach, the Finance Minister retains the freedom to adjust the subsidy to the supply and demand conditions of particular exports—a possibility which he ignored when he imposed the 10 per cent surcharge on imports a fortnight ago. It is to be hoped that the Minister will now direct some effort towards finding out which commodities are worthy of subsidy and why. In fact, he should have done so long ago and announced the rates of subsidy in the Budget; as long as they are not announced the scheme will not stimulate exports.

The new scheme is superior to the other two existing schemes of drawbacks on imported materials and import entitlements insofar as it would not induce unintended distortion of the industrial structure. Both drawbacks on materials imported for use in exports and import entitlements are attractive to industries that need foreign exchange for materials or equipment; they thus tend to favour import-dependent industries. They probably do increase our net foreign exchange earnings in the short run; but industries that grow up under such schemes are hardly going to be starved of foreign exchange whenever their exports fall. We have built up more import-dependent industries than we can afford, and any measures that encourage their growth must be frowned upon. The new export incentives are free from this fault, and an excellent beginning for a long-term policy of export promotion.

So Many Deficit Budgets

SIZEABLE deficits in spite of buoyancy in revenues characterises almost all the State Budgets for 1965-66 presented so far. In certain cases, the deficits are large enough to cause concern. West Bengal, for instance, shows a deficit of Rs 17.63 crores, and U P of Rs 14.91 crores. Bihar's deficit is even larger at Rs 38.94 crores and the State Finance Minister proposes to do nothing to cover even a part of it—a fact which is hardly in keeping with his passionate affirmation that the "execution of the development plan is a problem of life and death for us and the final purpose of our efforts".

The States are obviously living beyond their means. This is a matter for concern since 1965-66 marks the climax of the efforts to fulfil the Third Plan; it is also a precursor to the "more complex and sophisticated tasks" of the Fourth Plan. But, clearly, the Budget performance of the State Governments has not been consistent with the "important role in strengthening fiscal and monetary discipline" which the Central Finance Minister ascribes to them. It will be recalled that when the Planning Commission approved the annual programmes of the States for 1965-66 the States had promised to mobilise financial resources to the maximum extent possible. The series of deficit Budgets which have been just presented show complete disregard of this undertaking as well as scant regard for the Central Finance Minister's exhortation that "there will be no more deficit financing".

The failure of the States to raise adequate resources is pointedly revealed by the fact that in the last year of the Third Plan the Centre will provide no less than Rs 650 crores of the Rs 1,027 crores which is the estimated aggregate expenditure by States on the Plan during the year. The revised estimates of loans and advances from the Centre to States in 1964-65 also show an increase of Rs 85 crores over the Budget estimate of Rs 605.80 crores. If, therefore, this experience is any guide, 1965-66 may close with Central assistance to the States substantially exceeding the Budget figure.

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Fort, Bombay-1.

The future of State finances is thus not a little bewildering. With increasing debt charges, fast rising revenue expenditure and consequent large budget deficits, how do State Governments expect to shoulder the heavier burdens in the offing?

A review of the growth of the States' financial dependence on the Centre during the 15 years of planning presents a sombre picture. In the First Plan the Centre contributed 30 per cent of the States' Plan expenditure. The proportion rose to 50 per cent in the Second Plan and is expected to be well over 65 per cent in the Third Plan. As against the Third Plan target of additional taxation by the States, of Rs 610 crores the States' achievement is not likely to exceed Rs 500 crores—this during years of near-inflationary conditions. Not surprisingly, the Union Finance Minister has emphasised the need to persuade the States to review their financial position. The urgency of the task is obvious from the fact that of the eleven States which have presented their Budgets for 1965-66 at the time of writing only Madhya Pradesh has actually proposed new taxes. In UP the Finance Minister has promised that he would announce new taxes to raise Rs 7.50 crores in "due course".

How the States neglect their potential for raising tax revenue in the scramble for Central bounty is best illustrated by their failure to make the rural sector contribute, even to an inadequate extent, to financial resources for development. Many States have yet to impose a tax on agricultural incomes. The failure is particularly glaring in the case of States like Andhra, in parts of which relatively well organised, commercial agriculture has made considerable headway. Even in States which have an agricultural income tax, its administration has been far from effective — a fact which is amply reflected in the receipts from the tax. What is true of the agricultural income tax is no less true of other possible measures to tap the rural sector for resources.

The unwillingness of the States to impose taxes is particularly significant considering that the Fourth Finance Commission is currently engaged in its labours. No doubt the States feel that large uncovered deficits will strengthen their case for larger shares of Central taxes. This tactic is implicit in the Budget speeches of the Finance Ministers of Bihar, U P, Orissa, Madhya Pradesh and Gujarat. But their counterparts in Maharashtra, West Bengal, Mysore and Madras have shed all inhibition and made a straight-forward plea to the Finance Commission to allocate them larger shares of Central taxes. The budgets of the latter States look very much like memoranda to the Finance Commission.

Development Banking and Planning

AT a time when planners and planning are both at a considerable discount for their alleged contribution to the malaise in which we find our economy today — both internationally as well as internally — it is refreshing to read a handsome, though restrained, tribute to planning from a notable champion of the private sector. The tribute comes from G L Mehta, Chairman of the Industrial Credit and Investment Corporation, in his statement to the shareholders of ICICI. Even apart from his rich previous experience in many other fields, his long association with ICICI, which has now completed the first decade of its existence, places G L Mehta in a vantage position. Fairly early in his statement, he states quite clearly that "planning has helped the economy to grow at a fairly rapid pace and in a reasonably orderly manner". This is soon followed by encomiums for three other achievements — planning has led to the setting up of several non-traditional industries; under planning, several new entrepreneurs have been induced to enter industry; and, lastly, planning has helped to decentralise the location of industry.

But planning has had also certain limitations; the operations of the ICICI have made it acutely aware of them. Thus price and distribution controls on many essential commodities like cement, sugar and paper, have severely reduced investment interest in these industries and their ability to generate internally sufficient funds for expansion, leading to a "perpetuation of the shortage which initially brought about price controls". Second, the Government's insistence that industries should follow a phased programme of manufacture has placed a great strain on several industries, particularly as economies of scale in different lines of manufacture vary. A phased programme, says G L Mehta, necessarily depends upon co-ordinating several manufacturing activities, and where one of them lags behind for any reason, it upsets activity elsewhere. Third, the failure to meet the increasing demand for maintenance imports as industrialisation gathers momentum in particular sectors has resulted in under-utilisation of capacity. Fourth, the economy has suddenly come face to face with unbalanced growth with shortages in respect of some goods and surpluses in others. G L Mehta feels that the latter in particular indicate that demand assessments made by planners in many cases have been too optimistic. Lastly, he has complained about the increasing complexity of the mechanism for procedural controls associated with planning.

These are highly pertinent observations, even if G L Mehta's diagnosis or his remedial prescriptions may not meet with approval in every case. Thus it is true that price and distribution controls in many sectors have lost the justification they had at some earlier time. There is need, therefore, for a constant review of these controls. But there are even then likely to be some sectors where such controls have to be continued for protecting particular classes of consumers, which includes also the Government in a situation like ours. And, surely, one of the major benefits that a development bank

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY is raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs. 20. Foreign annual subscription rates are £3 10s and $10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES

Business Manager

like the ICICI may confer on a developing economy is to facilitate the flow of funds to such sectors?

To complain that planners have been over-optimistic in their assessment of future demands in certain sectors, is, perhaps being less than just to them. Projection of demand, particularly where a number of basic series of statistics are just not in existence and where it is to be made for an economy in which the benefits of industrialisation are just beginning to permeate into the countryside which contains almost four-fifths of the total population, is, in any case, a formidable task. But it would be worthwhile to find out how far the surpluses that have emerged in the case of some commodities are not due to the failure of production to increase according to the programme adopted in certain other sectors. Railways, for instance, have had surplus capacity in the current year largely because they did not have to carry the ores and coal and other materials which they would have had to if the Bokaro steel plant had not been so unfortunately delayed.

The Communist Divide

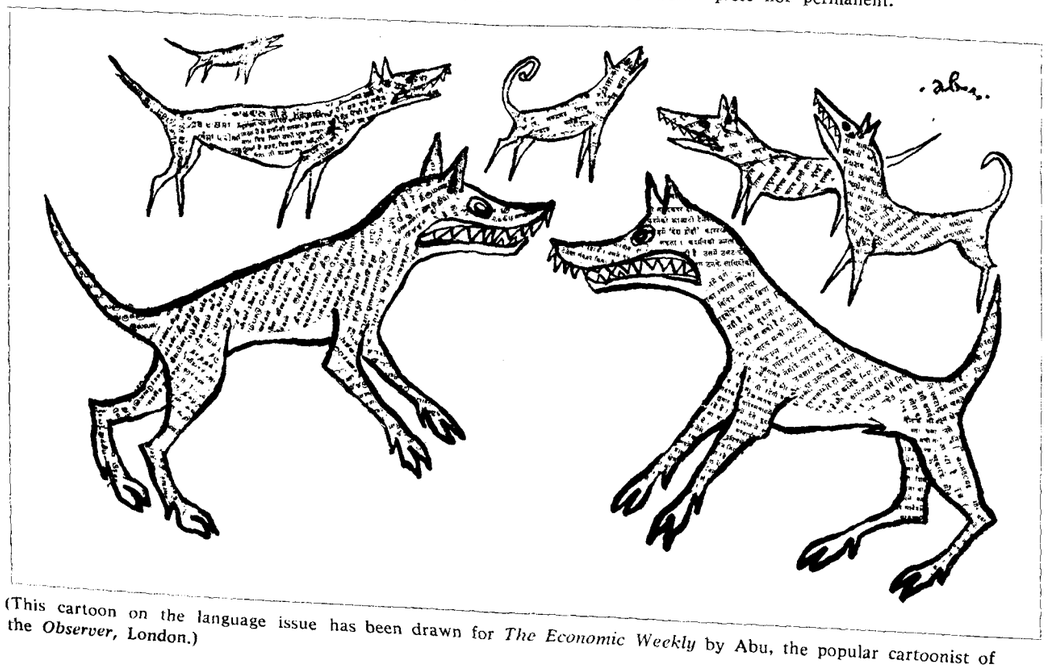
THE Russian-sponsored conference of communist parties began in Moscow on Monday with some very conspicuous absentees. Of the 25 parties invited, those of China, Japan, Indonesia, Albania, Rumania, N Korea, and N Viet Nam have chosen to stay away.

The idea of calling this meeting, officially designated a 'preparatory meeting' for a future 90-nation World conference, had originated with Khrushchev. The Soviet leadership which took over after his dismissal decided to go through with it presumably to emphasise the continuance of Soviet policy on the vital issue of differences within communist movement. Yet, it needs to be noted that the Russians are represented at the conference not by Brezhnev, the Soviet Party Secretary, but by the theoretician Suslov. In fact, most countries present are represented by second rank delegations. The notable exception to this is Cuba which is represented by Fidel's brother, Raoul Castro.

The professed aim of the proposed world conference, for which the present conference is supposed to prepare the ground, is to restore unity in the international communist movement. But, in fact what even this preparatory meeting has done is to make the present alignments in the communist world clear. The Chinese have made it obvious enough that they are not terribly concerned with communist unity for the moment. They deliberately chose the day the Moscow conference opened to make a sharp anti-Soviet attack through the *Peoples' Daily* which accused the Soviet communist party of hypocricy in "working for a real split". And as the Moscow conference got going, the Chinese were playing host to President Ayub Khan apparently uninterested in the proceedings in Moscow.

Apart from China there are the other, not unexpected, empty seats at the Moscow conference. N Korea and N Vietnam want to offend neither Russia nor China and presumably they felt it was less risky to be absent than to attend the Moscow conference, as it is necessary for them to appease China just now in the critical situation created by the American attacks on N Vietnam. The absence of the Indonesian delegation was expected since the Indonesian communist party is among the most staunchly pro-Chinese parties. The Japanese communist party has also been veering towards China. In any case, it has nothing to lose from a cautious policy of waiting and watching.

But the most significant absence at Moscow is, of course, Rumania's. Even in Eastern Europe, this seems to indicate, the Russians can no longer be sure of total commitment. The East European communist parties have found that the Sino-Soviet split leaves them in a highly favourable position, with far greater freedom to pursue national ends than they ever had. Rumania has openly disregarded the Moscow conference, but even among those present acquiescence in the Soviet line is likely to be neither complete nor permanent.



(This cartoon on the language issue has been drawn for *The Economic Weekly* by Abu, the popular cartoonist of the *Observer*, London.)

Capital View

Beguiling Budget

Romesh Thapar

I WAS in Bombay as the budget details trickled in. Much excitement had prevailed all Saturday afternoon. By and large the betting was that a rather battered TTK, nursing the still raw wounds of the language agitation inflicted on the Congress Party, would produce the kind of fiscal balm which would lessen the tension of various elite groups in the North and the South. Stock-marketeers seemed to be confident and optimistic all over the country, a strange effervescense considering the imposts announced skilfully before the budget and the picture sketched by the Economic Survey prepared by the Finance Ministry. An unreal boom atmosphere was being engineered — and the speculation in scrips reflected it.

Speculators Disappointed

The bubble burst as TTK read out his speech in Parliament. Not a single assumption seemed to hold. True, the tax on personal income had been reduced, a most unexpected development. But, said the speculators, it was unlikely to cheer the markets because there were no parallel incentives offered to encourage the monies saved to seek out profitable investment in scrips. Yes, there was the offer to legalise 'black money'. Could this create the longed-for boom conditions by pulling considerable funds into open circulation? Unlikely, for these still illegal funds are already somewhat 'integrated' into legal deals and the reluctance to expose oneself to the future attention of income-tax officers will persist. Then what? Will the present investment paralysis continue?

No one takes the trouble to study the statistics which point to an increase in last year's total private investment in industrial development. No one attempts to analyse this increasing investment or to determine the point at which new industrial floatations will not be able to depend almost totally on the underwriting operations of the sponsors. No one bothers to detail the effects that investment apathy can have on development in a 'free' mixed economy which is also becoming increasingly dependent on foreign aid and direct foreign capital investment.

The Finance Minister imagines apparently that the problem is brought nearer to a solution because a tax on urban property has been imposed, 'forgetting of course that, if necessary, middle class capital can move easily to non-taxable agricultural farms on the outskirts of our cities. What with industrial establishments being offered tax concessions should they chose to move out of town, and the possibilities of living-it-up in luxury farm houses, we may well be on the verge of spawning a new class of privileged citizens!

Extraordinary Budget

But, seriously, it is an extraordinary budget for a society that claims to be socialist, is in a serious economic-cum-political crises and needs to be roused from its stupor. That this very upper class budget should cause temporary confusion even among those whom it benefits only goes to show that outside the government the industrialists, businessmen and entrepreneurs expected a more decisive shift towards capitalist development. They cannot understand the inhibitions of the ruling party particularly at a time when no opposition of any consequence can be mobilised. This, they believe, is the time to push ahead —and leave socialism behind.

As always, the captains of the private sector show themselves to be hasty and immature. In their passion to bury the Nehru Era, they are blind to the remarkable ability that TTK has shown in steering the country towards a system which they would control and manipulate. This process has been going on for some time now. The present budget marks a major step forward. But we continue to be 'TT-lated'—that is, persuaded to accept his carefully disguised fiscal formulations as an essential part of the difficult and ramified business of implementing socialism in a democratic setting. And if climatic conditions help food prices to fall somewhat by the end of this year, the 'TT-lation' will increase.

Seldom have established economic and social objectives been abandoned with such *finesse*. The performance is worthy of the Bharat Ratna. Compare it with the awkward honesty of simple Shastri. Only the other day, in Parliament, he was explaining the need to permit foreign capital a controlling interest when necessary in certain industries. Jawaharlal Nehru was quoted out of context in support. Not a protest was voiced. Then there is Sanjeeva Reddy, the Steel Minister. Having presided over the destruction of the Indian designing and engineering of Bokaro, and blessed the system of 'turn key' collaborations, he now croons about his plans to give Indian engineers and designers the chance o show their talent. He, too, is heard in silence.

Clear Pattern

A fairly clear pattern is emerging. In the absence of strongly institutionalised support for socialist action, the striving within the ruling party for a capitalist path of development is becoming more open, more vocal. The planning machinery will also be made to serve this end despite the theorising of its leading elements. And foreign capital will enter to consolidate the trend, to push up the growth rate. Already, in the offices of the Secretariat the 'TT-lated' claim that all India needs to do is to study the Japanese model!

No embarrassment is expected from the Foreign Office. Swaran Singh is expected to make all the expected noises, but with a 'low posture' *a la Japan*. Probably, V K Krishna Menon will be paraded as a vital element of the Indian image for the Afro-Asians, and Vijayalakshmi for the Anglo-Americans. If the Russians get anxious, Indira Gandhi will be despatched to reassure them. This is non-alignment with new notations, a policy which it is expected will keep India 'respectable' until the point of economic take-off is reached. Then, who cares what the backward world thinks!

To dismiss this logic with a sneer would be a mistake. It looks primitive, and could be applied rather crudely, but it is being fashioned by men who have shown themselves to be more expert than their socialist opponents in the country. Those within the leading organs of the Congress Party who thoroughly disapprove of the policy trend which is now visible are unable to unite around a nationally-accepted

Moscow...
romantic city
of music
and history,
home of the
Bolshoi Ballet...
the Puppet Theatre.

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See
Lenin's Tomb,
the Kremlin.
See a new world
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leader or a relevant centre of power. Were the socialist and communist parties more united and active, this development within the Congress Party might have become possible. I say 'might', because it is the purpose of 'TT-lation' to prevent such an eventuality.

The feeling in political circles in the Capital is that TTK will announce 'incentives' from time to time. He does not believe in revealing his hand all at once. Budget-time next year will mark the break with 'socialist dogmas'. It will be the pre-election budget when even the leftists accept the need to be soft with those who have the money. Then, it will not be necessary to indulge in 'TT-lation'.

More than ever before, the task of making clear the implications of the policies now being adopted falls on the economists and political scientists assisted by other thinking elements. Too long have they been silent, separated one from the other. If the response does not develop, then the younger elements will have to stir—those who have not been absorbed by the Establishment. The task looks forbidding. Confusion is widespread. A focus of action has to be located. But the job has to be done.

From the London End

Another Dose of Deflation?

THE shape of the coming budget is a subject which is exercising the minds of many people, and as usual there is a spate of pre-budget advice. The perennial problem that faces Britain is whether, in the face of her balance of payments difficulties, she is in a position to go ahead with active measures to build up the economy without damaging even further her balance of payments. If home demand sucks away goods which should be boosting the export market and improving the balance of payments, the deflationists argue, deflation at home to restrict demand is the only possible solution. The expansionists, on the other hand, have argued that the "stop-go" policies in the last 13 years have only served to deepen Britain's economic problems, and without a thorough overhaul of the economy and a determined effort to increase production, Britain will never break out of the vicious circle which at present dominates her economy.

Callaghan Vs Brown

In the popular press, the problem is often discussed as one of a personal conflict between Callaghan at the Treasury, whose advisers take, in general, a deflationary view, and George Brown of the Department of Economic Affairs, whose very job was created to galvanize action to ensure the rapid development of the British economy and initiate a drive to modernise and increase industrial efficiency. Naturally, the main object of this Department is to push for rapid economic expansion. One of Harold Wilson's ideas in creating this new Department was to bring some measure of balance against the traditional Treasury viewpoint, but all indications seem to be that the argument will now be won by the Treasury. The main question remaining to be decided is how deflationary, in fact, the budget will actually be.

In these circumstances, one of the main worries of Brown's Department is to try and ensure that such deflationary measures as are introduced do not make even more difficult the problem of regional development. While in the south-east part of the country the economics may be overheated, the unemployment figures in many parts, particularly in the north, show that what is needed here is not a dose of deflation but a shot in the arm for industrial expansion.

The point of view taken by the Department of Economic Affairs is that there is a distinct possibility that there will be an automatic slackening in the present rate of industrial production some time in the autumn. This will result, according to the Department, from the delayed effects of the budgetary measures announced last November, and from a drop in industrial investment because of flagging business confidence. These will be intensified by the cumulative impact of the credit squeeze. Thus, if there are any substantial new deflationary measures in the budget, the economy will be pushed into a quite unnecessary and sharp recession in 1966. Yet the overall balance of payments position reflects only too clearly the tragic dilemma that faces the British Government in trying to promote economic expansion while avoiding another sterling crisis.

Support for a "Tough" Budget

Lord Cromer's controversial speech on the need for drastic reductions in Government spending has already made quite a stir. The latest review of the National Institute of Economic and Social Research comes down quite firmly on the side of the Treasury and bank economists who have been advocating a tough budget next year. The main point of the Institute's review is that the improvement in Britain's balance of payments must be the overriding aim of Government policy, and the only way this can be achieved is by higher taxation. This is believed to be imperative in view of the weakness of the U K's gold and dollar reserves. It is true that in January the reserves stood at £821m but much of it was borrowed from the International Monetary Fund and foreign central banks. The main conclusion of the Institute is that even when confidence in sterling returns to "normal", Britain in the next three to five years will be faced with repaying loans of between £400m and £450m. The Government should aim to eliminate this deficit by 1966.

In analysing the situation in Britain, the Institute believes that on present policies, British output and capacity might grow at the current rate of about 3½ per cent and unemployment remain at a little below 1.5 per cent. Even with a spurt in exports, the balance of payments will still be in deficit by about £350m a year by the middle of 1966, and since the Government is likely, on present showing, to abandon import controls by the end of the year, some other way has got to be found to close the gap.

On the subject of economies in overseas expenditure, the Institute suggests that it might be possible to save about £100m, leaving a balance of some £200m to be found from some other source. The only solution that the Institute can suggest in these circumstances is a cut in home demand on productive resources by £200m. A further increase in income tax, or the use of the regulator to increase pur-

chase tax and other indirect taxes are mentioned as means by which this could be done.

Cuts in Overseas Spending

There are some, however, who question whether it would not be possible to make greater cuts in Government overseas spending which certainly contributes to Britain's balance of payments difficulties. The Defence White Paper has made it quite obvious that no drastic cuts will be made here. Indeed, the arms budget has gone up to the record figure of £2,120m and nothing has been done to cut down overseas military bases. But surely some greater economies could be achieved in Government overseas spending and private overseas investment above the £100m figure suggested by the Institute. At present this accounts for some £700m a year, but it appears unlikely that drastic cuts in this field will be made.

Judging by statements from Labour Party leaders, the ground is being prepared for a tough budget. In his recent broadcast, the Prime Minister spoke of the "tough" measures that would be needed to put Britain's economy on its feet, and in his last public speech before the budget made towards the end of February, the Chancellor of the Exchequer gave a clear hint that the budget was definitely going to be deflationary, although he went out of his way to give a reassurance that whatever degree of deflation was imposed, it would not be drastic and would certainly not be on the scale of 1961.

Where the tax burden is going to fall it is difficult to see, and the Federation of British Industries has added its mite of advice to the Government by publishing a booklet containing the views of the Federation on the forthcoming budget and Finance Bill. This gives a sharp warning on the adverse effect on investment decisions caused by the "many uncertainties" still surrounding the proposed corporation tax. The report suggests that balance of payments weakness will best be remedied "by encouraging industrial investment and recasting the tax system so as to bear less heavily on incomes and profits".

It, therefore, seems likely that the budget, when it does come, will show an increase in taxes, not only to cover the promised social benefits which the Labour Party was elected to ensure, but also in order to protect the balance of payments.

Martin Burn Limited

NOTICE

THE Annual General Meeting (being the Nineteenth Ordinary General Meeting) of the Company will be held on Friday, the 26th March, 1965 at 11 A.M. at the Registered Office of the Company, 12 Mission Row, Calcutta, to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended 30th September, 1964 and the Directors' and Auditors' Reports thereon.
2. To declare a final Dividend and to confirm the payment of interim dividend paid on 1st October, 1964 on the Ordinary shares in the Company.
3. To appoint a Director in place of the one retiring.
4. To appoint Auditors and to fix their remuneration.

Special Business

5. To consider the re-appointment of Mr Saradindu Gupta as a Managing Director of the Company for a further period of four years with effect from the 1st May, 1965 and in this connection to consider and if thought fit to pass with or without modification the following resolution which will be proposed as an ordinary resolution:

"That pursuant to Section 309 of the Companies Act, 1956, this meeting approves the re-appointment of Mr Saradindu Gupta as a Managing Director of the Company with effect from the 1st May, 1965, on the terms and conditions contained in an Agreement dated the 29th January, 1965 and made between the Company of the one part and Mr Saradindu Gupta of the other part a copy of which was laid on the table and signed by the Chairman for the purpose of identification."

6. To consider the appointment of Sir Narayan Raghavan Pillai as a Managing Director of the Company for a period of one year with effect from the 1st March, 1965 and in this connection to consider and if thought fit to pass with or without modification the following resolution which will be proposed as an ordinary resolution:

"That pursuant to Section 309 of the Companies Act, 1956, this meeting approves the appointment of Sir Narayan Raghavan Pillai as a Managing Director of the Company with effect from the 1st March, 1965, on the terms and conditions contained in an Agreement dated the 29th January, 1965 and made between the Company of the one part and Sir Narayan Raghavan Pillai of the other part a copy of which was laid on the table and signed by the Chairman for the purpose of identification."

The Ordinary Share Register and Transfer Books of the Company will be closed from 16th March, 1965 to 26th March, 1965, both days inclusive.

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

By Order of the Board,
L K SEN CHOWDHRY
Secretary.

Registered Office,
12, Mission Row,
Calcutta-1.
1st March, 1965.

NOTE — The Dividend, if sanctioned, will be paid on or after 1st April, 1965, to those shareholders so entitled whose names appear on the Company's Register of Members for Ordinary shares on the 26th March, 1965 or to their mandatees.

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

Book Review

The Atlantic Economy in the Fifties

Ashok V Desai

Economic Growth in the West by Angus Maddison; The Twentieth Century Fund, New York, 1964; pages 246, £ 4.50.

THE two questions Angus Maddison has tried to answer are: why have the countries of Western Europe and North America achieved higher growth rates in the 1950's than in earlier recorded history?, and why have some of them increased their national product faster than others? He has not got the answers but in the process he has written a highly interesting economic history of the Atlantic economy in the fifties.

Maddison's framework belongs to the economies of 1950's. He believes that there is a certain stock of technical knowledge available all over the world: "In modern conditions there cannot be widely varying degrees of technical advance due to differences in technical knowledge" (p 88). For the technical advances to raise labour productivity, it is by and large essential that they should be embodied in capital equipment; hence new investment will raise output per head (presumably without an increase in the capital-output ratio). The scope for raising productivity by investment depends on how far productivity is below the known best-practice levels in the world as well as on the rate of improvement of the best techniques; so the response of labour productivity to a rise in capital per head will be higher in countries with low output per head. Differences in the rates of growth of per capita output are therefore due to differences in the rate of investment.

Besides this possibility of increasing output per head by raising capital per head without changing the capital-output ratio, Maddison envisages movements along production functions—i e, possibilities of raising output per head by an increase in the capital-output ratio. Here he runs into heavy weather. Referring to capital widening he says: "If the initial ratio of capital (per employed person) is 2.5, an increase of 1 per cent in the employed labour force will require investment of 2.5 per cent of the GNP" (p 91). It is no use wondering whether this 2.5 is tons, miles or gallons: it is the capital-output ratio, not the capital-labour ratio. Further, the gain in productivity due to capital widening (i e, proportionate increases in capital and labour inputs) is supposed to be due to technical progress, whereas that due to capital deepening (i e, faster increase in capital than in labour) is due to the use of existing technical knowledge (pp 91 and 93). This distinction is unjustified: on the assumption of universal availability of technical knowledge, all improvements other than those in the world's best techniques must be made out of existing knowledge. There should be little scope for "technical advances" in Western Europe, which can live for many years on American patrimony.

Capital Widening and Deepening

In fact, it is worth asking whether it helps to distinguish between capital widening and capital deepening. Maddison makes four predictions: (1) capital deepening will increase labour productivity; (2) the capital-output ratio associated with deepening will be higher than with widening; (3) successive increases in capital-labour ratio will result in less than proportionate increases in output per head; and (4) the same increase in capital-labour ratio will be associated with a smaller rise in labour productivity in the United States "which is operating near the fringe of technology" than in Western Europe. (pp 88-95). He gives no figures of capital stock, but he gives investment-output ratios for eight contries in 1913-50. Let us asume that these ratios were stable, that the capital-output ratio of particular pieces of capital did not vary with age and that no capital lived more than thirty-seven years.* Then the capital-output ratio in 1950 would be equal to the investment-output ratio in 1913-50, and we could calculate figures of capital-output ratio, annual changes in capital per head and output per head for the eight countries. This has been done in the table.

Comparison of columns 1, 6 and 7 bears out none of Maddison's infe-

* Actually, most of Maddison's investment-output ratios are for shorter periods than 1913-50 — 1921-50 for Denmark, 1925-37 for Germany, 1913-38 for Norway and 1926-50 for Canada. Our assumed life of capital for these countries must be correspondingly shorter.

Table

	Investment-Output Ratio 1950-60	Capital-Output Ratio 1950	Proportion of GNP Invested 1950-60	Annual Growth Rate of Capital 1950-60	Annual Changes in Man-hours 1950-60	Annual Change in Capital per man-hour 1950-60	Annual Growth of Output per Man-hour 1950-60
	(per cent)						
	1	2	*3*	*4*	*5*	*6*	*7*
Canada	*6.4*	*4.6*	*24.8*	*5.4*	*1.3*	*4.1*	*2.6*
Denmark	*5.5*	*5.0*	*18.1*	*3.6*	*0.4*	*3.2*	*2.9*
W Germany	*3.2*	*4.1*	*24.0*	*5.0*	*1.6*	*4.3*	*6.0*
Italy	*3.5*	*10.4*	*20.8*	*2.0*	*1.8*	*0.2*	*4.1*
Norway	*7.5*	*5.3*	*26.4*	*5.0*	*−0.5*	*5.5*	*4.0*
Sweden	*6.5*	*7.0*	*21.3*	*3.0*	*−0.2*	*3.2*	*3.5*
United Kingdom	*5.9*	*4.6*	*15.4*	*3.4*	*0.6*	*2.8*	*2.0*
United States	*5.8*	*5.1*	*19.1*	*3.7*	*0.9*	*2.8*	*2.4*

Source: Calculated from tables 1-6,1-7, III-1 and III-2.

rences. The association between the investment-output ratio and rate of change of capital per man-hour is very poor. The same is true of the association between the rates of change of capital per man-hour and output per man-hour. And the response of output per man-hour to increases in capital per man-hour is poorer in Norway, Sweden and Britain than in the United States. So growth has by no means been easier for Western Europe on account of stores of unutilised technology, and the introduction of a technological fringe does not advance explanation.

However, the elaborate theory is only meant to embellish Maddison's main point, which is that better growth performance was related to higher investment rates. This, I think, is adequately borne out by Maddison's figures. But why were the rates of investment so much higher than before the war, and why did they differ so radically from country to country? We get no good answers to these questions. He begins an analysis of demand and profits and shows that profit margins and the rate of profit on capital in manufacturing were markedly higher throughout the fifties in West Germany than in the UK or the USA; but he stops there. Here a good opportunity was neglected; the use of international data in investment functions is worth trying out.

Lame Analysis

In the absence of a clear picture of the forces influencing investment, the rest of the analysis is lame. Maddison thinks that government could give important stimuli to investment through maintenance of demand, encouragement of competition and planning. However, the only concrete conclusion that emerges is that governments slowed down growth in Britain and the USA by deflationary policies.

The chapter on international trade has even less to say about differing growth rates, and seems a *non sequitur* to me. It is noted that "the fastest-growing countries, in terms of output, tended to be those with the most rapid increase in exports", but there is no analysis of the reasons; all we are told is that "payments deficits were due to the pressure of domestic demand on imports rather than to falling exports. When exports were falling or stagnant the cause was usually rising prices and declining competitiveness and not deficient external demand" (p 166). This is the wrong tree to bark up: the course of export prices of industrial countries shows no similarity to that of home prices except for Britain and the USA; nor is there much connection between trends of export prices and volume of exports.

However, to regard this book as a problem-solving exercise would be taking too narrow a view. Among other things, it gives a very lucid survey of economic policies followed in the fifties as well as of the international monetary system. And the numerically minded reader must get much instruction from the league tables of the western countries and the long-term series of output, population, labour force, investment and productivity, many running from 1870 to 1960.



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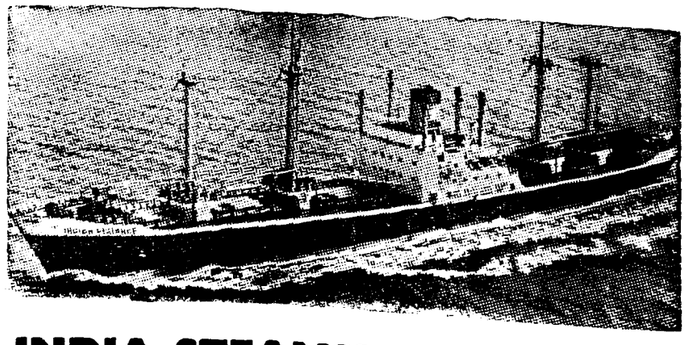
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China: 'Consolidation Period'

(From a Correspondent Recently in China)

None of the impressions one gathers in the course of a journey through China can be validated with figures, for China has published no statistical account of its economy or any major sector since 1959. All that one has are isolated facts, percentage increase figures, numbers of 'innovations' or new varieties of goods now produced—all of them hanging in a limbo that cannot be evaluated.

However, if heavy industry still seems relatively slack, light industry, consumer goods and, in particular, enterprises related directly to agriculture, seem active. Even here one cannot be sure of what is happening, but there seems to be much more confidence, much more willingness to give explicit figures on the increase in output in the past year.

There is some hope that the greatest gap in the Chinese economy, the vulnerability of its agriculture, can ultimately be plugged. Fertiliser production has been accorded very high priority and new plants have been opened at different points throughout the country. Production of tractors and trucks, now more soundly based as a result of the increased variety of special steels that are being produced, is being pressed as hard as possible.

More generally, life in China nowseems to be a little more stable and comfortable. Social differentiation is still there and is often marked but much has been done to improve the lot of the lowest strata of society.

Of course, the stability and the modicum of comfort is also a danger. The Government is fully conscious of this. How can the Chinese people be constantly harnessed to increased effort if public policy is conservative and pragmatic, without explicit long-term targets, when ordinary incentives, however mild, are used.

CHINA is now well out of its disastrous slump of 1960-61, but there is still much slack in the economy and no-one is yet confident enough to project some perspective beyond the immediate. Almost nothing emerged publicly of great significance from the recent National People's Congress in Peking, and that there was nothing public suggests there has been no return to adding some flesh to the mythical Third Five Year Plan. If one asks people about this Plan, now ostensibly in its third year, one usually gets the answer that it has not yet been worked out, so that one wonders precisely what the function of a Plan is if one can run along happily to over halfway through it without having it 'worked out'. Not that this is in anyway unusual, for the Second Plan (ostensibly from 1957 to 1962) was so flexible that it included the Great Leap Forward, not intended when the few targets made available were published in September 1956, and the 'Adjusted Plan for the Last Two Years of the Second Five Year Plan' which officially consolidated after 1960-61, was only approved (but not published) by the People's Congress in April 1962.

No Relaxation of Controls

However, while this may suggest that the Politburo is not absolutely sure what it should aim for in five years time, it does not imply any relaxation in controls. Pruning the economy, shifting out of the urban labour force the millions of Great Leap newcomers, controlling prices during the terrible dearth of 1960-61, ensuring that the distribution system accurately ensured that all tightened their belts together (even if by different notches), this demanded very much intensified controls—and that it was carried through without proven substantial public revolt is perhaps the greatest testimony to the stability of China's Government and its relative popularity.

The web of controls, the strategically placed 17 million cadres or so, remain, and are the steel frame which permits the economy to function. Heavy industry, extravagantly overexpanded in the Great Leap Forward so that certain categories of capital goods supply was swollen far beyond its marginal productivity, given the supply of complementary factors, has been most ruthlessly pruned. Much of it, so far as one can tell, remains underutilised, and when one visits heavy plants, there is much evasion about the statistical series through from 1949—the one to 1957 is available as is production today, or rather the per centage increases between then and now, but not a blow by blow account of the plant concerned for the years between 1958 and 1963. Many of the chimneys are not smoking, and there always seems to be two or three shops closed 'for minor repairs'. Heavy industry processing plants are stringently controlled now by the flow of raw materials—given constant extraction ratios, no more steel can be produced than ore is supplied, and the Government has imposed much stricter quality controls on raw material output to minimise the output of rubbish called coal or iron ore as in the Great Leap days of bounding output figures. This ensures both that the output of processing plants corresponds more closely to the output of raw material, and also that exports of raw materials becomes more possible. Manchuria remembers its old Japanese outlet of prewar days, but so far the Japanese have been reluctant to take up its former iron ore imports from China because of its fluctuating quality.

Not that any of the impressions can really be validated from the figures, for China has published no statistical account of its economy or any major sector since 1959. All that one has are isolated facts, percentage increase figures, numbers of 'innovations' or varieties now produced, all of them hanging in a limbo that cannot be evaluated. However, if heavy industry still seems relatively slack, light industry, consumer goods, and especially enterprises related to direct production for agriculture, seem to be reasonably active. Even here one cannot be absolutely sure what is happening, but there seems to be much more confidence, much more willingness to give explicit figures on the increase in output in the past year.

High Priority for Fertilisers

Fertiliser has been the favoured son among industries since the change in policy from developing industry as first priority to developing agriculture, and new plants have been opened at many different points throughout the country, are being rapidly expanded and brought into capacity (or as the Chinese persistently and innocently claim 'over-capacity') production. The one recently examined by your correspondent did show signs of the haste with which it had been constructed, and although no one would admit it, it seemed there were persistent breakdowns because of this speed—but they were producing, and no doubt as the teething troubles subside, the

expansion will steady itself. Of course, by Indian standards, such projects are technologically relatively primitive, nor can one appraise the quality of output nor the use to which output is put, at least now the stress of Chinese development has changed. There is some prospect that the greatest gap in the economy, the vulnerability of agriculture, can ultimately be plugged. Chinese tractors and trucks, now more soundly based by the increased variety of special steels that are being produced in this 'consolidation period', are still scarce in relationship to the need, but output, like that of fertiliser, is being pressed as hard as practicable—as is the production of pumping and water conservation equipment.

No Shortage of Food

Light industry, particularly where related to a low income domestic market or, even more important, exports, is humming, and the rush of home-grown prestige innovations remains strong (even if the innovations remain in prototype form, not put into production, and owe extensive unacknowledged debts to foreign patents) —transistor radios, cameras, television sets and equipment, precision medical appliances, semi-automated looms, to large-scale generators, are on show in the permanent exhibition of Shanghai industrial output, but one sees few on sale in the shops; Chinese motor cars are said to be expanding, and in the largest cities, one already sees a few on the streets. Cotton textiles are, of course, working at maximum level, although they suffered in 1960-61 from the decrease in domestic raw cotton production (and the consequent necessity to increase raw cotton imports). From purely superficial acquaintance the mills are impressive. Sharp division of labour permits vast sheds concentrated on a particular process, with minimised labour inputs and 24 hour shift working for the maximum days per year (allegedly, about 350, but this was obviously the aim rather than the achievement)—China makes no bones about having chosen to maximise labour productivity in its modern industrial sector, despite slack labour demand and rural underemployment. Much of the loomage in the mills is old—Lancashire and Japanese made dating back to the first World War or the twenties, but now increasingly replaced by more modern Shanghai-built equipment.

Of course, a tour of some of the best of China's modern industry is as illuminating a view of China proper as a tour of Durgapur or Sindhri is characteristic of India as a whole, even though in China, one suspects on the limited view available to a foreigner, the gap between modern industry and the ordinary rural dweller is less wide than it is in India, both because even the best industry does not attain the technological standards of the best Indian industry and also because the Chinese countryside has been transformed in a way the Indian has not. Again, one's impressions, fragmentary and unrepresentative as they are, are all one has to go on, and these are favourable. There is absolutely no evidence of starvation or malnutrition in town or country: all seem to be fed somehow, and at the moment the foodgrain ration is more than enough for ordinary consumption; shortages exist (in cooking-oil, for example, shades of Calcutta) but they seem generalised, and basic commodities seem available in moderate abundance at prices within the scope of good industrial wages. The shops have reasonable supplies of fruit and vegetables, milk and eggs are relatively cheap, and even meat does not seem excessively scarce. From the urban end, the harvest looks to have been good, an impression confirmed by the fragmentary reports from the countryside. The spring crops were good, and the overall 1964 performance suggests that wheat did well, rice was adequate, and raw cotton mediocre: the Chinese can breathe another sigh of relief for the third reasonable year's harvest in a row.

New Role of Commune

In the countryside, conditions are spartan but still not bad—food does not seem difficult (although, only one deficit area, and that a prosperous one, was visited), and all are clothed. The Communards farm in the fields in the South without shoes on, but otherwise most adults seem shod. The very small rural industrial enterprises have generally been scrapped with no intention of resurrection, but the medium small plants are slowly coming back into production, particularly where they directly supply consumer demand and can be used to mop up surplus purchasing power. The Commune itself remains now not so much a vision of a new society as merely the lowest local government level, a rather mundane organisation. However, in many areas it is still very important for mobilising the combined labour force of the now much reduced Commune area for joint projects—irrigation, road building and general water conservation projects; and it supplies a number of collective services: seed and equipment centres and workshops, advice agencies, schools, a local marketing centre, a rediffusion centre, a cinema or small opera house.

More generally, life in China seems now to be a little more stable and comfortable for many. Social differentiation is still there and often marked (particularly in the winter when some can wear expensive fur jackets, and some only patched denims) but what has been done to improve the lot of the lowest stratum of Chinese society is still a monument to the Government's efforts. Of course, the stability, the tiny modicum of comfort, is a danger the Government is fully conscious of. How can the Chinese people be constantly harnessed to increased effort, whipped into improvement, if policy is conservative and pragmatic, without explicit long-term targets, when ordinary incentives, however mildly, are used?

Dangers of Stability

The socialist education movement, launched in 1962 and now in full swing, is designed, one suspects, to try to remedy any sign of back-sliding. Every medium of cultural communication has been 'reformed', from the Universities to the newspaper or opera, in order to continue to ram home the strident lesson that the past before 1949 was inestimably abominable, that the Party and the now deified figure of Mao are the distillation of traditional wisdom and modern 'science', that all must work a little bit harder, be a little bit nicer and a little more loyal every day. The results are disastrous in terms of the future of Chinese culture—the complex lessons of the history of ethics and economics, the complexity of modern international politics, are successively reduced to the same magic incantations, the same trivial formulae and empty slogans, the same smug vulnerability. Yet, although the intellectuals suffer most, cultures have recovered from such onslaughts before (Zhdanov and Stalin did their worst, but the Russian people recovered), and mere verbal moralising is ultimately ineffective in sustaining a revolutionary ardour that actual material conditions contradict. Which suggests that sometime in the future the Chinese Government will have need to change material conditions with rapidity and great tension to revivify that ardour—which could mean a whole series of imponderables.

English, Hindi and the Regional Languages

I P Desai

Thanks to the lack of a clear policy on the official language, from time to time English or Hindi has been pushed forward and backward at the cost of the regional languages. Attention and energy have been diverted to the Hindi-English controversy while the State administrations have continued to use English and not the regional languages.

The conflict between Hindi and the regional languages has been fostered and aggravated very cleverly by the proponents of English, aided, of course by the folly of the Hindi-speaking supporters of Hindi who have failed to realise that the growth of the national language will come about only through the growth of the regional languages.

The fact, as The Economic Weekly's *South Corespondent pointed out in his despatch in the Annual Number, 1965, is that the only way for Hindi to become acceptable is through emphasis on the regional languages with a view to their gradual take over from English.*

I ENTIRELY agree with the conclusion of your correspondent in his Letter from South in the Annual Number, February 1965, that "The only way for Hindi is first and foremost an emphasis on the regional languages, carefully worked out plan for their rapid take over from English."

I also agree with the reasoning by which he arrives at this conclusion and I endorse the social realism behind it. Your correspondent observes correctly, "India has still largely a pseudo-self" and "what has not happened is the creation of Indian nation". He comes to the point which touches the sociologist when he says that "this must rank as one of the biggest failures of middle class in history." The important question, therefore, is what is the character of the middle class? What are the social groups from which this class comes and what are the values and attitudes that it possesses at this particular point of time in the history of the nation?

Changed Role of English

The identification by your correspondent is simple and workable. He refers to the class of persons educated under the system of education introduced by the British, particularly the class which has taken education upto graduation and above. "In the early phase this intelligentsia drawn from the landlord class or from one or another comprador occupations came to English as a means of westernisation which they felt was the only way forward to the modern regeneration of their country." A point needs to be added here. These were also the people settled in the urban areas, the big towns of those days and they came from one or two higher castes in each linguistic region.

To these 19th century proponents of English, the English language was the language of culture. The role of English today has changed and it has become the means of earning the livelihood and of achieving social status. The position of English in the hierarchy of values has come down to more immediate ends than to distant ends in the minds of the mass of population which is taking to education in numbers much larger than at any time in the past. And what is more important, it will continue to grow larger. This means that the social base of the college and university educated is becoming broader and will continue to do so. Education is growing among the lower income groups of the higher castes and higher income groups of the so-called lower castes in urban and rural areas respectively. Their traditions and the contemporary experience of life are different from the traditions of the 19th century educated class. Consequently, the large mass of recently educated and uneducated class has different values and its attitude towards English, as we have said, is of a more functional nature and there is a hiatus between the values of the policy makers and of those influential in policy making and the values and attitudes of the large number of newly educated people.

The Stumbling Block

These policy makers and influential persons do not see or probably do not like to see the changed role of English. They cannot get rid of the heritage of the 19th century intelligentsia which was clear and honest about the Indian society of the future—the westernised India. Westernisation was the openly accepted creed with them. Their contemporary inheritors are not in a position to stand by them in their creed, probably because they do not have the conviction and perspective of the 19th century Indian westerniser. That is why the defenders of English always begin by agreeing that the regional language is the proper media of instruction and administration in the states. But in the same breadth they start advocating caution, gradualness, preparation, etc, so that ultimately the change over to regional language never materialises. They know that English just does not work in the colleges and universities but they cling to it. They know very well that the large mass of students do not have the environments, either at home or in the educational institutions, congenial to English as a medium of instruction. They run away from this reality and try to save English by advocating the restriction of admissions and by proposing increase in papers, hours and years of teaching English. But the command of the students over English does not increase. Yet English is continued as the medium of instruction. The same students go out as assistants in offices and teachers in schools and colleges. Hence again the complaint of their poor standard of English. They just fail to realise that the regional language is the most effective means of communication, for the spread of science and scientific attitude. Not to introduce, therefore, the regional language as the medium of instruction is to hamper the spread of science and scientific attitude. The advocates of English in this sense are becoming the stumbling block in all that is new and desirable. In effect, they are playing the role of conservatives and reactionaries however progressive they may like to appear.

Role of Intelligentsia

Is the intelligentsia not intelligent enough to realise this? The intelligentsia is, though the class of influential persons may not be. Here it is necessary to point out a new development in the composition of the intelligentsia. With the growth of university education an academic intelligentsia is growing as specialists in their subjects. It is not of any significant size but it is a qualitative difference which will grow. These are the persons with ability to see things but they are cut off

from the social currents because they are interested in solving their own academic problems. Their intellectual honesty is not questioned here but their awareness of their social responsibility is perhaps not based on sufficient observation and thought, just because they dislike being disturbed in their pursuits. Yet they have opinions based on their contact with their "society" of policy makers and the influential who use them for their own purposes. Also, they are cut off from the large mass of teachers who handle the large mass of students in undergraduate colleges and post-graduate students in places other than the metropolitan cities. If they had either first hand experience or contact with those in touch with the large mass of students, they would very probably hold different opinions.

So the effective supporters of English are the policy makers and the influential. Who are they? Among the policy makers are included the secretaries—joint, additional, deputy, assistant and under — and advisers. We designate them as government intelligentsia. Then there are the ministers of various statuses at the Centre and in the States. They are directly related to the influential in their political party as also the members of legislatures at the Centre and in the States belonging to the non-government parties. These have their supporters in their parties and outside it in the society who may not be the members of any political party.

The Policy-Makers

The social characteristics of these policy makers and the influential, their values and attitudes enter into policy making and in the execution of the language policy and in the reactions of the people to the policy.

The government intelligentsia comes from the upper castes, upper income groups and urban areas or from the urban influenced sections of rural areas, but in small numbers. They are all degree holders and also probably specialists in some branches of knowledge. They obey and respect the ministers as a matter of routine. But they like or dislike the minister according to his social origin, his academic achievements, experience and ability. Being what they are, they have to execute the policy. But they can influence the ministers by putting up a weak case strongly or a strong case weakly. The declared policy can be delayed, hastened or twisted in practice. The dependence of the ministers or the government on these persons is an established fact all over the world. Thus their social base, their values and attitudes play an important role in policy making and its execution. It is not that they consciously ally with the particular stratum from which they come. The stratum strongly conditions a man's outlook and he normally acts according to its standards. Hence we find that persons from a given upper strata are against their own regional language or at least they are not enthusiastic for their regional language.

Difference in Outlook

The government intelligentsia do not find much difficulty in their daily work because the politicians who are the principal policy makers are as a rule English knowing, at least those who are put in ministerial position. But among politicians the heterogenity in terms of the university degree, knowledge of English, occupation, income and rural or urban origin and outlook and caste is more pronounced than in the case of government intelligentsia. In all the political parties at the leadership level in the parliamentary groups the ministers are either degree holders or English knowing but the members of the legislative parties are not always. Yet the proportions of rural agriculture based persons, having not much knowledge of English, do not have dominating influence in the parliamentary parties at the centre. The urban based working class members are still rare, but their number and the number of agriculture based members are growing in the State legislatures. The result is that the difference in the outlook of the leadership and of their immediate supporters is growing in all the political parties.

But the difference between the top leaders and the electorate is still wider. It is true that in any State a political party can come to power only on the agricultural vote. At least this is true in the case of the present ruling party. Nearly seventy per cent of the Indian voters are illiterate, i.e. innocent of even the alphabets of their regional language. Yet it is this voter who puts a party in power. They live in rural areas and earn their living by agriculture and occupations dependent on it. But the top level leadership comes rarely from this group and even the second rank leadership which is nearer to this group, physically and socially, is yet not of that group.

By the very nature of the political activity this is bound to happen and there will always be some distance between the various levels of leadership and their supporters through whom they gain positions of power. This gulf is generally narrowed by the growth of specialists in political activity, the professional politician. He generally represents the interest group in wider society. Until, therefore, the interest groups are organised, this hiatus continues to be glaring. As interest consciousness grows, the distance between leadership and its following narrows down. This is probably what is happening at this level in India.

Urban Interests in Rural Areas

The rural areas in India are not the same today as they were in pre-independence era. Of course, the changes have not been to the same extent in all the States, and that makes a difference. The main difference is of the penetration of the urban occupational interests and the outlook co-related to it in the rural areas. The small towns, with population ranging from say, thirty thousand to one lakh are growing in number and importance and the metropolitan urban interests have their footholds there. Their agents there set a standard for the style of living and aspirations. These agents are the lawyers, doctors, businessmen, government officers, branch managers of banks and such other concerns. All these groups have their associations with the bigger cities of the area and the importance of the individuals in these groups in their local setting depends on this contact with the luminaries of their interests in the bigger cities and, in the final analysis, in the capital city. The Rotary, the Lions Clubs and the Junior Chambers provide them the contact places. The well-to-do agriculturist and the shopkeeper in the interior is their last post in the rural area. The leadership comes from these interests or their nominees and they are the proponents and supporters of English in rural and they are the vocal groups and when it is said that even the rural people want English, these are the rural people, the vocal groups. The social base of English is thus widened and its spread has gone into the rural areas, i e, nearer to the villages.

A development which the proponents and supporters of English deplore is that the strata which formerly remained untouched by education now show a strong desire for it and are sending their children to schools and colleges. The social composition of primary and secondary school pupils and of college students in rural areas is changing. Though the higher caste students may be larger in proportion to their caste population, the absolute number of other castes is increasing. These are also the lower income groups. For them education is not only a means of earning the livelihood, it is also a means of raising their own status in their groups and of their groups in relation with the traditionally higher groups.

The whole mass of rural students and that section coming from lower income groups of all castes in urban areas suffer the most from the handicap of the English medium. Compared to the size of these groups it is to the insignificantly small group in society that English medium affords an advantage in addition to the social and economic advantages that they already have. Large number of school and college teachers come from this latter section and their views are generally consistent with their position in the hierarchy. There is some modification in their position when they are guided by linguistic chauvinism and by the considerations of job opportunities for men from their own region.

English and Mobility

The usual argument in favour of English as promoting mobility is a further illustration of the interests of the small group that English serves. From every region two types of persons migrate: the educated and the illiterate. The educated communicate in English with the English-knowing persons of the other regions. But do the large numbers of engineering, textile and building workers from other regions communicate with the local people in English? They manage with some sort of Hindi. Do the proponents of English visualise a day when all such migrants will be communicating in English? This is moonshine in view of the fact that only 35 per cent of the population is literate and 2 per cent know English. Even so English is shown as the language promoting mobility. It does, but whose? Of the minor groups of two or three higher castes and the new well-to-do of the lower castes. The reference group of the proponents of English is that small group from which they come.

English medium is thus thoroughly inconsistent with the advocacy of democracy and socialism. Yet what has been the position of the parties professing these? The position of the Swatantra party is easily understandable. Their vision of the future Indian democracy is that of the nineteenth century British society. But have the communists and the P S P unequivocally and wholeheartedly proposed and propagated for the regional language as the medium of instruction at all levels of education? It is possible that in particular plans and in particular situations they might have paid lip service to regional language because it suited their immediate political aims. Otherwise, they have been more faithful to the strata from which their leadership comes than to their rank and file on whose votes they win their elections.

The real conflict regarding the place of English, Hindi and the regional lenguages is in the Congress Party. At the States level, the consensus is on the regional language as the medium of administration. But there is division regarding the medium of instruction at the university level. Even regarding the administration, the judiciary at the top level is conservative.

Language and the Civil Service

In administration the resistence to the regional language comes from what we have called the government intelligentsia and the high-ranking officials, many of whom might belong to the central services. In some regions which were slow in catching up with the spread of education, there are many persons from other linguistic regions. But in others there are few persons from other linguistic regions in that cadre. A powerful Chief Minister of a State was reported to have said that he would not have central service men coming from a different linguistic region. The distribution of regional and non-region men in every State, in Central and the higher services of the State will be quite revealing. It would reveal that mobility means mobility in one direction only and it is not inter-regional mobility. This will be true even in regard to secondary and university teachers. Thus the personnel of the services in one factor in the resistence to the regional language. When the personnel is from the same region, the resistence to the regional language is largely due to their class position. The resistence to Hindi as the official language of the union is due to the expected competition to existing groups from other regional groups. The members of the central services who are working hard against monopolies in the economic field are working equally hard to maintain their monopoly in their own field.

This situation is largely due to the unequal development of different regions in economic and educational fields. But it has given a sense of inherent quality to certain regional groups in regard to certain types of administrative and technical jobs. Side by side with the channelisation of ambitions of the educated section of that region in that direction comes the belief in the inherent incompetence of the people of other regions in that field. The other groups do not admit that claim. Consequently, there are tensions. This sort of tensions are not peculiar to India, but they exist in all countries wherever similar situations obtain, including Europe and America. They are eased when development reaches a comparable level in all regions. But the intensity of the tensions becomes greater while development is taking place and also probably when the rate of development is faster or slower in different regions. The political policy makers have to devise mechanisms to manage these tensions and not wait till the crisis overtakes them. If the tensions are not managed now they will hamper the development process. Therefore it is necessary to face the problem and not postpone it. The ostrich-like policy of the last 17 years has aggravated the tensions and not eased them.

Regional Languages Neglected

The clever policy of giving support to English, Hindi and regional languages has not satisfied anyone, and by administrative manouvers, English or Hindi has been pushed forth and back at the cost of regional languages. In each State attention and energy have been diverted to the Hindi-English controversy and the State administrations continued to operate in English and not in the regional language. Not only that but the conflict between Hindi and regional languages was aggravated, thanks to the cleverness of the proponents of English and the folly of some Hindi speaking proponents of Hindi. The latter did not declare their full-throated support to the regional language in State administration and as the medium of instruction. They thought that more officers and teachers from Hindi speaking areas would automatically strengthen Hindi in other regions. The behaviour of these officers and teachers was also repugnant to the local people. They not only brought the clerks but also the peons from the Hindi speaking areas (e g, in the oil projects in Gujarat). The standards of efficiency of the local peons fell much below the standards inherited by the officers and their wives from the feud-

al landlordism. If the peons do not come up to that standard of efficiency, need anything be said of clerks and lecturers from that region? If such was not the situation, the Maharashtra Chief Minister would not have to plead while inaugurating some project that local people should also be given opportunities of employment in that project. Thus the suspicion of Hindi imperialism becomes stronger. The English enthusiast asks the peon if he knows English. Whether or not he knows cooking and table service is inquired by both Hindi and English enthusists. As a matter of policy in all the central projects the smaller posts must be filled by the local people. This will not affect efficiency at all, because we complain of inefficiency all over India. An inefficient man does not become efficient in another region. And further as our aim is to reduce tension a little difference in efficiency should be tolerated in favour of the local man.

The higher posts have to be filled keeping the requirements of the post in view and not the region of the candidate or his mastery over English or Hindi. And whatever the language of

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LIC—YOUR COMPANION IN PROGRESS



the union may be, government officers must be required to know the language of the region in which he works. A good deal of the edge of inter-regional mistrust will be eased off if this is done.

But who will make the rules we ask for? The services will depend on the political policy makers. In the Congress Party with which we are concerned now, the urban interests which have penetrated into the rural areas from the social base are the proponents of English. We have described their character. A section of them, particularly in the bigger cities and towns, and even agriculturists support the Swatantra Party openly. The Swatantra party relies on the English supporting interests as their fifth column in the Congress Party. As against these interests in Congress and outside, there are the supporters of Hindi and the regional languages. Their main source of strength is in the rural areas. In terms of interests, the P S P members who have recently joined Congress have more things in common with them. But the social roots of their leaders and their urban nurture fosters in them a "modernistic" mentality and they cannot easily join hands with the leadership of the pro-Hindi pro-regional language group. Also tactically they would not like to toe the line easily. But if they do not unite with them they will be as ineffective in the Congress as they were when they were outside it. The realisation of this position and corresponding action requires political maturity and vision which may be wanting. The probability is that they might act more as individuals rather than as a group or they might act as sub-groups among themselves. What the actual outcome of their union will be also depends on the sections of the Swatantra and anti-Swatantra or rural based group in Congress. Any way the present position is that P S P group in Congress, though it is nearer to the rural group, does not support them wholeheartedly in their pro-Hindi pro-regional language policy. Among the leaders, some are rootless and some are still rooted in Swatantra social base.

Thus within the Congress there is rivalry and conflict between pro-Swatantra interests and what we have now called the rural interests. The strengthening or weakening of these interests within the Congress will decide the language issue.

The Communists, if they remained true to their ideology, cannot but support the pro-Hindi pro-regional language groups. But who can say what they are and what they will do. For an immediate tactical gain, they may do quite the opposite of what their philosophical position would require them to do.

The question of medium of instruction and the medium of administration are thus closely linked with the "interests" in society and the political action of the parties according to the interests that they serve. It may happen that the actions of political groups such as the Swatantra section among the leaders and the influential in the Congress or some P S P leaders and the communists may go against the interests of the masses for which their parties profess to stand. But that does not divert the language from its political and social linkage. It happens because of the social charcteristics of these leaders.

Conflicting Interests

The proponents of English lack the conviction and therefore the courage of conviction because their idea of 19th century British society and the polished Indian Englishman does cut ice with the large masses. The masses want to know English not for the love of it but because they know that it has some use for them and there it ends. Their attitude towards English is like that of a tenant towards hired house in which he lives. Consequently, the command over English of the large mass of students and teachers, lecturers and of clerks and officers is not of that standard expected by the minority coming from higher castes, higher income groups and prestige educational institutions expect. Each group has the feeling of separateness or enstrangement from the other. The only consequence can be inefficiency. Yet English helps the top people as a means of showing and retaining their superiority. Thus they have become a vested interest.

The proponents of Hindi fear the growth of regional languages. Their fear was and is that if the regional languages become the medium of instruction and administration, it will be difficult to dislodge them and the state administration and education in the States will be in Hindi. That is why without specifying whether it was English or Hindi, they emphasize the need for a common language for the whole of India whenever the question of medium of instruction and administration comes up. The result has been that the regional languages have not been encouraged and English has remained entrenched in its position. None of the accredited associations of Hindi has wholeheartedly and unequivocally declared itself in favour of regional language as the medium of instruction and administration in the States. Supporters of English were naturally glad. Thus English and Hindi supporters have been for sometime partners, though strange partners, against the regional languages. When the Official Language Act came into force on January 26, 1965 the proponents of English naturally thought that Hindi was scoring a point and therefore regional chauvinism was commissioned into the service of English. If the regional languages had by now come into their own what happened in Madras would not have happened. The natural course for Hindi is to come *via* the regional languages. The Hindi expansionists are pressed by the growth of the new educated class in Hindi speaking areas which in the part were lagging behind in the economic and educational race. They find the Bengali and the South Indian English speaking people entrenched in their own regions. They want to shove them off and export their surplus to other areas. Education in the Hindi speaking areas is still confined to upper income and upper caste strara there. They press for standard Hindi of their stratum and their attitude towards Hindi speakers of other regions is the same as those who complain of poor English of the new English speaking stratum. Consequently the Hindi speaking man from the standard Hindi speaking area is to be preferred to Hindi speakers from the non-Hindi speaking area for jobs. This is encouraging Hindi provincialism in non-Hindi regions and the regions which are not opposed to Hindi also begin to be apathetic to Hindi. The genuine fear of Hindi imperialism is aroused and the creation of a new-Hindi *herrenvolk* in addition to the English *herrenvolk* is threatened. If the regional languages are freely entrenched in their regions looking to the growth of education among the masses in every region, inevitably poor command over English will naturally lead to Hindi being accepted as the link language. But the reasoning of the Hindi *herrenvolk* is the reasoning of the feudal-based expansionist.

The growth of the national language will come through the growth of the regional language and not *vice versa* as some Hindi protagonists think.

BALANCE SHEET OF THE STATE B

OF INDIA AS AT 31st DECEMBER 1964

As at 31st December 1963				CAPITAL AND LIABILITIES	As at 31st December 1964			
Rs.	p.	Rs.	p.		Rs.	p.	Rs.	p.
		20,00,00,000	00	**1. Capital :** Authorised Capital—20,00,000 shares of Rs. 100 each	20,00,00,000	00		
5,62,50,000	00			Issued, Subscribed and Paid-up Capital—(pursuant to Section 5(1) of the State Bank of India Act, 1955)—5,62,500 shares of Rs. 100 each ...			5,62,50,000	00
9,30,00,000	00			**2. Reserve Fund and Other Reserves**			9,90,00,000	00
3,56,17,700	00			**2A.‡Integration and Development Fund** (maintained under Section 36 of the State Bank of India Act, 1955)			3,82,61,170	41
		264,10,44,188	33	**3. Deposits and other Accounts :** Fixed Deposits	267,47,27,361	66		
		70,67,49,948	80	Savings Bank Deposits	86,24,74,146	32		
594,39,98,466	64	259,62,04,329	51	†Current Accounts, Contingency Accounts, etc ...	305,32,71,280	87	659,04,72,788	85
				4. Borrowings from Other Banking Companies, Agents, etc.				
72,40,000	00	72,40,000	00	§ (i) In India				
				(ii) Outside India	41,21,05,000	00	41,21,05,000	00
				§Includes an amount of Rs. 1,21,05,000 borrowed from the Industrial Development Bank of India as per contra				
		72,40,000	00	Particulars : (i) Secured by Government Securities and other securities, assigned for refinance, per contra ...				
		72,40,000	00	(ii) Unsecured	41,21,05,000	00		
					...			
9,12,07,493	95				41,21,05,000	00		
				5. Bills Payable			9,15,50,565	71
		9.39,35,070	82	**6. Bills for Collection being Bills Receivable** as per contra : (i) Payable in India	5,75,85,687	94		
9,66,86,115	86	27,51,045	04	(ii) Payable outside India	41,05,311	01	6,16,90,998	95
		73,12,500	00	**7. Other Liabilities :**				
		46,740	97	* Final Dividend for the year	73,12,500	00		
20,01,57,965	43	19,27,98,724	46	Unclaimed Dividends	53,290	82		
				Inter-Office Adjustments	23,35,43,025	49	24,09,08,816	31
17,80,55,871	04			**8. Acceptances, Endorsements and Other Obligations** per contra :			19,55,61,645	35
		45,67,533	02	**9. Profit and Loss :** Balance brought forward from last year ...	35,50,831	05		
		2,74,81,798	03	Profit for the year	2,95,31,290	05		
		3,20,49,331	05		3,30,82,121	10		
		1,29,37,500	00	Amount set aside for payment of Dividend (made up of Interim Dividend Rs. 56,25,000 and Final Dividend Rs. 73,12,500)	1,29,37,500	00		
		55,00,000	00	Amount transferred to Reserve Fund	60,00,000	00		
		8,61,000	00	Amount transferred to Pension Fund	9,01,000	00		
		82,00,000	00	Bonus to Staff	90,00,000	00		
		5,00,000	00	Amount transferred to Staff Welfare Fund ...	10,00,000	00		
35,50,831	05	5,00,000	00	Amount transferred to Staff Co-operative Housing Fund	5,00,000	00	27,43,621	10
		Rs. 17,24,469	26	**10. Contingent Liabilities:** Claims against the Bank not acknowledged as debts ...	Rs. 25,68,489.27			
		Rs. ...		Bills of Exchange rediscounted	Rs. ...			
		Rs. 32,92,48,116	86	Outstanding Forward Exchange contracts ...	Rs. 70,30,37,133.51			
		Rs. 2,047,71,450	00	On partly paid-up shares ...	Rs 71,450.00			
		Rs. ...		Balance of call to be made on Debentures	Rs. ...			
		Rs. 2,26,750	00	Gurantees given on behalf of Directors, Local Board Members or Officers of the Bank	Rs. 4,49,494.00			
		Rs. 155,37,95,159	40	Guarantees given on behalf of others	Rs. 178,22,79,153.71			
670,57,64,444	38	. . Total					Total . .	778,85,44,606 68

‡ In addition to the credit of Rs 40,21,875 pertaining to the final dividend for 1963, a sum of Rs 30,93,750 was credited to this Fund on account of the interim dividend declared in July 1964. A sum of Rs. 14,47,894 was appropriated from this Fund during the year, under the authority of the Reserve Bank of India, in respect of losses for the year 1963 of the new branches established under Section 16(5) of the State Bank of India Act, vide item 7(a) of the Profit and Loss Account. A further sum of Rs. 30,24,261 was appropriated from the Fund, with the approval of the Reserve Bank, in respect of the subsidies granted to the Subsidiary Banks towards losses of their new branches, in terms of Section 36(2)(aa) of the State Bank of India Act read with Section 48(1)(b) of the State Bank of India (Subsidiary Banks) Act.

† Includes Staff Welfare Fund and Staff Co-operative Housing Fund, ownership whereof vests in the Bank.

* Of which Rs. 40,21,875 is to be credited to the Integration and Development Fund (item 2A above) bringing the amount in the said Fund to Rs. 4,22,83,045.41.

As at 31st December 1963				PROPERTY AND ASSETS	As at 31st December 1964			
Rs.	p.	Rs.	p.		Rs.	p.	Rs.	p.
44,17,01,014	70			**1. Cash :** In hand and with Reserve Bank (including foreign currency notes)			70,35,52,308	96
				2. Balances with other Banks : On current account On deposit				
3,64,31,185	48	3,64,31,185	48	(i) In India ... Rs. ... Rs. ...	...			
5,80,00,000	00			(ii) Outside India Rs. 4,32,87,795.18 Rs. 17,31,687.89	4,50,19,483	07	4,50,19,483	07
				3. Money at Call and Short Notice			2,80,00,000	00
				4. @‡Investments (securities valued in accordance with Regulation 73; shares, debentures or bonds at or below cost): (i) Securities of the Central and State Governments and other Trustee Securities, including Treasury Bills of the Central and State Governments	234,90,55,769	64		
		260,74,48,554	15	(ii) Shares authorised under the State Bank of India Act, 1955 Fully paid-up ... ... Rs 2,57,04,442.37				
		2,33,15,917	37	Partly paid-up ... ... Rs. 1,28,475.00	2,58,32,917	37		
		14,98,48,709	33	(iii) Debentures or Bonds	20,17,50,366	83		
283,48,56,927	24	5,42,43,746	39	(iv) Other Investments—Pakistan and other Government Securities, etc.	5,42,42,877	09	263,08,81,930	93
				‡ Of which investments of the face value of India Rs. 52,42,00,000 and Pakistan Rs. 16,00,000 are pledged against borrowings from other Banking Companies, Agents, etc. per contra				
				5. Advances : § (I) Loans, Cash Credits, Overdrafts, etc : (i) In India ... ... Rs. 363,83,04,532.39				
		271,16,45,024	12	(ii) Outside India ... ... Rs. 3,89,94,521.02	367,72,99,053	41		
				§ Include term advances amounting to Rs. 13,11,49,129.04 of which refinance has been obtained from the Industrial Development Bank of India to the extent of Rs. 1,21,05,000 as per contra				
				(II) Bills Discounted and Purchased : (i) Payable in India ... ... Rs. 18,60,45,326.99				
290,15,51,433	20	18,99,06,409	08	(ii) Payable outside India ... Rs. 6,70,85,441.97	25,31,30,768	96	393,04,29,822	37
				Particulars of **Advances:** See separate statement appended				
9,66,86,115	86	9,39,35,070	82	**6. Bills Receivable being Bills for Collection** as per contra (i) Payable in India	5,75,85,687	94		
		27,51,045	04	(ii) Payable outside India	41,05,311	01	6,16,90,998	95
17,80,55,871	04			**7. Constituents' Liabilities for Acceptances, Endorsements and Other Obligations** per contra			19,55,61,645	35
				8. Premises less Depreciation : Total Cost up to the 31st December 1963 ...	2,40,84,569	20		
		2,23,70,857	51	Additions (Rs. 44,56,942.98) less Deductions (Rs. 16,149.96) during the year	44,40,793	02		
		17,13,711	69		2,85,25,362	22		
		2,40,84,569	20	Depreciation written off up to the 31st December 1964 less depreciation previously provided on property which has passed out of the Bank's possession	35,39,391	00	2,49,85,971	22
2,10,66,881	20	30,17,688	00					
		2,39,99,859	59	**9. Furniture and Fixtures less Depreciation :** Total Cost up to the 31st December 1963 ...	2,70,62,467	56		
		30,62,607	97	Additions (Rs. 57,11,973.74) less Deductions (Rs. 37,953.87) during the year	56,74,019	87		
		2,70,62,467	56		3,27,36,487	43		
1,64,59,718	83	1,06,02,748	73	Depreciation written off up to the 31st December 1964 less depreciation previously provided on property which has passed out of the Bank's possession	1,26,68,288	32	2,00,68,199	11
				10. Other Assets, including Gold and Silver: Bullion	...			
		3,18,03,155	00	Adjusting Account of interest, commission etc	3,97,66,623	55		
		2,06,99,006	26	Stationery, Stamps, Suspense, Tax Recoverable, etc.	4,01,53,170	40		
12,09,55,296	83	6,84,53,135	57	Shares in Subsidiaries	6,84,34,452	77	14,83,54,246	72
...				**11. Non-banking Assets Acquired in Satisfaction of Claims**			...	
...				**12. Profit and Loss**			...	
670,57,64,444	38	Total					Total . .	778,85,44,606 68

@ Includes Rs. 1,77,002 of investments, acquired consequent upon the amalgamation of the Bank of Baghelkhand under a scheme sanctioned by the Government of India in terms of Section 35 of the State Bank of India Act, which are still to be transferred to the Bank, pending completion of formalities.

NOTE—Consequent upon nationalisation of banks in Burma, the assets and liabilities of the Bank's Branch at Rangoon were taken over on 23-2-1963 by the Peoples' Bank No. 8 Adjustment has not been made in the accounts in respect of compensation due to the Bank, which matter is still under negotiation with the Burmese authorities.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1964

Year ended 31-12-1963 Rs. p.	EXPENDITURE	Year ended 31-12-1964 Rs. p.	Year ended 31-12-1963 Rs. p.	INCOME (less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	Year ended 31-12-1964 Rs. p.
8,86,29,339 34	1. Interest paid on Deposits, Borrowings, etc. ...	11,20,73,271 43	18,48,43,451 78	1. Interest and Discount	23,20,31,843 93
10,84,81,846 50	2. Salaries and Allowances and Provident Fund ...	13,15,30,097 58	6,61,86,702 81	2. Commission, Exchange and Brokerage ...	7,46,86,945 95
94,430 00	3. Directors' and Local Board Members' Fees and Allowances ...	1,03,460 00	4,67,656 15	3. Rents	4,87,878 43
79,60,451 03	4. Rent, Taxes, Insurance, Lighting, etc. ...	1,03,67,029 61	. .	4. Net Profit on Sale of Investments, Gold and Silver, Land, Premises and other Assets ...	...
2,68,599 21	5. Law Charges. ...	3,19,362 17			
44,93,257 60	6. Postage, Telegrams and Stamps	51,11,347 74	. .	5. Net Profit on Revaluation of Investments, Gold and Silver, Land, Premises and other Assets	...
1,00,000 00	7. Auditors' Fees ...	1,00,000 00			
32,42,176 77	8. Depreciation on and Repairs to the Bank's Property	35,52,200 90	. .	6. Income from Non-banking Assets, and Profit from Sale of or Dealing with such Assets ...	...
51,41,855 00	9. Stationery, Printing Advertisement, etc ...	65,52,470 00		7. Other Receipts: (a) Recoveries from the Integration and Development Fund for the year 1963 Rs. 14,47,894.00 (b) Dividends on Shares in Subsidiaries received during the year 1964 ... Rs. 15,61,196.40	30,09,090 40
...	10. Loss from Sale of or Dealing with Non-Banking Assets	...			
78,35,497 06	11. Other Expenditure ...	1,09,75,229 23	22,31,439 80		
2,74,81,798 03	12. Balance of Profit ...	2,95,31,290 05	. .	8. Loss	
25,37,29,250 54		31,02,15,758 71	25,37,29,250 54	**Total** ...	31,02,15,758 71

PARTICULARS OF ADVANCES

As at 31st December 1963 Rs. p		As at 31st December 1964 Rs. p.
246,45,93,589 15	(i) Debts considered good in respect of which the Bank is fully secured	324,54,40,063 09
6,11,72,349 03	(ii) Debts considered good for which the Bank holds no other security than the debtors' personal security	6,70,33,555 71
37,57,85,495 02	(iii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	61,79,56,203 57
	(iv) Debts considered doubtful or bad, not provided for	. .
290,15,51,433 20		393,04,29,822 37
29,84,795 39	(v) Debts due by Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons	28,10,033 40
70,69,46,680 89	(vi) Debts due by companies or firms in which the Directors or Local Board Members of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members ...	89,43,37,912 85
30,00,564 22	(vii) Maximum total amount of advances, including temporary advances made at any time during the year to Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons	35,68,116 22
86,27,21,551 95	(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the Directors or Local Board Members of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members ...	90,06,49,805 12
9,40,46,011 39	(ix) Due from banking companies	20,52,55,622 19

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the State Bank of India, appointed under Section 41(1) of the State Bank of India Act, 1955, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at the 31st December, 1964.

We have examined the above Balance Sheet and the Profit and Loss Account and the Accounts relating thereto of the Central Office and the Local Head Offices at Bombay and Calcutta and the Returns submitted and certified by the Secretaries and Treasurers of the Local Head Offices at Madras, New Delhi, Kanpur and Ahmedabad, by the Manager of Pakistan Branches and by the Branch Agents, which Returns have been incorporated in the above Balance Sheet and Accounts, and report (i) that, in our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of our information and the explanations given to us and as shown by the Books of the Bank; (ii) that where we have called for any explanation or information such explanation and information have been given to us and have been satisfactory; (iii) that the transactions of the Bank which have come to our notice have been within the powers of the Bank; (iv) that the Returns received from the Local Head Offices at Madras, New Delhi, Kanpur and Ahmedabad and from the office of the Manager, Pakistan Branches and from the Branches of the Bank have been found adequate for the purpose of our audit; (v) that the Profit and Loss Account shows a true balance of profit for the period covered by such account; (vi) that, in our opinion, the Balance Sheet and Profit and Loss Account are drawn up in conformity with the law; and (vii) that, in our opinion, Books of Account have been kept by the Bank as required by law.

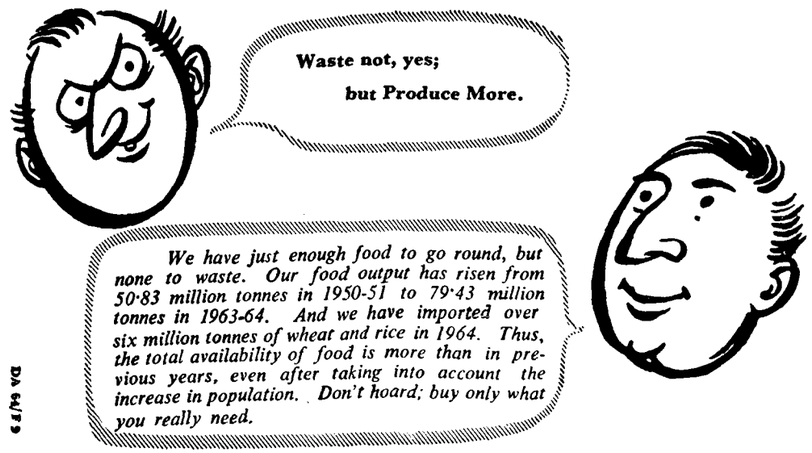
The audit of the Books and Accounts of the Central Offiec has been carried out jointly by Messrs. S. B. Billimoria & Co. and Messrs. Ray & Ray. The audit of the Books and Accounts of the Local Head Offices has been carried out at Bombay by Messrs. S. B. Billimoria & Co. and at Calcutta by Messrs. Ray & Ray.

S. B. BILLIMORIA & CO.
RAY & RAY } *Auditors.*

10th February, 1965.

B. VENKATAPPIAH, *Chairman.*
H. M. SEERVAI, *Vice-Chairman.*
R. N. CHETTUR
N. RAMANAND RAO } *Managing Directors.*

J. D. CHOKSI
B. D. GARWARE
M. R. BHIDE
S. N. SEN
S. K. DAS
S. BHOOTHALINGAM
K. M. WILCOX
ROHIT C. MEHTA
RAJA RAM DEV RAO } *Directors.*



From the Chair

The State Bank of India

Speech of the Chairman, Shri B. Venkatappiah

THE following is the speech of the Chairman, Shri B. Venkatappiah, at the Tenth Annual General Meeting of the Shareholders held in Bombay: Gentlemen,

We are assembled here to consider the Report of the Central Board of Directors of the State Bank of India for the year 1964. The Report, along with the Profit and Loss Account for the year and the Balance Sheet as on December 31, 1964, has already been circulated. This is the Tenth Annual General Meeting of the Bank, and the third and last at which I shall have the privilege of addressing you. My pleasure is, therefore, all the greater in welcoming you here and reviewing the progress—in the words of the Central Board of Directors, the exceptional progress—made by the State Bank of India and its Subsidiaries during yet another year.

In reflecting on the events of the last twelve months, our first thought is to offer affectionate homage to the memory of our late Prime Minister, Shri Jawaharlal Nehru. He was so much a part of us that his death was an uprooting. Today, and in this particular gathering, we think especially of his passionate vision of economic development—yet unfulfilled, but on the way, we firmly hope, to realisation—to which the country already owes so much of the progress it has been able to make.

Noteworthy Achievements

In what way have the achievements of the State Bank—and its Subsidiaries—been more than usually noteworthy during the year 1964? And, if we take a somewhat longer perspective, what has been the record of this state-associated sector of banking during the three-year period 1962-64? I will, if I may, answer these questions briefly for that composite structure which comprises the State Bank and its seven Subsidiaries before going over the year's working in some detail for the State Bank alone and thereafter, very concisely, for the Subsidiaries as a group.

In the growth of deposits as in the expansion of credit, the State Bank of India and its Subsidiaries have outstripped their previous records and in 1964 obtained, as their share, nearly 50 per cent of the total increase pertaining to all the scheduled banks in the country. The deposit accretion for all scheduled banks was Rs 269.6 crores in 1964. For the State Bank and its Subsidiaries the corresponding figure was Rs 126.6 crores. The total credit of scheduled banks expanded by Rs 231.2 crores during the course of 1964. Out of this, the State Bank and its Subsidiaries accounted for as much as Rs 113.5 crores. Much of this increase in credit went into industrial production. Moreover, there was a very large stepping up of the assistance given to small industry by the State Bank of India and its Subsidiaries. The increase over the year was, in terms of limits, 63 per cent, and in terms of outstandings, 71 per cent. Further, as I shall later recount, major organisational and procedural changes were effected in both the State Bank and the Subsidiaries with a view to greater decentralisation and delegation. In the State Bank alone three new Circles—with full-fledged Local Head Offices—were established in the course of six months. A number of other changes were brought about with the object of streamlining the administration of the Bank, diversifying its activities and making provision for specialised services and departments where these were considered necessary from the point of view of the usefulness of the institution. Branch expansion was continued, but there was planning ahead of both recruitment and training; a consultative machinery was evolved for harmonious communication between Management and Staff; and, in general, attention was devoted to problems of personnel no less than to those of business, and to the need for consolidating results no less than to that for expanding branches.

Growth of Business

Turning briefly to the position as it stood at the end of 1961 and comparing it with what it is now after three years at the end of 1964, I will content myself with giving a few figures. During this period the number of offices of the State Bank and the Subsidiaries together has increased from 1,444 to 1,759, i.e., by 315 or over 100 offices per year. The total deposits, excluding P.L. 480 funds, stood at nearly Rs 500 crores at the close of 1961, this figure again being for the Bank and its Subsidiaries. The corresponding figure at the end of 1964 is over Rs 787 crores, raising our share to one-third of the deposits of the Indian banking system. Likewise, for this combined structure, the credit portfolio, which stood at slightly over Rs 323 crores at the end of 1961, was of the order of Rs 489 crores at the end of 1964. The growth of business, therefore, has been substantial—more than 50 per cent—during this period. Nor was the progress confined to traditional business. Indeed, the three years witnessed even a more rapid increase in the assistance rendered to small industries and co-operatives. Thus the credit limits to co-operatives went up by over 100 per cent, from about Rs 30 crores at the end of 1961 to nearly Rs 67 crores in December, 1964. As for small industries, the corresponding increase was more than threefold, namely, from about Rs 13.5 crores to about Rs 40 crores.

Salient Features of Working

I now pass on to the salient features of the working of the State Bank of India for the year 1964. There was considerable increase in the volume of business and the level of earnings. The Bank's average advances in India rose by Rs 67 crores. Moreover, as you will recall, our lending rates had been increased on April 5, 1963. The revised rates were in force upto the end of September 1964, when they were further raised by ¼ per cent on account of an increase in the Bank Rate. Yet another and very recent increase in the Bank Rate, the one effected a few days ago, is fresh in your memory. In consequence, the State Bank Advance Rate has, as you are aware, been raised to 7 per cent as from the close of business on February 17, 1965. I mention this merely to complete the picture. During the year 1964, with which we are here concerned, the State Bank Advance Rate was 6 per cent from January to

September and 6¼ per cent thereafter. The large expansion of the business of the Bank, together with the operation over a whole year of the higher interest rates to which I have referred, accounted for an increase in earnings of Rs 4.72 crores by way of interest and discount. We also earned more—the increase was of the order of Rs 85 lakhs—on commission, exchange and brokerage. These and a few minor items of increase resulted in our income rising by Rs 5.65 crores to Rs 31.02 crores. There was at the same time a substantial increase in expenditure. This is attributable in part to the higher cost, firstly, of deposits and, secondly, of borrowings from the Reserve Bank. Together, these two items accounted for as much as Rs 2.34 crores. Here again, I am not referring to the very recent increases in both these respects which have come into effect on February 18, 1965, as a result of the Reserve Bank's directive in this matter. What I am alluding to is, firstly, the increase in deposit rates which had been effected by the State Bank on April 1, 1963, and was therefore in force for a whole year in 1964. Secondly, I am referring to the measures for the rationalisation of interest rates on bank deposits, including a stepping up of the rates on longer term deposits, which were initiated by the Reserve Bank in September last and were operative throughout the last quarter of 1964. Apart from the higher cost of deposits and borrowings, there was an increase in overheads of Rs 3.10 crores. Three main factors contributed to the increase. With the extension of branches and expansion of activities, establishment had necessarily to be increased. The accrual of annual increments was, as usual, a large element in the increased wage bill. And, in particular, with the increase in the cost of living, the dearness allowance paid to the Award Staff was substantially higher. Nevertheless, after due allowance had been made for the usual and necessary provisions, the net profit of the Bank increased by Rs 20 lakhs to Rs 2.95 crores.

Dividend Maintained

Inclusive of the balance of Rs 36 lakhs brought forward from last year, the sum available for appropriation was Rs 3.31 crores. The dividend to shareholders has been maintained at Rs 23 per share (subject to deduction of tax). In compliance with the statutory requirement, a sum of Rs 60 lakhs has been appropriated to the Reserve Fund. Provision for bonus to staff, computed on the same basis as last year, accounts for Rs 90 lakhs, while the usual allocations to the Pension Funds and Staff Co-operative Housing Fund have taken up Rs 9 lakhs and Rs 5 lakhs respectively. It has been decided to allot Rs 10 lakhs, as compared with last year's Rs 5 lakh, to the Staff Welfare Fund. The balance carried forward at the close of 1964 is Rs 27 lakhs.

Record Credit Expansion

The credit expansion of the State Bank of India broke all previous records in the 1963-64 busy season. The advances of the Bank touched a new peak at Rs 378 crores, compared with Rs 319 crores in the previous season. I may mention in passing that this level too has already been surpassed in the current busy season and the advances now stand around Rs 410 crores. While it is true that we are lending much more than in the past, it must be made clear that the additional credit we are providing is for purposes which are important from the point of view of the country's economy. Thus we are substantially assisting State Governments in their programmes of food procurement and food distribution, besides financing other projects in the agricultural sphere connected with State policy such as the jute buffer stock operations. Apart from this, it is industrial production of high priority and industrial units of all sizes—big, medium and small—that have claimed our first attention and, therefore, account for the bulk of the additional credit we have been providing. Finance for industry constitutes 76 per cent of our total credit portfolio. About a seventh of our finance for industry is accounted for by units in the public sector and the rest by industries in the private sector. You will also be interested to know that, over the past three years, the number of accounts, in so far as industrial units are concerned, has gone up by about 47 per cent, while the average size of loans has significantly declined. Besides, a survey recently made has indicated that advances with limits of less than Rs 5 lakhs covered 99 per cent of the total number of advances. There is every reason to believe that, without any diminution of the significance of the Bank for the larger units and accounts — public sector or private — its usefulness is rapidly permeating to medium and small enterprises throughout the country. It will be relevant to mention here the almost spectacular increase we have been able to effect in 1964 in the matter of accommodation for small scale industries, from which term, for the purpose of these statistics, we exclude traditional types such as rice and oil mills. The number of units assisted by the State Bank of India went up from 3,899 at the end of 1963 to 5,834 at the end of 1964. The limits in force increased by 74 per cent from Rs 17.59 crores in 1963 to Rs 30.58 crores in 1964, while the outstandings or utilization rose by 77 per cent from Rs 8.55 crores to Rs 15.17 crores. Our policies and procedures in this regard are being reviewed, liberalised and adapted to the actual needs of small entrepreneurs from time to time and we may reasonably claim to have laid the foundation for even more rapid progress in the future.

Rise in Deposits

In regard to another aspect of our performance, I am glad to be able to report to you that our deposits have increased by as much as Rs 100 crores over the year. Besides other things, this has enabled us to effect more smoothly than would otherwise have been possible the transfer of as much as Rs 44 crores of P L 480 deposits to the Reserve Bank. The net increase in deposits was therefore of the order of Rs 56 crores. In terms of an average for the whole year, the level of deposits in 1964 was Rs 77 crores higher than that for 1963. We have crossed the Rs 600 crore mark and now stand at about Rs 610 crores. Of the total deposits, over 65 per cent are from the private sector, the main component numerically being small savers. Out of the public sector funds lodged with the Bank, nearly a third is from industrial and commercial institutions which, of course, also borrow on a large scale from the Bank. Experimental procedures introduced in some branches for the convenience of depositors have met with encouraging response and we are now in a position to assess our experience and extend suitable measures to other offices. Nevertheless, the situation does not warrant complacency and sustained efforts have to be continued to increase the pace and volume of deposit mobilisation. We are alive to this responsibility.

It is appropriate that I should pass on to the performance of our Subsidiaries while on this subject of attracting more deposits. You will recall that I had referred last year to the ap-

pointment of a Committee to investigate and make recommendations in regard to the mobilisation of deposits in the areas, more especially the rural areas, served by our three Subsidiaries in the south, namely the State Banks of Mysore, Hyderabad and Travancore. One of the decisions we have taken on the Committee's Report is to assign field-workers to selected branches in rural areas not only for attracting deposits but for promoting banking services. I am glad to state that this measure has yielded encouraging results. We have also evolved a scheme of opening 'one-man' offices in a large number of rural centres. We are hopeful that this project with its threefold objective of reducing the cost factor, providing banking services and mobilising deposits will prove to be a contribution of real value to the promotion of rural banking in the country. Turning now to the figures given for our Subsidiary Banks as a whole in a separate section of the Report of the Central Board of Directors, you will notice that, in the aggregate, their deposits rose by Rs 27 crores to Rs 183 crores and advances by Rs 21 crores to Rs 95 crores. The combined profits have gone up from Rs 67.98 lakhs in 1963 to Rs 72.60 lakhs in 1964. Out of the seven Subsidiaries, five have declared dividends at the same rates as last year. The State Bank of Saurashtra has for the first time declared a dividend at 5 per cent. The State Bank of Bikaner and Jaipur, however, was not in a position to declare a dividend.

Activities in Rural Areas

Though we have decided to proceed with caution, and where necessary on a purely experimental basis, we are by no means content that the contribution which we make to the rural areas should be limited to the opening of branches, provision of the ordinary banking services and the mobilisation of savings through depositors' accounts. I have already referred to the large volume of finance we are making available for the procurement of foodgrains, as well as of other agricultural produce such as jute, by agencies sponsored by Government. Apart from this, in the allied sphere of co-operative credit, our limits to all types of co-operative institutions have increased from Rs 44.5 crores on December 31, 1963 to Rs 61.9 crores on December 31, 1964, and the outstandings from Rs 10.9 crores to Rs 21.4 crores. But all this does not amount to as large or as positive a contribution as we might eventually be able to make — that is to say, if we adequately equip ourselves in the matter of personnel, organisation and procedure — to the solution of the vast and diversified problem of rural credit in different parts of the country. We are already making a substantial contribution to marketing and processing credit in the rural areas. This is largely in the shape of loans to co-operatives or, as in the case of procurement, to State Governments. In the matter of credit for production in the rural areas — whether agricultural production or industrial production, and whether short-term credit or medium-term credit — our contribution is still small. It is deliberately and understandably so, the main role in this connection being that of co-operative banks, as distinguished from commercial banks. As you are aware, the co-operative credit structure operates in this particular context under the immediate guidance of the Reserve Bank and with its massive assistance. But the co-operative agency has not always or in all States attained adequate strength and resources to fulfil the role assigned to it, or at any rate to do so to such an extent as to make a supplementary agency unnecessary. The problem has consequently been under constant review at high levels of policy-making. So far as the State Bank is concerned, this important matter has also been under the consideration of your Directors for some time. While giving it the utmost attention, they have also had in mind, firstly, the limitations inherent in the working of a commercial bank, and secondly, the considerations arising from the need to co-ordinate the operations of the State Bank with those of the co-operative credit agency. This latter, it must be remembered, is at different stages of development in different States. It was after weighing all these aspects carefully that your Directors have recently approved of a scheme of Rural Pilot Centres to be operated by the State Bank of India and its Subsidiaries. After details are worked out, the scheme is to be introduced in different parts of the country. The main object is to assist in the provision of credit for production, agricultural and industrial, in rural areas. There will be 50 to 70 pilot centres distributed over the whole country: five to seven in each of the seven Circles of the State Bank, and two to three in the jurisdiction of each of the seven Subsidiaries. The unit of experiment is called a Pilot Centre, and not a Pilot Branch, because each branch selected (existing or new) is intended to serve the whole of the surrounding rural area which in many instances may comprise a number of villages. In addition to the usual items of banking services and mobilisation of savings, such a centre will seek to fill in, on a pilot basis, the gaps and inadequacies, if any, in the existing rural credit institutions: *e g*, provision of medium-term credit for agricultural machinery which may not be available to even creditworthy farmers in certain areas. The financing arrangements will, of course, be co-ordinated with the programme of re-organisation of co-operative credit and the operations of co-operative banks and societies in the areas to be covered. In working out the details of the scheme a distinction will be made between the different States with reference to the stage of growth of their co-operatives as well as the nature of the credit requirements of agriculture and rural industry in the particular area.

Foreign Exchange Business

Turning now to an entirely different aspect of our activities, namely, our increasing participation in foreign exchange business with the help of correspondents abroad and in some cases our own branches, I am glad to be able to announce that we have now finalised arrangements to open two Representative Offices abroad, one in New York and the other in Frankfurt. The Representative in New York will provide liaison with our correspondents not only in the United States but also in Canada and the Latin American countries, while the one in Frankfurt will do so in the whole of Europe. The arrangements are likely to come into force very shortly. Apart from fostering correspondent relationships in their respective areas, the Representatives will assess the market situations and other relevant factors in these areas, and generally provide a useful point of contact for us and our constituents with the banking, business and other interests in the countries which form their jurisdiction.

Within the country itself, the Bank has from its inception, as you are aware, embarked on a series of Branch Expansion Programmes. At the end of 1964 there remained 49 branches to be opened under the Second Programme. Meanwhile there had intervened the Third Programme which was intended to cover 319 branches at non-banking treasury and sub-treasury

centres over the five-year period 1964-68. Nine branches out of this programme were opened during 1964. There thus remain 359 branches to be established during the four years ending December 1968. Besides, there will, of course, be urban, suburban and other branches that will be opened outside the Expansion Programmes. This is for the future. As on December 31, 1964, the State Bank of India had 1,147 offices (and the Bank and the Subsidiaries together, as I have already mentioned, 1,759 offices). The number of offices of the State Bank in small towns and hitherto unbanked centres now comes to 564. In other words, more than half of our offices are currently located in small centres.

Change in Organisation Needed

It has been apparent for some time, against this background of expansion of branches, increase in work and diversification of activities, that the Bank's organisational structure would have to be modified and strengthened. The steps taken to that end are set out in the Directors' Report. First of all, in order to decentralise authority, it was decided to open three more Local Head Offices, so that each Local Head Office might have a relatively compact jurisdiction. The centres selected were Kanpur, Ahmedabad and Hyderabad. The first two came into existence during 1964, on the 1st of August and the 1st of December respectively. The third too has since been opened, six months after the first, on February 1, 1965. Today, therefore, there are seven Local Head Offices of the State Bank of India. Their establishment, and the concomitant reconstitution of the Central and Local Boards, were made possible by the amending legislation which came into force last year. Opportunity was at the same time taken to enhance, with effect from December 1, 1964, the powers and authority of the Local Boards. Suitable delegation has also been made to the Officers of the Bank at different levels. In the result, both the Local Boards and the allied Head Offices will now be able to cater much more effectively to the banking requirements of the respective regions. I am confident that this is a reform which all of you welcome. I should add that, with a view to enabling the Subsidiary Banks to handle expeditiously their own growing business, the powers of their Boards have also been recently enhanced. Moreover, in order to ensure a greater degree of co-ordination between the State Bank of India and its Subsidiaries, it has been thought desirable to associate some of the members of the Local Boards of the State Bank of India with the Boards of the Subsidiary Banks and *vice versa*. I am glad to be able to tell you that this decision too has already taken concrete shape.

New 'Service' Departments

Apart from decentralisation of authority and delegation of powers, a number of organisational changes have been effected during the last year or two. Thus, several new 'service' departments have been set up in the Central Office, with corresponding functionaries, where necessary, at the Local Head Offices. I made a reference last year to the Premises Department which has taken up, in a planned and phased manner, the task of improving our office premises at various centres in order to provide better working conditions for the staff and better customer facilities for our constituents. A new department has been organised under the name of 'Development and Public Relations Department' to handle more effectively our public relations and publicity, and, in particular, to bring the relevant aspects of the Bank's services to the notice of those who need them. A Personnel Department has been created in order to deal with all matters connected with recruitment, training and staff relations. With the growth of the institution, the need for ensuring a steady supply of suitable personnel assumed considerable importance, and so did the provision of adequate training facilities for them. To meet this requirement for the officer cadre, we have strengthened our recruitment machinery by constituting a Central Recruitment Board. We have also suitably extended our training facilities to different categories of staff at various levels.

I told you last year of the establishment of the Planning, Organisation and Methods Division which, apart from long-term problems of planning, has concerned itself with the simplification of procedures, the improvement of customer service and, more recently, with the various steps to be taken for setting up an Electronic Data Processing Centre. With the very large increase that has taken place in the number of branches as also in the volume of business, the handling and control of inter-office transactions has become a major problem. In dealing with this, we have not only had to revise our procedures but also actively envisage the installation of data processing machines which would ensure the speed required and at the same time adequately meet our needs for some years to come. It is intended initially to take up the reconciliation of inter-office transactions. The conclusion that it is necessary to establish an Electronic Data Processing Centre, as well as all the material on which the conclusion has been based, have been placed before the representatives of the Staff, and discussions held in the Joint Consultative Committee and outside. Further, an unqualified assurance has been given that there will be no retrenchment whatever on account of the scheme and that no existing employee will be adversely affected. May I express the hope that full co-operation on all sides will be forthcoming for the implementation of this scheme which is of the greatest possible importance to the State Bank of India and the public it serves?

Joint Consultation

I have referred to the Joint Consultative Committee. This is part of a scheme of joint consultation which has been evolved after considerable discussions. I am glad to say that the scheme is not only working satisfactorily but has, in my opinion, contributed materially to the fostering of cordial relations between the Management and the Staff. Some progress has also been made in the matter of formulating a suitable grievance procedure. I trust this will take shape shortly and help in eliminating many of the usual sources of friction. I am also happy to record that a number of welfare schemes have been initiated following the agreement to which I alluded last year regarding the utilisation of the Staff Welfare Fund. Apart from this, much progress has been made both in co-operative housing and co-operative consumer stores for the staff. There are now 70 co-operative housing societies in 60 different cities and towns. Eight buildings with 428 units have been completed so far, and some 60 buildings are in various stages of construction. The total loans made available on concessionary terms by the Bank now amount to Rs 1.05 crores, of which a sum of Rs 73 lakhs has already been utilised. Co-operative Consumer Stores have been established at 4 centres and others are scheduled to be opened in the near future at six more centres, all these being the bigger cities in which Local Head Offices of the State Bank or the Head Offices of the Subsidiaries are situated. It is with

some gratification that I look back on these and other constructive efforts which the Bank has initiated and is pursuing for the promotion of staff welfare as well as for the building up of harmonious relations between Staff and Management. I thank all members of the staff at all levels for their good work and devotion to duty during the year.

Before I conclude, I should like to place on record, on behalf of my colleagues on the Board and myself, our high appreciation of the services rendered by Shri B Mukerji and Shri N A Krishnan, Managing Directors, who are no longer with the Bank, as also of all those other Directors of the Central Board or Members of the Local Boards who have ceased to be on these Boards since we last met. It now remains for me to bid farewell to all of you — Shareholders of the Bank, Directors and Members of Boards, and colleagues of all ranks in the institution — and to thank you for the goodwill and co-operation I have consistently received from you during my term of office as Chairman. My successor, Shri Dehejia, has wide experience of finance. He is well-known to you. He will take over in a few days and I am confident that you will give him all the support which, over these three years, you have so kindly extended to me.

The Industrial Credit and Investment Corporation of India Ltd

Statement of the Chairman, Shri G L Mehta

THE Annual General Meeting of the Shareholders of the Corporation will be held at the Registered Office of the Corporation, 163, Backbay Reclamation, Bombay 1, on Thursday, April 8, 1965, at 4 p m. The following is the Statement by the Chairman, Shri G L Mehta, circulated to the Shareholders with the Directors' Report and Accounts for the year ended December 31, 1964.

Before I place for your consideration the Tenth Annual Report of the Board of Directors of the Corporation for the year ended December 31, 1964, I would like to refer to the sad demise of Pandit Jawaharlal Nehru. Of his multifarious interests, the one that concerned ICICI was his deep interest in India's economic growth and his faith in planning to achieve it. We owe to him in no small measure a consciousness of planned endeavour for national development as well as the achievement of political stability essential for economic progress.

On January 5, this year, ICICI completed ten years of its existence. During this period, ICICI has sanctioned, to 328 companies for 374 projects, total assistance exceeding Rs 100 crores — to be exact, Rs 102.29 crores (Rs 22.25 crores by way of underwriting, Rs 5.53 crores in direct subscription, Rs 25.54 crores in rupee loans including guarantees and Rs 48.97 crores in foreign currency loans). ICICI-financed projects, when completed, are expected to produce 150,000 tons/year paper, 3,657,000 tons/year cement, 173,000 tons/year steel tubes, 118,000 tons/year cast iron spun pipes, 20,000 tons/year wire ropes, 217,000 tons/year super-phosphate, 3,400 miles/year power cables and 243,000 units/year electric meters.

This has been an eventful decade both for the national economy and for ICICI. ICICI is a small element in the total economy but its experience under planning and of planning is sufficiently long to enable us to draw some lessons for the future.

At a time when it has become habitual in some quarters to blame planning for all the evils of the economy, let me state that planning has helped the economy to grow at a fairly rapid pace and in a reasonably orderly manner. Psychologically, it has helped to induce some measure of discipline in the use of scarce resources and to bring hope to the mass of people by breaking the vicious circle of stagnation in the economy.

Within the ambit of planning the economy has grown, and ICICI has grown with it. Planning has led to the setting up of several non-traditional industries; we have participated in the setting up of many of them. Under planning, several new entrepreneurs have been induced to enter industry; we have helped in this process by financing many of them. Planning has helped to decentralise the location of industry, and our operations, following this, are distributed all over the country.

Our operations, however, have also been subject to the limitations that certain policies under planning have involved. To some of these I would like to allude specifically.

To begin with, I would like to refer to the existence of price and distribution controls on many essential commodities, notably cement, sugar and paper. One of the results of this policy has been to reduce, severely, investment interest in these industries. Cement shares are not fancied by the investing public, and most new paper shares are quoted at substantial discount. This, combined with the failure of these industries to generate internally sufficient funds for their expansion, has led to a perpetuation of the shortages which initially brought about price controls. Price controls have not prevented inflation, but only helped to divert inflationary pressures in other directions. Where we have taken interest in these industries, it has been due mainly to a sense of public spirit and in the hope that the Government would modify their policy in regard to these industries.

Moreover, Government has required many industries, both chemicals and engineering, to follow a phased programme of manufacture. This has created undue strain on several industries, particularly as economies of scale in different lines of manufacture vary. A phased programme necessarily depends upon co-ordinating several manufacturing activities, and where one of them lags behind for any reason, it upsets acitvity in other lines. For example, the failure to set up adequate capacity for basic chemicals, pig iron and flat products, has created difficulties for many fine chemical and pharmaceutical manufacturers, foundries, and structural engineering companies.

Besides, as the economy has grown, it has become increasingly difficult to provide for all its requirements for raw materials and components—what have come to be called maintenance imports. As each new industry is set up to meet some existing need of the economy, it, in its turn, creates a demand for other imported goods. As we become more industrialised, the demand for imports does not decrease; it only gets transformed. Unfortunately, while we are putting up more factories, we have failed to provide for their requirements of maintenance imports. Many of ICICI's clients, at a conference we recently held, referred to this shortage of imported raw materials and components.

We also need to take a more critical look at the kind of industries we are setting up. Many industries we have set up, involve high costs which are reflected both in the price differentials of products in India and abroad as well as in our export performance. There are many reasons for this, such as the high level of taxes on imported capital equipment and materials, inadequate utilisation of capacity and so forth. But there are other reasons, like setting up plants of less than an optimum scale, which are within the planners' control, and we should seek to overcome such limitations.

Unbalanced Growth of the Economy

Furthermore, we have suddenly come face to face with unbalanced growth, shortages in respect of some goods and surpluses in the case of others. The growth rate itself has tended to falter in recent years and the emergence of surpluses has tended to dampen the enthusiasm of entrepreneurs. The emergence of surpluses indicates that the demand assessment made by the planners in many cases has been too optimistic.

Finally, as our economy has grown, the mechanism for procedural control has become more complex. In our day-to-day operations, the procedure that concerns us most is import control for capital goods. This is a detailed system of control by reference to individual pieces of equipment—a process which is necessarily time-consuming. Last year, a Committee examined these procedures, and suggested various measures for expediting action. In fact, the system of having a preliminary clearance by the Capital Goods Committee which has been recently introduced, has facilitated considerably the issue of import licences.

As we are in the midst of assessing our performance under the Third Plan and, on this basis, are endeavouring to formulate the outlines of the Fourth Plan, we need to take into account these lessons of the Third Plan. A 10 to 15 per cent shortfall in investment with a much larger shortfall in physical output, as also at least one economic crisis, have become common features of each of our plans so far. We can ill-afford to carry on in this manner for long.

We need, therefore, to take a close look at our system of planning and the policies needed to achieve the plan objectives. First of all, it is necessary to break through shortages in certain critical commodities; besides foodgrains, these items are sugar, cement, fertilisers, steel and alloy steels. In many of these cases, the adoption of proper pricing policy would help to work off the shortages. There is little justification for keeping low the prices of these basic goods for all uses. There is a case for allowing free sale of a part of the total output of these goods which can go to meet their low priority uses.

Another step would be to examine the implications of our industrial programmes on the maintenance import budget and to frame a programme which would, at the least, not worsen our position in this respect. It is essential to intensify the programme aimed at import substitution or export promotion to a significant degree.

We should then seek to so formulate our procedures that the execution of the programme laid down is expedited. We are even today suffering owing to the fact that we did not have the steel plant which we planned during the First Plan period, the alloy steel capacity which we planned for the Second Plan period, and the fertiliser capacity we planned for the Third Plan period. Even in the much smaller projects which ICICI finances, we find that delays occur, sometimes of periods exceeding one year, in the completion of projects, resulting in corresponding loss of output.

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During the last two years, the Government has done considerable rethinking which concerns the direction of our economic policy. As a result, we have removed, wholly or partially, controls on many commodities, revised procedures to make for quicker decisions, and sought to change the bias of planning in favour of less spectacular but more essential projects. The increasing emphasis on agriculture will have its impact on fertiliser and tractor output, and thus may help to shape industrial programmes. We are living in the midst of a dynamic situation and there can be no end to the process of re-thinking. It must go on, even as new economic problems face the economy.

I have deliberately not referred above to the condition of the capital market—a situation which affects directly a finance institution like ours, and which, therefore, needs to be examined closely. It is only emphasising the obvious when I state that the capital market has been stagnant throughout the last year and remains so at this moment.

Underwriting Operations

The impact of such a situation is felt on our operations. During the last 10 years of completed share underwriting operations of Rs 11.52 crores, ICICI was left with Rs 6.10 crores. As against this, of the nine share underwriting operations for Rs 132 lacs completed during 1964, ICICI was called upon to take up as much as Rs 122 lacs. This, by any standards and in relation to our past experience, is a high figure. It is hardly a satisfactory position in the long-run for a financial institution.

This is not purely a financial phenomenon but has its repercussions on the economy as a whole. Entrepreneurs, faced with an unfavourable capital market, hesitate to take up projects or take much longer to complete the financing of their projects. We have to weigh this factor in undertaking underwriting obligations as one after another share issue underwritten by us has failed to meet with public response.

Underwriting has some meaning when there is a fair prospect of success for a public issue. And, while we do not object to holding an investment in the construction phase of a project, we do look forward to a time when we can dispose of our investments on the market. A development bank like ICICI depends upon revolving its funds invested in shares. And yet, in the last year, we have found it difficult to sell much of our holdings of ordinary shares.

The capital market has passed through almost three difficult years. After a lag, this is being reflected in a fall in the fresh issues of equity capital, as well as in the rate of growth of industrial production, and presumably also in that of the industrial investment rate. If investment activity has been sustained, it has been principally because of institutional support. I believe that this situation can be easily and quickly corrected by appropriate fiscal measures. The re-

cently announced tax relief for subscription to new issues is welcome as an indication of Government's concern about the capital market. I hope that Government will follow this up with further measures to help revive the market without which industrial development and economic growth will not be possible.

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ICICI sanctioned in 1964 net financial assistance of Rs 19.08 crores; of this, the amount sanctioned for new projects was Rs 14.03 crores for 67 projects. The total cost of these projects, on completion, is estimated to come to Rs 112.26 crores (including Rs 27.65 crores for working capital). This cost is expected to be financed by the issue of Rs 30.83 crores of share capital (Rs 26.13 crores ordinary and Rs 4.70 crores preference), long-term loans of Rs 38.52 crores and bank borrowings and cash accruals of Rs 42.91 crores. When these projects reach normal production, their turnover is estimated to amount to Rs 68.48 crores. These projects would then bring about a net foreign exchange saving of Rs 24.96 crores.

With the continued growth of our operation, we have found it necessary to increase our resources. In 1964, we obtained two further lines of credit, one of DM 10 million and another of DM 5 million, from Kreditanstalt fur Wiederaufbau, making in all DM 40 million from that institution. We are obliged to the Kreditanstalt authorities for their continued confidence in ICICI.

Towards the end of the year, we also exhausted the fifth line of credit of $ 30 million from the World Bank. We have approached, with the concurrence of the Government, the World Bank for a further line of credit of $ 50 million, for which negotiations have started. The negotiations have as always been cordial, and we are grateful to the World Bank and to the International Finance Corporation for their understanding of our problems and their continued support to ICICI. We appreciate the co-operation and support of the Government extended to us in this matter.

As our loan obligations have increased, we have felt the necessity to strengthen our equity base. We are, therefore, considering the question of making a rights issue of one for every two shares held. I trust we shall receive your valued support for this issue.

In 1964, the Corporation earned an income of Rs 311.85 lacs from interest, dividends, underwriting commission and other sources. After deducting interest on loans and other expenses, profit subject to tax amounted to Rs 124.60 lacs against Rs 101.54 lacs in 1963. From this, we have provided Rs 54.49 lacs for taxation and Rs 1.01 lacs for doubtful debts, the balance carried to appropriation account being Rs 69.10 lacs against Rs 57.88 lacs in 1963. An amount of Rs 31.50 lacs has been transferred to Reserves. The capital gain of Rs 3.06 lacs has been transferred to Capital Reserve Not Available for Dividend.

The Directors are glad to recommend a dividend of 7½ per cent, as against 7 per cent last year. Subject to adequacy of profits and the need to build up reserves necessary for a development bank like ours, the Directors have kept in view the shareholders' interests and have raised the dividend rate, whenever possible.

We have recognised the need to build up friendly relations with other development banks, both in India and abroad, and also with our constituents. We received in 1964, Mr S Barkhordarian and Mr I Hedayat, both of the Industrial and Mining Development Bank of Iron, Mr Samuel Odame-Labi of the National Investment Bank (Ghana) and Mr Paul C Joe-Adigwe of the Nigerian Industrial Development Bank (Nigeria) as trainees. We are also setting up a regular training programme for two officers from development banks in other countries.

Finally, I would like to express my appreciation of the work of our staff whose competence and devotion to the organization have helped to bring it to its present position.

Bombay, February 11, 1965.

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I, A Fernandes, hereby declare that the particulars given above are true to the best of my knowledge and belief.

For Asian New Age Publishers Private Limited

Dated March 6, 1965 **Sd. A Fernandes** Signature of Publisher

Direct Taxation

The principal features of changes in direct taxes announced in his Budget speech by the Finance Minister are:

(1) Drastic simplification and significant reduction of personal taxes.

(2) Ceiling on company taxation and advance rebate on future profits; and

(3) Selective tax concessions to promote investment in certain directions, to improve utilisation of capacity and step up exports.

THE long-standing superfluity of a super tax distinct from income tax has been removed. So far there was income tax with various (three or four) surcharges, and then super tax on income with its own surcharges, followed by a bewildering variety of rebates, some of which applied only to income-tax but not super tax or vice versa, or only one or both the taxes but not the surcharges. There will now be a single income tax with surcharges on unearned income above Rs 15,000 and earned income above Rs one lakh.

There will be a single rate schedule for three categories of non-company assessees, namely, individuals, Hindu undivided families and unregistered firms or associations of persons. Instead of different tax exempt minima, tax will be calculated on the entire income without providing for any exempt slab. Individuals and H U Fs will get tax relief on the basis of personal allowances, which would be higher than the present tax exempt slabs. Table 1 gives the new rates of personal allowances and the initial slabs so far exempt. The new scheme will benefit bachelors, too.

Lower Rates

The rates of income tax (as consolidated with super-tax) have been significantly reduced at all levels and the income slabs have been re-graded. There is, however, no change in annuity deposits. The rate on the first slab of Rs 3,000 will go down from 6 to 5 per cent and will be reduced by 5 per centage points on each slab from Rs 7,500 to Rs 50,000, and by 10 points to 60 per cent between Rs 50,000 and 70,000. The maximum rate exclusive of surcharge above Rs 70,000 will go down from 75 to 65 per cent. The taxes payable at various levels of wholly earned and unearned income are shown in Table 2. It would be noticed that there is a substantial decline in tax liability at all levels, especially if the reductions made in 1964 are also kept in mind.

The receipt of interest on government securities and annuities, under the annuity deposit scheme will henceforth be treated as earned income. The exempt slab for surcharge on unearned income has been raised from Rs 10,000 to Rs 15,000; surcharge therafter

Table 1: Personal Allowances for Individuals and HUFs

	Initial Tax-free Slab 1964-65	Personal Allowance for Tax Relief 1965-66
(1) Unmarried individual	1,000	2,000
(2) Married individual or HUF without minor co-parcener	i) 3,600 if income upto 20,000 ii) 1,000 if income above 20,000	3,500 3,500
(3) Married individual with one child or HUF with one minor co-parcener	i) 3,600 if income upto 20,000 ii) 1,000 if income above 20,000	3,900 3,900
(4) Married individual with more than one child or HUF with more than one minor co-parcener	i) 4,000 of income upto 20,000 ii) 1,000 if income above 20,000	4,300 4,300

Table 2: Tax and Deposit Liability of a Married Individual with More Than One Child

Income Before Deduction of Annuity Deposit (1)	Amount of Annuity Deposit (2)	Total Income (col 1 Minus col 2) (3)	Amount of tax: Wholly earned income 1964-65 (4)	Wholly earned income 1965-66 (5)	Wholly unearned income 1964-65 (6)	Wholly unearned income 1965-66 (7)
4500	...	4,500	30.50	10.00	20.00	10.00
5,000	...	5,000	60.00	25.00	60.00	25.00
7,500	...	7,500	310.00	285.00	310.00	285.00
10,000	...	10,000	685.00	525.00	685.00	535.00
12,500	...	12,500	1,060.00	910.00	1,102.50	910.00
15,000	...	15,000	1,560.00	1,285.00	1,756.00	1,285.00
20,000	1,000	19,000	2,360.00	2,085.00	2,656.00	3,245.00
25,000	1,880	23,120	3,832.00	3,221.00	4,312.00	3,608.00
40,000	3,000	37,000	10,340.00	9,285.00	11,891.00	10,885.00
70,000	7,000	63,000	26,590.00	22,585.00	30,578.50	28,436.00
100,000	12,500	87,500	44,615.00	39,160.00	52,422.62	47,303.75
200,000	25,000	175,000	1,15,865.00	98,472.50	1,29,532.00	1,18,997.50

will be at graduated slab rates (and not step rates) allowing for an exemption of Rs 15,000. The existing and new rates of surcharge are given in Table 3. The proposed surcharge will be levied on unearned income as a separate entity and not in the highest strata of the assessee's total income. For instance, if an assessee's total income was Rs 1 lakh, made up of Rs 70,000 earned and Rs 30,000 unearned, tax was levied on the latter at the highest rate of 75 per cent and then a surcharge was imposed on the tax. Thereby an earner with some unearned income was taxed more harshly than a person with wholly unearned income.

The surcharge on earned income will be levied above Rs 1 lakh as at present, but on the first slab of Rs 1 lakh, it will be reduced from 10 to 5 per cent. Beyond Rs 2 lakhs, it will remain unchanged at 10 per cent from Rs 2 lakhs to Rs 3 lakhs, and 15 per cent on the balance.

Insurance and Provident Fund

Instead of a proportionate rebate based on the average rate of income tax (till 1963-64) and super-tax (1964-65) allowed for life insurance premia, cumulative time deposits and provident fund contributions, there will be an outright relief by way of deduction now. An assessee can contribute 10 per cent of his income upto a limit of Rs 12,000 for individuals and Rs 25,000 for HUFs (against Rs 10,000 and Rs 20,000 respectively, so far) and claim an outright deduction of one-half of the total contribution from his liability. Salary earners will get this benefit from April this year and for subsequent years but others will qualify in respect of their income for 1964-65 also.

As announced earlier, individuals and HUFs will get assistance in the form of tax free tax credit certificates for subscribing to the first equity issue of public companies. The assistance will be 5 per cent for amounts paid upto Rs 15,000, 3 per cent for the next Rs 10,000 and 2 per cent for the next Rs 10,000, making in all Rs 1,250 or 3.6 per cent for a total investment of Rs 35,000. The certificates can be used to offset tax liability during the year of investment and the three following years if the assessee continues to hold the shares during that period. In the event of a sale or transfer before the completion of the fourth year, the certificate would be for an amount proportionate to the investment retained after the sales. This scheme, which is to be handled by the Reserve Bank of India, has yet to be drawn up. Besides, there would be exemption from wealth tax for five years for equity investment in companies issuing capital for the first time after February 28, 1965.

To meet the strong criticism of the levy of capital gains tax on bonus shares received by shareholders, it is proposed to reduce the tax by 10 per cent of the value of such bonus shares. This concession runs contrary to the general policy of simplification proposed in personal taxation. Since the capital gains represented by bonus shares is unrealised — and the total bonus issue is taxed at 12.5 per cent in the hands of the company — and since the revenue and social justice potential of the tax are nominal, this tax could have been dropped altogether.

In order to further encourage savings, it is proposed to restore the pre-1961 Act treatment of repayments out of approved superannuation funds on the resignation, dismissal or discharge of an employees. Such repayments will henceforth be exempt from tax.

Partners of professional firms like chartered accountants, architects, solicitors and lawyers, who cannot enjoy the benefits of provident fund and other retirement benefits would be permitted a reduction upto 10 per cent of their total income, subject to a maximum of Rs 5,000, for contributions to retirement annuities.

To curb the excessive diversion of investment into urban real estate, it is proposed to levy an additional wealth tax on such properties in towns with a population of 1 lakh or more. The exemption limit for this purpose would vary according to the population of the town—Rs 2 lakhs for population between 1 lakh and 4 lakhs, to Rs 5 lakhs for population over 16 lakhs. The population slabs correspond with the classification adopted for dearness allowance to central government staff. The additional tax would rise from 1 to 4 per cent on the successive slabs.

There is at the same time a minor liberalisation of estate duty and gifts tax to avoid the hardship caused by imposition of both where death follows within two years (generally) and five years (in case of close relatives) of a gift which has borne gifts tax.

The rate of interest payable on delayed dues or refunds, etc, by both assessees and government will be raised from 4 to 6 per cent.

The Finance Minister estimates the loss of revenue on account of personal allowances at Rs 3.64 crores, adjustments of rates at Rs 20 crores, and alterations in surcharges at Rs 69 lakhs. There would also be some loss of income because the 1965-66 rates will apply both to 1964-65 incomes and advance payments for 1965-66. He has given no separate figure of the loss in personal taxation. The income from additional wealth tax on urban property would be Rs 1.5 crores.

Table 3: Surcharge on Unearned Income

Income Rs	1964-65 Rate %	Income Rs	1965-66 Rate %
1 Upto 10,000	nil	(1) Upto 15,000	nil
2 Entire unearned income above 10,000 upto 25,000 subject to marginal relief	12.5	(2) Next 35,000	20
3 Entire unearned income 25,000-75,000	15.0	(3) Balance	25
4 Entire unearned income above 75,000	17.5		

Registered Firms

The rates of income tax on registered firms are unchanged (see *The Economic Weekly*, March 7, 1964, p 489). A slight modification is, however, being made in the rate of surcharge to remove the unintended bias in favour of income from house property and dividends, So far the surcharge on business income was 20 per cent and on other income 10 per cent. It is now proposed that when 51 per cent or more of the income of a firm is from a profession, the surcharge would be only 10 per cent, in other cases it would be 20 per cent.

Corporate Taxation

(A) Companies in which the public is substantially interested and their wholly-owned subsidiaries:

The rate of tax on companies with income upto Rs 35,000 will remain at 42.5 per cent. Companies with income above Rs 25,000 will be taxed at 50 per cent: if they are engaged in specific basic industries, the rate of tax would be 45 per cent. Besides the 14 basic industries specified last year, ships, limestone, flame and drip proof motors, malleable iron and steel castings and calcium ammonium nitrate are also classified as basic now.

There will be no change in the 7½ per cent tax on equity dividends, and 12½ per cent tax on the value of bonus shares issued from reserves other than the share premium account.

The surtax will remain unchanged but the 25 per cent rebate on income from basic industries will apply to newly included industries also. Besides, the total tax liability of a company, including the equity dividend tax, will not exceed 70 per cent; the balance of tax liability would be deductible against surtax. The present maximum liability, it is believed, is about 74 per cent in a few cases.

(B) Companies in which the public is *not* substantially interested.

It is proposed to amend Section 2(18) of the Income-tax Act to provide that a company in which 51 per cent or more of the equity capital is held by another company which is a genuine public company or its wholly owned subsidiary, will be deemed a company in which the public is substantially interested. This change would help foreign and Indian subsidiaries of foreign companies but it does not end the confusion about the definition of a Section 104 (formerly 23A) company for, Section 2(18)(b)(iii) still lays down as an essential condition that "the affairs of the company or the shares carrying more than fifty per cent of its total voting power were at no time during the relevant previous year controlled or held by five or less persons". Since each company and group of relatives count as one person, the anomalies of the definition would remain.

Industrial companies would be allowed to accumulate their reserves equal to twice (instead of just equal to) their paid up capital plus loan capital or value of fixed assets whichever is higher. They have to distribute only 60 per cent of their profits till this limit is reached, and 90 per cent thereafter. The penal rate on failing to distribute 90 per cent, when required, has been reduced from 37 to 25 per cent. In effect, such companies will never attract the penal rate now.

The taxation of Section 104 industrial companies would be significantly reduced. They would be taxed at 50 per cent (45 per cent for basic industries) on the first Rs 10 lakhs of income and 60 per cent (54 per cent on basic industries) on the balance In 1964, the concessional rate of 50 per cent applied only to companies with an income of upto Rs 5 lakhs and that too on the first Rs 2 lakhs.

Non-industrial companies, however, will continue to be taxed at 60 per cent, with a concessional rate of 54 per cent for income from basic industries.

Development Rebate

The tea industry would be allowed a development allowance of 40 per cent on new bushes and 20 per cent on replantation of old bushes. This would meet an urgent and long standing demand.

Development rebate would be graded according to priorities after March 31, 1967, till which date it will continue at 20 per cent standard. New ships and coal mining machinery will continue to get 40 per cent and 35 per cent. Specified plant and machinery will get 25 per cent after March 1965; others will get 20 per cent till March 1967 and 15 per cent thereafter. The major items in the specified list are equipment in steel, nonferrous metals, specialised equipment in certain industries, boilers and steam generating plants, machine tools, tractors, cement, fertilisers, paper, electronics and petro-chemicals.

After March 1965, air conditioners, fans and refrigerators will not qualify for development rebate.

The 1964 rebates on income from exports will continue. These are: (1) rebate of 10 per cent of tax on profits from exports, and (ii) for certain items, 2 per cent of additional sale proceeds is set off against tax liability. A further concession is now proposed. Under a scheme still to be framed, credit certificates upto a *maximum* of 15 per cent of additional exports after January 28, 1965 would be given and this amount can be offset against the assessee's tax liability within a year: alternatively, the assessee would qualify for refund.

Two long-term production incentives are also given, one in the form of excise rebate, the other for income tax. This is the first time that such a general tax concession for additional production and profits has been given and that too for a period of five years. Both the schemes have yet to be framed, however.

Taking 1964-65 as the base year, a manufacturer who increases production during the five years 1965-66 to 1969-70 will get tax credit certificates equivalent to a *maximum* of 25 per cent of the additional central excise duty payable in any year over that paid in the base year. These certificates can be adjusted against income tax dues or used for repayment of loans from financial institutions or for redemption of debentures.

Further, over each of the five assessment years 1966-67 to 1970-71 (fiscal years 1965-66 to 1969-70), industrial companies will get tax credit certificates equivalent to 20 per cent of the excess of aggregate income tax and surtax liability (excluding equity dividend and bonus issue tax) over the aggregate liability in the assessment year 1965-66, which will serve as the base year. The amount of the certificates (to be issued by the RBI) can be adjusted or utilised in the same manner as above. The maximum relief under this head would be restricted to 10 per cent of income tax and surtax liability in any particular year.

Public companies shifting their undertakings to new areas would be exempt from capital gains tax. The relief would again take the form of tax credit certificates. Expenditure on the promotion of family planning among employees would be allowed as a deductible expense.

Foreign Investors and Personnel

Non-resident individuals would be charged tax at the same rates as residents (which means at lower rates instead of the present high flat rate of 48 per cent and more). They will not, however, qualify for personal allowances or exempt slabs.

Royalties, technical fees, etc, will be taxed as before at 50 per cent. The tax on inter-corporate dividends would be 25 per cent standard and 15 per cent for basic industries. Non-residents will not pay capital gains tax on sale of shares if the gains are reinvested within two years.

The period of tax-free residence of foreign technicians still remains at three years. At present, they can remain for another two years if the tax is paid by the employer; this period will be extended to five years. The tax paid by the employer will also be permitted now as a deductible expense.

Around Bombay Markets

Budget Fails to Cheer Dalal Street

Thursday, Morning

ONLY the stock market seems sorely disappointed with T T K's Budget. Notwithstanding the announcement of considerable tax relief and various concessions designed to stimulate production and promote savings and investment, the stock market beat a hasty retreat in the special Budget session on February 27 and within an hour or so it lost all the ground it had gained in the pre-Budget week. It all happened because of the absence of the widely anticipated relief in respect of the dividend tax and the capital gains tax on bonus issues. It was a typical crisis of expectations. Since the dividend tax and the capital gains tax are thought to have adversely affected the climate for investment without making any worthwhile contribution to the national exchequer, the stock market had taken it almost for granted that these taxes would be abolished.

In its mood of frustration, the market paid little attention to the various fiscal concessions provided in the Budget. The stock market has never really taken kindly to TTK. The relief in personal taxation at all levels, reduction in excise duty on coarse and medium cloth, rayon yarn and a number of consumer articles, tax credit in respect of excise duty on production in excess of that in the base year, tax credit in respect of additional corporation tax including surtax paid by any company over the corresponding tax in the base year, tax credit for exports, increased development rebate for certain industries, wealth tax concession in regard to investment in new issues, enlargement of tax concessions to certain companies falling under Section 104, attractive bait for unearthing unaccounted money — all these add up to sizable relief, particularly when viewed in the context of the pressing need to mobilise resources for financing the massive Fourth Plan.

The stock market's reaction to the Budget proposals could not be dismissed as purely impulsive because second thoughts on the Budget brought little cheer. The market, in fact, made a new low on March 3 — the lowest in the downward move which has been in evidence since about the beginning of February. It is possible that the market's performance might have been less disappointing if the decline in equity prices in the special Budget session had not uncovered some weak bull positions which resulted in substantial forced liquidation. When one goes round the stock market one gets the impression that investors' confidence can be easily restored by the abolition of the dividend tax and the capital gains tax on bonus issues. And yet, their impact is mainly psychological: in real terms, the incidence of these taxes is very small.

While the trading sentiment is still unsettled, it appears that the market will not take long to appreciate the significance of the various tax reliefs and concessions provided in the Budget. Whether these incentives will have a strong impact on the economic tempo is a debatable point. Fiscal concessions cannot, by themselves, produce any economic miracle. Fiscal policy has its obvious limitations in stimulating production in an economy characterised by acute physical shortages. And so far as the outlook for equities is concerned one has also to bear in mind the interest rate structure that has come to prevail with the increase in the Bank Rate to 6 per cent.

Cotton

Ceilings to Go?

THE Indian Central Cotton Committee has recommended that for the 1965-66 season, ceiling prices for cotton should be abolished and only support prices fixed. Further, that the support prices should be related to the cost of production and should be in parity with the prices of other agricultural commodities and also take into account seasonal variations. The committee has prepared a report on the scheme for estimating costs of cultivation of cotton and its rotation crops in the major cotton growing tracts in the country. This report has been submitted to the Agricultural Economic and Marketing Committee of the Indian Council of Agricultural Research for a thorough study.

Since this report has yet to be made public, it is difficult to say whether the committee's recommendation to remove the cotton ceilings and fix only support prices instead is based on the findings in its study of costs of cultivation of cotton and other rotation crops in the major cotton growing areas. A very thorough study of farm accounts alone can provide an indication about the economic relationship between the prices of various agricultural crops. In the absence of any competent study on the costs of cultivation of major crops it is difficult to say whether the ceiling prices of cotton are hindering the production of cotton.

The main argument in favour of the abolition of ceiling prices has been that cotton has been unnecessarily singled out for control; there exists no statutory price control over other agricultural commodities such as oilseeds. Not only that, even cloth made from cotton is subject to only partial control. And above all, price control over cotton has always been honoured more in breach than in observance. If control cannot be strictly enforced, it is perhaps better to do away with it. No doubt, this is counsel of despair but there is considerable substance in the view that high prices are to be preferred to the deterioration in quality of cotton and cottonseed that comes about through mixing of different varieties which is widely resorted to in order to circumvent price control. While it is possible to build a strong case for the removal of cotton, especially when the industry itself is in favour of its abolition, one cannot be at all sure that higher prices will really help increase the production of cotton.

Amusing

In the February issue of its Journal, the Indian Cotton Mills' Federation says "The past month (January) was a highly fruitful month for the cotton mill industry. Among the constructive results which emerged during the month, the pride of place must go to the fairly successful implementation of the Federation's scheme of self-restraint in cotton purchases by mills. It must be said to the credit of the Textile Commissioner, the trade, the growers and the mills, that it was because of their cooperation in operating the scheme that it has brought about a fair measure of stability to cotton prices." All this makes an amusing reading in the context of the real situation

obtaining in the cotton market. For cotton prices continue to be well above the statutory ceiling, excepting a few varieties. Many mills are known to have been making clandestine purchases of cotton above the ceiling prices, the Federation's scheme of self-restraint notwithstanding. Growers have made several strong representations against the Federation's scheme. The Textile Commissioner is known to have taken no action against the erring mills or against growers and traders who have been contravening the cotton control order.

There has been no material change in the conditions obtaining in the cotton market recently. The turnover in the spot market continues to be restricted. Prices continue to rule above the ceilings. Mill consumption of cotton in the first four months of the season —September to December—is placed at 21.82 lakhs comprising 19.33 lakh bales of Indian cotton and 2.49 lakh bales of foreign cotton. In the same period last season, mills consumed 19.10 lakh bales of Indian cotton and 2.16 lakh bales of foreign cotton. Arrivals of foreign cotton since the beginning of the season on September 1 to February 20 are placed at 4.18 lakh bales as against 2.71 lakh bales in the same period last season. Of these, U S cotton accounted for 2.25 lakh bales against 1.09 lakh bales. Exports of Indian cotton during the same period total 1.05 lakh bales against 1.06 lakh bales, out of which Japan took 79,977 bales against 77,298 bales.

Oilseeds

Prices Drift Lower

THE oilseeds market showed a distinctly easier tendency last week. And what is more, the maturing contract in castorseed which had hitherto been remarkably firm on strong bull manipulation registered the sharpest decline. Castor March which was marked down to Rs 201 on March 3 had touched a high of Rs 209.37 (per 250 kgs) in the preceding week. The fall occurred despite the absence of any tenders on the first notice day. Bulls who had been dominating the scene for a long while on the idea that bears would be forced to give in because of the substantial premium enjoyed by the spot material are now beginning to feel uneasy as the spot premium has virtually disappeared with the increased tempo of arrivals in the main producing centres; castor ready Bihar variety is currently quoted around Rs 195 (per 250 kgs). While arrivals are picking up, export business in castor oil remains at a standstill and the wide disparity of about £40 per ton in the Indian and world prices of castor oil virtually rules out the possibility of any important export business in the near future, unless, of course, the Communist countries, more particularly Russia, enter the Indian market. Satisfactory domestic crop and unpromising export outlook for castor oil explain why the June contract is quoted at a discount of about Rs 4 per quintal below the March contract.

Linseed have been keeping distinctly subdued for quite some time and prices have been gradually sagging on reports of a better harvest and record production of mustardseed and rapeseed. Spot linseed which had fetched as high a price as Rs 72 in the beginning of January could be had at around Rs 45 (per 50 kgs) on March 3. Futures have also been drifting lower in sympathy with the declining trend in the spot material. The March contract which had been bid up to Rs 46.25 (per 50 kgs) in the previous week was sold down to Rs 44.06 towards the close of last week and the distant June contract moved down from Rs 91.75 to Rs 86.55 (per 100 kgs) during the same period. Linseed oil ready was quoted around Rs 18.50 (per 10 kgs); early in January, linseed oil ready had been marked up to Rs 31.

Groundnut and groundnut oil have held relatively steady in the past week or two, with groundnut oil fluctuating between Rs 20.70 and Rs 21.50 (per 10 kgs). The recent steadiness in groundnut oil is attributable to sustained buying by vanaspati manufacturers mainly because of the delay in the arrivals of soyabean oil from the U S owing to the dock strike there. The relief in excise duty on vegetable products has had no noticeable effect on groundnut oil prices though the price of vanaspati has come down by about Rs 3 a tin, that is, by about the full amount of the duty relief. There has been an extraordinary delay in securing soyabean oil from the U S and nearly all the price advantage that the vanaspati industry was expected to get from the use of cheaper oil has disappeared. Soyabean oil prices have recorded a marked rise over the past few months and imports have become costlier with the imposition of the additional 10 per cent regulatory customs duty.

The Budget proposal regarding tax credit certificates for exporters has caused very little excitement in the oilseeds market. This is partly because uncertainty continues about the details of the proposed scheme and partly because export of important edible oil is prohibited. Details of the scheme for grant of tax credit on exports are awaited with keen interest. Nothing is known yet as to how the existing export incentive scheme will be modified in view of the system of tax credit certificates that the Finance Minister Krishnamachari has announced.

Business Notes

State Bank of India

THE year 1964 has been one of exceptional progress for the State Bank of India. There has been a very appreciable increase in tempo along the whole range of its activities. The progress covers also such special fields as branch expansion, rural credit, assistance to small-scale industries and medium-term financing.

In the busy season of 1963-64, the volume of the Bank's credit operations expanded by Rs 125.3 crores, as against a mere Rs 42.9 crores in the previous busy season. The Bank thus accounted for a third of the total credit expansion by scheduled banks in the busy season, compared with a little over a fifth in the previous season. At the end of 1964, the credit-deposit ratio stood at 64.5 per cent, against 58.6 per cent a year ago. The Bank's deposit resources showed substantial improvement, with the aggregate deposits rising by Rs 100 crores, compared to a rise of Rs 75.2 crores in 1963. Demand deposits were up by nearly Rs 49 crores and time deposits by over Rs 51 crores; the corresponding figures for the previous year were Rs 25.7 crores and Rs 49.5 crores. During the busy season, the Bank's deposits increased by Rs 53.5 crores as compared with Rs 35.7 crores in the previous season.

During the year, financial assistance to all types of co-operative institutions recorded a further increase, and the Bank's assistance to small-scale industries under the liberalised scheme of finance set a new record. There was

also a significant increase in medium-term finance which now accounts for about ten per cent of the Bank's total credit portfolio. A scheme has been evolved to assist machinery manufacturers in respect of their sales on deferred payment basis. Foreign exchange business too recorded further progress, and the Bank continued to finance foreign trade arising from barter deals and other trade agreements entered into by the Government of India and S T C.

Of the 149 branches to be opened in the five-year period ending June 1965 under the second branch expansion programme, 100 branches were opened by the end of 1964. With a view to extending banking facilities to rural and semi-urban areas, the Bank has embarked upon another programme of opening 319 branches at non-banking Treasury and Sub-Treasury centres. Of these, nine branches have already been opened.

With the phenomenal increase in the number of branches and the growing expansion of the Bank's activities generally, many significant changes have been effected in order to bring about larger decentralization of functions, greater delegation of powers and wider diversification of services. The subsidiary banks also recorded further progress in 1964. Over the year, their total deposits increased from Rs 156.2 crores to Rs 182.7 crores and their advances rose from Rs 74.5 crores to Rs 95.5 crores.

The State Bank's earnings from interest and discount increased from Rs 18.48 crores to Rs 23.20 crores and those from commission, exchange and brokerage from Rs 6.62 crores to Rs 7.47 crores. On the expenditure side, interest paid on deposits, borrowings, etc, increased from Rs 8.86 crores to Rs 11.21 crores and salaries, allowances and provident fund from Rs 10.85 crores to Rs 13.15 crores. The net profit rose from Rs 2.75 crores to Rs 2.95 crores. Dividend is maintained at Rs 23 per share. Reserve fund absorbed Rs 60 lakhs, against Rs 55 lakhs in 1963. Allocations to pension funds, staff welfare fund and staff co-operative housing amounted to Rs 9 lakhs, Rs 10 lakhs and Rs 5 lakhs, respectively. Bonus to staff took away Rs 8 lakhs more at Rs 90 lakhs.

Air- India

THE year 1963 was a good one for international air transport industry as a whole, and an even better one for Air-India. Except in the carriage of mails, its rate of growth substantially exceeded the industry average. During the year ended March 1964, traffic on scheduled services increased by 20.3 per cent. The overall load factor improved from 45.3 per cent to 47.8 per cent.

Air-India carried a total of 191,000 passengers, over 15 per cent more than in the last year. At the same time, cargo earnings rose by 19 per cent to Rs 4.36 crores. Mail revenue, however, declined by 11.6 per cent mainly owing to the restrictions placed by certain countries on the lifting of mails. Operating revenues increased from Rs 24.53 crores to Rs 26.81 crores, and operating expenses from Rs 21.07 crores to Rs 22.97 crores, leaving a higher operating profit of Rs 3.84 crores compared to Rs 3.46 crores a year ago. An unchanged dividend of five per cent is to be paid to the Government on equity capital. Besides, despite the moratorium granted by the Government upto October 1966 on the payment of interest on the loan portion of the Government's capital investment, the Board has decided that interest at 4½ per cent should be paid with effect from April 1, 1963.

Air-India plans to purchase five subsonic jets for nearly Rs 27 crores during the Fourth Plan. In regard to supersonic transport, the Corporation's decision to pay deposits for both the American and Anglo-French proposed supersonic aircraft is justified by the Chairman, J R D Tata, on the ground of the uncertainties in both programmes and the imperative need to maintain Air-India's competitive position, in the industry.

Chemicals and Fibres

CHEMICALS and Fibres of India has been given a letter of intent to expand the licensed capacity of their polyester fibre plant from 4.5 million lbs to 10 million lbs per annum. Meanwhile, construction of the company's factory is nearing completion. The accounts for the fourth year ended September 1964 show that the company incurred a loss of Rs 6.91 lakhs. Together with the previous loss, the total loss amounting to Rs 8.02 lakhs is carried forward. Preliminary expenses and share issue expenses amounting to Rs 4.56 lakhs are also carried forward. From January 1, 1965 the company is selling imported polyester fibre.

Union Carbide

UNION Carbide of India has had another fruitful year, showing encouraging progress both in sales and profits despite continuing restrictions on the import of necessary raw materials. According to a preliminary statement, the company recorded during the year to December 25, 1964 a rise of over 10 per cent both in sales and profits which stood at Rs 15.95 crores and Rs 3.67 crores, respectively. Even after making higher provisions (Rs 60.46 lakhs against Rs 58.82 lakhs for depreciation, Rs 5.60 lakhs against Rs 4.55 lakhs for development rebate and Rs 172.74 lakhs against Rs 169.75 lakhs for taxation) the net profit is considerably higher at Rs 128.47 lakhs compared to Rs 98.91 lakhs a year ago. The total dividend is unchanged at 15 per cent, but is payable on an enlarged capital.

An application is being made to the Government for permission to capitalise Rs 45.50 lakhs out of the share premium account for the issue of bonus shares in the ratio of one-for-eight. The company's projector carbon and electrode plant was completed in late 1964, and production began in January this year. The Rs 9 crore expansion of Chemicals and Plastics is proceeding to schedule, and the expanded capacity is expected to come into operation during the next year.

Maharashtra Sugar

THE year ended September 1964 has proved a good deal better for Maharashtra Sugar which has reported a rise of about 16 per cent to Rs 94.95 lakhs in its gross profit. Although net sales have declined by Rs 39.37 lakhs to Rs 3.53 crores, taking into account the difference in stocks as at the beginning and end of the year, the total comes to Rs 3.41 crores—over Rs 31 lakhs more than last year's. Secondly, income by way of interest has gone up by more than Rs 3 lakhs at Rs 4.07 lakhs. And lastly, the company has derived some benefits from a nearly 30 per cent rise in the production of rectified spirit and from the manufacture of sugar cubes, which was undertaken only in the latter part of the year with a small quota of sugar. Demand for this product is fairly large, and the current year's results should reflect a full year's benefit from the production of this new product. Moreover, the company is reported to have been granted a letter of intent for the manufacture of potable liquor.

Out of the profits, provisions for depreciation and taxation have absorbed more at Rs 5.18 lakhs and Rs 52 lakhs compared to Rs 4.51 lakhs and Rs 48.60 lakhs, respectively, a year ago. The provision for development

rebate is slightly lower at Rs 0.44 lakh, against Rs 0.77 lakh, and the net profit is nearly Rs 10 lakhs more at Rs 37.33 lakhs. But the dividend is kept unchanged at Rs 14 a share with a view to conserving funds for the expansion and diversification programme undertaken by the company. Preference and equity dividends together claim Rs 26.96 lakhs, and are adequately covered by earnings.

Unichem Lab

WITH the prices of all pharmaceutical products frozen since April 1963 under D I R, rising production costs and tightening up of imports of raw materials and basic chemicals has led to a contraction in the profit margins of Unichem Laboratories in the year ended September 1964. Compared to the previous report covering a period of 9 months, sales during 1963-64 have risen from Rs 102.41 lakhs to Rs 156.66 lakhs and gross profit from Rs 16.91 lakhs to Rs 22.42 lakhs. Proportionately, sales have advanced by nearly 15 per cent, while profits have remained stagnant. All the necessary provisions have taken away bigger slices of the profit: depreciation Rs 3.79 lakhs against Rs 2.80 lakhs, taxation Rs 10.65 lakhs against Rs 9.34 lakhs and development rebate Rs 1.26 lakhs against nil. Equity earnings, however, are still a good deal better at Rs 7.03 lakhs compared to Rs 4.43 lakhs and the cover for the dividend, as raised by 3 points to Rs 9, is slightly higher at around 1¾ times.

In order to cater to the needs of the market in Northern India, a factory is proposed to be set up at Ghaziabad from internal resources. A new product called "Unimanitol", which is being introduced, holds promise of doing well.

Walchandnagar Industries

THE financial results of Walchandnagar Industries for the year ended September 1964 show a marked improvement in profit margins. Though sales were about Rs 12 lakhs lower at Rs 5.49 crores, gross profit shot up nearly Rs 18 lakhs to Rs 95.17 lakhs. Sales turnover was affected mainly by lower output of sugar, but bigger contribution from distillery, industrial machinery division and plastic factory brought in higher profits. A major portion of the rise in profits has, however, been taken away by necessary provisions; depreciation absorbs Rs 4.11 lakhs more at Rs 31.11 lakhs, tax charge Rs 7.50 lakhs more at Rs 30 lakhs and development rebate Rs 1.35 lakhs more at Rs 3.85 lakhs. Besides Rs 2.60 lakhs have gone to writing off debenture issue expenses and underwriters' commission for which no provision was made last year. Taking into account Rs 0.90 lakh, against Rs 0.18 lakh, being previous provisions no longer required and after providing Rs 5 lakhs (same) for preferential dividend, equity earnings are Rs 23.51 lakhs — nearly Rs 3 lakhs more than last year's. The dividend is raised by Rs 2 to Rs 14 a share, and absorbs Rs 21.21 lakhs (Rs 18.18 lakhs).

The outlook for the company appears promising. The earlier proposal to issue new debentures of Rs 60 lakhs has been abandoned as the company has received from Maharashtra State Farming Corporation amounts against sale of assets. The 4½ per cent 1959-64 debentures were also redeemed on November 1, 1964. The company has started manufacturing pressure vessels and storage tanks required by chemical and petro-chemical industries. The collaboration terms have been settled with MAAG Gear-Wheel Company of Zurich for the manufacture of MAAG speed reduction gears, pinions and their accessories required in sugar, cement, paper and pulp industries. The terms for the collaboration agreements with Escher-Wyss A G, Zurich, for the manufacture of paper plant and ancillary equipments and with G & J Weir of Glasgow for the manufacture of steam turbines for sugar mills are under negotiation. Equipment of the value of Rs 25 lakhs for cement machinery and gear making projects has been ordered against loan by I C I C I. An additional loan of Rs 9 lakhs is expected from this institution for importing additional equipment for these projects.

Phaltan Sugar

APART from expanding its original business of sugar manufacture, Phaltan Sugar Works is diversifying its activities into new lines. Having completed the previous expansion programme, the company is seeking permission of the Government for doubling the cane crushing capacity to 2,000 tonnes a day. A letter of intent has already been secured for setting up a plant to manufacture titanium dioxide, and some other new ventures are under consideration.

During the year to September 1964, the company crushed 1.28 lakh tonnes of sugarcane and produced 1.46 lakh bags of sugar with an average recovery of 11.38 per cent, as against 1.23 lakh tonnes of cane crushed and 1.61 lakh bags of raw sugar produced with a recovery of 12.97 per cent a year ago. Accordingly, net sales were lower by Rs 14.63 lakhs at Rs 158.41 lakhs, but gross profit was higher by over Rs 3 lakhs at Rs 41.05 lakhs. Considering that last year's profit included Rs 9.38 lakhs being the profit realised on acquisition of fixed assets by the Maharashtra State Farming Corporation, the 1963-64 performance looks more encouraging. All the necessary provisions have taken away more than in the last year: depreciation Rs 5.71 lakhs (Rs 3.45 lakhs), taxation Rs 18.87 lakhs (Rs 16.23 lakhs) and development rebate Rs 1.77 lakhs (Rs 0.81 lakh), leaving a lower net profit. Together with Rs 3.08 lakhs (nil) written back, however, equity earnings are a shade higher at Rs 17.78 lakhs, and the unchanged dividend of Rs 10 is covered a little over 1¾ times.

Jayant Paper

JAYANT Paper Mills' performance has been encouraging in the fourth year of its existence when total production exceeded 4,200 tonnes as against the licensed capacity of 3,600 tonnes and only 2,487 tonnes produced a year ago. The company's application for raising the capacity four-fold is being considered by the Government. Meanwhile, a ground wood pulping plant is to be installed shortly. When commissioned, this plant will increase the capacity of the pulp section by five tonnes a day.

The financial results for the year to June 1964 show that total sales rose from Rs 36.19 lakhs to Rs 67.52 lakhs, of which excise duty absorbed as much as Rs. 13.40 lakhs against Rs 4.42 lakhs, and net sales increased by about 70 per cent to Rs 54.12 lakhs. Profit margins, however, contracted and the gross profit at Rs 10.03 lakhs reflected a rise of about 41 per cent. With both depreciation 4.74 lakhs (Rs 3.57 lakhs) and Rs. 1.55 lakhs (nil), respectively, the increase in the net profit further narrowed down to Rs 3.74 lakhs compared to Rs 3.57 lakhs a year ago. But this is more than compensated by the saving in the development rebate reserve which requires only Rs 6,300 as against Rs 3.42 lakhs previously. After adjusting the previous year's loss of Rs 8,497 and providing a small

amount for taxes for the year 1961-62, the entire balance of Rs 3.55 lakhs is being carried to the balance sheet.

No dividend has been proposed by the directors although the question of declaration of a dividend figures on the agenda for the annual meeting called for on February 25. There is a contingent liability of Rs 11.58 lakhs against the company in respect of excise duty. The company has preferred an appeal, and the Government's order thereon is awaited. In case a favourable order on the appeal is received before February 25, the directors may propose a maiden dividend at the annual meeting.

The current year's prospects hold promise of further improvement in working results mainly because the rebate of 15 per cent on excise duty, allowed under the provision of Finance Act of 1964-65 to the paper mills which began production on or after April 1, 1961, should afford additional benefit to the company. The company has established its reputation for good quality products which are already in great demand from industrial consumers and the Government.

Chartered Bank

AT the annual general meeting of stockholders March 31, Directors will recommend final dividend 7½ per cent actual less income tax. The consolidated profits of the year 1964 amounted to £1,254,778 (1963, £1,069,378). After deducting allocations of $450,000 to reserve funds (1963, £450,000) and £100,000 to reserves for contingencies (1963, nil) and the net cost of dividends £707,437 (1963, £606,375) the carry forward is £571,365 (1963, £574,024). At the extraordinary general meeting of stockholders on March 31 the directors will recommend capitalising £770,000 out of reserve fund to be applied to paying up in full 770,000 new shares of £1 each which will be issued to stockholders on register on February 20 in proportion of one new share for every £10 stock held. If stockholders assent to capitalisation of £770,000, directors intend to transfer £770,000 from reserve for contingencies account to reserve fund. Directors hope to recommend maintenance of dividend payments of 15 per cent per annum on increased capital.

IEMA

FOUNDED in 1947 the Indian Electrical Manufacturers Association is a representative national organisation of those engaged in the manufacture of electrical and allied equipment. A very valuable function performed by the Association recently is the compilation of a Demand Survey for electric motors, transformers and switchgear to cover the period 1964-1971. The Survey is based on the growth of electricity generation which is expected to be doubled during the Fourth Five-Year Plan from approximately 10 million kw to 20 million kw. The survey indicates the enormous growth likely to take place in the demand for electric motors, transformers and switchgear during the Fourth Plan period.

Czech Machine Tools

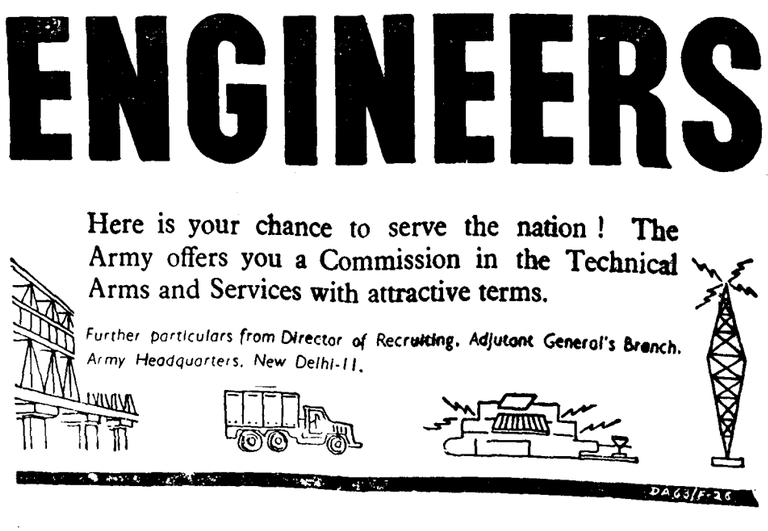
A DELEGATION of Czechoslovak machine tool manufacturers is expected to arrive in India in the first week of March 1965. The Delegation will include leading representatives of the machine tool industry in Czechoslovakia.

They come to India with a view to exploring possibilities of concluding further collaboration arrangements for the manufacture of machine tools in India. It is well known that in respect of quality, precision, design, efficiency and output Czechoslovak machine tools are one of the most popular and demanded in India.

The Delegation will be meeting and discussing with parties, who are interested in securing collaboration for the manufacture of machinery, both in public and private sectors. Their itinerary includes Bombay, Bangalore, Madras, Calcutta and New Delhi.

Government of India have already sanctioned schemes for the manufacture of Slotting Machines, Radial Drilling Machines, Milling Machines and Planning Machines in the private sector in collaboration with Czechoslovak manufacturers. The collaboration agreements already approved by the Government of India will save for this country considerable foreign exchange.

It is expected that the proposed visit and the negotiations of the Czechoslovak machine tools manufacturers' Delegation will be of much help to the expansion of the machine building industry in India.



Current Statistics

Steel Statistics

Requirements of Steel in India : 1965-66 and 1970-71

('000 tonnes)

Categories	1965-66			1970-71		
	Domestic Demand	Export Possibilities	Total	Domestic Demand	Export Possibilities	Total
Non-Flat Products	*4,044.3*	*20.2*	4,064.3	6,973.4	*1,000.0*	*7,973.4*
Semis	478.6	...	478.6	907.6	10.0	917.6
Structurals	937.1	...	937.1	1,705.9	150.0	1,855.9
Rails and Fish Plates	543.9	...	543.9	691.3	100.0	791.3
Sleepers	33.3	...	33.3	89.1	...	89.1
Wheels, Tyres and Axles	112.7	...	112.7	147.5	20.0	167.5
Bars and Rods	1,558.7	20.2	1,578.7	2,761.6	600.0	3,361.6
Wires and Wire Products	380.0	...	380.0	670.4	120.0	790.4
Flat Products	*2,837.8*	...	*2,837.8*	*5,120.7*	*500.0*	*5,620.7*
Tin Plates	261.8	...	261.8	474.4	50.0	524.5
Sheets	1,165.5	...	1,165.5	2,085.5	300.0	2,385.5
Plates	901.1	...	901.1	1,647.0	100.0	1,747.0
Strips	205.5	...	205.5	350.5	50.0	400.5
Skelp	303.9	...	303.9	563.3	...	563.3
Total Rolled Mild Steel	*6,882.1*	*20.0*	*6,902.1*	*12,094.1*	*1,500.0*	*13,594.1*
Alloy Steel	389.7	...	389.7	743.5	...	743.5
Steel Castings	140.3	...	140.3	286.7	...	286.7
Iron Castings	1,300.4	50.0	1,350.4	2,031.3	150.0	2,181.3
Cast Iron Pipes	428.1	200.0	628.9	829.0	400.0	1,229.0

Anticipated Production of Saleable Steel at the End of the Third Plan

(In thousand tonnes)

Categories	Bhilai	Durgapur	Rourkela	TISCO	IISCO	Secondary Producers and Re-rollers	Total
Blooms and Billets for Re-rollers	315	300	—	310	140	—	1,065
Blooms and Billets for Forging	—	70	—	—	10	—	80
Structurals	387	200	—	280	265	—	1,132
Bars and Rods	261	240	—	260	160	800	1,721
Wires and Wire Products	400	—	—	—	—	—	400
Rails	520	—	—	120	105	—	745
Sleepers	82*	75	—	—	—	—	157
Wheels, Tyres and Axles	—	—93	—	—30	—	—	123
Fish Plates	—	11	—	—	—	—	11
Skelp	—	250	—	250	—	—	500
Plates	—	—	280	100	—	—	380
HR Strips and Sheets	—	—	250	—	—	—	250
CR Strips and Sheets	—	—	300	—	—	—	300
Tin Sheets	—	—	150	—	—	100	250
Galvanised Sheets	—	—	160	150	120	—	430
Electric Sheets	—	—	50	—	—	—	50
Total Finished Steel	*1,650*	*869*	*1,190*	*1,190*	*650*	*900*	*6,449*
Total Saleable Steel	*1,965*	*1,239*	*1,190*	*1,500*	*800*	*900*	*6,529†*

* Sleeper bars.
† Includes blooms and billets for forging only and not for re-rolling.

Anticipated Production of Saleable Steel at the End of the Fourth Plan

(In thousand tonnes)

Categories	Bhilai	Durgapur	Rourkela	TISCO	IISCO	Bokaro Stage I	Bokaro Stage II	Total with Bokaro I	Total with Bokaro II
Blooms and Billets for Re-rollers	315	410	—	513	198	—	—	1,436	1,436
Booms and Billets for Forging	—	70	—	77	10	—	—	157	157
Structurals	387	700	—	113	250	—	—	1,450	1,450
Bars and Rods	261	750	—	340	280	—	1,100	2,731	2,731
Wires and Wire Products	400	—	—	—	—	—	—	400	400
Rails	520	—	—	180	150	—	—	850	850
Sleepers	82*	75	—	—	20	—	—	177	177
Wheels, Tyres and Axles	—	93	—	30	—	—	—	123	123
Fish Plates	—	11	—	—	—	—	—	11	11
Skelp	—	250	—	250	—	—	—	500	500
Plates	550	—	400	100	—	250	655	1,300	1,705
HR Strips and Sheets	—	—	460	400	150	265	575	1,275	1,585
CR Strips and Sheets	—	—	200	100	—	370	1,060	670	1,360
Tin Sheets	—	—	350	—	—	—	220	450	670
Galvanised Sheets	—	—	160	150	—	210	410	520	720
Electric Sheets	—	—	50	80	—	—	—	130	130
Total Finished Steel	*2,200*	*1,879*	*1,620*	*1,743*	*850*	*1,095*	*2,920*	*1,200* *10,587*	*12,412*
Total Saleable Steel	*2,515*	*2,359*	*1,620*	*2,333*	*1,058*	*1,095*	*2,920*	*1,200* *10,744†*	*12,569†*

* Sleeper bars.
† Includes blooms and billets for forging only and not for re-rolling.

Source : "Steel Statistics", Hindustan Steel Limited, Ranchi.

Requirements of Raw Materials for the Steel Plants

(In million tonnes)

	Third Plan	Fourth Plan
Iron Ore		
Bhilai	4.27	5.35
Durgapur	2.29	5.20
Rourkela	2.54	3.52
TISCO	3.25	5.20
IISCO	2.00	3.00
Bokaro	2.34*	6.35
Total	*16.69*	*28.62*
Limestone		
Bhilai	1.90	2.19
Durgapur	0.70	1.67
Rourkela	0.78	1.42
TISCO	0.74	1.23
Bokaro	1.09*	2.85
IISCO	NA	0.75†
Total	—	*10.11*
Dolomite		
Bhilai	0.21	0.25
Durgapur	0.21	0.64
Rourkela	0.35	0.45
TISCO	0.01	0.02
IISCO	NA	0.15†
Bokaro	0.07*	0.15*
Total	—	*1.66*
Manganese		
Bhilai	0.12	0.15
Durgapur	0.06	0.23
Rourkela	0.17	0.19
Bokaro	0.18	0.20
TISCO and IISCO	NA	0.53
Total	—	*1.30*

* 1st Stage
† Estimated

Production of Finished Steel and Pig Iron and Semi-Finished Steel

('000 tonnes)

	1960-61	1961-62	1962-63	1963-64
Pig Iron for Sale	*1,077*	*1,022*	*1,098*	*1,164*
Semi-Finished Steel for Sale	*1,112*	*1,036*	*1,104*	*1,200*
Blooms	6	18	52	57
Slabs	77	13	9	7
Billets	911	888	912	992
Hoe Bars	7	7	7	7
Tin Bars	111	111	104	115
Skelp Bars	...	...	20	22
Finished Steel	*2,342*	*2,965*	*3,814*	*4,296*
Structurals				
Heavy	140	276	168	181
Medium	26	37	532	645
Light	196	319		
Rails				
Heavy (First Class)	121	212	348	362
Heavy (2nd Class)	23	48	88	85
Light	7	12	9	12
Black Sheets (Plain)	136	150	292	323
Galvanised Sheets				
Plain	22	25	31	30
Corrugated	106	109	121	120
Plates	111	149	244	360
Bars	961	893	1,052	1,187
Rods	159	208	362	370
Wire (Galvanised)	7	20	16	20
Wire (Others)	14	23	34	47
Hoops and Strips	20	123	74	94
Tin Plates	82	89	94	104
Steel Sleepers	6	16	52	83
Special Sections	205	256	297	273

Exports and Imports of Iron and Steel

(Value; mn Rs)

	1960-61	1961-62	1962-63	1963-64
Exports	*110.7*	*108.6*	*33.4*	*67.3*
Pig Iron	24.1	18.7	4.9	...
Blooms and Billets	25.1	20.8	...	...
Finished Steel	5.8	7.1	8.6	18.2
Scrap	55.7	62.0	19.9	49.1
Imports	*1202.6*	*1012.7*	*867.4*	*937.5*
Pig Iron	5.4	0.9	0.7	0.2
Blooms and Billets	21.9	14.9	40.9	35.1
Finished Steel	858.8	713.4	563.0	579.4
Tool and Alloy Steels	98.1	121.5	137.4	123.3
Ferro Alloys	n a	n a	4.8	3.3
Railway Fittings	51.8	15.9	8.7	59.4
Pipes, Tubes and Fittings	121.6	90.5	75.8	90.4
Castings and Forgings	38.7	51.7	35.2	40.3
Scrap	6.3	3.9	0.9	6.9

Source: "Steel Statistics," Hindustan Steel Limited, Ranchi.

BANKING RETURNS

(Rs crores)

Reserve Bank	Feb 26	Feb 19	Jan 29	Feb 28, '64
1 Note circulation	2561.24	2573.78	2543.44	2423.16
2 Rupee coin	98.20	97.31	100.19	110.52
3 Deposits				
(a) Central Govt	58.64	58.60	51.52	76.27
(b) Other Govts	9.04	5.68	12.96	9.07
(c) Banks	102.82	102.00	98.04	85.85
(d) Others	150.00	148.38	148.20	163.30
4 Foreign securities	69.46	69.46	74.79	102.46
5 Balance abroad	10.44	7.28	5.22	21.10
6 Rupee securities	2306.38	2306.39	2266.39	2119.69
7 Investments	158.83	183.65	196.04	217.02
8 Loans and advances to Govts	72.48	75.57	66.95	66.58
9 Other loans and advances	256.25	219.72	223.91	206.97

Scheduled Banks	Feb 19	Feb 12	Jan 22	Feb 21, '64
1 Aggregate deposits (net)	2580.47	2557.03	2547.06	2286.34
Demand (net)	1234.16	1214.51	1207.14	1034.99
Time (net)	1346.31	1342.52	1339.92	1251.35
2 Cash in hand	69.52	72.42	69.04	61.06
3 Balance with Reserve Bank	95.21	91.67	89.63	76.29
4 (2)+(3) as % of (1)	6.38	6.42	6.23	6.01
5 Borrowings from Reserve Bank	73.73	95.40	64.22	52.61
(a) Against usance bills and/or promissory notes	9.08	12.59	3.49	23.24
(b) Others	64.65	82.82	60.73	29.37
6 Advances	1627.73	1607.12	1563.94	1455.17
(a) State Bank	402.72	394.36	379.46	318.16
(b) Others	1225.01	1212.76	1284.48	1137.01
7 Bills discounted				
(a) Inland	227.35	232.23	231.64	232.30
(b) Foreign	76.27	74.10	73.91	60.18
(c) Total	304.62	306.33	305.55	292.48
(i) State Bank	25.48	24.98	25.96	21.06
(ii) Others	279.14	281.35	279.59	271.42
8 (6)+(7) as % of (1)				
9 Investments in Govt Securities	74.84	74.83	73.40	76.44
10 (9) as % of (1)	731.34	731.25	747.62	646.34
	28.34	28.60	29.35	28.27

Bombay Money Rates

(Per cent per annum)

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Deposits 14 days	—	—	—	—
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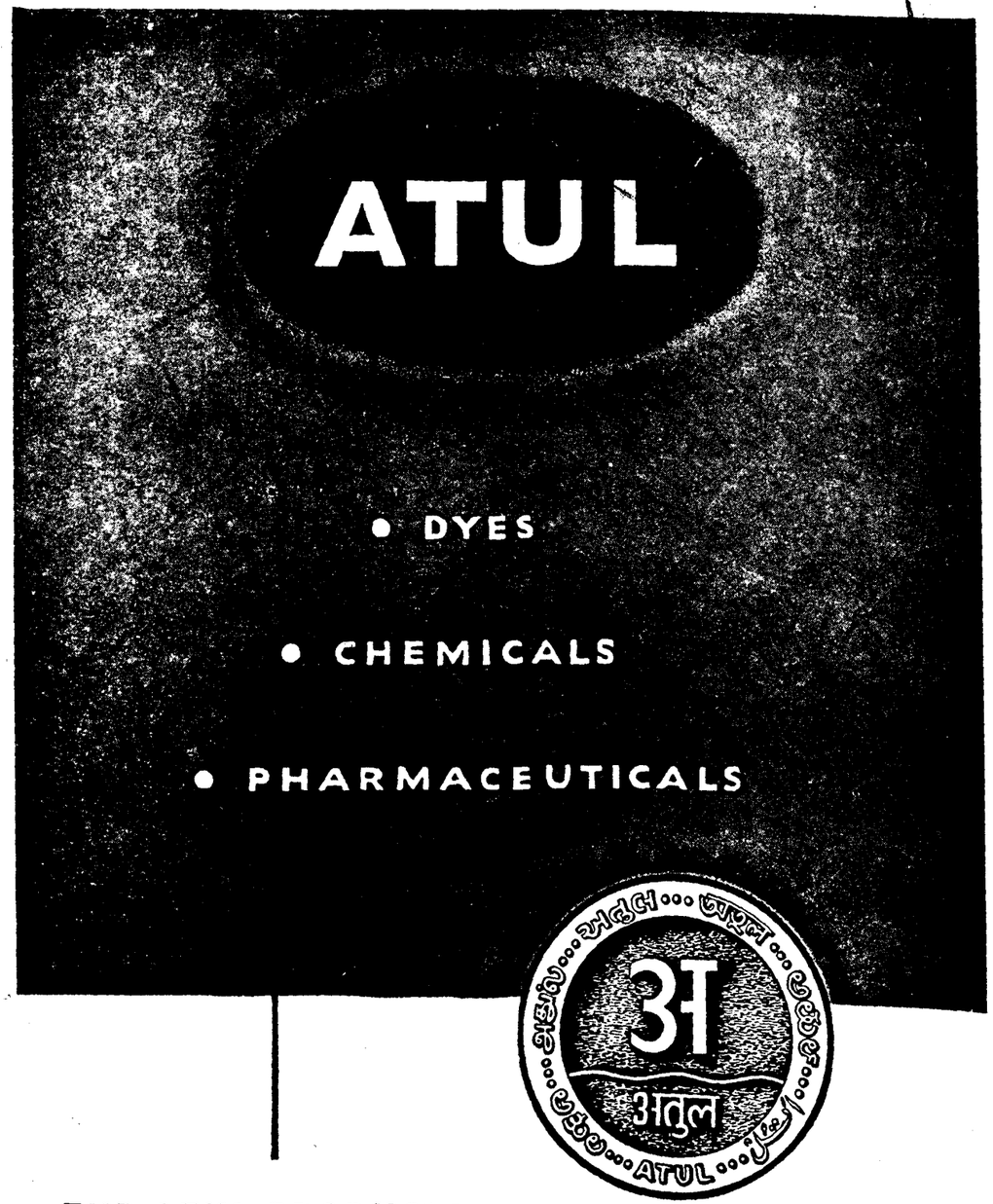
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THE ECONOMIC WEEKLY

A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

INDIA'S INVISIBLE MEN

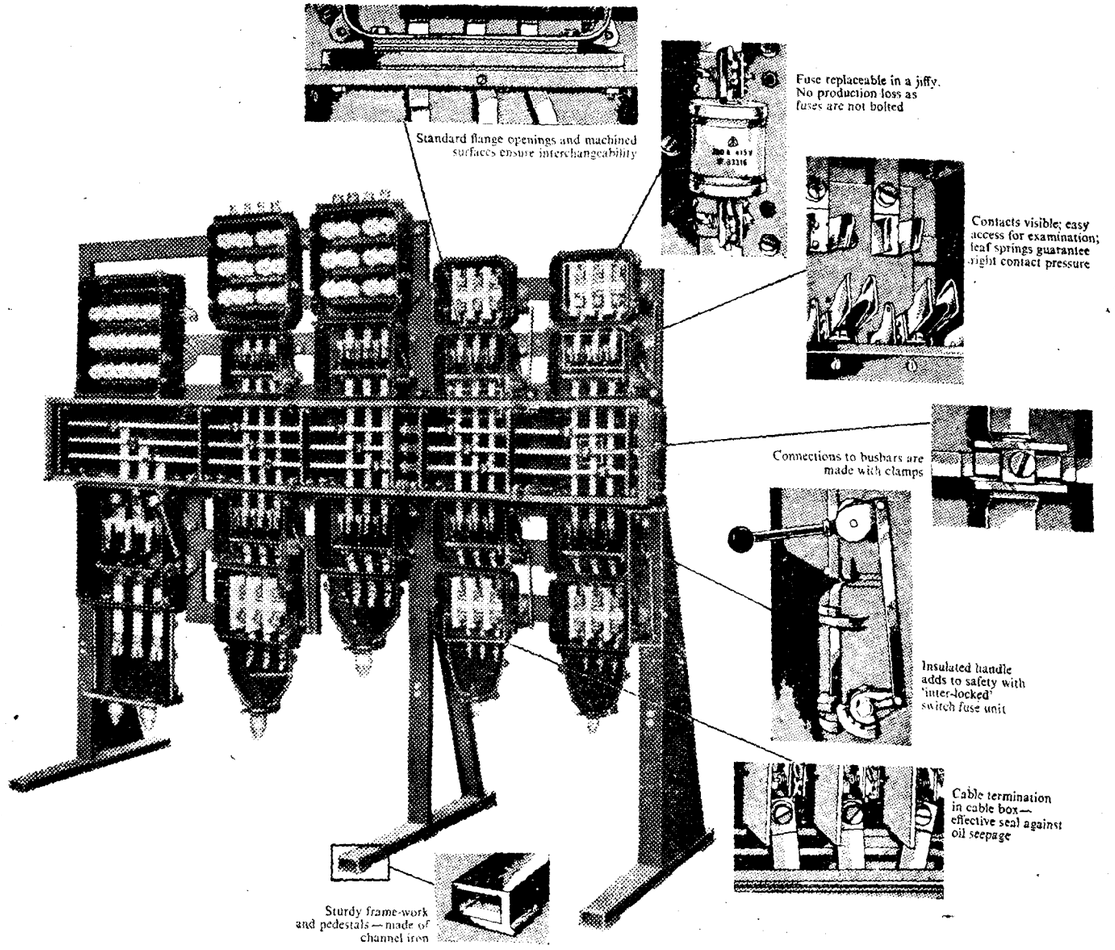
INDIRECT TAXES PLANNING OF EDUCATION

DECLINE OF LAL BAHADUR

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VIETNAM WAR WIDENS

VOLUME XVII NO 11 MARCH 13, 1965 SEVENTY-FIVE PAISE



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THE ECONOMIC WEEKLY

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On the Brink in Viet Nam

IT is time to ask the U S administration to pause and ponder before it reaches the point of no return in Viet Nam. Two battalions of U S marines have landed along the Viet Nam coast last week, sporadic bombing raids are continuing across the seventeenth degree parallel, and the White Paper issued by the Department of State indicates that the Americans are hell-bent to escalate the fighting. All this means that, over the next few weeks, more people will get maimed or killed, more huts and structures will be burnt down, more standing crops will be destroyed in the fields, more roads and bridges will be wiped out in a territory about ten thousand miles away from the United States mainland.

Till now both the Chinese and the North Vietnamese governments have responded with enigmatic restraint to the American offensive. But at some stage the decision-makers at Peking and Hanoi might feel tempted to drop one or two experimental bombs on U S bases in Okinawa or Taiwan, and the chain of consequences from then on is altogether unpredictable. Clearly, the U S administration has taken on a gamble: it is expecting a particular set of game-theoretic responses from China and North Viet Nam, and its strategy is closely bound to this specific string of anticipated responses, the hypothesis being that, under these conditions, the current temporary precipitation of the war will ultimately help the establishment of a detente in Viet Nam.

But what if the Americans prove wrong, and their impatience plunges the world in a holocaust? The people in Asia—and elsewhere—have a right to ask of the U S Government what for it is involving them into this awesome risk. If the U S reply is that they feel insecure with each spread of communist hegemony even if it be ten thousand miles away from home, the answer of the people of Asia—including, despite all that has happened in recent years, those of India—will continue to be that they are scarcely interested in accepting martyrhood merely to satisfy the security psychosis of the United States' citizens. In case the U S administration argues that it is the freedom and security of the people of South Viet Nam they are fighting for, one can only be impressed by the Gilbertian aspect of the argument. Roughly three-fourths of the total area and two-thirds of the population of what was euphemistically known as South Viet Nam are now under the control of the Viet Cong. No doubt, some degree of infiltration of both men and arms has taken place from the North in recent years, and yet, given our knowledge about liberation movements in other countries, it will be straining belief to suggest that the Viet Cong could establish itself so firmly without very considerable and dedicated support from the local population.

The so-called South Viet Nam Government based on Saigon is at present little more than a joke, and the unending succession of coups has proved conclusively the utter rootlessness of the regime. If reports emanating from Saigon have any basis, wide stretches of the capital itself have been infiltrated by the Viet Cong. Large sections of both the Buddhist and Catholic communities have of late been vocal in favour of a negotiated peace, and it is insolence on the part of the U S Government to suggest that they know the mind of the South Vietnamese population better. After all, even the Americans themselves know only too well that the moment their support is withdrawn the generals and the air captains and the naval lieutenants strutting about in Saigon will all be swept away.

There is hardly any necessity to question the *bona fides* of the recent U S actions: it could well be that the American administration, despite General de Gaulle's wry aside, does sincerely believe that the pristine qualities of democracy and freedom are in peril in South Viet Nam, and that their involvement is therefore a matter of morality. But one cannot salvage freedom by encroaching upon the freedom of action of other peoples. The mass of the South Vietnamese population have no desire left in them to

continue the war, they have made several categorical assertions to congregate at the negotiating table and hammer out the terms of an honourable peace. It is not for any aliens to veto this expression of desire for peace: saving Viet Nam and its people is more important than saving American face.

It is a great pity that on this issue the official expression of Indian opinion has been cautious and muffled. Given the current heavy reliance of this country on the United States for both economic and military assistance, it could hardly be otherwise. But let not the U S Government be misled: the temper of the people is a different thing. The U S marines may have marched into Viet Nam with saintly motives, but it would save and help peace everywhere if they would without further ado march out.

Credit Control Conundrums

TO the uninitiated at least there will appear to be some glaring contradictions in the state of the economy. That economic activity has been at an alarmingly low level, the Finance Minister has by now convinced almost every one. So no questions at all have been asked about the basic assumption of the 1965-66 Budget—that the economy, meaning here the private sector, needs a strong dose of incentives to get it off the ground to face "the more complex and sophisticated tasks" of the Fourth Plan.

But while, on the one hand, we have this picture of elephantine somnolence, there is, on the other, the impression of great pressure on the banks for credit and more credit, calling forth last month a sharp rise in the Bank Rate and higher interest rates all round. What can an anaemic economy be doing with all this money, Simpleman asks.

Simpleman has other questions, too. He was brought up to believe that a large State-controlled credit institution like the State Bank of India would make it easier for the authorities to regulate the monetary system since they had a direct channel to the credit market. If the Reserve Bank felt that there had been monetary over-expansion and felt the need to restrict bank credit, it would, Simpleman expects, work in close touch with the State Bank, the biggest unit in the banking system by far. But what does he find?

During the current busy season, between October 16, 1964 and February 12, 1965, commercial banks other than the State Bank increased their advances by Rs 65 crores as against Rs 131 crores in the corresponding period of the 1963-64 busy season. And their borrowings from the Reserve Bank increased by Rs 28 crores against Rs 49 crores. These banks, it would appear then, by and large conformed to the discipline enforced by the Reserve Bank in September last year when the Bank Rate was raised from 4 5 per cent to 5 per cent.

However, during the same period, i e, October 16, 1964 to February 11, 1965, the State Bank's advances increased by Rs 82 crores as against Rs 74 crores in the corresponding period of the previous busy season. And the rise in its borrowings from the Reserve Bank was truly spectacular—Rs 63 crores compared with Rs 11 crores! Is it that when the Bank Rate was raised in September, bank borrowings from the Reserve Bank were tied to their liquidity ratios deliberately to leave the State Bank enough room to expand its advances while keeping the other banks on a tight leash? Or did the State Bank exploit its technical advantage in spite of the Reserve Bank?

Even this is not all that puzzles Simpleman. In his circular on the Bank Rate raise on February 17 the Governor of the Reserve Bank connects the inflationary price situation to the fact that "expansion in money supply in the current busy season ... has not been much below the record rise achieved in the last busy season" and that "the reliance of scheduled banks on the Reserve Bank is substantially higher than a year ago". From the figures quoted above it is clear that in the expansion of both bank credit and bank borrowings from the Reserve Bank—in the latter particularly—the State Bank's share has been predominant. What view does the State Bank take of the contribution of its advances to inflation? Says the Chairman of the State Bank in his speech at the Bank's Annual General Meeting:

"While it is true that we are lending much more than in the past, it must be made clear that the additional credit we are providing is for purposes which are important from the point of view of the country's economy. Thus we are substantially assisting State Governments in their programmes of food procurement and food distribution, besides financing other projects in the agricultural spheres connected with State policy such as the jute buffer stock operations. Apart from this, it is industrial production of high priority and industrial units of all sizes—big, medium and small—that have claimed our first attention and, therefore, account for the bulk of the additional credit we have been providing. Finance for industry constitutes 76 per cent of our total credit portfolio. About a seventh of our finance for industry is accounted for by units in the public sector and the rest by industries in the private sector."

So, then, Simpleman has the Reserve Bank's conviction that bank advances underpinned by large bank borrowings from it have contributed to the inflation; the facts which show that the State Bank accounted for the bulk of scheduled bank borrowing from the Reserve Bank and a very considerable part of bank credit expansion; and the State Bank Chairman's emphatic assertion that his bank's advances went to finance activities vital to the economy. How much of the link between bank credit expansion and the rise in prices and how much of the rationale behind February's credit clamp down survive, Simpleman is left wondering.

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY has been raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs. 20. Foreign annual subscription rates are £3 10s and $10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager

Weekly Notes

Central Aid to States

CENTRAL aid to the States presents an ever more chaotic picture. The difference in circumstances when a State gets a grant and when it gets a loan is too subtle for ordinary minds. "Relief of displaced goldsmiths" qualifies for grants while "rehabilitation of displaced goldsmiths in the States" qualifies for loans; "development of border areas" gets grants while "development schemes in border areas" get loans. Further, some loans and grants are for specific purposes while others—such as ways and means advances—seem to be largely a matter of expediency.

It is difficult to see the rationale of lending to States. Constitutionally it is doubtful if the Centre and the States are separate entities, and loans between them look like a game of taking money out of one pocket to put it into another and then making the other pocket give it back with interest. Even if they are treated as separate entities, lending is becoming meaningless. The States are expected to owe the Centre Rs 3840 crores at the end of the new financial year; and given the rate of increase of their indebtedness it is highly unlikely that they will repay much of their loans. The loans might thus turn out to be a bookkeeper's misnomer for grants.

There is little to be said for the idea that asset-creating expenditure should be financed from loans. Firstly, asset-creating expenditure will not necessarily generate revenue from which debt might be serviced. If the distinction between current and capital expenditure must be made in Government budgets, the latter should only cover the purchase of revenue-earning assets, and the Government should see to it that they then earn the revenue. Secondly, even if revenue is obtained by States out of their investment, it is open to question whether, in their present penurious condition, the Centre should insist on a share of that revenue in the form of debt services.

There is such similarity between the heads of expenditure of the Centre and those for which it gives States loans and grants that one begins to wonder if it is really necessary to finance the same things in so many different ways. It would simplify matters and perhaps aid national unity if we had public services and projects jointly financed and manned by the Centre and the States on a proportional basis; it would also assist in maintaining uniform standards all over the country and give States the incentive to raise more revenue in order to participate in more cost-sharing schemes. Then, perhaps, the Finance Commission could be given the more interesting task of specifying the types of schemes in whose respect cost should be shared and working out the proportions of costs which various States should be required to contribute.

Import Entitlements on Way Out?

A Correspondent writes:

TAX credit certificates are to be issued upto a maximum of 15 per cent on exports after February 28 this year. The amount of the certificates can be offset against the assessee's tax liability; alternatively, the assessee will qualify for refund. Assuming that a company qualifies for the maximum relief and is subject to the standard tax rate of 50 per cent, as much as 30 per cent of its export revenue would be free of tax. This is a substantial concession.

This scheme raises three questions. Will it apply to all exports? Will it replace or supplement the import entitlements granted under export promotion measures? What will be the rates of deduction (or subsidy) for exports of various commodities and to various destinations?

It is widely believed that the tax credit scheme is meant ultimately to replace import entitlements which are proving rather expensive in terms of both foreign exchange and tax leakage. Import entitlements are available, in all, on only about one-fourth of total exports or about Rs 200 crores. The tax concession scheme would have to be so devised as not to suddenly upset the existing import entitlements, but to gradually replace it with a tax subsidy equivalent to the existing (unofficial and unaccounted) premia on import licences which make exports worthwhile. It may not be possible to save the entire foreign exchange outgo of somewhere between Rs 80 crores and Rs 140 crores under entitlements at present because, for one thing, the quotas of established importers have been slashed to the extent of imports under the entitlement scheme and these imports are necessary for increased production. Savings can be effected only by a more priority-conscious import policy which would mean starving some industries, if necessary.

Traditional exports did not, by and large, qualify for import entitlements. In their case, the rates of tax subsidy will have to strike a balance between two considerations: they have to be low enough to avoid excessive loss of revenue and high enough, where feasible, to operate on price elasticities of external demand. True, during the last two years of booming exports, traditional exports have gone up without many crutches, but this happy trend may not continue. While the subsidies for traditional exports have to be lower than those for new commodities, the problem would be complicated during the transitional period by the continuation of import entitlements for new commodities.

It is also worth examining — though this will further complicate the scheme — whether the subsidy should be uniform for exports to all destinations or whether it should be confined to or weighted in favour of exports to the convertible currency areas. A uniform subsidy would be, of course, easier to device and administer but an ideal scheme of tax incentives should attach a premium to earning convertible foreign exchange.

Semantics on Deficit

THE Finance Minister's claim to have produced a Budget "which holds every promise of being a balanced one, if not a surplus one" has not gone unquestioned. Attention has been focussed on the fortuitous circumstances which have made the small surplus possible—e g, the receipt of Rs 191 crores on account of PL 480 deposits—and on the concept of deficit most meaningful in the context of discussion of inflation.

What exactly constitutes a budget surplus or deficit from the point of view of changes in aggregate monetary demand in the economy? In the traditional budgetary parlance of this country, deficit or surplus is represented by the changes in the balance of outstanding Treasury Bills with the

Reserve Bank and in the Government's cash balance. The figure of Rs 4 crores given by T T K as the budgetary surplus for 1965-66 represents precisely this.

This definition of budgetary deficit or surplus is, however, inadequate and misleading. It is inadequate because it leaves out certain items which are as important as Treasury Bills sold to the Reserve Bank, such as sale of longterm securities to the Reserve Bank. It is misleading because it gives no idea of the impact of the budget on aggregate monetary demand. The only meaningful definition of a budgetary deficit is one which equates it to the banking system's net credit to the Government. Accepting this definition, it is doubtful whether the net impact of the 1965-66 Budget on the aggregate monetary demand will be contractionary.

It will depend, in the ultimate analysis, on the nature of subscription to Government loans. Public borrowing next year is estimated at Rs 270 crores. Who will buy these securities? The Finance Minister is aware that the Government's borrowing programme will have to "be based on a strictly realistic assessment of the flow of genuine savings". He also appreciates that Reserve Bank subscription to Government loans is a form of "deficit financing rather than mobilisation of the voluntary savings of the people".

But why only Reserve Bank subscription? What about subscriptions of commercial banks and co-operative banks? Sale of Government securities to commercial and co-operative banks is no less expansionary in its impact on monetary supply than their sale to the Reserve Bank. It is certain that a considerable portion of the proposed borrowings of Rs 270 crores would be subscribed to by commercial and co-operative banks. The data on ownership of Government securities published by the Reserve Bank show that holdings of commercial and co-operative banks of Central Government securities constituted about 18 per cent of the total at the end of March 1964. The marginal proportion may even increase in future in view of the higher statutory requirements prescribed by the Reserve Bank.

A functional concept of surplus or deficit must, therefore, leave out of public borrowing loans subscribed to by the banking sector.

More Taxed, Also More Profitable

THE tax burden on private companies has always been higher than on public companies but in 1962-63 the margin widened considerably. In the Reserve Bank samples, the ratio of tax provision to profits before tax rose in the case of public companies from 38 per cent in 1960-61 to 43 per cent in 1961-62 and further to 50.6 per cent in 1962-63 (it declined somewhat in 1963-64 according to *Economic Times* studies); for private companies the ratio went up from 47.7 per cent to 52.7 per cent and then to 63.8 per cent in the three years.

The increase in 1962-63 was in both cases (many public companies too are deemed to be narrowly owned) partly due to the raising of the standard tax rates on closely owned companies from 50 to 60 per cent, and the imposition of, first, the super-profits tax and, then, the surtax. An upward trend in tax liability had, nevertheless, appeared even before the additional imposts were levied. The only explanation for that could be (though this cannot be supported from either company finance data or income tax data) that over the period 1960-61 to 1962-63, the utilisation of tax concessions, like accelerated depreciation, development rebate and tax holiday, tended to taper off. This in turn could be due to a fall-off in corporate investment or the inadequacy of profits to absorb tax concessions or the non-availability of extra depreciation since 1959.

Company finance data do not show any significant falling off in the rate of gross fixed assets formation — rather the contrary for private companies. Profits before tax in relation to sales and total capital employed have not fluctuated very much either. Is the withdrawal of extra depreciation then largely responsible for the higher ratio of tax to profits? While the Reserve Bank could throw some light on this question, one wishes that the Income-tax Department would also bestir itself into publishing some useful and, for a change, meaningful statistics. At present, income tax revenue statistics easily take the cake as the worst set of statistics produced by the Government.

Coming back to comparisons between public and private companies, there is no doubt that the latter are more profitable, judged by any criterion (see table below). There was one rather curious development in private companies in 1962-63; their rate of growth of sales doubled as compared with the previous year, outstripping the increase in production and thus leading to a substantial decline in the accumulation of finished goods inventory.

On the Economic Survey

A correspondent writes:

THE economy passed through a testing time in 1964-65 but reading the Economic Survey one would not get that impression if one were to skip the first section which contains "an assessment in brief". Complacency seems to be the hall mark. How else can one describe this gem—"A good deal of the progress that takes place in the economy, particularly in small industry, dairying (sicl), poultry-keeping (sicl), retail trade, etc, does not in the nature of things get reflected in the national income statistics"? This is in seeking to explain the slower rate of growth than envisaged. If one were to be flippant, it seems as if the authors of the Survey are asking us not to mind the wheat crop failing as the hens are laying more eggs. The Survey continues: "But even without making allowances for this, it is clear that the *somewhat slow* rate of growth of the economy in the early years of the Third Plan was rather the result of *temporary* difficulties than of more deepseated reasons" (italics added). A growth rate of about 3 per cent on the average in the first three years as against an average expected of more than 5 per cent is regarded as "somewhat slow". And can we blame the weather gods alone? Are the failings that beset the agricultural sector only temporary? Is the shortage of fertilisers temporary? Are not the absence of a price stabilisation policy and effective land reforms "deep seated reasons"? One can go on.

The same complacent treatment marks the section on industry. The slower rate of growth is explained by the fall in coal output as if this was a reason instead of being a symptom. But why has coal output fallen and the transport situation eased? Not because the supply of these goods and services increased beyond the Plan targets but because the demand fell short due to other failures. The decline in coal is ascribed to better transport facilities; the easing of transport was no doubt due to the lower load of coal!

The complacency continues in the treatment of prices. At the end (one hopes) of a period of a sharply rising prices we are asked to take heart as "to *some* extent" (note the continuous hedging) this is a correction of earlier trends!

When it comes to a discussion of the balance of payments, try as one might, it is difficult to put on a brave face; there is a faint attempt at trying to explain away the gaffe in foreign exchange budgeting which has led to our present crisis and there is a curious reference to a change in the procedure of recording export receipts. If a change has been effected it should have been publicised and the difference in the data explained.

The sections on the lessons of last year's developments (temporary, were they not?) for economic policy read like a recital of all good things,—we should raise agricultural production, stimulate investment in priority areas, improve public sector performance, exercise greater monetary and fiscal restraint, promote exports and improve the distribution machinery. Reading the various plan documents (Models I, II and III) and the previous economic Surveys, one might be led to think that this is what we have tried to do all along. Or were we mistaken?

Ill-Paid Teachers

BETTER education can come only through better teachers. This has not escaped anyone nor the fact that teachers in India are woefully underpaid and compare unfavourably even with ordinary unskilled workers. After three Five-Year Plans, a minimum salary of Rs 50 for a trained primary school teacher has been barely achieved while the secondary teacher, who is invariably a graduate and holds a teachers' training degree, earns between Rs 160 to Rs 300 per month, with wide regional disparities.

As bits of statistics these are not unknown; what the West Bengal teachers' strike has achieved is to emphasise that they also determine the quality of life for thousands of men and women and their children—not only what they are and become, but even what they eat and wear.

The strike is not the first that teachers have been driven to in W Bengal. There was one in 1954 and another in 1961. On both occasions small concessions were won after bitter struggle. And currently, besides West Bengal, teachers are restive elsewhere. The All-India Secondary Teachers' Federation observed a 12-hour token fast all over the country on February 14. In U P teachers have threatened to boycott the High School and Intermediate Board examinations. Reverberations of the teachers' agitation have been heard in the West Bengal Assembly and even in the Lok Sabha and the Rajya Sabha.

The West Bengal teachers had submitted a 17-point demand to the Government covering revision of pay scales of both teaching and non-teaching staff of schools and an increase in dearness allowance upto Rs 30 with an extra Rs 5 for every five point increase in the cost of living index. Primary teachers had asked for an increase in pay to Rs 100 and in dearness allowance which, it deserves to be mentioned, is now at the princely level of Rs 5.

The Government's response to these demands was to promise to raise primary school teacher's dearness allowance to Rs 10 and to make corresponding adjustments for secondary school teaching and non-teaching staff. The Director of Public Instruction actually issued a circular to school managements inviting them to seek police help in keeping schools open and threatening them that if there was protracted stoppage of work in a school, Government aid to it would be withheld.

Finally, Chief Minister P C Sen agreed to the appointment of a high-powered committee on education to look into the teachers' demands and to review the school education system in the State. While the teachers have called off their strike in response to this offer, the question of teachers' pay is more than the concern of a single State. The All-India Secondary Teachers' Federation has been pressing for an All-India Pay Commission or a Secondary Education Grants Commission like the UGC.

The Planning Commission has recently suggested a national commission to study the wage structure of school teachers. If this marks a recognition of the fact that in a money economy, teachers are as much subject to the monetary incentive as any one else and that, therefore, poor pays can only mean poor teachers, it marks an important step forward. The mistaken belief that somehow good teachers can be produced and retained for absurdly low wages just through occasional verbal idealisation and observance of a "national teachers' day" once a year has already done enough harm. The National Education Commission may fruitfully investigate how much of the money so far spent on expansion of primary and secondary education has been permanently wasted as a result of the poor human material which the inexorable working of the allocative machanism of a market economy has left the teaching profession with.

Profit Allocation and Profitability Ratios of Private and Public Limited Companies

	Public Limited Companies			Private Limited Companies		
	1960-61	1961-62	1962-63	1960-61	1961-62	1962-63
Tax provision as percentage of profits before tax	47.7	52.7	63.8	38.3	43.3	50.6
Dividends as percentage of profits after tax	38.1	31.5	25.7	37.4	36.0	31.3
Retained profits as percentage of profits before tax	14.2	15.8	10.5	24.3	20.7	18.1
Dividends as percentage of profits after tax	72.8	66.6	71.0	60.6	63.4	63.3
Retained profits as percentage of profits after tax	27.2	33.4	29.0	39.4	36.6	36.7
Gross profits as percentage of sales	6.7	7.3	7.3	10.3	10.2	10.1
Gross profits as percentage of total capital employed	10.5	11.1	11.3	10.1	10.0	10.1
Profits after tax as percentage of net worth	12.7	12.0	9.7	10.9	10.0	9.0
Dividends as percentage of net worth	9.3	8.0	6.9	6.6	6.3	5.7
Dividends as percentage of paid-up capital	14.3	13.0	11.5	11.1	10.9	9.9

Source: Reserve Bank of India Bulletin, February 1965, p 161.

Nasser Scores a Point

THE West German-Egyptian tiff, touched off by the revelation of the secret West German arms deal with Israel, has reached crisis proportions. With W Germany's decision to establish deplomatic relations with Israel, a complete break with UAR cannot be ruled out.

Since 1959, the West Germans have held to the Hallstein Doctrine—that any nation which recognises East Germany will lose Bonn's recognition. Under this doctrine, Bonn severed relations with Yugoslavia, Cuba, and several countries which recognized East Germany. Nasser has thus put the West German government in a particularly difficult position. They have already renounced their treaty with Israel under heavy Arab pressure, but apparently this action did not satisfy President Nasser, who proceeded to give Ulbricht a full welcome upon his arrival in Egypt. The West Germans have already cut off their substantial economic aid to Egypt (the "high interest" loans as Nasser described it) though they have hesitated to take more serious action.

In sum, it would seem that the West Germans have more to lose than do the Arabs. West German economic aid to Egypt could probably be replaced from the East Bloc nations without much difficulty, and Nasser has gained prestige in the Arab world by taking a resolute stand against West German military aid to Israel even at the cost of West German aid to UAR. The West Germans, on the other hand, would lose the substantial influence and goodwill they have built up over the past few years with much effort and not a little money. As West Germany has re-entered world politics after its post-war recovery, it has sought to maximise its influence in certain key areas, such as the Middle East. West German trade with this area is substantial, and the Germans are dependent on Middle East oil for their economic development.

As matters stand, it seems likely that Bonn will stand by its traditional, if ineffective, Hallstein Doctrine, though there are signs that both the UAR and West Germany are holding back from the final step. Clearly, President Nasser has handled this situation with characteristic skill and good timing. This victory, which butresses the one over the United States, when he retained U S foreign aid while actively supporting the Congolese rebels and attacking American policy in the Congo, promises to give him renewed confidence in dealing with the industrialised powers. And the East Germans, who have waged a long struggle for recognition in the face of substantial odds, have been handed almost their first major victory due to the mismanagement and ineptness of West German foreign policy.

LETTER TO THE EDITOR

Is this 'Functional' Inflation?

WHEN 'Wafflers' hold the field with all manner of prescriptions for the ills of the Indian economy, and when means and ends are confused at every stage of the debate not only by ill-informed politicians and administrators but also by some of the so-called social scientists who should know their onions better, it is refreshing to come across a piece such as "When So Much Is at Stake . . ." (*The Economic Weekly*, Annual Number, 1965). It puts the problems of inflation and development in focus and thus exposes much of the loose talk about them. It rightly points out that attention is concentrated on "evading problems rather than on finding special solutions for them". Rightly too, it condemns such omnibus suggestions as that for "according priority to agriculture in our development programme" and such vague pleas as for "budgetary balance or restructuring of plan outlays".

But I must join issues with you on some of the *non sequitur* in your analysis. Admittedly, inflationary pressures in the Indian economy are not the same as those in Keynesian literature; nor are they similar to those in primary producing countries during an export boom. Then why say: "It is a truism that when gross expenditure in an economy exceeds the gross supply of commodities and services available in the period concerned, there will be a pressure either on the balance of payments or on domestic prices. Obviously, if balance of payments cannot serve as a safety valve, then pressure manifests itself in the form of domestic price increase . . ."?

This is a truism, but it is analytically irrelevant in the context of the Indian economy. The gap in Indian balance of payments is not a consequence of the rise in domestic money income. It is the other way round in fact. It is imports *ex ante* which tend to create domestic pressures through their impact on investment. Let me clarify: what I object to is not the conclusion, which is sensible, but the way it is supposed to have been arrived at. No one disputes the contention that there are price increases which are functional and others which are the result of inflation. But the real issue is, how is the functional rise in prices to be distinguished from the inflationary price increase and where exactly do the two types of inflation tend to merge? It would be no doubt naive to believe that growth is possible without price-pressures or that resources would shift between sectors without relative price changes and, in some cases, changes in the general price level. But to treat a sharp rise in prices of vital commodities like food as an aberration is to lose one's perspective. The price rise in India during the last year or two certainly cannot be regarded as a functional rise.

When food prices rise as they did recently, the marketed surplus tends to shrink and with that the pressure on prices gets accentuated. The inevitable repercussions of this on the industrial sector, *via* the pressure on wages, is to lower the profit-income ratio and the saving rate. The rise in certain prices, therefore, far from being conducive to growth is inimical to it, and there is no knowing when such price increases would escalate into a serious inflationary spiral.

It is possible to differ from your implied policy prescription without falling into the trap of the Quantity Theorists who suggest a "smaller plan" or "consumption-oriented plan". You seem to be opposed to any "restructuring of the Plan outlays". One may as well ask: What is so sacrosanct about the "structure of the Plan"? One may get the impression from the Plan documents that the structure of investment is derived logically from the commodity balances and, therefore, what is physically feasible must be financially possible. If the argument is couched in these terms, it does make sense; but when a distinction is made between the "physical plan" and the "financial plan", it makes a mockery of planning. The divergence between the physical and the financial plan is only an admission of the fact that the physical consistency in the plan is no guarantee of its financial viability unless certain organisational and policy measures are taken.

D S

Bombay,
March 2.

CAPITAL VIEW

The Decline of Lal Bahadur

Romesh Thapar

IF Prime Minister Lal Bahadur (he does not use the 'Shastri' when signing letters) could control and doctor the coverage of events in India, the impression would certainly be created that he is firmly in the saddle and that there is no likelihood of his coming a cropper. These days, he appears supremely indifferent to the interlocking crises developing around him; indeed, he even manages to absent himself from the Capital or from Parliament when he is most needed. This indifference is no sign of strength, for now almost everyone, including the Syndicate which brought him to power, is willing to discuss the need for a new government—or, at least, a drastic overhaul of the existing set-up.

Not in Control

Several factors have contributed to this sudden decline in Lal Bahadur's usefulness to the party in power. The negative, nondescript qualities which made him so relevant in the faction-charged situation following Jawaharlal Nehru's death, qualities which even fairly intelligent observers believed would provide the basis for the functioning of a democratic collective at the Centre, have become a liability for a party which is being tossed here and there for lack of bold, meaningful and coherent leadership. The handling of the Punjab and Orisa tangles showed a thorough lack of political perspective. The language crisis heightened the impression of puerility. And, now, the result of the elections in Kerala has dealt a body blow to this government of indecision.

In a sense, Lal Bahadur's government appears no longer to be in control of the situation. By this I mean that it has lost the capacity to reach out to the people and to communicate with them, thrusting aside the host of mushrooming and unrepresentative lobbies which surround it and confuse it. Even before the Cabinet has had a chance to recover from the shock of the language revolt in Tamilnad, it is confronted by the election victories of the Left Communists who had been declared 'traitors and enemy agents'. The Cabinet moves from one meeting to another, unable to decide whether to release the elected 'traitors' and 'agents' in deference to the democratic wish of the people or to ride roughshod over the democratic process itself.

Adventurism to the Fore

It is now common knowledge that the decision to incarcerate the Left Communists was taken by Home Minister Nanda in consultation only with the Prime Minister. The ministerial and organisational leadership of the party was not consulted. Now that the fat is in the fire, these elements are being asked for their advice and support. They are, naturally, reluctant to dirty their hands at a time when a big question-mark is beginning to form over Lal Bahadur's government itself. If Nanda had the conclusive evidence to put the Left Communists to trial then, of course, things would be different. But his research is fumbling.

The implications are far wider than what most people imagine. Apart from the fact that the essentials of a free election were violated in Kerala, if the elected Left Communists still in jail are not released or put to trial we might soon find ourselves placing Indian democracy within quotation marks. Consider the prospect. E M S Namboodiripad threatened a new 'Kurukshetra'. The official C P I, in order to retain its crumbling support, may also be compelled to launch agitations for the release of those whom it describes as 'splitters'. The Lohia Socialists would join battle, too, for this is another opportunity 'to pull the Congress down'. The initiative, in such a situation, would pass rapidly to political adventurers on the make. And probably the Cabinet would continue to move from one meeting to another.

If anyone doubts the rise of this kind of adventurism, he has only to visit Parliament these days. Lohia's boys, and they are not unintelligent, are hell bent to disrupt the proceedings. Uproar follows uproar. Bedlam prevails. No one is respected. The decorum one associates with parliamentary debate is fast disappearing. Even the Prime Minister's interventions do not silence the members or prevent them from moving around for a chat with this or that person. This degeneration has been most noticeable during the present session, a sharp reflection of the slump in Lal Bahadur's political standing.

The fact that the country carries on with some degree of expertise at various levels, and that the electorate in Kerala shows its own brand of maturity and commitment, are positive signs. Perhaps, democracy has taken roots, and, whatever the leadership, we will manage to blunder along, happy and contented that we still possess the right to defy the powerful, to dissent. But the more one looks around, the more one sees the signs of that political, economic and social polarisation which spell out the collapse of democratic functioning. And all this within one year of Jawaharlal Nehru's death.

Dynamic Elements Must Take Over

It is not as if the battle is lost. The Congress Party still commands massive electoral support; in a manner of speaking, the Kerala election result shows a certain consolidation of Congress support although a serious split along its earlier communal composition has blurred the picture. But the present political drift will lead to a total break-up if the still dynamic elements within the ruling leadership do not get together to take control of the party. The task certainly presents formidable challenges. Yet, the people, from all accounts, would rally behind the initiators of such a move; they have a deep faith in the party of Gandhi and Nehru and would assist the effort to revive its lost sense of direction.

At the moment, however, there is no sign of a stir. We talk of the decline—and fall—of Lal Bahadur, but the least worried is Lal Bahadur himself. Apart from the growing passivity over internal problems, visiting statesmen from abroad, anxious to locate India's thinking on crucial international problems, return to their countries none the wiser. Indian spokesmen at these talks are generally ill-prepared and without a proper brief. Lal Bahadur and his Foreign Minister seem most unconcerned by diplomatic confrontations during which they have nothing to say.

So hazy has our thinking become at the Foreign office that we have not reacted to the somewhat suspicious

manoeuvrings of our old ally, President Nasser, during the visit of Abdullah and Afzal Beg to Cairo. These two, ostensibly on a pilgrimage, managed to get themselves recognised as State guests and were previleged to have a longish interview with President Nasser himself. This is, to say the least, a strange posture for a friendly State to adopt—a posture which, no doubt, will be promptly adopted by other not-so-friendly Arab governments. The argument that the UAR acted the way it did to prevent Pakistan from 'exploiting' the situation is too absurd to be taken seriously.

These recent goings-on in Cairo and the noticeable ambivalence developing in Arab attitudes to India need careful and immediate probing. If President Nasser is adjusting his position for a *rapprochement* with a Pakistan which is presumed to be disentangling from the western grip, we must make clear to him the implications this policy will have on Indo-Arab collaboration. To remain embarrassed and silent, as we seem to be, means that we attach no real importance to this alliance within the framework of the non-aligned world. The Arabs should not find it too difficult to understand what we mean. After all, they never seem to miss an opportunity to protest whenever Indians visit Israel or Israelis visit India—and that, too, without the trappings of State patronage!

Swaran Singh Must Go

It is clear that there must be a change at the Foreign Ministry. Swaran Singh is not the man for the job. If he continues in command there is even a likelihood that our relations with the Soviet Union will be damaged. His quiet diplomacy, it appears, is no diplomacy at all. The foreign Ministry needs energetic leadership at both ministerial and senior bureacratic level. A start could be made by placing this difficult task in M C Chagla's hands. But will Lal Bahadur be persuaded?

The Algiers conference of Afro-Asian nations is not so far away. Concerted attempts will be made by a number of ambitious powers to make India look as if she has forsaken her independent, sovereign role and therefore forfeited her right to be heard with respect. This is part of a plan, fathered by the Maoists, to lampoon her, to neutralise and isolate her. We cannot walk into the conference with the kind of representation we have at the moment. The story of the non-aligned conference in Cairo, and the role of our representatives there, creates only anxiety over what will transpire at Algiers.

Of course, it will be argued that in the context of the confusion which prevails internally in India, it is not possible to forge a viable foreign policy. This is only partially true. It does no harm to remind ourselves that the cards we hold can restore to us the initiatives we have lost—that is, if we play the cards with skill. It is this skill which needs to be concentrated at the Foreign office, without any further delay. In so doing, maybe Lal Bahadur could recover some of his political relevance.

FROM THE LONDON END

Indo-British Trade

At a luncheon organised last week by the Indian Chamber of Commerce, Douglas Jay, President of the Board of Trade, spoke about Indo-British trade and financial arrangements. He made it very clear that one of the aims of the Labour Government was to promote and deepen trade relations between the two countries, and emphasized the fact that despite the present difficulties the long-term prospects for trade and co-operation between the two countries on a much wider scale were very good.

He referred to the bonds between the two countries and remarked on the fact that the two countries shared in common the problem of a serious deficit in their balance of payments and had both imposed an import surcharge as one of the means of tackling this problem. It was only natural that in the circumstances trade between the two countries was not flowing as swiftly and as strongly as might otherwise have been the case.

Britain's Commitments

Dealing with the British balance of payments, he pointed out that one of the principal reasons why Britain was *in her present difficult position* was that with limited resources Britain was trying to do a large number of things. Overseas military expenditure to help her friends had led to a considerable strain on her balance of payments. This had been accentuated by the sums spent abroad as grants and loans to developing countries. Finally, there was British foreign private investment abroad. In these circumstances, the amount of additional financial aid that Britain could offer to countries like India was somewhat restricted.

Dealing more specifically with the question of import surcharges he pointed out that before imposing these surcharges, the Government had given very serious consideration to the need to use such measures as would have the least impact on developing countries. While the Government would have liked to exempt such countries from the impact of the surcharge, it would have been difficult since charges of discrimination would inevitably come from other countries. However, most of the major items of interest to developing countries had been excluded. He estimated that some 79 to 80 per cent of Indian exports to the U K were not affected by the surcharge and added that one of the first exceptions made in the original list was in favour of East India kips.

On the question of manufactured exports from India he showed a very sympathetic attitude. He said he perfectly understood the need for countries like India to increase their exports of manufactured goods if they were ever to make an impact on their balance of payments. He understood only too well the difficulties that these countries met in the face of the tariff and quota barriers erected by industrialised countries against their manufactured goods.

Textile Imports

Dealing specifically with the question of imports of textiles from India into Britain, he showed a great understanding of the Indian side of the problem and recognised the fact that something must be done to increase imports of items such as these into the markets of the industrialised countries. He pointed out that Britain's record in this respect was better than that of many other industrialised countries, and while he appreciated India's needs to expand exports it was difficult for the Government in the present circumstances to go very much farther except by sacrificing even more the Lancashire textile industry which, to do it credit, had made some progress in reorganising itself to meet the new circumstances.

At the moment the main action that the Government was taking was to persuade other industrialised countries to adopt a more liberal attitude to imports of manufactured goods from the developing world. He said that compared with the fact that Britain imported 30 per cent of her textiles from these countries, the U S A imported only about 10 per cent, while the proportion for the Common Market was only about 4 per cent. There was, therefore, much these other countries could do to help. Britain was using all the influence she could in this matter, and he hoped that in the new Geneva International Textile Agreement it would be possible to increase quotas for textile imports in a number of industrialised countries. He believed that it was necessary to give all support to the new trade body set up by the United Nations Conference on Trade and Development. He also referred to the new Chapter of G A T T which had been introduced in order to promote exports from developing countries. This, he felt, would be a useful instrument in the fight to ensure that increasing opportunities would be found for exports of manufactured goods from countries such as India.

International Liquidity

He dealt also with the question of international liquidity and the grave problem presented by the lack of reserves which inhibited countries like Britain and the U S A (whose currencies acted as international currencies) from increasing their aid to developing countries. He regretted the fact that it was not possible for Britain to extend more export credits to increase the flow of trade between Britain and India. He commented on the irony of the situation which prevented the flow of goods which India required from Britain (and which Britain would like to export) because of the lack of foreign exchange to cover the costs. Both countries lose in the bargain, but there was little that could be done to increase export credits until U K's balance of payments position improved.

Jay made a special reference to the shipping order valued at £4m which had been placed in British shipyards by the Scindia Steam Navigation Company, an order which had been assisted by both the British Board of Trade and the Export Credits Guarantee Department. He hoped that this would be the beginning of many more orders for British shipyards. He appreciated India's need to build up a merchant fleet which would help to ease India's balance of payments, although, of course, this would mean some loss to British shipping lines which had hitherto carried the business. He hoped that some mutually satisfactory arrangement could be made.

Jay said he believed that the Sterling Area had a very important role to play in the present situation where exchange and currency restrictions tended to inhibit trade. Here at least was an area in which trade and payments could proceed with relative freedom. It was because of this that the Labour Government attached the utmost importance to defending sterling to play its role as an international currency. They were determined by all means in their power to protect sterling and guarantee its viability, and many of the policies of the Government had been directed with this particular aim in view.

There is certainly no doubt about the sincerity of the Labour Government's desire to promote and expand trade relations with India. The Labour Party has always had a strong belief in the possibilities of increasing Commonwealth trade, unlike the Conservatives who were prepared to sacrifice the Commonwealth in order to enter the Common Market. It is unlikely, therefore, that the Labour Government's plans to expand trade with the Commonwealth will, by the pressure of events, be pushed into the background.

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India's Invisible Men

India's Ex-untouchables by Harold R Isaacs; The John Day Co, New York; 188 pp; $4.50.

EARLY in 1963 Harold Isaacs who is a research associate at the Centre for International Studies at the Massachusetts Institute of Technology went to India to find out, in his own words "what has happened to educated ex-Untouchables in these first years of Indian independence". Isaacs said he used the term "ex-Untouchable" because Untouchability had been abolished in India by law, if not in fact. His aim was simple. It was to interview some fifty individuals from among ex-Untouchable students, teachers, civil servants, professionals and politicians who have come up through openings in Indian society created by the new educational opportunities of these years.

There is delicate—but probably intended—irony in the use of the term "ex-Untouchable" and what Isaacs learnt from his interviews suggests that for all the education the ex-Untouchables have received, they remain as Untouchable as ever. The question of questions was: how did the ex-Untouchables feel about their status? What were their doubts, their trials and tribulations in a society of which they were—and were not—so much a part?

Why the Silence ?

I have not read, to the best of my recollection, any article in the daily Indian press, or even in the serious weekly press, dealing with this question. The Indian press has been fairly well up on the problem of the Negro in the United States, the conflict in Vietnam, the German Question, the various anti-Colonial movements in Asia and Africa, but on the one question that interests 64 million of its own people, the Indian press has been stunningly silent.

Is this a deliberate conspiracy to keep the ex-Untouchables out of sight and therefore out of mind? This does not seem to be the case and most Indians would certainly feel horrified at the mere suggestion of it. Then why the silence? Is it simply that people feel that the Untouchables, like the poor, will always be with us and hence do not merit a second thought?

One good reason probably is that every Indian, whatever his caste, creed or community, feels at home in it and has no reason to seek an escape out. But the man who is outside the pale of Hinduism, the Untouchable, certainly does not feel that way. What then does he feel, beyond a vague sense of wanting to be different, wanting to be accepted? The privilege of asking this question has gone to an American. What Isaacs has to report—and he reported this first in, of all magazines, *The New Yorker*—needs to be put on every school bookshelf.

That fantastic characteristic of almost *all* Indians to indulge in symbolism, to replace words and symbols for action that V S Naipaul has written eloquently and bitterly about, describes the attitude of caste Indians towards the Untouchable. When the various States passed their Temple Entry Bills, it was considered a great step forward in the emancipation of the Untouchables. This reviewer remembers being thundered at by Dr Ambedkar when he sought to get the latter's views on the subject when Bombay, under B G Kher, passed the Temple Entry Act. "Who cares for your temples?" Dr Ambedkar said in effect, "what I want is decency from you people!". That decency the Untouchables still have yet to get.

No Leader After Ambedkar

The tragedy is that since Dr Ambedkar's death, there has not been a single Untouchable leader—and for purposes of this review and in conformity with fact rather than legal fiction, the "ex" will be dropped out of the term politely used by Isaacs—who has considered it worth his while to keep the problem of Untouchability constantly to the fore. There have been Untouchable leaders, yes. In high position, yes. But where is the Martin Luther King among India's Untouchables, who, like the Negro leader, is single-minded?

Equally tragic is the fact that not even Gandhi has been replaced, which is even more inexcusable. Acharya Vinoba Bhave has been concerned with the bhoodan movement, with the liguistic issue, but hardly with Untouchability as a *major* issue. Could it be that India's leaders think that Untouchability is not really a major problem and can wait? That the more important questions are how to grow more food, how to create new industries and more jobs and more patronage?

There is certainly no doubt that the question of Untouchability has been relegated to the background almost as if by universal consent in India. That the Untouchables themselves seem to be acquisceing in this, for a variety of reasons, like fear of the caste Hindus on whom they depend, mental sloth, and tacit acceptance of their lot is only to be regretted. If they would not raise the banner of revolt against caste Hinduism, who would do it for them? And yet, according to the Report of the Commissioner for Scheduled Castes for 1961-62 (which Isaacs quotes), only a total of 2,898 complaints had been filed with the police under the Untouchability (Offences) Act since its passage in 1955, of which fewer than a third had been disposed of in the courts and some were still pending after six or seven years!

Shades of Mississipi

Let us note the Commissioner's comments on this sad state of affairs. "As pointed out in previous reports" noted the Commissioner and the reference to 'previous reports' is highly relevant, "the number of cases registered under the Act by itself can hardly be taken as an index of the incidence of Untouchability. Due to their economic dependence on caste Hindus, the Scheduled Caste persons concerned generally do not risk approaching the police who also it is reported, do not at times properly register the cases reported to them". Shades of Alabama and Mississipi !

Untouchability then, exists, and as all Indians know, it exists in a virulent form in many ways all over India. "I did not meet a single ex-Untouchable, who thought that Untouchability was disappearing or that caste was less important now than it used to be in India" says Isaac. And he quotes the Commissioner for Scheduled Castes and Tribes as saying what every Indian knows in his heart of heart to be true, too true: "There is an amazing complacence among the intellectuals in the country and among the educated community in general. Our efforts have largely been confined to platitudes, publicity and propaganda which are hardly adequate to shake the roots of this evil which has persisted throughout the period of India's recorded history".

Isaacs awards good marks to India for making it possible for Untouchables to reach the upper ranks of life. Indeed for one who must have found the entire situation pretty ghastly, Isaac is charitable when he would have been completely justified in lashing out for the two-facedness of many Indians. His criticism is in the lowest possible key, which is perhaps just as well because a whisper is heard better than thunder. "The experience of Untouchability" he says at one point, "still waits for them (the ex-Untouchables) at every turning of their everyday lives. Every ex-Untouchable I met had personally experienced Untouchability whether in its traditional forms or in some of the new shapes of the new time. whether they were in their fifties or their twenties, whether in the village or in the city or while travelling between them. There have been changes, but nowhere, city or country, is it yet possible for such a person to live without being reminded constantly of his status or his lack of it".

The Difficult Journey

Some of the things that Isaacs learnt in his interviews make sad reading and the word "sad" itself sounds inadequate to describe what he heard. A highly placed young man in his thirties, who qualified for a Class I civil service post remembered:

> "Right from your childhood you were aware of it. You couldn't touch others or go into their houses or take water from the well. If you wanted water, you begged for it, and if they were kind-hearted, they would draw it and pour it into your pot. You were not allowed to take it yourself".

And Isaacs quotes a 20-year old undergraduate as saying :

> "In the village you learn your status. You know it by instinct. You begin to understand or get conscious of it, the separate localities for different groups, not being allowed to enter houses".

Comments Isaacs and how many millions would not agree with him: "It was easier for an ex-Untouchable youth to make the move from village to city than for an ex-Untouchable child to make the journey from city to village".

The incidents that Isaacs describes are familiar to all Indians and if they want to read what they know, there are several excellent documentations compiled not by Americans, but by Indians themselves. Isaacs' reportage is significant for the inquiry he made into what is acknowledged as a fairly common phenomenon in the United States: "passing". How many Untouchables were "passing" in India as caste Hindus and what happened to them?

Buddhism No Escape

One way of "passing", though Dr Ambedkar's plan to get Untouchables converted *en masse* was not intended for this purpose, is to become a Buddhist. But did that help? Isaacs quotes the instance of a young man who faced a horrid dilemma:

> "My father became a Buddhist in honour of Ambedkar but could not say so openly. I became a Buddhist too, but only orally, because on the forms you have to write down Scheduled Caste. If you are a Buddhist, you can't get the scholarship. But I am proud to follow Ambedkar. Being Scheduled Caste causes inferiority in our minds. To be Buddhist, it makes me feel free!".

Isaacs says that when he asked the young man how it felt to put down "Scheduled Caste" on the form, the latter "puled his face into a sudden hard grimace". As well he might. And this was the reply:

> "It is for this reason I *hate* this government. I have hatred for it. It says it makes no difference among any religions, but it supports Hinduism. It makes me put down Scheduled Caste on form! If I am asked what I am, I like to say, 'I am Buddhist. I have no community at all'. This does not happen and I say I am Buddhist and people then take me as an inferior. 'Oh' they say, 'you are a Mahar Buddhist' ridiculing us for this and I say, 'No, We are not Mahar, we are *Buddhist!*".

Is it possible for a caste Hindu to understand the bitterness and the burning hatred behind those words?

How many Untouchables do most caste Hindus know, in the first place? And what is the means of communication between the Untouchable and the caste Hindu? For if there is no normal contact between caste Hindu and Untouchable, if there is no way for the latter to unburden his thoughts, except occasionally by rioting in the streets (when he gets the short end of the stick anyway for his troubles) how is one man's cry to be anything but a cry in the wilderness? Isaacs in his quiet way says: "If my own friends and acquaintances are any fair indication—and I think they are—they never see an ex-Untouchable, as far as they know, unless they glimpse a scavenger or sweeper at work and the question of his identity and his place in the scheme of things catches for an instant at some edge of their minds. They say all the right things about it, but they are busy with other great affairs".

Not Conscious of It

Which is true. Most Indians take both the existence of Untouchability and the need to remove it root and branch unconcernedly *as if it did not concern them.* And therein lies the key to the Indian mind. Indians see Untouchability around them, but they are not conscious of it. They practise Untouchability in many subtle ways, but are not aware of what they have done. It is the *unawareness* of ancient wrongs because of their long existence which makes the situation so ghastly and intolerable.

Is mass education of Untouchables the answer? Is industrialisation it? Isaacs quotes a discouraged caste Hindu politician as saying:

> "Today they (Untouchables) are quite easily won over, a little money, a little position. This is what happens to most of them. They end up in minor jobs, not trying to fight the caste system, but trying to get individual status, trying to get accepted in the higher castes. May be, after they have had education in larger numbers and find they cannot get absorbed into the higher castes and also find themselves unemployed, they will become more revolutionary".

And an equally discouraging reply was had from a distinguished Untouchable himself:

> "When a man is taken into government service, he becomes a member of another class. He stops mingling with Scheduled Caste people. He becomes a victim of the caste system in a new way. In the new circle he is looked down on. So he ends up nowhere".

Too Little, Too Slow

Nowhere? Isaacs has his own answer. He says: "As the educated ex-Untouchables pull up and away from the sudden bleakness of their past estate, they do not quite get *nowhere*, but neither do they reach *somewhere*. They are people who want above all to become different from what they were and what their fathers were. They want to leave all that behind, to forget it, to blot it out, but they come into a situation where too little is changing too slowly; a society still governed by caste does not allow them to abandon their past, to forget it, to blot it all out. What they move into becomes a kind of semi-limbo".

As I kept reading the book it occurred to me that many of the things that the Untouchables told Isaacs would probably have not been repeated by them to their own caste Hindu brethren (*sic*). Or if they did, that would probably have been in a somewhat circumspect manner. It is impossible not to have a sinking feeling in the pit of one's stomach as one reads human sorrow being expressed with such revealing frankness as in the statement by an Untouchable M P in Delhi who thus described life in the capital:

> "Sometimes we get invited out, but most often I avoid it, because I know *they* feel it very much and just invite me as a formality. Suppose there is a marriage of a daughter of an upper caste friend. He will invite me, and I have to send a gift, but I avoid going. It *could* happen that they would give me some kind of a separate meal and I would resent it and be angry, and would make a scandal there. So I don't go. Sometimes I do go, but only to the houses of very trusted people. And I do go, of course, to official functions, like tea parties or 'at home' of other officials. There are friends I know won't practise untouchability in their homes here in New Delhi, but it is in my mind that at their homes back in the villages, they could not treat me like this. This troubles me because of all the experiences of my life. And I know their wives feel this more than the men do. They have inherited all these things from their parents, all of them, and they are not easy to overcome."

"I Am An Indian"

But two comments from Untouchables brighten the pages of an otherwise bleak book. And for these two we have to be grateful. Very grateful. First from a young Mahar:

> "I am not a Buddhist. I think changing names or religion won't remove these things. By converting to Buddhism you just change the name of the old Scheduled Castes. You have to change totally, not just the name, but totally, the thoughts, behaviour, discipline of life and everybody must change, not just the Scheduled Castes. If Buddhism were accepted by all, may be there would be some sense in it. But if only one group does it, it just produces a new name. Persons who are converted, if asked what they are, say they are Buddhists. But they know they are Mahars and the feeling is just the same. When I am asked, I don't feel ashamed of being a Mahar, but if I think it is asked with bad intentions, I say: 'I am a human being'. This is what I say. I hope my children will not experience any of this. I hope this question—who are you?—won't be asked. I hope my son will not be a Mahar, that he will be a man".

Second from another follower of Dr Ambedkar:

> "When anybody asks me (the question, 'what are you?'), I say: 'I belong to this nation, India. I'm an Indian.' If they persist after that, I say: 'Who are you, somebody from the census bureau?' And they keep quiet. I suppose they think: 'He's an educated Mahar'. And if they do, I am not ashamed. I am proud of this community, it is a fighting community, an honest community. But I do really *feel* like an *Indian*. This is the best answer. I consider myself one with my country".

In a country where everyone—or almost everyone—considers himself a Tamil, an Andhra, a Bengali, a Hindu, a Sikh or a Lingayat, first and sometimes last, it is like a refreshing whiff of breeze to hear a man say he really feels like an Indian. And this no caste Hindu, no fanatic brahmin, no wretched little tyrant in the village can take from the Untouchable. He is first, last and always an Indian and more an Indian than the many Indians who qualify themselves regionwise languagewise or religionwise. The country can do with more like him.

Deep Wounds

Isaacs interviewed only fifty people. If he had interviewed five hundred or five thousand the results qualitatively could not have been much different. He might have piled an impressive case history of 64 million unhappy lives, but that would have been about all. Hinduism has been indicted in the past. It has been indicted by Islam, by Christian missionaries and over the millenia by Hindus themselves. This does not seem to have made any real dent in the body of Hindu practices. The Untouchable has nowhere else to go to forget his misery or his unsought heritage. The American Negro, theoretically at least, can claim another continent as his home. For the Untouchable, India is his home. India alone can provide him the framework for happiness.

Seven years ago Isaacs wrote a penetrating study of American images of China and India and called it "Scratches on Our Minds". "India's Ex-Untouchables" is in the same tradition. Here he records not scratches, but the deep wounds in the minds of Untouchables, wounds that everyone knows exist, but few will recognise and fewer still move to heal. In "Scratches on Our Minds" Isaacs held the mirror to American thinking on China and India for which he probably got no thanks from India. In his present work he has done an even greater service to India and if Indians do not recognise it, they will be the poorer for it. The Untouchables in India have been docile for so long that most Indians have not considered it worth bothering about them except when there is an occasional editorial on some glaring injustice. The tendency is to be smug, to say, "but look, didn't we have an untouchable Chief Minister in Andhra? Didn't we have an Untouchable Congress President, an Untouchable Minister in the Central Cabinet?" and so on in the same vein. Indians would be even more willing to throw a few more golden apples into the laps of Untouchables to satisfy their conscience, but would not ever think of inviting even an educated Untouchable to eat with him in his village home. An Indian's home is his castle and so the rationalisation would go, it is his privilege to choose who he would invite home. Some day the Untouchable is bound to revolt and like another Samson, bring the caste edifice crashing down. Indians cannot say they have not been warned of the volcano on which they are sitting. Isaacs, with no axe to grind, has sounded a timely warning by telling Indians what he has seen and heard. A less scholarly man might have hurt the case by over-statement. By sticking to facts and curbing all urges to pontificate, Isaacs has let the Untouchables speak for themselves.

At $4.50 this book is not likely to be a big seller in India, but I understand that an Indian publisher has secured re-printing rights. One hopes that the Indian edition will be cheap, cheaper than usual, and that it will be talked about in every Indian home. For if ever there has been a need to publish an American edition in India, it must apply to "India's Ex-Untouchables". It may be many years, perhaps, before an Indian Baldwin will write an Indian "The Fire Next Time". But Isaacs—this time probably completely unintentionally—has already done it, even if ever so gently. Isaacs however, does not let his reader forget that for all her faults, India is trying to make amends. He constantly looks at the positive side of the picture, reminding his reader that already there are four million Untouchable youngsters in primary schools, another million and a half in middle and high schools, fifty thousand in colleges and universities and some 300,000 in government jobs. No one can say that Isaacs has been one-sided or that he has distorted the picture. In fact he has been so fair that one can weep for the lightness of his touch. As far as Untouchability is concerned, there is no need for distortion. The picture is distorted as it is. One has only to hold the mirror to India.

THE 1965-66 BUDGET

Indirect Taxation

Being in the rather fortunate position of not having to raise additional tax revenue, the Finance Minister intends the proposed changes in taxes to serve other purposes.

In direct taxation the proclaimed objective is "to harness every possible source of dynamism and enterprise —whether domestic or foreign, public or private—to the task of rapid economic growth."

In indirect taxation, the changes aim at one of the following two objectives:

(a) to give relief to consumers in those areas where the supply position is such that the relief may be expected to be passed on to them; and,

(b) to mop up, through taxes, some of the excess profits on commodities, whether produced in India or imported, as a result of acute imbalance between supply and demand.

INDIRECT taxes account for the major share of the Central Government's tax revenue. In 1965-66 they are expected to yield Rs 1254.65 crores out of a total revenue of Rs 1945.80 crores from all taxes, or roughly 65 per cent. Customs duties will provide Rs 419.50 crores and excise duties Rs 835.15 crores. Having been able to produce a balanced Budget—indeed one with a small surplus at prevailing tax rates—there was no compelling reason for the Finance Minister to make changes in indirect taxes. The changes that have been proposed have two purposes, according to the Budget Speech:

(a) to give some relief "in those areas where the supply position is such that one may reasonably expect the relief to be passed on to the consumers"; and,

(b) to increase taxes "in those areas where this might correct existing distortions in the price structure and mop up some surplus profits".

The net increase in revenue as a result of the changes proposed is just Rs 1.50 crores, resulting from a revenue gain of Rs 14.50 crores from customs duties and a loss of Rs 13 crores from excise duties. This does not, of course, include receipts from the 10 per cent regulatory duty imposed with effect from February 17, 1965 on all imported goods except foodgrains, fertilisers, pesticides, books and accessories for family planning. The regulatory duty not being a part of the Budget, the expected receipts from it are not shown separately. The Finance Minister appears to be taking credit for roughly Rs 20 crores from the duty in 1965-66. This is almost certainly an under-estimate, even allowing for some restriction of imports.

Export duties, of which only a few now remain, are left untouched. Changes in import duty are all upward.

The import tariff is at present cast in the form of a commodity schedule with broad distinctions indicating the treatment to be accorded to various classes of articles. The general rate of import duty is 60 per cent. On certain non-essential items where it is felt that the consumer can well pay a higher rate or where there is sufficient indigenous production to meet the needs, duty is imposed at higher rates. Certain items are subjected to protective duty while certain others are declared duty free or are subject to lower rates of duty in the interests of indigenous industry or the economy of the country.

Some of the items which carry the heaviest rates of duty are certain spices, tobacco and its manufactures, wines and spirits, artificial silk goods, gold plated articles, socks and stockings of silk or art silk, hardware, parasols, sunshades, gold and silver thread manufactures, silver thread and wire, clocks and watches, etc. Some of the protected goods are some chemicals, certain coal tar dyes, some non-ferrous

metals and manufactures, certain items of machinery and parts, ball bearings and certain motor vehicle parts for which the duties are fixed at such rates and for such periods as are found necessary by the Government after considering the recommendations of the Tariff Commission. Grams and pulses are on the free list while specially low but varying rates apply to a large number of essential items like batching oils, lubricants, raw films, machinery, etc.

In addition to the basic duty, a general import surcharge was imposed at the rate of 10 per cent of the effective duty in the 1964-65 Budget. And, finally, there is the 10 per cent *ad valorem* regulatory duty effective from February 17, 1965.

All the increases in import duty proposed in the 1965-66 Budget fall on commodities in whose case there is a very large margin between landed prices and current market prices. The higher duties are intended to reduce these margins. In the case of raw cotton while the statutory duty is raised to 50 paise per kilogram from 26 paise, no change in effective duty is proposed just now. The effective duty may be raised later on, depending on the movement of internal prices.

The increases in import duties proposed will yield in all Rs 6.50 crores of additional revenue. In addition, countervailing duties to offset increases in excise duties, will yield Rs 8.00 crores, giving a total additional revenue of Rs 14.50 crores from customs duties.

In excise duties the accent is on concessions as is evident from the net loss of Rs 13 crores from the changes proposed. The cuts in duty are intended, in most cases, to reduce prices and afford relief to consumers. Among the changes which fall in this category are in those in the duty on tyres and tubes for cycles (estimated relief: Rs 1.86 crores), certain types of writing, typing and printing paper (Rs 2.50 crores), controlled varieties of cotton fabrics (Rs 9.76 crores), cycle parts (Rs 2.25 crores) and footwear (Rs 2.60 crores).

In certain cases the excise duty has been reduced with a view to encouraging consumption. The duty on certain classes of paints in the use of which synthetic resins are used has been reduced as has been that on cellulose staple fibre and yarn and cellulosic filament yarn other than acetate yarn and on silk fabrics which are facing adverse competition from man-made fibres and fabrics.

In a few other cases the concessions are intended to help smaller manufacturers. For soap manufacturers, the quantity eligible to be cleared without payment of duty is proposed to be doubled, but the relief is being restricted to manufacturers whose annual production does not exceed 500 tonnes. Similarly, in the case of tyres for motor vehicles, the existing full exemption from special excise duty on the first clearance of Rs 50 lakhs and 50 per cent exemption on the next Rs 50 lakhs for each manufacturer is being revised to full exemption on the first clearance of Rs 1 crore during any financial year. This concession is also confined to manufacturers whose total clearance for home consumption does not exceed Rs 4 crores in a year.

Finally, in one or two cases, the excise duty has been abolished altogether as it has proved to be unremunerative—as, for instance, the duty on cigars and cheroots and on silver.

Excise duty has been raised on commodities which are in short supply which command high premiums. The most significant increases are on steel ingots and iron and steel products intended to narrow the gap between the producers' prices and market prices as recommended by the Raj Committee. The increase in duty on ingots and various steel products is expected to bring in Rs 11.41 crores which, incidentally, is some measure of the extent to which the producers' prices fixed last year after decontrol were off the mark. The duty on copper ingots, bars, etc, and on copper manufactures has also been raised partly to curb consumption and partly to reduce the very high profit margins. The increase will yield Rs 3.65 crores.

The aggregate additional revenue expected from increase in excise duty on various items is Rs 16.68 crores while the many concessions will cost the exchequer Rs 29.68 crores. There will thus be a net loss in revenue of Rs 13.00 crores as a result of the changes in excise duties.

Table 1 : Details of Changes in Basic Customs Duty

Article	Present Rate of Duty		Present Rate of Duty		Additional Revenue including Effect of Surcharge *(Rs Lakhs)*
	Standard Rate	Preferential Rate	Standard Rate	Preferential Rate	
Sodium Hydrosulphite	40%	30%	100%	90%	33
Paints, Colours and Painters' Materials, not Otherwise Specified	60%	50%	75%	65%	30
Essential Oils and Perfumery, not Otherwise Specified	75%	65%	100%	90%	22
Paper and Certain varieties of Board	50%	...	75%	...	80
Raw Cotton	26 P per kg	...	50 P per kg	...	Nil*
Art Silk Yarn and Thread (Excluding Rayon Yarn and Nylon Filaments for Tyres)	Rs 7.50 per kg or 55%**	...	Rs 10.25 per kg or 75%	...	1,10
Steel Tinplates	Rs 100 per tonne +5%	Rs 80 per tonne +5%	Rs 325 per tonne	Rs 305 per tonne	1,15
Stainless Steel Plates and Sheets	30%	...	100%	...	2,60
				Total additional revenue	6,50

* No change in effective duty of 10 P per kg.
** Whichever is higher.

Table 2 : Details of Changes in Excise Duty

Article **Changes Made by Bill**		Unit	Rate of Duty Existing	Rate of Duty Proposed	Additional Revenue during 1965-66 *(Rs Lakhs)*
Cigarettes : Basic		1,000	Different rates depending on value	100% **ad valorem**	+40
Additional			ditto	25% **ad valorem**	
Copper and Copper Alloys					
(1) Ingots, bars, blocks, etc		Tonne	Rs 300	Rs 1,000	+3,65
(2) Manufactures		Tonne	Rs 500	Rs 1,500	
Steel Ingots : Ceiling		Tonne	Rs 50	Rs 60	+11,41
Effective			Rs 50	Rs 60	
Iron and Steel Products					
(1) Semi-finished steel	Ceiling	Tonne	Rs 90	Rs 105	
	Effective		Rs 90	Rs 105	
(2) Bars, rods, coils, etc	Ceiling	Tonne	Rs 90	Rs 105	
	Effective		Rs 90	Rs 105	
(3) Rails and sleeper bars	Ceiling	Tonne	Rs 90	Rs 105	
	Effective		Rs 50	Rs 60	
(4) Plates	Ceiling	Tonne	Rs 200	Rs 360	
	Effective		Rs 110	Rs 120	
(5) Black sheets and hoops	Ceiling	Tonne	Rs 200	Rs 360	
	Effective		Rs 110	Rs 150	
(6) Skelp	Ceiling	Tonne	Rs 200	Rs 360	
	Effective		Rs 150	Rs 200	
(7) Strips	Ceiling	Tonne	Rs 200	Rs 360	
	Effective		Rs 110	Rs 200	
(8) Galvanised plates and sheets	Ceiling	Tonne	Rs 200	Rs 360	
	Effective		Rs 300	Rs 300	
(9) Steel castings	Ceiling	Tonne	5% plus steel ingot duty	5% plus steel ingot duty	
	Effective		Rs 50	Rs 60	
(10) Seamless pipes and tubes	Ceiling	Tonne	5% plus steel ingot duty	5% plus steel ingot duty	
	Effective		Rs 110	Rs 120	
Aluminium: Extruded Shapes and Sections			Different Rates	10% **ad valorem**	Negligible
Tinplates, Tin Sheets, etc	Ceiling	Tonne	Rs 200 + 10% special duty	Rs 375	+65
	Effective		Rs 150+ 10% special duty	Rs 225	
Changes Made by Notification					
Cigars and Cheroots		100	Different Rates Depending on value	Exempted	−14
Vegetable Products	Basic	Quintal	Rs 32	Rs 20	−7,20
	Special		Rs 6.40	Nil	
Pigments, Paints, Colours	Paints using synthetic resins will get exemption to the extent of duty paid on these resins consumed in their manufacture				−48
Tyres for Motor Vehicles	Exemption of 5% **ad valorem** in basic duty to manufacturers commencing production on or after 1-4-1962 is being withdrawn, with certain other modifications				+35
Cycle Tyres and Tubes					−1,86
Paper					
(1) Typewriting and certain other lighter and cheaper varieties	Basic	kg	Rs 0.50	Rs 0.35	−2,50
	Special		Rs 0.10	Rs 0.07	
(2) Certain other types of cheaper printing and writing paper	Basic	kg	Rs 0.22	Rs 0.15	
(3) Printing and writing papers used in the publication of regd dailies	Basic	kg	Rs 0.22	Nil	
Rayon and Synthetic Fibre and Yarn					

Article		Unit	Rate of Duty: Existing	Rate of Duty: Proposed	Additional Revenue During 1965-66 (Rs lakhs)
(1) Callulose staple fibre of					
(a) 1.5 & coarser denier	Basic	kg	Rs 0.75	Rs 0.60	
(b) finer than 1.5 denier	Basic	kg	Rs 1.00	Rs 0.60	
	Special		Rs 0.15	Nil	
(2) Yarn spun out of such fibre					−90
(a) 22NF to 29NF counts	Basic	kg	Rs 0.30	Rs 0.25	
(b) 14NF to 22NF counts	Basic	kg	Rs 0.25	Rs 0.15	
(3) Cellulose filament yarn other than acetate yarn					
(a) 100d	Basic	kg	Rs 4.50	Rs 4.00	
	Special		Rs 0.50	Rs 0.50	
(b) 101d to 119d	Basic	kg	Rs 3.00	Rs 4.00	
	Special		Rs 0.50	Rs 0.50	
(c) 120d to 1100d	Basic	kg	Rs 3.00	Rs 2.50	−1,66
	Special		Nil	Nil	
(d) More than 1100d	Basic	kg	Rs 2.00	Rs 2.00	
	Special		Rs 0.66 2/3	Nil	
Cotton Fabrics	The basic grey stage and processing duty on coarse and medium varieties of all 'controlled' cotton fabrics is being reduced by 50%.				−9,76
Silk Fabrics	Basic	Sq. metre	Rs 0.36	Nil	
	Special		Rs 0.12	Nil	−11
Silver		10 gms	Rs 0.07	Nil	Negligible
Cycle Parts					
(1) Free wheels		Each	Rs 2.00	Nil	
(2) Rims		Each	Rs 4.00	Nil	−2,25
Footwear			**10% ad valorem**	Nil	
Parts of Footwear			**15% ad valorem**	Nil	−2,60
Gramophones and Parts			**20% ad valorem**	Nil	−4
Net effect of changes					**—13,00**

Table 3 : Revenue Implications of Changes in Excise Duty

(Rs lakhs)

Commodity	Basic Excise Duty		Special Duty of Excise		Addl Duty of Excise (in lieu of Sales Tax)		Total	
	(+)	(−)	(+)	(−)	(+)	(−)	(+)	(−)
(1) Cigars and Cheroots	—	9	—	3	—	2	—	14
(2) Cigarettes	33	—	7	—	—	—	40	—
(3) Vegetable Product	—	470	—	250	—	—	—	720
(4) Paints	—	40	—	8	—	—	—	48
(5) Tyres								
(a) For Motor Vehicles	15	—	20	—	—	—	35	—
(b) For Cycles (other than motor cycles)	—	155	—	31	—	—	—	186
(6) Paper	—	248	—	2	—	—	—	250
(7) Rayon and Synthetic Fibre & Yarn	—	230	—	26	—	—	—	256
(8) Cotton Fabrics	—	976	—	—	—	—	—	976
(9) Silk Fabrics	—	6	—	2	—	3	—	11
(10) Silver	—	—	—	—	—	—	—	—
(11) Copper and Copper Alloys and Their Manufactures	365	—	—	—	—	—	385	—
(12) Steel and Iron or Steel Products	1141	—	—	—	—	—	1141	—
(13) Tin Plates, etc	87	—	—	18	—	—	87	18
(14) Cycle Parts	—	225	—	—	—	—	—	225
(15) Footwear and Parts	—	260	—	—	—	—	—	260
(16) Gramophones & Parts Thereof	—	4	—	—	—	—	—	4
Total	*1641*	*2623*	*27*	*340*	—	5	1668	2968
Net effect		*982*		*313*		5		*1300*

The "Manchesterisation" of Ahmedabad

Howard Spodek

The business skills of Ahmedabad, its indigenous entrepreneurship, set it apart from most Indian cities.

The leadership which brought industry to the city was, and remains, Gujarati. Many traits that mark the leadership today are carryovers from pre-industrial patterns.

By caste, most are Jain and Vaishnava banias or Patels from the Ahmedabad and Kaira districts.

How the industrial pioneers made Ahmedabad the "Manchester of India" is the subject of this study.

BY Indian standards Ahmedabad is a rich city. Its wealth rests on its 62 textile mills which employ 130,000 people, about one-tenth of the city's population. They produce about 1,150 million yards of cloth annually, a quarter of all of India's mill production. Although the workers seem under-nourished, overworked, and poorly educated, their basic minimum take-home pay of Rs 150 per month, including dearness allowance, puts them among the best paid industrial workers in India.[1] As to the owners and high level personnel, their dress, cars, and homes give ample evidence of their prosperity.

Gujarati Leadership

The business skills of Ahmedabad, its indigenous entrepreneurship, set it apart from most Indian cities. The leadership which brought industry to the city was, and remains, Gujarati. Many traits that mark the leadership today are carry-overs from pre-industrial patterns. It is close-knit and expert in finance rather than in technology. By caste, most are Jain and Vaishnava banias or Patels from the Ahmedabad and Kaira districts. They are intensely concerned with the status and progress of the city which they seem to rule on Medicean patterns. How the industrial pioneers made Ahmedabad "the Manchester of India", as Ahmedabadis call their city, is the subject of this preliminary research. Hopefully this sketch will form the background of a study of the personal and psychological motivations underlying entrepreneurship.

Ahmedabad got its first mill in 1861. Slowly, over a period of thirty years, the added example of eight more mills as well as vital changes in economic conditions and attitudes prepared the ground for the quick expansion of 1891-1905. Then the Swadeshi movement and World War I pushed both the number and the profits of the mills to new heights. Gandhi came to Ahmedabad in 1915 and for sixteen years made it his home. He brought labour-management harmony, continued swadeshi movements, and surging confidence to Ahmedabad and its people. Industry boomed. Finally, since 1933, first because of the general depression, then because of war conditions, and finally because of the economic policies of the Government of independent India, expansion in the mills stopped. New economic avenues have been pursued while mill growth has remained stationary.

The Pioneer

The Bombay State Gazetter for Ahmedabad district, compiled in 1879, presents a rosy, British, and comprehensive account of conditions in the earliest years of industrialization. It states that Ahmedabad was renowned for its high death rate and dirt and that Maratha and Moghul rule despoiled the city, but that in 1817, when the British assumed control of the city, improvements began. Population expanded, trade flourished, and the three traditional Ahmedabad manufactures of cotton, silk, and gold revived. The city walls were repaired, cesses were levied for city improvements. Merchants began to amass money and new public building gave evidence of the prosperity. Charles Heimsath in "Indian Nationalism and Hindu Social Reform" (Princeton, 1964), writes that reform and educational movements of increasing strength were spread by Gujaratis.

Onto this encouraging scene stepped Ranchhodlal Chhotalal, whose imagination, boldness, ingenuity, and success make him a classic example of the Schumpeterian entrepreneur. S M Edwardes, his best English biographer, records his birth in 1812 in a close-knit, honest, and thrifty family of the well-placed Nagar Brahmin community of Gujarat. Like his father, and like many of the subsequent mill leaders, he was orthodoxly religious. He followed his father into a career in government service. From the time he finished his formal education in 1842 until 1853, Ranchhodlal worked in a variety of clerical and administrative positions both in the Bombay government and privately. He was appointed Assistant Superintendent of Pavagarh in Panchamahals, the highest position to which an Indian in the political department of Government could aspire. With a salary of Rs 300 per month, he was the chief Bombay Government representative in the area. In 1853 his government career ended abruptly when he was charged with taking a bribe. Court proceeding dragged on and although the decisions were not unexceptionable, the slur on Ranchhodlal's reputation forced the government to discharge him.

From Administration to Business

Like others of the more turbulent times later, having lost the possibility of government work, Ranchhodlal turned his energies to business. As early as 1847, even before Cowasjee Davar's 1854 venture in Bombay brought the textile industry to West India, Ranchhodlal had, with the help of a Major Fulljames, investigated the possibilities of textile manufacture along British lines. Then, and again in 1851, money was raised, English manufacturers and machine producers were contacted, and preliminary plans were made. Apparently the investors wanted more security than the new industry could offer, however, and they withdrew their capital.

Perhaps the loss of his job and the added time to work on financial affairs were beneficial, for in 1859 Ranchhodlal succeeded in making the desired combination: his imagination and energy, with the skills of British technicians, and Rs 75,000 of investments by wealthy merchants to add to his own Rs 25,000 investment. Ranchhodlal was put in charge of construction and management in return for 2½ per cent on the sale of yarn. Problems of construction followed. Dadabhai Naoroji, who was then in England, served as purchasing agent for the machinery. Legend tells that the machinery burned and went down at sea,

grew at almost twice the rate of all-India growth, and by 1905, Ahmedabad mill facilities were about 15 per cent of the country's total.

As important as the physical growth was the psychological and institutional change. In 1891, the Millowners' Association of Ahmedabad was founded with Ranchhodlal as first president. Bombay had established such an organization in 1875 to represent the interests of the millowners and Ahmedabad was now following suit. In 1894, the Ahmedabad stock exchange was founded. Investment in cotton mills was booming and local trade could now support a local market. The Ahmedabad stock exchange replaced the Bombay market as an instrument for meeting the capital needs of the local mills. The investigation into the possibilities of dredging the Sabarmati River and opening a channel to the Gulf of Cambay, further indicated that the millowners recognized their common interests.

Among the managing agency firms, commissions based on sales generally replaced the system of commissions based on production. The 1927 Indian Tariff Board Report on textiles noted that this change took place generally in 1895 and was almost completed around 1917. It indicated greater responsibility on the part of the agents.

Parsis Come to Ahmedabad

Ahmedabad still trailed behind Bombay, remaining a regional or national, rather than international centre. It had no training institute like Bombay's Victoria Jubilee. It had far fewer mills. It carried on little international trade. By the turn of the century, however, when the Indian National Congress and the Bombay industrialists led the fight against the British free trade policy, Ahmedabad's business leaders and newspapers lent their voices to the protest. The local economic sensitivity to national polittcal questions which would motivate Ahmedabad during the twentieth century began to appear fifteen years before the arrival of Gandhi.

New kinds of firms were opened. In 1899, the firm of Ardeshir D Wadia, with Motilal Hiralal, began as engineers, contractors, and manufacturers of cotton gins as well as other industrial machinery. The firm had good success. From a capital of Rs 25,000 at the beginning, it expanded to Rs 4 lakhs by 1917. Thus Parsis finally entered Ahmedabad industry as entrepreneurs. In contrast to their foremost position in Bombay, they never played an important role in the financier-dominated Ahmedabad arena. By the time that Tata founded the first Parsi mill in Ahmedabad in 1903, the infancy of the industry had passed.

Problems of Industrial Labour

Another Parsi mill which met with less success was begun by Sorabjee D Karaka to weave fine cloth from imported British yarns. Its failure helped demonstrate the hold of the British on the spinning and weaving market in fine counts above 24s.

In the early years of this period Ahmedabad began to face the problems of industrial labour. Strikes were numerous. In 1893 every mill in the city was shut down by strikes. Workers even attacked Ranchhodlal's house. The working conditions in textile mills had been investigated and legislation regarding women and child labour had been passed in 1881 and 1891. Although some claimed that these investigations resulted from pressures from Lancashire to drive up Indian prices by increasing the cost of labour, the investigations showed conditions in the mills to be intolerable. The working day ran as long as fifteen hours and men, women, and children shabbily treated. The increasing size of the industry spread these conditions and they festered.

Three Families

Among the families which opened new mills in this period, three were to become most important in the future, and each came from a somewhat different background. Lalbhai Dalpatbhai, who opened the Saraspur Mill in 1897, was a wealthy and orthodox Jain bania whose education went up to matriculation. Lalbhai was a prominent financier who probably entered the mill industry as just one new investment. On it his son Kasturbhai was to build his fortune.

Mangaldas Girdhardas Parekh's father was a poor clerk who saved his money, went to Bombay and entered the cotton trade. With two friends he began to trade on the international market, but with little capital and often unprofitably. In the same year that Mangaldas passed his matriculation, however, his father executed a highly successful international cotton transaction and began to prosper. Mangaldas took a job as store clerk at Ranchhodlal's first mill. With the financial backing of Ranchhodlal and Mansukhbhai Bhagubhai, he founded the Aryodaya Spinning Mills in 1892 in partnership with Balabhai Damodardas. The Mangaldas pattern of a boy with a good education working in a mill office and gaining recognition from the owner who then helped him to start on his own was a common experience while the industry was in this formative stage. Relatively small, close-knit agencies, often supplemented by caste ties made this possible.

Mangaldas' partner, Balabhai Damodardas Shodhan, was, like him, a Vaishnava bania. His father was a clerk to a shroff and had arranged to get cotton market quotations from New York and London. These he supplied to various local merchants. For this work he won the family name of "Shodhan", which translates approximately as "entrepreneur" or "innovator". Balabhai also served in Ranchhodlal's mill as a store clerk. Once gaining control of one mill, he expanded to more, first in co-operation with his brother and then with his son. As managing agent, he applied the profits of one mill to the capital requirements of new ones. Also, like other agents, he solicited public and private deposits to cover the major capital requirements and depended on stocks for only about one third of his capital.

By 1905, the textile industry of Ahmedabad had developed an organizational and institutional framework. Its systems of finance and management were firm. It was developing and attempting to cope with the problems of a sizable industry. Labour strikes, foreign competition, and tariff policies were becoming vital. Most important of all, textiles had become a respectable and profitable investment. As Ahmedabad traditionally had a climate which favoured business, it now had a climate which specifically favoured textiles. The early examples, the chances of working in the mill offices, and the backing of experienced men invited and furthered expansion.

Swadeshi Movement

Between 1905 and the beginning of World War II, growth in the Ahmedabad industry proceeded rapidly. The Swadeshi movement, the needs of World War I, the first protective tariff, peaceful labour-management agreements, and, above all, the confidence inspired by Gandhi brought very favourable conditions. New technological and managerial pioneering as well as the entrance of yet more families into textiles marked the period.

Swadeshi, the nationalist movement to support domestic manufactures, gave a necessary and tremendous boost to the textile industry everywhere in India. Breaking forth in Bengal as a reaction to the partition of 1905, swadeshi included two schemes: a boycott of British imports and an emphasis on the use of domestically produced goods. This joint action at once exerted pressure on British business interests to change their government's policies in regard to India, and promoted the growth of indigenous industry. While Bengalis tended to emphasize the political importance of the campaigns, the Gujaratis saw swadeshi as economically profitable. India was willing to sacrifice better quality in order to create a strong home industry; Ahmedabadis seized the opportunity. The number of mills in Ahmedabad jumped from 32 in June 1905 to 52 in June 1910. Spindleage rose from 577,166 to 917,590, and loomage from 7197 to 15,526. To run these plants the number of workers increased from 21,585 to 30,013.

When the first swadeshi drive had slackened, in 1915, Mohandas Karamchand Gandhi came to live in Ahmedabad, bringing with him a new era of growth. As he later did for all of India, Gandhi introduced new expectations, possibilities, and goals. He continued the swadeshi drives and, most important for business, he inspired a high morale and confidence in the future.

Profits of War

At the same time, World War I brought profits so great that in 1917 the Government imposed an excess profits tax. Wartime shipping shortages, although depriving India of foreign markets, also rid her of competition at home. The mills of Ahmedabad, including those that had just been built in the first swadeshi campaign, boomed.

The end of the war generally brought cut-backs and depression, but not to Ahmedabad. Here, beginning in 1921, Gandhi was leading further nation-wide swadeshi drives. Many of the millowners tell of the effect of his spirit in impressing on them the importance of a strong Indian economy. Despite Gandhi's general opposition to machine industry, his work in Ahmedabad is credited as one of the driving spirits behind the growth which between 1920 and 1930 added 21 mills, 600,000 spindles, 16,000 looms, and employed an additional 20,000 workers per day.

Gandhi's Contribution

As Gandhi helped Ahmedabad to prosper even during years of general depression, so he insured labour peace during years of general unrest. Ahmedabad had earlier had the experience of labour violence and in 1918 when a general strike broke out to protest against the elimination of a "plague bonus", violence threatened again. Gandhi, however, exercising his personal influence and fasting to focus attention on the issue, brought together Ambalal Sarabhai representing the millowners and his sister, Anasuyaben Sarabhai, representing the workers. Their settlement began a new tradition of peaceful labour relations and equable settlements arranged out of court. Emerging from the workers' new-found strength and Gandhi's leadership, the Textile Labour Association, generally considered India's most effective labour union, was born. Ahmedabad had further strikes, until the general one in 1923, but almost all were short and none were violent. Since 1923 no strikes have occurred.[6] A general feeling of harmony obtained between labour and management.

Tariff reform helped the industry, too. In 1919 the Government of India was granted financial responsibility, and in 1922 it instituted the first protective tariff since 1894. Protecting the vast home market for Indian manufactures did much to save the textile industry from the ravages of the world-wide depression between the Wars. What swadeshi had attempted to do by voluntary measures, the Government could now effect through the tariff. In the protected markets, Ahmedabad began to push expansion of cloth production through a rapid increase in loom facilities.[7]

Conservatism, a Continuing Problem

Although growth marked this period, failures came, too. Even with the help of a protective tariff, foreign manufacturers as well as the carefully managed Indian mills could undersell the products of inefficient mills. By comparison with the war years when profits came to almost all, the post-war years brought more limited returns. While the greater number of mills prospered, others were sold, liquidated, or closed down. Among them was Ranchhodlal's original Shahpur Mill.

Apart from the possibility of mismanagement, one of Ahmedabad's difficulties continued to be conservatism. The Indian Tariff Board reports on the textile industry in 1927 and 1932 praised the Ahmedabad methods of finance through the deposit system and through large investments by the agency firm, but noted that while encouraging honesty and careful attention to finance, such practices also encouraged conservatism. In some plants, at least, the traditions of conservative financial backing inhibited progressive innovation.

Paradoxically, as conservatism crippled some firms, the new pioneering efforts of other Ahmedabad mills, especially Calico Mills, brought Ahmedabad to the forefront of the Indian industry. Ambalal Sarabhai, as chief managing agent and great-grandson of the founder of the company, introduced the innovations. Although personally reticent and aloof, Sarabhai has a reputation for being progressive, businesslike, anxious to exploit new ideas, and with his amazingly accomplished family, highly cultured. That he has left Jainism and that he, as many people say, "does not believe in charity", evoke a variety of comments. In fact, Ambalal has given considerable sums of money to educational and cultural institutions in Ahmedabad and throughout India. His support for Gandhi's ashram at the time the Mahatma was scorned for admitting harijans is legendary.

Pace-Setting Innovator

When Sarabhai was about five years old, in 1894, his father died. He was raised by his uncle, Chimanlal Nagindas. Subsequently, Chimanlal's death forced Ambalal to leave Gujarat College and to enter the textile industry. At about the age of twenty he found himself the managing director of both the Calico Mills and its sister concern, Jubilee Mills. In the 1918 strike when he was but 29 years old, he served as representative of the Ahmedabad Millowners Association. In 1922 he demonstrated that he was as interested in pace-setting experimentation as he was in adding to his fortune. Despite dissuation from friends, he pioneered finer count spinning in India and found quick and impressive success. Calico began spinning counts even up to 140s and led the way to recapturing from Lancashire the fine yarn and cloth market of India.[8] From that time on, Ahmedabad turned to producing fine cloth. Today that is its forte.

In addition to pioneering new products and qualities in India, Sarabhai wanted to replace British managerial and technical personnel, the mainstay of the upper echelons, with Indian men. He began a programme to attract the brightest of college graduates regardless of their fields of study. For one or two years he put them under the tutelage of his British employees and within two years he began the change-over. Sarabhai's plan for future Indianization of the mills was a success.

To the present day Sarabhai has continued to employ pace-setting innovations. He introduced the first plant in India for producing sewing thread (1922) and diamond mesh mosquito netting (1937). At Calico he has installed automatic loom sheds and has completely air-conditioned both the spinning and the weaving sheds. In collaboration with the Tavistock Corporation of London, Calico has worked out programmes for proper group relations for management and labour teams.[9]

Expansion Along Family Lines

As Sarabhai experimented with modernized methods of production, Kasturbhai Lalbhai was demonstrating that a business could profitably expand along family lines. In building his textile chain to seven mills, he promoted three mills for the benefit of the sons of his three married sisters. Yet while he expanded his holdings to create places for his relatives, he was also hiring top-level management for his mills on the basis of merit. After learning the working of the mill, these men often succeeded to the highest positions of management, either with Kasturbhai or with other millowners who, desiring such highly trained men, lured them with higher pay.

Kasturbhai seemed intent on coupling the virtues of family controlled business — quick, unified decision making, trusted personnel to oversee expansion — with the best of open business practices — personnel chosen on the basis of talent.

Indicative of the value system among the millowners has been Kasturbhai's rise to prominence. Not to be overlooked is the sheer fact of his wealth and the lakhs of rupees of charity he has given. Like many millowners he observes religious prescriptions, and he serves as president of the Anandji Kalyanji, an institution which looks after Jain temples and shrines throughout India. In times of famine he has served on relief committees and has himself travelled on foot through striken villages. He has been an important representative to and for the Government of India on tariff and textile questions. During periods of Hindu-Muslim rioting in Ahmedabad he led movements of reconciliation, even at physical risk to himself. Ahmedabadis today generally regard him as the final authority on charity, municipal matters and industrial policies. In patterns reminiscent of the old nagarsheths and of Ranchhodlal in his day, Kasturbhai stands pre-eminent in Ahmedabad.

Changed Priorities

Other millowners also continued to expand their control. The various branches of the Shodhan, Mangaldas, Hiralal, and Hirabhai families all added to their textile holdings. Those who had come to textiles from sharaffi businesses now found that their priority of interests had changed: industry came first, sharaffi finances and trading second. Generally the old families who did not invest in textiles, or who invested unwisely, dropped sharply in importance as the wealth of the textile magnates rose to prominence. The family of Premabhai Himabhai Nagarsheth, for example, which had received the honour of consideration as the most prominent business family in the city, declined in importance and was superseded by the new leading families. Also at this time the family of Ranchhodlal left the textile field and his family fortune, too, diminished in importance. The Becherdas family, whose one mill grew but little, suffered the same fate.

In the leading circles of Ahmedabad millowners, personal relations became closer. This led to some forms of co-operation among the mills. Since the market seemed always large enough, millowners and managers helped one another to open new enterprises. For example, two cotton trading families with much experience in Africa, the Patel family, which today controls the Asarwa mills, and the Parikh family, which purchased the Jupiter mill in 1935, were assisted by the Sarabhais and the Mafatlais (of Bombay), respectively. Mafatlal-Parikh co-operation began with the personal friendship of Mafatlal with his chief engineer, Bapalal. Through this friendship, Mafatlal decided to help his relatives enter cotton trading in Africa and later open a mill industry both there and in India. The Sarabhai-Patel agreement began in a joint investment in an East African cotton trading concern. Sarabhai was the principal financier and the Patels held a financial interest and served as managers. When the Patels returned from Africa, they used their profits to purchase the Asarwa Mill in 1945.

Marriages Strengthen Links

Marriages among the leading mill families strengthened the links between them. One of Ambalal Sarabhai's sons married a niece of Kasturbhai; one of his daughters married the son of Mangaldas Girdhardas Parekh. Another marriage united the Shodhan and Mangaldas families, early partners in textile entrepreneurship. Socially as well as economically the new class consolidated itself.

The successful and expanding industry also attracted new families. In 1913, Bhikhabhai Jivabhai Patel, born in a farming family and serving as a school teacher, founded a small power weaving factory. In 1917 he expanded the plant and in 1928, despite a damaging flood, he pooled his resources and opened a new and successful composite spinning and weaving mill, the New Rajpur Mill.

Another Patel from the Kaira district, a caste renowned for their success in education, government service, and business, Khushaldas Gokuldas Patel of Nadiad, having studied up to Matriculation, came to Ahmedabad and found a bank job in 1871. Through the years his position and income grew and in 1914 he and his son acquired control of the Himabhai Mill. Finding this profitable, they extended their control to two more mills in 1925.

In 1920, the two Marsden brothers, Ben and Charles, promoted the Marsden Mill and, following its success, added the Monogram Mill in 1927. These were the only mills in Ahmedabad ever controlled by Englishmen. The brothers had come to India, Ben in 1907 and Charles in 1916, to serve as weaving masters. In promoting their own mill, they experienced difficulties in finance, the default of a British company in supplying machinery, and the resignation of three of the directors. In 1921, however, they found in Manilal Mulchand a financier and helper and the mill began to succeed. In the early 'fifties, the Marsdens returned to England, selling out their interests to the grandchildren of Mulchand.

Modern Management

Apart from new families buying and serving as agents for textile mills, jobs within the mills opened for new personnel. High-level executive jobs were available to new men, unrelated to the agents by family or caste. The growing sophistication of the mills required increasingly skilled personnel, regardless of caste. Sarabhai's recruitment policies especially favoured well qualified college graduates. Such people today serve as important executive managers in the Sarabhai and Kasturbhai enterprises and, in lesser positions, in other Ahmedabad mills as well.[10] They now take part in entrepreneurial decisions.

Among the young men who came, many broke with caste occupational traditions. Some had worked in the civil disobedience movements and now found the traditional government jobs closed to them. Some were south Indian Brahmins escaping the growing anti-Brahmin prejudice in their home regions. Some consciously wanted to try a new field. More documentation is needed, but conversations with a few of the present day managers in the Ahmedabad mills indicate that in the managerial positions in the mills, traditional occupational patterns began to break down.

Renovation and Modernisation

Since 1933 no new mills have come to Ahmedabad. The last years before the war were years of world-wide depression that did not favour expansion. The war itself brought a boom with unparalled profits, but restrictions on material needed for the war effort precluded the construction of new facilities.

The war years saw also the continuation of Congress' struggle for independence. In this struggle the Ahmedabad industry helped with funds and workers, and in 1942, during the "Quit India" movement, with a three month voluntary shutdown of all of Ahmedabad's mills. The influence of Gandhi remained strong in the city.

Following the war, the profits that had accumulated were free for investment in new equipment and machinery. Many mills took this opportunity to renovate and modernize. In 1947, however, the Government of independent India issued a new policy ending the possibility for expansion. Ahmedabad, Bombay, and certain other centres were declared surplus areas in textiles. In order to favour the handloom industry and to give an opportunity to new textile centres to grow, the surplus areas were forbidden to expand their facilities. The Government also felt that with existing capacity, these centres could increase production by 25 per cent. In fact, production has risen and technical improvements have been instituted, but the limitation on expansion has dampened many spirits. In October 1963, the order was relaxed to permit expansion up to 10 per cent, but sufficient figures are not yet available to evaluate the effect of the new policy.

Diversification of Chemicals

Forbidden expansion, the leading managing agencies have sought diversification, primarily in the chemical industry. Kasturbhai, who had already founded the Anil Starch company in 1939 and had followed it with the Amrit Chemical Company, and the Atul dye manufacturing plant, now made arrangements with American Cyanamid and Ciba of Switzerland to begin chemical and drug production. Sarabhai, in 1947, opened a plant in Ahmedabad to manufacture caustic soda, chlorine, and related chemicals. He, too, contacted foreign chemical companies and continued to build in this field. His plants in Bombay and Baroda make him one of India's most important drug manufacturers.

The ATIRA, the Ahmedabad Textile Industry Research Association, was established in 1947. The mill industry regards it as a symbol of a new age of science in industry. It provides some of the training, education, and research which are today necessary for pioneering development. In the construction of ATIRA, as in the increasing quality of the education they are insuring for their own children, the millowners indicate that money and perspicacity alone are no longer sufficient to meet the complex needs of industry. ATIRA primarily carries on applied scientific research, but it also does work in quality control within the mills and holds occasional conferences on management techniques. It opened with a capital of Rs 71 lakhs, of which Rs 19 lakhs were given by the Central Government. Today it encompasses 88 mills, including many from outside the city. More active in training for management is the three-year old Indian Institute of Management in Ahmedabad. Supported jointly by the Government of India, the Government of Gujarat, the Ford Foundation, the millowners, and the Harvard School of Business, it provides degree and certificate classes in business administration.

Fears About the Future

Since World War II, the Ahmedabad industry seems to face the future with mixed feelings. The stronger mills, especially, look to a bright future. The days of struggling for establishment are past. They thrive and prosper with the finest mills in the world. Their reputations are international. Mill management is no longer a part-time, small-scale enterprise. It requires training, skill, and effort. Those unwilling or unable to supply these ingredients suffer.

Finally, to minds trained in terms of private enterprise, the government's regulating policies seem threatening. Especially since the death of Sardar Patel, the great champion of business, and the estrangement of Morarji Desai both from Congress and from the business communities, Ahmedabad's millowners feel unrepresented and at a disadvantage. Many managing agents seem uncertain of the independence and stability of private enterprise in India. This feeling, they say,

Table: Size of the Ahmedabad Textile Industry

Year	*Mills*[1]	*Spindles*	Looms	*Hands*[2]
1891	9	193737	2485	7451
1900	27	477242	5690	15943
1910	52	917590	15526	30013
1920	51	1079996	22718	43515
1930	72	1656202	38812	64480
1940	76	1898530	46278	73887
1950	74	1916908	42256	72761
1960	71	2112322	41997	135237
1964	72	2276642	44059	131454

Source: Figures from the Bombay Millowners Association.

[1] Figures here refer to the number of mills. The number of mill companies is somewhat less, because some companies hold two mills, e g, in 1964 sixty-two companies owned 72 mills.

[2] After 1960 the figures include workers on all shifts. Prior to that time they include only the first shift.

cannot but affect their plans for their own mills. Within this framework, Ahmedabad's present executive must work and plan their innovations for the future.

Appendix

Mill holdings by religion and caste.

Today, of Ahmedabad's 62 mill companies, eight are held by Patels, ten by Jains, two by Marwari Hindus, one by a Jain-Vaishnava partnership, and the rest by Vaishnava banias. In many cases, more than one mill is controlled by the same man or the same family. I include Sarabhai among the Jains though he disavows the religion, for I have followed the family tradition regardless of the present attitude. The two Marwari companies are controlled from offices in Calcutta, one by the enormous Birla industrial empire, the other by Kanoria Co, Ltd.

Notes

[1] Although the basic minimum pay with dearness allowance is about Rs 150, the average pay is Rs 181. This figure is supplied by H G Acharya, the Secretary of the Ahmedabad Millowners' Association. Acharya seems to have encyclopedic knowledge of the Ahmedabad textile industry. He has been a kind and helpful adviser in the preparation of this paper.

[2] S D Mehta, "The Cotton Mills of India 1854 to 1954" The Textile Association 1954, p 24.

[3] K L Gillian of the Australian National University, who is preparing a history of nineteenth century Ahmedabad, found the records of this scheme in the Bombay records office and brought it to my attention.

[4] Government of Bombay, "Source Material for a History of the Freedom Movement in India," v 2, p 605.

[5] From conversations with Nandasbhai Haridas, managing agent of Vijaya Mills and Sachin Chaudhuri, editor of *The Economic Weekly*.

[6] In 1964, the City of Ahmedabad had a general strike, but the issue concerned rising food prices rather than any textile mill issue.

[7] Bombay had done this earlier in response to the loss of the Far Eastern yarn market. Ahmedabad, never very active in foreign trade, found her motivation in home market conditions.

[8] Information on Calico's pioneering activities is available in a booklet prepared by the mill, evidently for stockholders.

[9] See A K Rice: "Productivity and Social Organization: The Ahmedabad Experiment", London, Tavistock Publications, 1958.

[10] S A Kher, general manager of Sarabhai's textile concerns, was hired in 1928, following his return from Cambridge where he had studied maths. Kind as well as brilliant, he has been most helpful to me. Chandraprasad Desai, general manager of Kasturbhai's textile concerns, was hired out of law school in 1932. Expansive and brilliant, he has been kind in giving me much time and assistance.

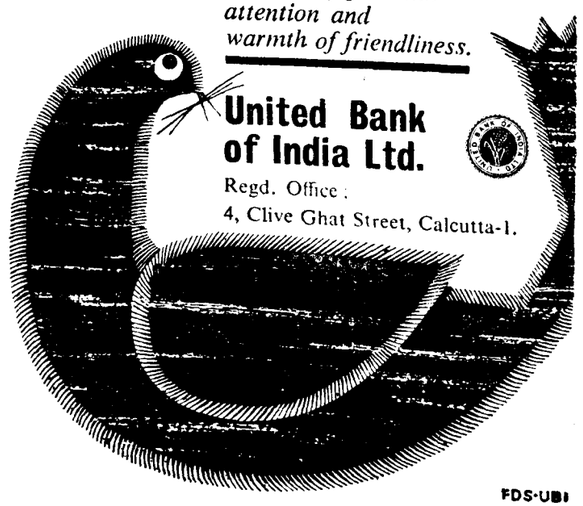
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Econometric Approach to Planning Education

Comment

R K Srivastava

S S Suryanarayanan

Some limitations of the Correa-Tinbergen model, which considers the quantitative inter-relationships between the educational system and economic requirements of certain levels of manpower by means of linear difference equations were discussed by K B Griffin and Carlos Hurtado in the issue of The Economic Weekly, *November 14, 1964. The conclusion reached was that "the types of problems the model is designed to solve are not the problems over which economists working in the underdeveloped countries are likely to lose much sleep."*

This rather sweeping criticism of the C-T model can hardly be shared widely.

Essentially macro-models of this type attempt to clarify the links between education and economic growth to see how far problems of educational planning can be approached on the analogy of planning the requirement of capital goods. The initial focus in developing a model has to be placed on quantative aspects and measurable variables (to the comparative neglect of qualitative aspects) and a high degree of aggregation is unavoidable.

The limitations which are thus introduced do not, however, constitute sufficient ground for rejecting the model on qualitative or a priori *considerations, but point the way to further research and refinement.*

BEFORE commenting on this approach to problems of educational planning, we would like to deal with the points made by Griffin and Hurtado. This can be best done by narrating the further work that has been done on the model with a view to reduce the rigidity of originally assumed relationships.

In attempting refinements[1], one of the variations introduced is that the demand functions for manpower of different denominations have been given a more generalised form and non-linear relationships between volumes of production and quantity of labour required have been suggested. For instance, equation (1) of the first model which assumes simple proportionality with constant r^2 between manpower with secondary education and levels of production has been modified as follows:

$$(1a) \quad N_t^2 = r^{20}\, {}_v r_t^{21} \left(\frac{v_t}{a_t}\right)^{r^{22}}$$

N^2 then becomes a function both of volume of production and per capita income $\frac{v}{a}$ if a is total population. Changes in labour productivity and influence of per capita income on the composition of the final product can thus get reflected in the model. For manpower with third-level education, the corresponding relationships can be expressed thus:

$$(6a) \quad N_t^3 = r^{30}\, {}_{v_t} r^{31} \left(\frac{v_t}{a_t}\right)^{r^{32}} + \pi^2 n_t^2 + \pi^3\, {}_{n_t^3}$$

A second variation has been introduced by disaggregation of the national product into sectors, each with its own rate of development and manpower requirements. If v^1 and v^2 are net outputs of sectors 1 and 2 and ${}^1N^2$ represents labour force with secondary education in sector 1 and ${}^2N^2$ similar labour force in sector 2, the following new relationships can be formulated:

$$(laa) \quad {}^1N_t^2 = {}^1r^2\, v_t^1$$

$$(lab) \quad {}^2N_t^2 = {}^2r^2\, v_t^2$$

$$(lac) \quad N_t^2 = {}^1N_t^2 + {}^2N_t^2$$

and

$$(6aa) \quad {}^1N_t^3 = {}^1r^3\, v_t^1$$

$$(6ab) \quad {}^2N_t^3 = {}^2r^3\, v_t^2 + \pi^2 n_t^2 + \pi^3 n_t^3$$

$$(6ac) \quad N_t^3 = {}^1N_t^3 + {}^2N_t^3$$

The number of sectors can be suitably increased depending upon availability of data.

The introduction of different kinds of educational processes into the model is yet another refinement attempted. For instance, if the third-level education can be split up into humanities and science and technology, we get the following modifications of original equation (3):

$$(3a) \quad m_t = n_{t-1}^2 - n_t^3 - n_t^4$$

where n_t^3 and n_t^4 represent number of students in humanities and science/technology respectively.

The original model assumed a time-span of six years each at second and third levels, and the time-unit for the model was also, therefore, taken to be six years. This introduced a good deal of simplicity in the model. However, the duration of second and third level may not be six years each and besides, it may be desirable to consider changes over shorter time-periods in developing situation. Shorter time-spans have, therefore, been introduced.

Other kinds of refinements have been attempted by introducing alternatives for (a) retirement or withdrawal, (b) drop-outs or wastage and (c) elimination of surpluses of certain levels and types of manpower.

Some instances of applying the C-T model to situations in developing countries of the Mediterranean region have also become available[2]. In applying it to the situation in Spain, the model has been refined to the extent that data became available. The total product was split up into three sectors — agriculture, industry and services and equations (1) and (6) of the first model broken down into three equations each, relating the second and third-level manpower in each of the sectors to the respective volumes of production. Since the period of study at second-level is usually 3-7 years and at third-level 5-7 years in Spain, and there are sizeable dropouts, the following variations of original equations (3) and (4) were applied:

$$(3a) \quad m_t^2 = \alpha^2 (\delta^2 n_{t-1}^2 - \beta n_t^3 + \ldots n_1^3)$$

$$(4a) \quad m_t^3 = \alpha^3 \delta^3 n_{t-1}^3$$

where α^2 and α^3 are the 'participation rates' of second and third-levels of manpower in the labour force; δ^2 δ^3 are the ratios of persons in respective levels who actually graduated during the last period to those who were enrolled one time period before, β the ratio of those that actually enrolled in the third level institutions

during the last time period to the total enrolments, and σ the ratio of those who left the third level before obtaining a degree to total enrolments.

The original assumption of constant γ coefficients has also been varied by introducing new values for γ^2 and γ^3 for t=o and t=3 working out the values for t=1 and t=2 by using the method evolved for treating the problem of transition[3]. A further refinement attempted is to assume that the coefficients change by a given percentage over each time-period so that there is continuous change over time.

Distinctions have been introduced in N^2 and N^3 by distinguishing between manpower with general second-level education N^1, with professional and technical education at second-level N^2, with non-technical third-level education N^3 and with scientific/technical third-level education N^4.

Similar exercises have been tried out in case of Turkey and Greece.

In our view, the principal criticism of the C—T model rests on its more basic assumptions and on the question of its relevance to policy-makers. There is no denying that the model has given important insight into the relationships between educational structure and economic requirements of manpower but unless this additional insight can be used for purposes of planning, its utility will be confined to the realm of research only.

Does the concept of "balanced path of growth" represent the actual relationship between the educational systems and processes on the one hand and the complex of environmental factors that affects and influences them? There is more reason to believe that there are continuing imbalances between the two — a continuing state of disequilibrium. It would be wrong to rely on the assumption that in case of developed industrial nations the "main problem merely is expanding an existing educational pyramid which already has been adapted to the needs of a modern technical society.[4]" Nor can we realistically state "it is only after an optimum educational system has been encountered (assuming one exists and that it is reasonably stable) that we should concern ourselves with mechanically expanding it..."[5] At any given time, the educational system is assumed to reflect current needs and demands but the long gestation period in education introduces inevitable time-lags (both in quantitative and qualitative terms) in the process of adjustment between the educational system and other factors. Because of this factor, the long-term goals are seldom reached and continuous short-term and medium term adjustments are taking place. For purposes of planning, therefore, calculation of a balanced path of growth has limited utility notwithstanding the refinements and modifications attempted and the model should thus be regarded as only supplemental to other efforts in the field of educational planning. Perhaps the path of growth suggested should be called the "path of minimum imbalance".

The influence of economic factors on the educational system is well-established. Available historical evidence on the growth of education in the now-developed countries indicates, however, that economic considerations did not play a major or even a prominent role in the development of the educational system. The role of other factors — cultural, sociological and political must be taken into account. The total "need" for education, thus, cannot be planned or determined with reference to forces of economic demand only. The influence of these forces should properly be construed as representing only a segment of the total need for education. The objective of long-term planning should be to fulfil the "need" rather than the "manpower-demand-aspect" of education. To the extent quantitative measurements of the "need" cannot be made, the relevance of the model for educational planning is diminished.

Another basic assumption that underlies the models is that manpower with primary education has not been considered a bottleneck to growth. Current experience in developing countries shows, however, that with the bulk of the labour force with little or no education in the traditional sectors and the traditional sectors being the major contributor to national product, there is need for rapidly raising the educational level of the bulk of the labour force. It is likely that in purely quantitative terms manpower with primary education is of such magnitude as to ensure sufficient and continuing supply to other educational levels but the share of manpower with primary education in the total labour force is extremely low. This factor is being gradually recognised as one of the bottlenecks to growth.

A final point that we wish to make is that it is not possible to express the qualitative and functional aspects of the relationship between manpower and economic growth (and/or development) in a model of the C-T tpye[6], even if the model can express the quantitative relationships satisfactorily. Manpower is itself a functional term and cannot be expressed adequately in terms of numbers of persons with different levels and kinds of education. The process of learning or improving skills does not end with the educational process either but continues at a greater or lesser rate throughout the period of employment or utilisation.

Obviously econometric approaches of the C-T type to educational planning would have somewhat limited applicability in developing countries which carry a large back-log of educated unemployment and where time-series data on various aspects of economic and educational development are not available. No model can approach or simulate real situations fully either. It is also difficult to quantify the different non-economic factors that affect the growth and development of education. Yet, denying the usefulness of models of the C-T type would amount to closing a fruitful line of investigating the relationships between education and economic growth.

Notes

[1] Tinbergen, J, "A Planning Model of Educational Requirements of Economic Development", Papers presented to the OECD Study Group on the Economics of Education, Paris, May 1963. This group of papers also contain illuminating comments on the C-T model by G Bombach, A K Sen and T Balogh.

[2] "Planning Models of Educational Requirements for Economic Development", Papers prepared for the second training course for Human Resource Specialists, OECD, Paris, September 1963. This group of papers contains an elaboration of the *Kyklos* model by Tinbergen and application of the model to Spain by L Emmerij, to Turkey by J Blum and to Greece by G Williams.

[3] *Ibid*, para 2.2, p 13.

[4] Griffin, K B and Hurtado, Carlos, p 1815.

[5] *Ibid*, p 1817.

[6] *Cf* discussion on this question in Srivastava, R K, "Projecting Manpower Demand — A Review of Methodology", Ministry of Home Affairs, New Delhi, 1964.

Andhra's Budget

CVH

LIKE most other State budgets which have been presented so far, Andhra's Budget for 1965-66 shows a deficit of Rs 6.70 crores. The Finance Minister, Dr M Chenna Reddy, has made no proposals to cover this deficit. He hopes that improvement in tax receipts, collection of past arrears and marginal adjustments in the scope and rates of existing land, sales and entertainments taxes will cover the gap. Whether this hope is in the event justified or not, it needs to be said that this is hardly proper budgeting. A leading member of the opposition in the Assembly and a former State Finance Minister himself, T Viswanatham, saw in the strange practice of leaving budget deficits to be covered by fortuitous circumstances, signs of financial delinquency.

An examination of the Budget shows that during the Third Plan the income and expenditure of the State have nearly doubled. Revenue receipts in 1961-62 were Rs 85.29 crores; in 1965-66 they are expected to be Rs 154.53 crores. Expenditure on revenue account is similarly expected to increase to Rs 181.23 crores in 1965-66 from Rs 84.98 crores in 1961-62. Even more striking has been the growth of the Government's public debt liability. Outstanding public debt by the end of 1965-66 is expected to be Rs 432.09 crores as against Rs 218.76 crores in 1961-62. This sharp increase is reflected in the large annual debt servicing liability. In 1965-66 it is expected to be as high as Rs 30.33 crores.

Plan Progress

The review of the porgress of Andhra's Third Plan, presented along with the Budget, shows that while financial allocations have been satisfactorily utilised, the results are not fully reflected in the physical achievements. Expenditure on Plan schemes amounted to Rs 239.43 crores in the first three years of the Plan and in 1964-65 it is expected to be Rs 79.48 crores according to the revised estimates. In 1965-66 Plan expenditure is expected to be Rs 100 crores.

As a result of the substantial outlays in agriculture and related fields in the Third Plan, an additional production potential of 19.23 lakh tonnes of foodgrains has been created. The production potential of oil fields has been increased by 4.38 lakh tonnes, that of cotton by 2 lakh bales and that of sugarcane by 1.24 lakh tonnes. A token provision of Rs 15 lakhs has been made in next year's Budget for an agro-industrial corporation. This would be an important step towards encouraging scientific agriculture. The corporation would assist manufacture of improved agricultural implements and also develop industries to profitably utilise available agricultural raw materials.

Industrial development, however, still continues to be the weakest link in the State's economy. The State Plan included a provision of Rs 16.72 crores for mining and industry over the five years. As against this, the proposed expenditure of Rs 3.69 crores in 1965-66 will bring the actual outlay on mining and industry to Rs 15.6 crores. The allocation for the next year is intended to speed up work on the industrial development areas, accelerate the promotional and underwriting programmes of the Industrial Development Corporation, facilitate the supply of electricity at concessional rates to industry and meet the State's share of expenditure on Central projects in the State. The outlay will also cover expenditure by the Khadi and Village Industries Board and the Small Industries Development Corporation.

Industry Lags Behind

The slow progress of industry draws pointed attention to the fact that a suitable industrial climate is still to be created in the State. Among the established industries, sugar registered a commendable increase in the output (24 per cent). Other industries which did well were jute (15.6 per cent), glass (72 per cent), cigarettes (58 per cent) and cement (2.7 per cent). Certain other industries, like vanaspati, cotton yarn and paper, however, saw a decline in output.

In the sphere of irrigation and power, while minor irrigation projects, for which the Centre has given substantial additional allocations during the last three years, have made considerable headway, the bigger and medium projects continue to lag behind schedule, largely due to insufficient finances. With the additional assistance assured by the Centre in 1965-66, the execution of the more important of these projects, particularly Nagarjunasagar and Thungabhadra, should be speeded up. The State Government is now committed to supplying irrigation water to 5.79 lakh acres from Nagarjunasagar during 1966.

In the field of power, a resolute attempt is being made to fulfil the target of 411 m W of additional installed capacity by the end of 1965-66. Among the more important schemes are Kothagudem and Upper Sileru which together are expected to increase installed capacity by 240 mW by the end of 1965-66. Other projects under way are Srisailam, Kothagudem Thermal and Ramagundam Project. These will, however, be completed only during the Fourth Plan.

Social Services

A significant feature of the State Budget for 1965-66 is the noticeably larger provision made for social services. In education the revised Plan target aims at the enrolment of 79 per cent of all children in the age-groups 6-11 in schools. However, it is technical education which would substantially benefit from the higher allocation for education. Proposals in this field include the starting of post-graduate courses in two engineering colleges and the establishment of a new engineering college at the Nagarjunasagar dam site.

In spite of being a food surplus State, Andhra experienced the full impact of rising prices during the latter part of 1964. The prices of almost all cereals rose during the year, those of rice by 18.7 per cent and of wheat by 28.7 per cent. Procurement operations in the State now in progress are designed to supply 7.5 lakh tonnes of rice to the Food Corporation and 2.5 lakh tonnes to the State Government.

It is estimated that some 9,000 unemployed were placed in jobs through Employment Exchanges in 1964-65. The number of those who could not be so placed is, however, at least four times as many. Of course, employment exchange statistics do not give a complete picture of either employment or unemployment in the State.

The family planning programme has had too little impact on the State.

The Finance Minister has confessed that progress in this sphere "is still rather slow and needs considerable impetus if we have to be assured of definite results". He has, however, promised to simplify the procedures governing disbursements of grants from State funds pending reimbursements from the Centre.

Regional Disparities

Finally, programmes for providing essential amenities to the weaker sections of the population have made little progress, whether in the urban or rural areas. In the urban area the principal problems are insufficient housing, slum clearance, shortages of water supply and unsatisfactory drainage. In villages things are even worse and many villages lack even drinking water and proper sanitation. It is unlikely that the target of providing at least one drinking water well for every village by the end of the Third Plan will be achieved.

Like other State Governments, the Andhra Government has also been preoccupied with the problem of correcting regional imbalances, though one can discern a sense of resignation to the fact that there is little that the State can by itself do in the matter. It is felt that in the ultimate analysis the problem can be solved only if some major Central projects are established in the State. The State Government is prepared to extend all facilities to entrepreneurs who wish to establish industries in the State. While so far the response has not been particularly enthusiastic, much is expected from the visit of the teams of Central Government officers and private industrialists to explore possibilities of setting up industries in the State. Also, the report of the Anglo-American consortium on the fifth steel plant is anxiously awaited by Andhra since she is one of the climants for the project.

Language and Indian Unity

Comment

Sankar Nath Maitra

THE article 'Language and Indian Unity' in the Annual Number of *The Economic Weekly* is puzzling. The article starts by being clear and analytical, but ends, if I may say so, in vagueness and diffusion, so that I am left wondering whether you advocate unity or disunity.

India may have a great spiritual heritage, but she often lacked body, not only political body but even religious. Except in the heyday of Buddhism there was no dogma and no visible church to uphold it. The result has been a great burst of undergrowth, choking, if not killing, the tree. In matters of spirit it may be possible to have faith without dogma and the faithful without a church, but it is difficult to think of a polity without form or instruments for the exercise of power.

Ancient India with its rock edicts in Brahmi script or copper plate grants in Sanskrit is a thing of the remote past. In better known mediaeval times the rulers, at least in the North, were Muslims. And the language of the court, right upto the Tungabhadra, was Persian, in which, using Arabic script, all business was transacted. In the last couple of centuries of Muslim rule, a camp version known as Urdu was evolved. In the 18th-19th century when the British established All-India on a bigger and broader basis, they spread the use of English, at first hesitatingly then firmly, as the Lingua Indica.

If India is to remain one country, it has to have one language for official and public use. It just will not do to elevate the many local speeches to the status of National Languages. If that is done there is grave danger that in time (and not too distant at that) there will be as many nations as languages. The break up of Austria-Hungary over the language issue is a fairly recent portent. Obviously, in a country of the size and diversity of India the language question has no easy answer. But it is as well to remember that ours is not the only country plagued with a Babel of tongues. In Europe the pattern is simple — one state one language, France (French); Germany (German); Italy (Italian). But even there the language problem is not unknown — witness the obstinate survival of Catalan in North East Spain.

But when the state is much larger or diverse in origin, the simple unilingual formula of Europe does not work. The two super-states of today U S A and USSR have solved their language problems in ways that are not open to us. For 'A nation of immigants', as President Kennedy has described it, it was comparatively easy for the US to stamp the well developed language of the first comers (English) on the later arrivals. In U S S R apart from the gravitational pull of Russian, the Communist party and ideology provide a kind of cement which builders of other states have not got. But the need for a common language in a state remains. Coming nearer home, in Indonesia with many languages in the string of islands, the new national government had to bring in for official and public use the Bahasa Indonesia, a partly artificial language written in Latin script.

Why Hindi Will Not Do

The need for a common medium will inevitably bring up the question — why not Hindi? Much as I would like to give an 'yes' answer, to show up our Indianness, to banish English to the oblivion of archives like the statues of British Viceroys in P W D godowns, sorrowfully I have to say 'no'. To begin with Hindi is not the language of the majority — a sacred principle in democracy where 51 per cent is everything and 49 per cent nothing. In all its variations and patois, Hindi is used by barely a third of India's population. I shall not go into the constitutional question, the pat answer to which is that if the Constitution can be amended seventeen times, it can be amended the eighteenth time. To be the all-India language Hindi must be accepted as such not only by the Hindi speakers, but the other Indians whose languages are different. To do so Hindi must have prestige either as the language of conquerors like Persian or English, or as a *Devabhasa* like Sanskrit, or for its own excellence and usefulness, like

English. It does not pass the test. Then how would it be accepted by the others, particularly those of the South? In North India, even parts of Deccan, where languages of Sanskritic origin prevail, Hindi being a sister language and the script not very different, the feeling for or against Hindi may not be strong. But in the deep South with its ancient Dravidian languages and entirely different scripts, Hindi is, to put it bluntly, a foreign language. It will not go down. Given the choice the southerner, if he has to learn a foreign, language, would rather learn English.

To justify his aversion to Hindi, the southerner can give reasons in support of English which are difficult to refute. He will say that India is one because, as the legal phrase has it, 'government established by law', which is English in thought and expression. The present form of government with its election and ballot box is also of similar origin. And so is the large apparatus of executive government from the district level upwards. Cut out English, he will say, and you snap the bond that holds the country together. If the writ issued by a court cannot be served in another part of the country, because nobody can read the language in which it is written (it happened the other day to a Hindi warrant in Kerala), it is the end of All-India. To disown all the gains in law and administration in the last two hundred years in a fit of xenophobia would be to throw out the baby with the bath water.

Medium of Instruction

Educational and cultural aspects of language cannot be overlooked. But the argument that natural talent must find expression through one's mother tongue sounds more reasonable than it is. To begin with, the all-India language is not for everybody for all uses. It will only be for official and public uses — and so necessarily confined to those who work in such restricted fields. And India has such a large population that even if all its talent got the finest expression, the backward economy of the country could not hope to utilise, let alone adequately reward it. Then again, a distinction can be drawn between the head and the heart. While those who read humanities can do so in the mother tongue, scientists and professionals could carry on in English. It is not true that all advanced nations use only their mother tongue for all purposes. For instance doctors in Scandinavia (whose mother tongue may be Swedish or Norwegian) go to German Universities for their medical degrees. And the oft quoted example of Japan is not quite so straightforward. It is true that the Japanese have managed to translate and use in their own language a good deal of western science. But it is also true that a very large number of Japanese scholars learn and use foreign languages for different fields of study. The number of books in foreign languages, not only English, sold in the bookshops of Tokyo is surprising. And the versatile Japanese, upto the last war, in addition read classical Chinese. It was part of a gentleman's education that he could write (in the difficult but graceful) calligraphy) elegant poems in Mandarin.

There is another example to which we might turn with profit. Take the Filipino. His many islands have different languages. A man from Manila speaking Tagalog cannot understand a man from Cebu speaking Ilongot. But they get on fine by refusing to be logical. To be sure Tagalog, the biggest single language (like Hindi) is declared the National Language. Ceremonial citations are done in that. But the workday official language (including the medium of instruction) is English. It is the language of courts, parliament, and office. Carlos B Gracia, who came from the South and had very little Tagalog, could be a successful President, and never felt embarassed by any language barrier. In fact the educated Filipino is trilingual. He has his own language (for private use); English (for official use); and Spanish (for elegance and church service). If progress is any guide, the Filipino example is not to be scoffed. His literacy rate is the second highest in Asia (next to Japan), and his per head income is three times that of an Indian. The Filipino has a strong sense of patriotism, but he uses English officially, and writes his own language in Latin script.

AROUND BOMBAY MARKETS

Further Break in Equities

Wednesday, Morning

IT was a disastrous week for the stock market. Equities simply tumbled. Several popular scrips like Century, Standard, Telco, Premier Auto, Belapur, Indian Dyestuff, Scindia, Bombay Burmah, Tata Oil and West Coast Paper — not to mention many cash shares — pierced through their 1964 lows in a decisive manner and the market as a whole also sought a slightly lower bottom. Panicky conditions prevailed on March 8 and 9 and the market's performance might have been still worse if the Life Insurance Corporation had not appeared on the scene. Whether the LIC buying was bargain hunting or it was in the nature of 'official' support to the market, it is difficult to say. Last week's decline was due both to bull liquidation and bear pressure and the fall was steep enough to unnerve even the inveterate bulls.

The sharp break in equity prices has intrigued many observers including the Finance Minister Krishnamachari who sees no reason why share prices should have fallen. He says that prices should, in fact, have risen and he has expressed the confidence that prices of some of the important shares — all shares are important for those who hold them — which had registered a fall after the Budget, would rise after the actual impact of the Budget had been understood fully.

May be that the stock market has not fully understood the actual impact of the Budget. And if that be so, it is the Finance Minister and not the market which is to blame because concessions relating to the corporate sector are not specific as regards the rate of tax credit and the industries and categories of goods to which they would apply. One would very much wish that TTK proves right and the stock market starts looking up. But that might be only wishful thinking unless the Finance Minister quickly incorporates some of the suggestions made by the Federation of Indian Chambers of Commerce and Industry for the revival of confidence in the capital market.

But fiscal concessions alone might not do. Because in marking down prices snarply, the stock market is simply hurrying the process of bringing equity yields in alignment with the interest rate structure that has come to prevail after the increase in the Bank Rate to six per cent. With bank credit available at 8-½ to 10 per cent and financial institutions like the Industrial Development Bank and the Industrial Finance Corporation—the ICICI is expected to follow suit shortly raising their lending rates to industry to 8 to 8-½ per cent,

the average yield on equities around 7 per cent had begun to look unattractive, particularly when prospects of capital appreciation did not appear promising. The process of adjustment had been delayed in the hope that TTK would provide adequate tax relief to the corporate sector and also do away with the dividend tax and capital gains tax on bonus issues in order to bring about the badly needed recovery in the capital market. Since these expecta-

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tions did not materialise fully the market has made a hurried retreat.

The declining trend in equity prices can be expected to continue until the market reaches a level where the investors feel that the yield on equity shares is satisfactory in the light of the prevailing interest rate structure. Investors can be content with a somewhat poor yield only when they are able to take an optimistic view of the prospect for capital appreciation. However, since the recent fall has been precipitous and most of the bulls have been virtually liquidated, it is quite likely that the market may pause here for some time to allow technical forces have their full play before pushing its way further down. The market could also take an important turn from here if the Finance Minister decides quickly to offer further concessions designed specifically to stimulate investors' confidence.

COTTON

Intriguing Situation

THE high-power sub-committee of the Indian Cotton Mills' Federation which discussed the cotton situation on March 4 expressed the view that unless the Government resorted to requisitioning cotton on the required scale — not a single bale is known to have been requisitioned up to now — from all the sections concerned, namely, mills, merchants and growers and also took other remedial measures such as placing restrictions on cotton movements, the prices of cotton would not conform to the legally prescribed ceilings. The committee has urged the Government to use all the appropriate powers in its armoury in order to supplement the Federation's scheme of self-restraint and thus enable mills to obtain their cotton requirements within the prescribed ceilings.

While, excepting a few varieties like L 147, Cambodia A and B and Laxmi, cotton prices are still above the ceilings, the recent setback in prices of Cambodia cotton has posed a different kind of challenge to the Federation's scheme. Despite the imposition of the recent 10 per cent import duty and the relaxation of restrictions on the buying of Cambodia cottons — mills are allowed to make purchases of this cotton outside their quotas — the prices of Cambodia cotton have declined to below the ceilings and a small quantity has been offered to the Federation at 5 per cent below the ceiling. More offers are likely to be made in course of time. The Federation has given an assurance (it is really an undertaking) under its scheme of regulated mill buying through self-discipline that it will always be willing to buy throughout the season any cotton offered to it at 5 per cent below the appropriate ceiling. Will the Federation redeem this promise if cotton prices start drifting lower under the pressure of growing monetary stringency which has produced a sizable decline in the prices of foodgrains and oilseeds?

While cotton growers and the mill industry are engaged in the battle of prices, the cotton trade is perturbed over its declining fortunes arising partly from the shrinkage of turnover and partly from the locking up of its funds to the delay in the payments by mills for the cotton purchases made by them.

The turnover in the spot market has shrunk very considerably and conditions in the futures market are even worse. The March hedge contract has entered the delivery month when business is supposed to be only in the nature of squaring-up of outstanding positions. The trade has not been able to persuade the Forward Markets Commission to permit trading in another hedge contract, namely, August. But with spot cotton prices quoted around the ceilings, there seems hardly any sense in allowing forward deals. Only 200 bales have so far been tendered against the March contract which after touching a high of Rs 785 has receded to Rs 779.

The Indian Central Cotton Committee is reported to have suggested



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to the Forward Markets Commission that the basis of the hedge contract for the 1965-66 season should be revised. It is to be hoped that the Commission would give thoughtful consideration to this matter because Moglai 25/32 inch which forms the basis of the present hedge contract has very little to commend. And since the total output of this variety hardly exceeds two lakh bales it creates all sorts of problems while fixing tendering differentials for effecting deliveries against the maturing contract.

OILSEEDS

Prices Ease Further

OILSEEDS prices suffered a further setback last week and despite the partial recovery near the close, Tuesday's final prices showed moderate losses over the week. Castorseed June moved down from Rs 76.40 to Rs 73.15 and linseed June from Rs 86.70 to Rs 83.20 (both per 100 kgs); Tuesday's closing prices were higher around Rs 75.10 and Rs 84.60 respectively. Groundnut oil was marked down from Rs 20.70 to Rs 19.75 and linseed oil ready eased from Rs 18.30 to Rs 17.25 (per 10 kgs). Though no tenders were issued during the week, the maturing contracts in castor and linseed continued to be subdued in sympathy with the general trend in the market.

The lowest prices recorded last week are the lowest for several months and they show a spectacular decline from the fantastic levels to which oilseeds prices had been pushed about the beginning of January. Several factors have contributed to the recent fall in prices which, however, is to be greatly welcomed. Apart from the substantially better supply due to record domestic output and intended imports of soyabean oil from the U S and the continued ban on the export of groundnut oil and vanaspati, the marked change in market psychology in recent weeks is in no small measure due to the acute financial stringency resulting mainly from the reported withdrawal of large unaccounted funds from the market. Stockists who had been holding goods mainly on the strength of unaccounted money are reported to be hurriedly liquidating their stocks. The pressure of arrivals of castorseed, mustardseed and to some extent of linseed crops is increasing at a time when the market is experiencing acute financial stringency. The downward trend in oilseeds prices can be expected to continue further unless the Government decides to allow export of groundnut oil and vanaspati. With the end of the prolonged dock strike in the U S, soyabean oil will begin to move freely and all the 30,000 tons for which purchase authorisation has already been issued are likely to reach India by the end of April.

While exporters of groundnut extractions had a rather dull time last week, good business was put through in castor oil. Russia purchased nearly 6,000 tons of castor oil and paid Rs 1680 to Rs 1710 per tonne for commercial grade oil. However, notwithstanding this large business castor oil prices did not register any noticeable improvement during the week. Shippers also reported business of about 4,000 tons in linseed cottonseed expellers and extractions. Linseed cake continued to be neglected.

Share Price Movemnents

	1964		1965		
	High	Low	High	Pre-Budget level	Last week's lows
Century	709	549	604	589.50	537
Standard	855	553	608	554	481
National Rayon	448.50	326	408	397	361
Tata Steel	163.50	141	152.25	148.75	141
Indian Iron	28.05	23.60	27.10	26.90 c.d.	24.72 x.d.
Tata Loco	321	254	276	265	251
Voltas	288	234	275.50	275	257
Hindustan Motors	20.20	16.08	17.88	17.28	16.36
Premier Auto	112	92.20	100.50	93.30	84.70
Belapur	240	198	232	204	188
Indian Dyestuff	362.50	237.50	282	256	203
Tata Chemicals	19.72	16.60	18.28	18.16	17.52
Bombay Burmah	62.70	53.80	55.50	52.20	46.50
Tata Oil	71	46.25	49	48	43.75
Scindia	16.60	13.28	15.80	14.12	12.84
West Coast Paper	174.50	151	173	154	146.50

BUSINESS NOTES

ICICI

STAGNATION of the capital market is not purely a financial phenomenon; it has repercussions on the economy as a whole. Entrepreneurs, faced with an unfavourable capital market, hesitate to take up projects or take much longer to find finance for their projects. These conditions have led to a fall in fresh issues of capital, as well as in the rate of growth of industrial production, and presumably also in that of industrial investment. If investment activity has been sustained, it has been principally because of institutional support. This view has been expressed by G L Mehta, Chairman, Industrial Credit and Investment Corporation of India, in his statement circulated to the shareholders with the report of the Corporation for 1964. Coming as it does from the chief of a financing institution responsible for aiding many industrial projects in the country, this view should attract due attention.

Narrating the Corporation's experience of a decade of existence, Mehta has said that of the completed share underwriting operations of Rs 11.52 crores, ICICI was left with Rs 6.10 crores. The experience of 1964 provides a sharp contrast: of the nine share underwriting operations for Rs 132 lakhs completed during the year, ICICI was called upon to take up as much as Rs 122 lakhs. This is hardly a satisfactory position in the long run for an institution which depends upon revolving its funds invested in shares.

In the last ten years, ICICI has sanctioned well over Rs 100 crores to 328 companies for 374 projects. When completed, these projects are expected to produce annually 150,000 tons of paper, 3,657,000 tons of cement, 173,000 tons of steel tubes, 118,000 tons of cast iron spun pipes, 20,000 tons of wire ropes, 217,000 tons of superphosphate, 3,400 miles of power cables and 243,000 electric meters. In 1964, it sanctioned net financial assistance of Rs 19.08 crores, of which Rs 14.03 crores was for 67 new projects.

Correction

IN the statement of the Chairman, Indian Oxygen Limited, published in our issue of January 23, page 141, the name of the Chairman was mis-spelt as "N Dandekar". The correct spelling is "N Dandeker". The error is regretted.

—Editor.

ICICI has approached the World Bank for a further line of credit of 50 million dollars. Besides, with the increase in loan obligations, it is proposed to make a rights issue of one for every two shares held, with a view to strengthening the equity base.

During 1964, the Corporation earned an income of Rs 3.12 crores against Rs 2.36 crores in 1963, and made a gross profit of Rs 1.25 crores compared to Rs 1.01 crores. After providing Rs 1.12 lakhs (1.30 lakhs) for depreciation, Rs 54.49 lakhs (41.42 lakhs) for taxation, Rs 17.50 lakhs (14.50 lakhs) for special reserve and Rs 14 lakhs (11 lakhs) for general reserve, the directors have set aside Rs 37.50 lakhs (35 lakhs) for payment of dividend as raised by half a point to 7½ per cent.

Pfizer

PFIZER Private Limited is a subsidiary of Chas Pfizer and Company Inc, U S A, which is the largest manufacturer of antibiotics in the world. Pfizer is interested in antibiotics, fermentation chemistry, pharmaceuticals and chemicals for medicine, agriculture and industry, cosmetics and many household articles.

One of the features of the operations of Pfizer has been the phenomenal growth of its international activities during the last 10 years or so. Even as recently as early 1951 there was not a single Pfizer product being produced or packaged outside the United States. Today Pfizer products are being manufactured in 67 plants in 27 countries.

In India, Pfizer acquired Dumex, in 1958. Dumex, then the Pharmaceutical Division of the East Asiatic Company, was the pioneer in the development of insulins, anti-TB drugs, nutritional preparations and antibiotics. At present, Dumex products are manufactured by Pfizer and marketed under the Dumex label.

Pfizer claims to manufacture in India more than 60 products and their numerous dosage forms. Broad-and narrow-spectrum antibiotics, nutritional preparations, anti-TB drugs, decongestants, anti-depressants, diuretics and anti-hypertensives, sulphonamides, anti-diabetic products and steroid and hormone preparations cover the range of Pfizer pharmaceuticals. In April 1962, Pfizer introduced a range of animal health products. These are classified in two groups: animal and poultry feed supplements and drugs for veterinary practice. Pfizer also has a Home Products Division. It has introduced two products on the market: a cold treatment, Sardilan, and sore-throat tablets called Galamint.

Pfizer India operates two plants at present — one at Chandigarh and the other at Darukhana in Bombay. The Chandigarh Plant manufactures oxytetracycline and tetracycline. Pfizer claims to be the first pharmaceutical company in India to manufacture tetracycline basically. A new packaging plant at Thana is now proposed.

Sen-Raleigh

THE bicycle industry produced a very much larger number of bicycles in 1964 than in the previous year, and demand too continued to grow. Sen-Raleigh's chairman, Abhijit Sen, expects new records established in 1965 both in production and sales. In this direction, the recent abolition of

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1964	Rupees in Lakhs
Paid-up Capital	50
Gross Premium written	129
Reserves including insurance funds (approximate)	87
Total Assets—exceed	200

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excise duty on cycle tyres and tubes and such cycle parts as free-wheels and rims will be of considerable help to the industry. But it has to contend with occasional sudden shortages of raw materials that cause loss of production and raise costs. If this problem is overcome, the industry has great growth potential. Rising home demand apart, bicycle exports now occupy second place among exports of engineering goods.

During the year to September 1964, Sen Raleigh's bicycle production rose by 30 per cent and production of some components also showed marginal increases, but in no single item could the targets be realised because of failures in the supply of raw materials. The company is implementing a scheme of expanding production of chains to a million units a year. An increase in production of this item is expected during the second half of this year. Besides, production of hubs is to be expanded within this year by making minor changes in plant and processes.

An improvement in the opening months of the current year has encouraged the directors to propose, after a lapse of a year, a dividend of six per cent to be paid out of reserves. The results show a rise of 15.44 per cent to Rs 5.40 crores in sales with a 30 per cent rise to Rs 42.71 lakhs in gross profit. After providing Rs 22.46 lakhs against Rs 21.03 lakhs for depreciation, Rs 9.54 lakhs against Rs 7.51 lakhs for taxation, Rs 3.75 lakhs as before for loan repayment reserve, Rs 4.62 lakhs against Rs 1.12 lakhs for development rebate reserve and Rs 1.95 lakhs as before for payment of preference dividend, only a small sum of Rs 0.44 lakh is left. For payment of equity dividend amounting to Rs 8.10 lakhs, Rs 7.50 lakhs have been withdrawn from reserves.

Scooter Exports

A THIRD consignment of Lambretta scooters, numbering 26, are being exported to Bangkok (Thailand) by the Automobile Products of India Ltd this month. These scooters have been ordered by that country under the "U S Aid" Programme to Thailand. The export will earn a foreign exchange of $9,000. Another order for 22 more scooters is awaiting execution.

These Lambretta scooters are manufactured in India with nearly 85% indigenous components and have been found by users to equal, if not excel, in quality their Italian counterparts.

Sugar Production

ACCORDING to the Indian Sugar Mills Association the total production in the month of January 1965, was about 6.04 lakh tonnes as against 6.11 lakh tonnes produced last season during the corresponding period. This brings the total production during the first three months of the season 1964-65 to 14.34 lakh tonnes as against 13.88 lakh tonnes during the corresponding period last season.

The off-take of sugar from factories during the month of January, 1965 was 2.17 lakh tonnes (including 19,900 tonnes despatched for exports) as against 2.08 lakh tonnes (including 13,000 tonnes despatched for exports) during the corresponding period last season. The total despatches during the first 3 months in 1964-65 season were 5.85 lakh tonnes (including 19,000 tonnes despatched for exports) as against 5.93 lakh tonnes (including 30,000 tonnes despatched for exports) by the same period last season.

The total closing stock of sugar with the factories on the January 31, 1965, was 10.05 lakh tonnes as against 9.45 lakh tonnes on the same date last season.



CURRENT STATISTICS

International Trade

World Trade by Areas and Commodity Groups

(Thousand million dollars f o b)

Destination	Industrial areas					Eastern Trading area					World				
Origin	1958	1960	1961	1962	1963§	1958	1960	1961	1962	1963§	1958	1960	1961	1962	1963§
Industrial areas															
Food§§	7.39	8.18	8.91	9.56	10.52	2.64	3.01	3.01	3.51	2.96	10.34	11.54	12.42	13.07	14.50
Agricultural raw materials	4.02	5.41	5.50	5.25	5.76	0.58	0.84	0.82	0.80	0.85	4.84	6.53	6.64	6.36	6.93
Metalliferous ores	1.24	1.80	1.83	1.55	1.61	0.02	0.02	0.03	0.03	0.40	1.29	1.85	1.88	1.60	1.67
Fuels	2.70	2.70	2.84	3.19	3.49	0.61	0.58	0.60	0.53	0.55	3.31	3.28	3.44	3.72	4.04
Total primary products	**15.35**	**18.09**	**19.08**	**19.55**	**21.38**	**3.85**	**4.46**	**4.46**	**4.36**	**4.32**	**19.78**	**23.20**	**24.38**	**24.75**	**27.14**
Base metals	4.02	5.70	5.57	5.66	5.99	1.91	2.01	1.97	1.80	1.83	6.50	8.51	8.15	8.07	8.31
Capital goods	8.51	11.23	13.36	14.72	16.31	7.50	8.07	8.31	8.36	8.86	16.49	20.07	22.53	24.14	26.19
Textiles*	3.71	5.23	5.40	6.36	7.10	2.71	3.07	2.79	2.76	2.91	6.52	8.40	8.29	9.23	10.15
Other manufactures	9.14	11.84	12.80	14.09	15.76	5.47	6.00	6.02	6.07	6.40	15.07	18.33	19.35	20.69	22.81
Total manufactures	**25.38**	**34.00**	**37.13**	**40.83**	**45.16**	**17.59**	**19.15**	**19.09**	**18.99**	**20.00**	**44.58**	**55.31**	**58.32**	**62.13**	**67.46**
Residue	0.54	0.61	0.72	0.64	0.78	0.47	0.42	0.46	0.48	0.55	1.02	1.06	1.21	1.15	1.36
Total exports	**41.27**	**52.70**	**56.93**	**61.02**	**67.32**	**21.91**	**24.03**	**24.01**	**23.79**	**25.21**	**65.38**	**79.57**	**83.91**	**88.03**	**95.96**
Non-Industrial areas															
Food§§	8.25	8.11	7.90	8.37	9.35	1.93	2.03	2.01	2.01	2.04	10.39	10.54	10.75	11.21	..
Agricultural raw materials	3.89	4.81	4.82	4.87	5.35	0.90	1.16	1.00	1.00	1.04	5.45	6.81	6.59	6.64	..
Metalliferous ores	1.15	1.43	1.38	1.26	1.20	0.04	0.05	0.06	0.06	0.08	1.21	1.50	1.47	1.38	..
Fuels	4.66	5.00	5.40	5.95	6.50	2.84	2.73	2.80	2.87	2.90	7.50	7.73	8.20	8.85	..
Total primary products	**17.95**	**19.35**	**19.50**	**20.45**	**22.40**	**5.71**	**5.97**	**5.87**	**5.87**	**6.06**	**24.55**	**26.58**	**27.01**	**28.08**	..
Base metals	0.88	1.37	1.43	1.40	1.42	0.15	0.21	0.21	0.21	0.23	1.04	1.65	1.65	1.65	..
Capital goods	0.05	0.06	0.07	0.09	0.10	0.19	0.24	0.27	0.27	0.29	0.24	0.30	0.34	0.38	..
Textiles*	0.32	0.52	0.53	0.64	0.78	0.46	0.53	0.55	0.55	0.55	0.80	1.09	1.11	1.19	..
Other manufactures	0.66	0.80	0.83	0.93	1.04	0.56	0.67	0.74	0.74	0.77	1.25	1.50	1.61	1.70	..
Total manufactures	**1.91**	**2.75**	**2.86**	**3.06**	**3.34**	**1.36**	**1.65**	**1.77**	**1.77**	**1.84**	**3.33**	**4.50**	**4.71**	**4.92**	..
Residue	0.15	0.10	0.14	0.15	0.16	0.02	0.07	0.06	0.06	0.06	0.19	0.18	0.23	0.30	..
Total exports	**20.01**	**22.20**	**22.50**	**23.66**	**25.90**	**7.09**	**7.69**	**7.70**	**7.70**	**7.93**	**28.07**	**31.26**	**31.95**	**33.30**	**36.19**
Eastern trading area															
Food§§	0.60	0.76	0.81	0.74	0.88	0.29	0.26	0.26	0.26	0.35	2.19	2.55	2.50	2.53	..
Agricultural raw materials	0.40	0.61	0.58	0.68	0.69	0.08	0.09	0.14	0.14	0.18	1.43	1.71	1.75	1.77	..
Metalliferous ores	0.03	0.05	0.05	0.04	0.04	0.01	..	..	..	..	0.47	0.53	0.50	0.48	..
Fuels	0.36	0.47	0.51	0.55	0.63	0.10	0.09	0.14	0.14	0.14	1.36	1.64	1.84	1.94	..
Total primary products	**1.39**	**1.89**	**1.95**	**2.01**	**2.24**	**0.48**	**0.44**	**0.54**	**0.54**	**0.76**	**5.45**	**6.43**	**6.59**	**6.72**	..
Base metals	0.18	0.25	0.24	0.25	0.29	0.08	0.09	0.12	0.12	0.14	1.11	1.33	1.45	1.62	..
Capital goods	0.15	0.17	0.17	0.22	0.21	0.28	0.29	0.51	0.51	0.58	2.66	3.56	3.54	3.97	..
Textiles*	0.09	0.11	0.11	0.09	0.14	0.12	0.18	0.16	0.16	0.16	0.57	0.72	0.70	0.75	..
Other manufactures	0.32	0.38	0.51	0.62	0.60	0.20	0.28	0.39	0.39	0.39	2.14	2.87	3.21	4.07	..
Total manufactures	**0.74**	**0.91**	**1.03**	**1.18**	**1.24**	**0.68**	**0.84**	**1.18**	**1.18**	**1.18**	**6.48**	**8.48**	**8.90**	**10.41**	..
Residue	0.05	..	..	0.01	0.02	0.02	0.03	0.20	0.20	0.20	0.14	0.11	0.25	0.25	..
Total exports	**2.18**	**2.80**	**2.98**	**3.20**	**3.50**	**1.18**	**1.31**	**1.92**	**1.92**	**1.93**	**12.07**	**15.02**	**15.74**	**17.38**	**18.66**
Total Exports World	**63.46**	**77.70**	**82.41**	**87.88**	**96.72**	**30.18**	**33.03**	**33.63**	**33.47**	**35.21**	**105.52**	**125.85**	**131.60**	**183.71**	**150.81**

§ Partly estimated. §§ Including beverages, tobacco, oilseeds and oils.

* Including clothing.

Source : "International Trade 1963", G A T T, Geneva, 1964.

Production and Net Exports of Agricultural Products from Developing Countries

(Thousand tons and indices for 1960-62, 1934-38=100)

		1934-38	1953-55	1960-62	Indices
Rubber					
Ceylon	E	64	96	99	155
Indonesia	E	347	721	665	192
Malaya	E	421	600	685	163
Thailand	E	32	166	183	572
Central Africa ..	E	8	88	142	1,775
Cotton					
Brazil	P	355	399	595	168
	E	194	209	172	89
Mexico	P	69	381	469	680
	E	23	282	349	1,517
Latin American countries excluding Argentina, Brazil, Mexico ..	P	110	220	385	350
	E	80	90	235	294
India	P	863	872	988	114
	E	(230)	–63	–141	..
Pakistan	P	290	286	329	113
	E	(290)	194	64	22
Central Africa ..	P	140	255	280	200
	E	130	230	245	188
Middle East and ..	P	510	580	865	170
North Africa ..	E	448	483	590	132
Tea					
Ceylon	P	104	165	205	197
	E	100	160	195	195
India and Pakistan ..	P	204	318	362	177
	E	155	209	207	134
Indonesia	P	75	(55)	(64)	(85)
	E	68	33	32	47
Coffee					
Brazil	P	1,446	1,173	1,890	131
	E	875	804	1,003	115
Mexico	P	58	88	127	219
	E	37	75	90	243
Latin America countries excluding Argentina	P	608	812	1,055	174
Brazil and Mexco ..	E	480	650	760	158
Indonesia	P	124	61	106	85
	E	84	31	54	64
Central Africa ..	P	142	415	820	577
	E	130	370	690	531
Cocoa					
Brazil	P	124	159	117	94
Latin American countries excluding Argentina, Brazil and Maxico ..	P	110	130	141	128
Central Africa ..	P	490	495	850	173
Groundnuts and groundnut oil (oil equivalent)					
India	P	960	1,170	1,375	143
	E	316	79	29	9
Central Africa ..	P	555	830	1,145	206
	E	340	438	600	176
Copra and coconut oil (oil equivalent)					
Ceylon	P	138	160	160	116
	E	107	114	117	109
Indonesia	P	458	491	415	91
	E	324	202	141	44
Philippines	P	373	627	850	228
	E	347	531	587	169
Other oilseeds and oils (oil equivalent)					
Argentina (linseed & oil)	P	580	119	251	43
	E	524	173	231	44
India (castor beans and oil; linseed and oil)	P	199	197	189	95
	E	108	59	37	34
Central Africa (palm products) ..	E	555	750	712	128
Rice (milled equivalent)					
Burma	P	4,530	3,750	4,530	100
	E	3,065	1,357	1,675	55
Ceylon	P	221	426	606	274
	E	–530	–395	–469	88
India	P	21,000	26,160	32,830	159
	E	–1,870	–357	–501	27
Indonesia	P	..	736	845	..
	E	–261	–248	–1,030	395
Malaya	P	333	432	630	189
	E	–541	–422	–500	92
Pakistan	P	7,260	8,180	10,210	141
	E	(390)	151	–147	..
Thailand	P	2,830	4,610	5,460	193
	E	1,390	1,200	1,350	97
Wheat and flour (wheat equivalent)					
Argentina	P	6,630	6,380	4,690	71
	E	3,340	3,100	2,150	64
Brazil	P	144	914	647	448
	E	–990	–1,720	–2,040	206
Latin American countries excluding Argentina	P	1,470	2,290	2,020	137
Brazil and Mexico	E	–555	–1,400	–2,310	416
India	P	7,410	8,190	11,120	150
	E	226	–794	–3,550	..
Pakistan	P	3,180	3,130	3,950	124
	E	..	–456	–1,015	..
Middle East and ..	P	7,960	10,730	10,880	137
North Africa ..	E	249	–545	–3,955	..
Coarse grains					
World	E	12,100	12,950	23,580	195
Argentina	P	9,220	5,690	7,750	84
	E	7,280	2,155	3,340	46
Thailand (maize) ..	P	5	60	602	..
	E	..	43	518	..
Meat (beef and veal, mutton and lamb, pork; fresh, frozen, chilled)					
World	E	1,150	1,100	1,725	148
Argentina	E	469	210	357	76

P = Production; E = Exports

BANKING RETURNS

(Rs crores)

Reserve Bank	Mar 5	Feb 26	Feb 5	Mar 6, '64
1 Note circulation	2607.52	2561.24	2580.96	2465.57
2 Rupee coin	95.19	98.20	96.88	106.86
3 Deposits				
(a) Central Govt	104.91	58.64	50.32	106.77
(b) Other Govts	5.46	9.04	10.77	5.03
(c) Banks	88.77	102.82	94.07	84.62
(d) Others	148.73	150.00	148.28	163.87
4 Foreign securities	69.46	69.46	74.79	112.46
5 Balance abroad	11.93	10.44	5.78	13.17
6 Rupee securities	2336.38	2306.38	2306.39	2144.69
7 Investments	136.89	158.83	166.11	188.66
8 Loans and advances to Govts	77.45	72.48	74.13	71.66
9 Other loans and advances	284.49	256.25	245.18	246.00

Scheduled Banks	Feb 26	Feb 19	Jan 29	Feb 28, '64
1 Aggregate deposits (net)	2581.27	2580.47	2557.68	2282.28
Demand (net)	1226.60	1234.16	1220.26	1042.98
Time (net)	1354.67	1346.31	1337.41	1239.30
2 Cash in hand	66.60	69.52	74.65	59.56
3 Balance with Reserve Bank	98.61	95.21	87.81	80.84
4 (2)+(3) as % of (1)	6.40	6.38	6.35	6.15
5 Borrowings from Reserve Bank	90.75	73.73	55.31	67.54
(a) Against usance bills and/or promissory notes	10.07	9.08	8.52	33.24
(b) Others	80.69	64.65	46.79	34.30
6 Advances	1645.01	1627.73	1580.31	1462.37
(a) State Bank	413.82	402.72	379.46	318.68
(b) Others	1231.19	1225.01	1200.85	1143.69
7 Bills discounted				
(a) Inland	225.60	227.30	235.25	234.39
(b) Foreign	76.79	76.27	74.14	62.48
(c) Total	302.39	303.57	309.39	296.87
(i) State Bank	26.13	25.48	25.96	21.06
(ii) Others	276.26	278.09	283.43	275.81
8 (6)+(7) as % of (1)	75.44	74.84	73.88	77.08
9 Investments in Govt securities	731.09	731.34	745.55	650.70
10 (9) as % of (1)	28.32	28.34	29.15	28.51

Bombay Money Rates

(Per cent per annum)

	Feb 26	Feb 19	Jan 29	Feb 28 '64
Call money from Banks	—	5.54	4.59	5.68
Deposits				
14 days	—	—	—	—
Three months	5.00	4.73	4.00	—
Six months	5.48	4.73	4.50	3.75



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Vote, but No Vindication

ON Monday morning the leader of the PSP group in the Lok Sabha moved his motion calling upon the House to "express want of confidence in the Council of Ministers for failing to uphold the highest standards of public conduct by a deliberate suppression of truth and by abuse of power by persons in authority in the State of Orissa and other States and having brought into contempt the concept of constitutional government by putting party interest over national interest and attempting to shield and exonerate those who were guilty of abuse of power by the refusal to institute an enquiry against those who were responsible for such abuse of power and corruption". On Tuesday afternoon, after two days of agitated debate, the House rejected the motion by 315 votes against 44. This overwhelming affirmation of confidence in the Government reflected the Congress Party's overbearing majority in the House; it did not vindicate the Government's actions in regard to the allegations of corruption against the Orissa Congress leaders, Bijoyananda Patnaik and Biren Mitra.

Such vindication was virtually impossible after the disclosure of the report of the Central Bureau of Investigation on the allegations against the Orissa ex-Chief Ministers and the findings of the Cabinet sub-committee on it. These documents, which the Government had refused to make public, were placed before the Lok Sabha by H V Kamath, another PSP member, a few days ago. The Government refused to take congnisance of the documents, but there appeared to be no doubt at all that they were genuine. Indeed, while Government spokesmen were incensed that they should have been made public, none categorically questioned their authenticity.

The CBI investigated, at the instance of the Home Ministry, the charges against Patnaik and Mitra and submitted its report in November last year. These charges related principally to certain transactions of the Government of Orissa with Kalinga Industries, a Patnaik concern with Mrs Patnaik as chairman, and Orissa Agents, a proprietory firm owned by Mrs Biren Mitra. These transactions, in the consummation of which Patnaik and Mitra were alleged to have taken much personal interest during their terms of office, resulted in the accrual of substantial Government business to the companies and also in large over-payments at the expense of the State exchequer. Further, on November 17, 1961 the State Finance Ministry had issued a directive requiring Government departments to make all purchases only through local dealers in Orissa. Ostensibly the purpose of the directive was to prevent loss of State sales tax, but in effect it gave a virtual monopoly to Orissa Agents for the products of Kalinga Industries and Kalinga Tubes, another concern in which Patnaik is a director. Other allegations which the CBI investigated related to Government transactions with Patnaik Mines and Orissa Textile Mills, two other concerns in which Patnaik is interested.

Some of the charges the CBI was unable to judge since all the evidence was not made available to it, but on the majority its findings appear to be unequivocal. Thanks to H V Kamath's enterprise, lengthy summaries of the CBI report have appeared in the press; to anyone who reads them it should be clear that the CBI's investigation has more than made out a *prima facie* case. Indeed, the Cabinet sub-committee appointed to examine the CBI's findings was forced to admit as much. It agreed that the manner in which Patnaik and Mitra "conducted Government transactions in which were also involved the interests of private concerns, owned or controlled by them or their relations was definitely not in keeping with the normal standards of public conduct" and recorded its "profound concern at the picture, emerging as a whole from the series of such individual transactions in many fields of activity of the State Government, of improper use of authority by leaders of the Government". On a number of specific charges, it appeared to concur with the CBI. About the official directive restricting Government purchases to local dealers, for instance, it agreed that it was "improper, unwise and indiscreet" since it resulted in preference being shown to Orissa

Agents. It found the orders placed by the Government with Patnaik's and Mitra's concerns "improper and irregular". About the allegedly questionable appointment of a chief engineer for the Paradip port which was followed within days by large orders from the project for tubular trusses manufactured by Kalinga Industries, the sub-committee was "not satisfied that those orders were dictated by urgency as claimed".

And yet, in the Lok Sabha debate, the two principal Government spokesmen, A K Sen and M C Chagla, both of whom were members of the Cabinet sub-committee, played a different tune. As the CBI report had become common knowledge and since its findings were so obviously damaging, their concern was with minimising its significance. Chagla's attempt, in the process, to denigrate the CBI left a particularly bad taste in the mouth. He described the CBI's report as "a one-sided exparte statement"; worse, it was a "contaminated document"; something on the strength of which he would not "hang a dog"; something he wouldn't even "touch with a barge pole". The CBI's role in investigating the charges against the Orissa ex-Ministers had already come in for criticism by Congressmen—particularly at the "little AICC" meeting organised at Ranchi in October last year—but Chagla's attempt to lower an important Government agency in the public eye was almost unbelievable, coming as it did from a responsible Minister of the Central Government and an ex-Chief Justice of a High Court.

Both Sen and Chagla admitted, however, that the Orissa leaders had acted "unworthily" and were unfit to hold office. Yet they rejected the demand for further enquiry, and wanted the issue to be closed with the resignation of Patnaik and Mitra. Naturally, with the evidence of the CBI report before them, the Opposition, like a large number of people outside Parliament, cannot be expected to stomach this. The suspicion remains that in the matter of suitable action against Patnaik and Mitra the course of justice has been deliberately blocked and that this has happened because of the influence the two wield in the Congress Party. Such suspicion is the inevitable consequence of the procedure adopted by the Government to investigate the charges and the decision to close the case just when the public came in possession of authoritative confirmation of the charges. This should have been clear to the Prime Minister. Yet he obstinately maintained that "whatever action the Government has taken is right and proper" and that "the Government is not prepared to go any further". Indeed, he seemed to hint at making this the standard procedure for enquiring into allegations of corruption against Congress Ministers. Recalling an earlier statement of his, he said that whenever a *prima facie* case was established against a Minister he would ask him to resign or face an enquiry. And who would judge if there was a *prima facie* case? The Cabinet, presumably; or perhaps, as was suggested at the 'little AICC', the Congress Parliamentary Board!

This procedure, one would have thought, had been discredited enough by the suspicions, innuendoes and general dissatisfation generated by the Orissa case. Where allegations of corruption against Ministers and other highly-placed persons are concerned, it is not enough that justice should be done; it must appear to be done. Under the procedure adopted in the Orissa case, and which Shastri would follow in other similar cases, there is very real danger that justice may not be done at all. Since the tasks of judging whether there is or is not a *prima facie* case of corruption against a Congress Minister is left to his colleagues in the party, it is puerile to argue that political pressures will be kept out. This danger becomes the greater as the leadership of the Congress passes, as it is now passing, to a group of men whose survival in power is closely bound up with the faction politics within the party. With these men, political expediency must count above everything else; in the Orissa case, we already have evidence of the working of their influence. And even assuming that Congressmen could judge one of their peers objectively, the secrecy in which the whole operation is expected to be conducted will inevitably create surpicion and dissatifaction.

The Committee on Prevention of Corruption, appointed by Shastri himself when he was Home Minister under Nehru, had suggested that if specific allegations of corruption on the part of a Central or State Minister were made by 10 members of Parliament or a State Legislature, the Prime Minister should consider himself obliged by convention to refer them to a committee for immediate investigation. This committee would be selected by the President out of a national panel constituted by him; it would consist of three persons, one of whom at least should have held a high judicial office. This commmittee would ascertain whether there was a *prima facie* case and on the basis of its conclusions advise the Government about further action. If it found a *prima facie* case, it may advise the Government to prosecute the Minister concerned or appoint a commission of enquiry under the Comissions of Enquiry Act, 1952. Significantly, it was recommended that the findings of the committee should be placed before Parliament as a matter of course.

The Government has made much of the Santhanam Committee's report as the basis of its anti-corruption drive. Yet, neither the Prime Minister nor the Home Minister has cared to explain why the Committee's recommendations on corruption among Ministers have been found unacceptable. The Committee itself attached the utmost importance to these recommendations since it was convinced that "ensuring absolute integrity on the part of the Ministers at the Centre and the States is an indispensable condition for the establishment of a tradition of purity in public services". The Government apparently views the priorities totally differently. While it periodically publicises copious statistics of the number of civil servants, at various levels, dismissed, prosecuted or otherwise punished for misdemeanour, when it comes to corruption among Ministers it is content with the most imperfect and ineffective arrangements.

The implications of this for what Nanda likes to call "the war on corruption" are obvious. *If the salt have lost its savour, wherewith shall it be salted?*

Correction

IN our issue of March 13, in the table on page 470, the headings 'public limited companies' and 'private limited companies' got interchanged. The figures in the first three columns relate to private limited companies and those in the last three columns to public limited companies.

—*Ed.*

New Turn in Negro Struggle

MORE progress has been achieved in the American Negroes' fight for equality in the past one decade than in the nine that preceded it since the abolition of slavery. There was first, in 1954, the Supreme Court judgment against segregated education. Then came more positive advance in the form of the three Civil Rights Acts, the latest and most comprehensive and meaningful of which was placed on the statute books less than a year ago. And now there is the newly proposed legislation to ensure voting rights. This rapid progress has been achieved at a price. There has been much hatred and violence, some loss of life and ugly tension not only between the coloured and the whites and between liberals and reactionaries but between Federal and State authorities as well. Selma, Alabama, has just joined Little Rock, Arkansas, and Oxford, Mississippi, as the latest milestone in the Negro struggle.

But there is a basic difference in the quality of these "battles". What has brought Selma to the headlines is not spontaneous demonstration by Negroes but planned political action on their part. Martin Luther King chose this town—known as the "Capital" of the "Black Belt"—as the principal testing ground for the newly guaranteed civil rights and a vigorous voter registration drive was begun there. Subsequent events have proved what King obviously wanted to prove—that it is one thing to endow an under-privileged group with basic rights but quite another to ensure the conditions for their exercise. In the American federal structure, State laws can, and do, run counter to the policy of the Central Government, in spirit and in letter. In several Southern States, the "literacy test" required of a would-be voter becomes, when applied to Negroes, virtually an examination in constitutional law. And since it is the State authorities who device the "test" and pronounce judgment on it, in actual fact, the right to vote has meant very little to the Negroes. This is not by any means all. The stirring of white conscience in Washington and widespread Negro awakening have prompted many Southern States to desperate action against the weapons of non-violent protest. In many places, picketing, parades, processions, meetings and the distribution of leaflets have been declared unlawful.

The events in Selma—mass arrests, including that of King, firings and blatant suppressive action by the State and local authorities—have focussed attention on the inadequacy of the legal framework supporting civil rights. As the campaign spread to other towns and cities, official reaction from the White House was anxiously awaited. It was somewhat slow in coming but unequivocal and heartening when it came. President Johnson, terming Selma as an "American Tragedy", has reaffirmed his determination to provide for the Negroes "the full blessings of American life". He has asked Congress to enact a law to "strike down all restrictions which are used to deny Negro Americans the right to register and vote".

The American Constitution permits action against States that follow methods such as those currently used in Alabama. It provides for reduction of "the basis of representation" in the Congress of any State denying "the right to vote" to any of its citizens. The new legislation is expected to establish a simple, uniform standard for registration and voting, doing away with the notorious literacy "tests". More important still, it would provide for the appointment of Federal registrars when State officials are found to be dilatory. Where people are prevented from voting, courts would have the power to impound the ballots until all those eligible to vote have exercised their franchise.

It would no doubt take some time for these proposals to become law. The President himself expects the job to be done by November. What is significant is that not much opposition is anticipated. Obviously, last year's civil rights triumph is still in the air. But then, the new measure is only a logical continuation of the Civil Rights Act; and like that legislation it too would no doubt be a bi-partisan effort and would probably owe more to Republicans than to Democrats.

But what, one might ask, would the legal protection of the franchise mean for the Negroes? It would obviously not promote "acceptance" or reduce prejudice and indeed might well heighten existing tensions. And in terms of dignity in daily life, it might appear rather more remote than the right, say, to sit down opposite a white citizen for a meal in a restaurant. But legal safeguard of the franchise, if successfully implemented would mean that the Negroes would begin to count as a political entity. In the Southern states, where they form a sizable proportion of the population, the "Negro vote" would, for the first time, be a factor of importance in local, State or Federal elections. The fact that, as a minority, under-privileged group they would tend to vote as a block would further enhance their significance. Such potential could prove, in time, one of the surest means of further economic advance.

But, at the moment, the battle is still very much on and it is not against the steel of official resistence alone. Literacy "tests" and the like are not the only deterrents to voter registration. Even in the northern cities, where there are no such restrictions, the record of Negro registration is poor. King's campaign would have to be tuned as much to voter education as to voter registration and it would have to be far more widespread. The next step may well be for Negroes to contest elections, not so much with the idea of winning as to stimulate the interest of their people in political power and as symbolic of their gain in stature.

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY has been raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs 20. Foreign annual subscription rates are 70s and $10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager

Weekly Notes

Development Rebate on Ships

THAT the Finance Minister is not happy with the present system of development rebate is well known. He wants a more selective system to encourage industries which are basic and important instead of extending the rebate to all industries. The rationale behind this is not difficult to accept, but some of the changes which have been made seem rather pointless and ill-considered. Take, for instance, the reduction of development rebate allowable on second-hand ships. Development rebate was first introduced on new ships acquired or rew machinery or plant installed after March 31, 1954, the rate of rebate being 25 per cent for ships. The concession was extended to second-hand ships in 1955. It was felt at the time that purchase of new vessels would be unnecessarily expensive, and that it would be desirable for the Indian fleet to be expanded with second-hand tonnage. In 1957 when the present Prime Minister was Minister for Transport and T T K was Finance Minister, the development rebate was increased from 25 per cent to 40 per cent. At the same time a Shipping Development Fund was set up to provide finance to the shipping companies. The Development Fund and the higher development rebate have been regarded by many as the twin pillars which have supported the rapid growth of Indian shipping in recent years.

The reduction of the development rebate from 40 per cent to 20 per cent on second-hand ships in the 1965-66 Budget, therefore, came as a complete surprise to the shipping industry. The full implications of the cut do not seem to have been adequately considered by the Government. It is possible perhaps that the Transport Ministry was not even consulted. Why the Finance Ministry chose to make a distinction between new and second-hand tonnage is incomprehensible. Is it the argument that on principle purchase of second-hand ships or plants should not be encouraged? Whatever its validity in relation to industrial plant, in shipping at least it remains a wise policy to buy second-hand tonnage during a slump and new tonnage in a boom. The reason is very simple: in a slump second-hand tonnage is discounted at a higher rate and in a boom new ships maintain a steadier price; to the extent, therefore, that the rebate differential between new and second-hand tonnage encourages shipowners to buy new tonnage, the reduction will be harmful, particularly when shipping is still in a mild slump.

Foreign Investment vs Loans

IT is now taken for granted that development needs external assistance. The classical form of such assistance was through foreign investment—in the extraction, transport and, subsequently, other sectors. The post-World War II phenomenon is, of course, government to government assistance and its variant of loans from international institutions. This is but a reflection as much of the changed politico-economic set up in the world which has made the private investor unwilling to rush his capital into the 'newly emerging' countries (if he was lucky enough to escape expropriation or a phased easing out) as of the fear in the minds of the resurgent countries of domination by private foreign interests—a fear not unfounded in view of the character of such investment in the past.

We, in India, have passed through several phases in our attitudes towards private foreign investment—from one of suspicion at first to tolerance and now avid espousal. The external assistance we have sought has been largely on an official basis mostly from foreign governments and international institutions as loans (and, to some extent, grants) and was fitted into the programmes of development. This was natural as the emphasis in the earlier phase of our planning was, rightly, on infra-structural investment—a field which, despite the 19th century experiences of foreign investment in railways, etc, is not calculated to enthuse the foreign investor. The changing emphasis on investment in manufacture has widened the scope for foreign enterprise. Of greater import is our exchange problem. Official loans with fixed amortisation periods mean higher immediate costs in debt servicing and our ability to service the growing external debt has been put under increasing strain, as the current exchange crisis bears out. The Third Plan estimated our debt financing needs at Rs 550 crores whereas the preliminary estimates of the Fourth Plan point to a figure nearly twice as large. Attention has, therefore, turned to the prospects of foreign private capital providing the external resources (and technical know-how) without the immediate strain on exchange reserves.

The Economic and Scientific Research Foundation, an organisation financed by the Federation of Indian Chambers of Commerce and Industry, has presented its case for foreign private capital based on the experience of the period 1956-60. It finds that during this period the annual outflow on account of direct private investment works out at 7 per cent of outstanding investment as against 11 per cent in respect of official loans and argues from this that greater reliance on the former would provide relief on external account. The authors of the study are, of course, aware that the outflows on account of foreign private capital and official loans are not strictly comparable. In the case of loans the figure includes both interest and capital amortisation; the loan is, therefore, a liability which would be liquidated in due course. In the case of private investment, the liability is a continuing one and, with plough back of profits, an increasing one.

Despite recognition of this vital difference, the study slurs over it by assuming that the increasing capital liability "is a purely notional one—so far as it is unlikely to materialise". This is assuming away the problem. In fact, on the basis of experience elsewhere and the experience in India of the volatile nature of oil companies' profit repatriation, we know that outflows in respect of private capital can be de-stabilising—tending to aggravate a weak exchange position and strengthen a strong one! In any event, increase in external capital liability over a period is not a prospect one can view with equanimity from the payments angle, especially when we know the sheltered condition of the Indian market and the profitability ratios.

There is another point to be noted with regard to the findings of the Foundation's study. The years chosen are 1956-60 when most of the loan assistance was on hard commercial terms. Since then, there has been a great deal of softening of the terms of aid both in terms of lower interest rates and longer maturity dates. This would make a substantial difference to the comparisons effected.

Consortium Exercise

THE question of softening the terms of aid is a hardy annual at the Aid-India Consortium meetings, the latest one of which has just concluded the first stage of its deliberations in Paris. In keeping with the procedures which have evolved in the last few years, the Consortium meeting is a two-stage operation, the first meeting (at which India is represented) being a general exploratory one followed by a second 'pledging' meeting. At the first meeting the developments in the Indian economy, the pattern of aid utilisation and Indian policies are reviewed.

This year the going promises to be rough. The past year has been notable mainly for economic failures—the price situation has been ugly throughout, the rate of industrial production has slowed down, the capital market remains in the doldrums and the external payments situation has now reached a critical stage. An application for a stand-by agreement with the I M F is pending and we have had to take the first steps of a stabilisation programme.

According to newspaper reports, India has requested $1,250 million for 1965-66, the last year of the Third Plan, which is nearly a fourth as large again as what was committed last year. The demand has been pitched at a higher level, but the realism of doing so is open to question. The USA and UK are not in the happiest of positions today, to put it mildly, and we will find Continental fists as tight as ever.

Of vital relevance from the point of view of external payments is not so much the commitment of aid (which in the four years has totalled well over $ 4 billion) but the actual disbursements. A greater shift to non-project assistance in the last two years has quickened the pace of disbursement and it is reported that we have again pleaded for a considerable amount of untied aid.

Whereas untied aid ceratinly helps to ease our payments position, it is little realised that in the process the character of the investment programme might have been changed. Our Plan envisaged Rs 700 crores of non-project aid. In the event of our securing the quantum of non-project aid asked for this year, we would have received more than this. In fact, by the end of the Plan we may well find that external assistance (on a disbursement basis) may not be far short, if at all, of our earlier estimate despite severe shortfalls in key investment targets, e g, in steel, heavy engineering and other vital sectors. Non-project aid is certainly useful but let us not make the mistake of overdoing it.

Well Stocked, Indeed!

THE Finance Ministry has released its annual financial report on the working of public enterprises and the Society for Propagation of "Democratic" Thought has with predictable promptness pointed out that on a total investment of Rs 1,780 crores on these enterprises the return to the Government in 1962-63 was less than 2 per cent. Unfortunately, this indefatigable champion of "democracy" will not be allowed to score so telling a point against the public sector; it will be told that of the total investment, a good proportion was in undertakings still at the construction stage and that enterprises in operation showed a return of around 7.5 per cent on capital employed—rather low compared to the rates of profitability the private sector has got used to, but still not quite the same as "less than 2 per cent". It will also be pointed out that the financial institutions in the public sector yielded, on a total investment so far of Rs 81 crores, a surplus of Rs 89 crores in the year 1962-63 alone.

The propagators of "democratic" thought could, of course, return to the fray with the thrust that some of the so-called undertakings under construction ought to have been completed years ago. Thus of the 14 undertakings under construction, two were started in 1956, three in 1958 and four in 1960 and only two each in 1963 and 1964. These failures, however, have been well known and are glaring enough from the shortfall of output of steel, petroleum, fertilisers and heavy machinery, among others, below Plan targets.

But what light does the financial data presented in the Finance Ministry's report throw on the quality of management of the enterprises which have got going? Hindustan Steel, which accounts for 45 per cent of the total investment in such undertakings, made a loss again—though a smaller one than in the year before—inspite of the upward revision of steel prices following decontrol and inspite of working at 97 per cent of capacity on average through the year. Two other companies made losses while the remaining 31 stayed out of the red. Of these, 19 improved their profitability in 1962-63 while 12 slipped, some rather badly. In all, net profits of the running concerns amounted to Rs 18 crores against Rs 14.5 crores in the previous year. In terms of percentage of paid-up capital net profit increased from 7.3 per cent to 8.1 per cent—hardly a striking improvement.

However, it is not till we come to the brief chapter on "working capital and inventories" that we get some conclusive evidence of how the civil servants have been managing the factories. Here we find that, in the aggregate, inventories carried by the 22 running industrial concerns, including Hindustan Steel, were equal in value to 11 months' production. Hindustan Steel held inventories equal to nine months' production while inventories of the other 21 undertakings were the equivalent of 14 months' production! It is not necessary to be a management expert to see that only managements completely impervious to all economic calculation will require or permit the holding of such large inventories.

The point becomes clearer if we consider the broad distribution of inventories. The largest component is raw materials, stores and spares which account for almost 70 per cent of all inventories. Raw materials, stores and spares with the 22 running industrial concerns amounted to 14 months' consumption at the end of 1963-64. Hindustan Aircraft and Indian Telephone Industries had at the end of the year stocks which, on the basis of the year's consumption, represented production requirements of 30 months and 24 months, respectively. The stocks of raw materials, etc, carried by Bharat Electronics and Fertilisers and Chemicals were sufficient for 15 months' production needs. Stocks held by Hindustan Shipyard represented 13 months' consumption while those held by Fertiliser Corporation, Hindustan Antibiotics, National Instruments, Praga Tools and Garden Reach Workshop were equal to 12 months' consumption. Stocks with the National Coal Development Corporation stood at Rs 16.7 crores at the end of 1962-63 whereas total consumption during the year had been just Rs 4 crores. In the case of Travancore Minerals, stocks amounted to Rs 5 lakhs while the year's consumption was just Rs 0.3 lakhs!

Apart from mildly conceding that "inventory levels in most undertakings are high", the Finance Ministry's report pays no particular attention to

this aspect of the public sector's working. There is no recognition of the fact that in addition to imposing an avoidable heavy financial strain on the public undertakings themselves, the excessive stocks of raw materials, stores and spares represent waste of scarce resources which could have been put to productive use elsewhere.

In fact, the facts about their ridiculously large inventories tell more about the quality of management of public undertakings than profit and loss statistics. They draw pointed attention to the Government's complete failure to develop a cadre of trained managers for these enterprises and rely on the practice of deputing officers from the administrative services for short periods of a few years. As long as this system continues it is futile to expect that public enterprises will ever be run on sound business lines. While, therefore, focussing attention on particular instances of lapse from economy and efficiency in public undertakings, Parliament should go back to the first causes and press upon the Government the need to develop a management service for these enterprises. The parliamentary committee on public enterprises especially must turn its attention to this problem immediately.

Fertilisers and Irrigation

A Correspondent writes :

THE Indian Council of Agricultural Research might have invited controversy by suggesting that irrigation projects should not be undertaken without ensuring a simultaneous increase in the supply of fertilisers and pesticides; but the Irrigation and Power Ministry's reply to it reads like a swotted answer poured out in response to the wrong question in an examination. The Council's main point seems to be the not unfamiliar one that under very general circumstances water and nitrogen are joint inputs in plant production; if irrigation provides enough water, nitrogen must be the limiting factor, and crop yields can be increased far more by increasing inputs of water and nitrogen together than of water alone. This much is well-established; the Council has extended the argument to say that if the water input is increased, the nutrient intake of plants will rise, the stock of nutrients in the soil will be depleted and yields wil be reduced. This is questionable; introduction of irrigation will be accompanied by a new cropping cycle and hence a new nutrient cycle in the soil, and whether this will be more productive or less is a matter of circumstances. It is, however, likely that in conditions of short and uncertain monsoon, the very regularity of water supply assured by irrigation will lead to an appreciable increase in yields, quite apart from the possibility of raising a second crop.

These issues are apparently quite beyond the Irrigation and Power Ministry. It asserts that "from time immemorial" the Indian farmer has been supplying his crops with nutrients from farm yard manure. This is a *non-sequitur*: the question to ask is not whether he uses manure or not but whether the quantity of manure he uses goes up with irrigation. It is possible that with irrigation the farmer gets larger yields of fodder, keeps more livestock and gets more manure for his field; what is more likely, however, is that he uses his livestock more intensively and there is no great increase in the manure he gets. Any way, no one knows what happens, least of all, the Ministry.

To argue, as the Ministry does, that irrigation does not affect fertility because it is not applied constantly amounts to admitting that the more intensive the irrigation the more deleterious it will be to soil fertility; and the Ministry does not seem to know much about benefit-cost ratios, for it will simply not do if, as it states, schemes are undertaken provided the total benefit to the community exceeds the cost. What it ought to do is to compare benefit-cost ratios of similar projects and devote the limited resources to projects with the highest ratios. Then perhaps it will understand ICAR's point that benefit-cost ratios can be increased greatly by spending on irrigation and fertilisers together rather than on either alone.

A Minister's Statistics

IN his anxiety to smother the opposition in the debate on the Budget in the Rajya Sabha, the Minister of State for Finance quoted facts and figures in a manner which did little credit to him and his Ministry. He has gone on record saying that the targeted increase of 25 per cent in national income during the Third Plan would be almost reached as he expects that the actual increase would come to about 24 per cent. Also, he tried to meet the opposition criticism of high taxation by pointing out that the additional tax revenue had gone to finance investment in industry and elsewhere.

Now, to start with, the target of growth of income in the Third Plan is not 25 per cent but 31 per cent if the 'financial' plan is considered and about 34 per cent if we consider the 'physical' plan. As against this, the realised growth in the first three years of the Plan is hardly 10 per cent and even assuming that the most optimistic expectations are fulfilled in the last two years the aggregate increase during the five years would hardly exceed 22 per cent.

The Minister's other contention—that the additional revenues have financed developmental expenditure—is also refuted by available evidence. The Planning Commission's Mid-Term Appraisal gives figures of current account surpluses and additional taxation in the first three years of the Third Plan. These show that the current surpluses aggregated Rs 279 crores compared to additional taxation of Rs 931 crores. It is clear, then, that a good part of the proceeds of additional taxation has been diverted into current non-investment expenditure. Many explanations may be advanced to account for such diversion —e g, the sharp increase in defence expenditure, the need for which cannot be questioned—but the fact remains a part of the proceeds of additional taxation has gone to meet current expenditure. Nor does the Minister's argument that current expenditure includes some amount of investment cut much ice, for the figures quoted above from the Mid-term Appraisal are exclusive of the investment component of current expenditure.

What enboldened the Minister to be so careless with his statistics? Was it the confidence, having regard to the normal quality of vigilance of the opposition, that he would not be found out?

Voluntary Ceiling on Profits

IT costs politicians nothing to propound high-sounding principles which they know cannot possibly be adopted. The Prime Minister's plea to businessmen, while inaugurating a seminar in Delhi on the "social responsibilities of business", that they should voluntarily accept a ceiling on profits and dividends is a case in point.

The Prime Minister bolstered up his exhortation by referring to the "essence of our heritage" which, according to him, should be blended with modern science and technology. But what is the essence of this heritage? Does not it—either in its essence or some part of it—contain untouchability and a variety of serfdom? There is no historical foundation for the view that in the past Indians in their ordinary business of life were any more virtuous than other people. And in the present, there is enough evidence to suggest that they are definitely not. It is not, therefore, a question of reviving any ancient practices and virtues, but one of catching up with others in matters of business ethics, just as in science and technology.

If business ethics in India need to improve, it is not because businessmen here are guided by the profit motive while they are not in some other countries, but rather because often here the pursuit of profits is divorced from the principle of giving "value for money". The constraints under which businessmen work in the industrially advanced countries compel them to adopt a socially more responsible attitude than do our businessmen. There the standards of consumer awareness of and interest in quality are much higher. But, above all, in those countries there is much more competition among business firms. In India often the size of the effective market for a product is such that only a few firms can exist. Planning and regulation of private investment through licensing, etc, has further reduced competition. In these circumstances much more attention needs to be given to "customer protection" in India than in the advanced countries.

But Shastri's suggested "code of conduct", the adoption of which, the men of business and industry "might consider", is totally irrelevant for the purpose. Voluntary restraints on business just do not work, and especially so when what is sought to be restrained is profit. If increased profits arise due to improved efficiency then the business has a right to them—or at least is likely to think so; if they result from a privileged position—which is the general situation in an economy dominated by shortages—then again it is too much to expect that without any pressure (e g, from a monopolies commission or a price-review body) they will be given up.

Shastri also expressed the hope that a voluntary ceiling on profits "should help in some measure to remove the feeling that seemed to divide those who had and those who were still in want". This, again, is expecting too much. Even if there were some voluntary restraint on profits, its effect on the unemployed rural and urban workers can only be negligible. This is the most deprived economic class, an improvement in whose conditions can only come about by direct action concerning their problems.

Progress of Warehousing

HOW much sense does it make to talk in terms of state trading and buffer stock operations in food grains without adequate warehousing capacity? A study of the availability and utilisation of warehousing capacity in 1961-62, published in the February issue of the Reserve Bank *Bulletin*, presents a bleak picture. On the face of it, the "overall progress" with regard to both the number and capacity of warehouses of the Central and State Corporations appears satisfactory, showing a nearly two-fold increase between 1961 to 1963. But in aggregate terms, warehousing capacity is way behind requirements. And the capacity that there is does not seem to be very rationally distributed, judging by the very wide variation in utilisation among different States.

As is to be expected, the bulk of storage capacity (around 78 per cent) is used for foodgrains. This naturally results in very uneven utilisation through the year. The Central Warehousing Act of 1962 sought to extend the scope of the Central and State Warehousing Corporations to non-agricultural commodities. This was to enable use of the warehouses in the agricultural off-season. So far, however, this move does not seem to have produced a marked impact.

Even with regard to peak season use, there is great disparity in the performance of the States. Punjab, with less capacity than other States like U P and M P, uses around 90 per cent of it, while the latter states achieve only 60 to 70 per cent utilisation.

As a proportion of the marketed surplus, the storage in the warehouses is negligible. And, in any case, who uses the warehouses? Not the producers certainly; not even the co-operatives. The co-operatives account for exactly two per cent of warehousing capacity used! The Government's share is hardly 7 per cent. The principal benefactor, then, is the trading community which now accounts for 84 per cent of the storage.

An important objective of the warehousing scheme is to make credit available to the depositors against the warehouse receipt. Taking all commodities, advances against warehouse receipts come to about 16 per cent of total advances against the commodities concerned. Here again the inter-State variations are significant and seem to bear little relation to the availability of warehousing capacity. In Assam, with very low capacity, warehouse receipts account for 31 per cent of advances, while in U P, which has the highest capacity, only 15 per cent of advances are against warehouse receipts to obtain credit, the co-operative banks have once again shown practically no interest at all.

LETTER TO EDITOR

Language and Unity

I READ with considerable interest Sankar Nath Maitra's comment on 'Language and Indian Unity' in *The Economic Weekly* of March 13. The striking thing about it is that it is free from the cant and hypocrisy that usually surround any discussion of this problem. Above all, Maitra has made a constructive approach to seeking a solution.

I think the time has come when we should try to differentiate between a *national* language and an *official* language. Even when Gandhiji spoke of Hindi as the *lingua franca*, he meant it more as a spoken language that can be easily understood by different peoples inhabiting the subcontinent. (In fact the Oxford Dictionary meaning of the term *lingua franca* itself is "any language serving as medium between different peoples.")

As Maitra points out, the all-India official language is not for everybody for all uses, but only for official and public uses, and so necessarily confined to those who work in such restricted fields. Hindi, however, can be used as a language for State functions and ceremonial occasions to satisfy self-respect. This is not so novel as it may appear. The Filipino example that Maitra has suggested here is, therefore, very relevant. As he points out, Tagalog, which is spoken by the largest group, is the national language and ceremonial citations are done in that language. But the official language is English and it is used in courts, Parliament and offices. It seems to me that this Filipino case is one that deserves greater examination by our policy-makers if we are to extricate ourselves from the morass into which we are steadily drifting.

Bombay T T Vijayaraghavan
March 16.



CAPITAL VIEW

Foreigners, the Only Experts

Romesh Thapar

WHEN persons who cannot be accused of holding dogmatic communist viewpoints begin to warn the country against the growing tendency to rely on foreign capital, foreign aid and foreign experts to solve our problems, it is time to take a long and searching look at ourselves in this eighteenth year of freedom. The analysis of the malady, as presented by widely differing persons such as banker and businessman G L Mehta, the cautious politician Vijayalakshmi Pandit and the impatient Cabinet Minister M C Chagla, is essentially the same. We are fast losing confidence in ourselves and might soon lose the capacity to defend our fundamental interests if this flirtation-turned-infatuation leads to a surrender.

There was a time when some of the more perceptive members of the academic profession used to describe the foreign intellectual visiting India as a kind of well-organised human computer. This foreign intellectual, backed by adequate funds, would select a theme for investigation and do an intensive tour of the country meeting all and sundry who had done some thinking on the subject. This research would be card-indexed together with solid documentation provided by a battery of research assistants, also financed from the funds available to the foreign intellectual.

This job 'on location' would be completed within one to two years. A year would be reserved for producing a book. The book would then become the bible of the local gentlemen whose brains had been picked — and the author would be elevated to the rank of an 'expert', a minor *guru*.

When this story was repeated in its many interesting permutations and combinations, the more cynical used to exclaim: 'And that's how it came to be that all the experts on India are foreign!' Perhaps, this irony and cynicism have had something to do with the popular concept, particularly in circles close to Congress policy-making, that these 'experts' are the only experts. Now the detached visitor from abroad is shocked by a fact which we seldom seem to notice — that very often in an important branch of government the only really brilliant men working on problems are the Indians *under* the foreign expert, and even they do not see the absurdity of their plight.

The New Climate

The psychological climate is no longer what it used to be. There was a time when leading politicians were dubbed 'Shri PL 420' because they called for too much reliance on U S PL 480 supplies. Now, the U S I S can issue pamphlets which speak of such supplies as "food for freedom" without the slightest danger of a snub. Just over a year ago, Prime Minister Nehru could reject the U S-sponsored Bokaro project because unfair, disadvantageous turn-key provisions were sought and there was a refusal to accept Indian consultants on the designing and engineering of the project. Now, we encourage the Soviet Union to insist on a turn-key arrangement over which we have practically no control, and we mobilise our bureaucrats to lobby the press and public with the view that no control means efficiency! So it is in agricultural planning, in the defence set-up and even in home affairs where F B I experts were recently called in.

Indeed, the current joke about our overworked hotels is that they are permanently booked by regiments of foreign experts who are here to guide us on everything from organising manure pits to manufacturing jet engines. From the looks of it, during the past eighteen years we have become more incompetent, less able to handle our affairs. And when T T Krishnamachari's appeal to foreign capital to enter the Indian market massively gets under way, we'll probably have to coin another phrase to describe the experts. These days, with bated breath, we study the impression that our leaders make on visiting teams of financiers, potential collaborators, investors and aid-givers. We are made to think that the future of this sub-continent depends crucially on these goings-on.

In many ways we are back almost to 1947. Arguments usually start from ground-floor. Concepts which we had debated threadbare and settled are again being scrutinised by the ruling elite. Is foreign capital such a bad thing? Does it really subvert a nation's sovereignty? Would it not be better to obtain foreign private equity investment rather than foreign loans which have to be repaid? Is the drain in the form of dividends and what-not, all that damaging? Can we really handle all these projects on our own or with limited collaboration? Have we not become victims of our own dogmas? Look at Europe. Look at Japan. That is the path to follow. Socialism has been discredited. It does not suit the Indian genius.

In other words, the *importance* of foreign collaboration is stressed, not its *need* in special cases. Statistics about these collaborations are widely publicised. Since the exchange crisis of 1957 to September 1964, 2,015 collaboration agreements were approved by the G O I. A country-wise analysis shows the United Kingdom with 574 collaborations, the USA with 337, West Germany with 294, Japan with 161, Switzerland with 90, France with 71 and Italy with 56. If these figures are criticised as suggesting too westward a leaning, it is pointed out that during the same period East Germany has concluded 44 agreements, Czechoslovakia 18, Poland 13, Hungary 7 and Yugoslavia 6. And so, presumably, we remain 'non-aligned' irrespective of the capital involved in these agreements, the nature of repayment or the structure of control.

Forgotten — or almost so — in all this discussion and debate are many relevant issues: that increasingly India's internal effort to mobilise resources and expertise to the maximum is flagging, that foreign capital intake should be only in those vital sectors where the indigenous effort cannot achieve the targets set, that wherever possible we must be in full control of the pricing of plant and ensure the most effective design and engineering, and that at no stage should we permit an imbalance to grow because of pressure from *entrepreneurs* interested only in easy and secure profit. Flabby leadership has destroyed the public's confidence that the essential perspectives of our planned development will be preserved. In such a situation, it is generally felt that foreign capital and expertise can become a dominant voice in the conduct of our affairs.

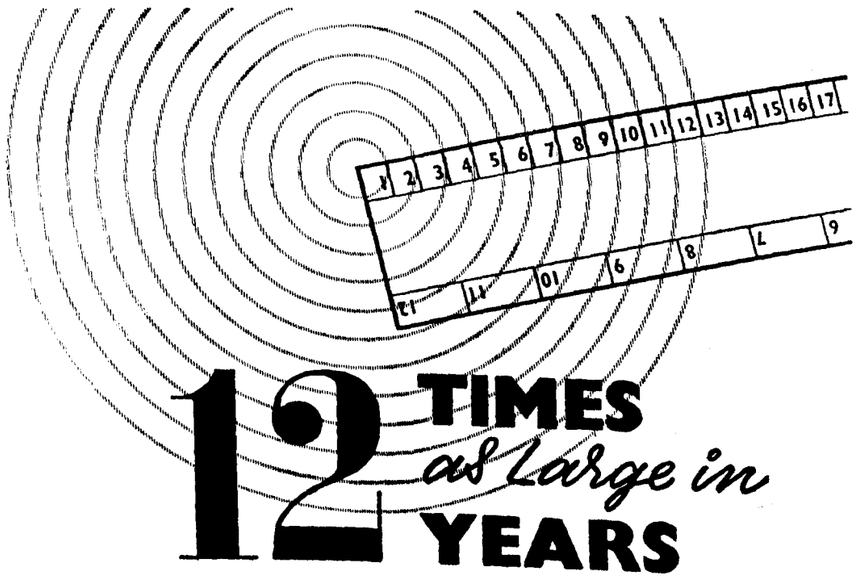
Politically, our present state creates the despair and demoralisation which

make us apathetic when confronted by determined lobbyists. The ruling party is fast losing its self-reliance, and the convictions which linked it with the people. The party is controlled by the manipulation of powerful organisers. But, significantly, it remains the only viable all India force capable of weilding power. There is no alternative — or, at least, no visible alternative. Until this alternative is forged, the present drift will continue. This has at last been recognised generally in Parliament and in the press.

Will the pressures build within the ruling party for a change in the leadership? Is there a potential leadership which can halt the drift and restore the perspectives? Must we plod along until the general elections in 1967, hoping that they will throw up an answer? These are some of the major questions which form as we try to make sense of the bedlam which prevails in Parliament, as we follow the mysteries of the hunt for Kairon's killers, as we speculate on who in government leaked the CBI Report on Patnaik's activities in Orissa, and as we marvel over the continuing confusion at government level on the language controversy.

Meanwhile, a subdued Holi festival has been ordered by the powers that be in homage to the memory of Jawaharlal Nehru. If only in remembering him they were to recall something of the passion which inspired him ...

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Heroic Statistics

Ashok Rudra

Levels of Economic Activity and Public Expenditure in India by K Mukherjee; Asia Publishing House, Bombay; XVI + 140 pp; Rs 25.

THERE are good statistics and bad statistics and there is a certain category of statistics which do not belong to either category and which may be given the appellation of "heroic statistics". The book under review presents a staggering volume of this type of statistics. I am not being sarcastic at the cost of the author who has taken very great pains in dealing with some extremely difficult and, at the same time, extremely important problems of economic historical statistics. All I mean by "heroic" is that the field of research for the author is such that there are no objective criteria which could be used to distinguish good statistics from bad statistics; and yet the object of measurement is so important that the statistics had to be produced by somebody or other. It is not always fair to describe as a fool one who rushes in where angels fear to tread. For quite often angels are much too discreet and territories abandoned by them have to be entered by somebody or other and it requires a hero to face the double hazards of unknown difficulties and the known possibility of being called a fool.

If I have started with this discursion on the distinction between fools and heroes, it is because I find it difficult to do justice to the task of reviewing this book. A review, I should imagine, consists of two things: it should indicate briefly the contents of the book and then it should assess the worth of the contents. Now the first task, that of describing the contents of the book, is made difficult by something for which I must hold the author squarely responsible. Lucidity is not exactly a quality in which the book abounds. Scholarship, erudition, hard labour, meticulous attention to details—all these one finds stamped on every page of the book. However, one does not quite understand what in the end is the net contribution of the author to the particular problem under study. Let us take a typical paragraph:

"These figures are not only relatively too high in comparison with the value of 'cereals and pulses', as pointed out by Thorner, but are also entirely out of line with his own figures for the subsequent years. In other words, Desai's 1931-2 per capita expenditure figure indicates a very sharp drop in prices for the three categories of products, which in view of the large imputations that are necessary in these sectors, appear to be somewhat unrealistic. It will also be noticed that depression downturn as indicated by Desai's figures are not corroborated by the general analysis of either Anstey or Gadgil. The correct position thus seems to be that Desai's 1931-2 figures are wrong on account of some price components being too high."

No Criteria

Unless one knows as thoroughly as the author himself the works of Blyn and Meek and Datta and Desai and Shastri and Gouri and Rao and the one or two dozens other names that are scattered all over the book with a high frequency density per paragraph one is quite incapable of appreciating even what the author is trying to say, let alone form any judgement about the wisdom of what he says and does. I do not know for what readers the book is meant. I do not think that there are very many persons in the country who are closely acquainted with the works of all these heroic statisticians. One purpose of the book could have been to make the readers acquainted with the works. This, however, is not achieved in the book, despite, or rather because of, the very profusion of references and quotations.

Apart from the lack of lucidity, the other most important reason why the reviewer is unable to make any assessment of the constructive work done by the author is, as has been mentioned before and implied in the appellation chosen, namely "heroic", there are no criteria to be applied in judging the worth of such statistics. The problem the author has set himself is the construction of statistical series that would measure the growth of agriculture, industry and national income and also of public expenditure during the first half of the present century. It is not the fault of the author that he did not have any rigorous methods of statistics that could enable him to make the best possible estimates. It is, therefore, only to be expected that his efforts would consist of groping amongst various other similar and comparable estimates made by others of unknown margins of error and blunder amidst masses of data and trying to put together something that he may call "estimates" guided by nothing more than his own common sense. It is not a fault of the author that he does not make use of any theory of estimation or of any theory of testing of hypotheses. One cannot, therefore, find fault with the author for not following any particular principles in making the choices and decisions he makes in arriving at his own series. That, however, is no reason to refrain from expressing one's feeling of discomfort when faced with such an exercise, especially when the author betrays a lack of awareness that in the absence of objective criteria, the opinions of individual research workers, in particular their opinions regarding the probable margins of error expressed in figures are of no worth whatsoever. In one place there is a whole paragraph giving a number of percentages reflecting what the different heroic statisticians regard as the margins of error of their respective heroic estimates. Thus, Mukherji writes, without expressing any concern about what might possibly be the meaning of the figures:

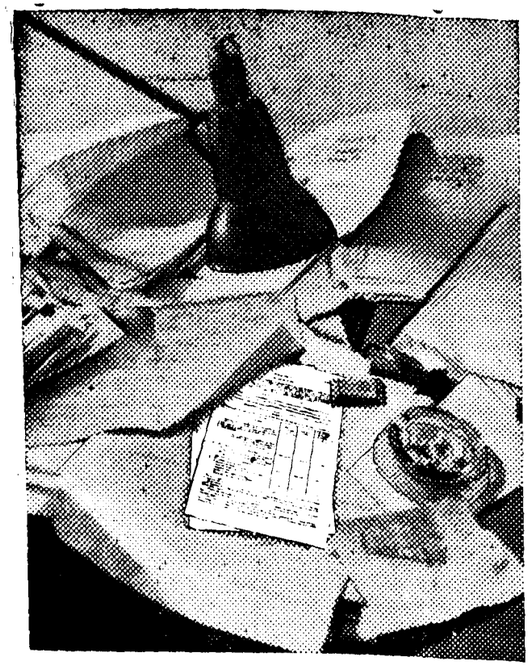
"Regarding the magnitude of error, Shah and Khambatta believe that their 'final result for any year may be taken to be correct within a margin of error of 5 per cent because it is extremely unlikely that all details will be wrong in the same direction and to the full extent'. That the errors could be all in the same direction is, however, exactly what Subrahmanian suspects. 'If the errors were random ones', he writes, 'the successive averagings may be expected to make the error... as small as possible. But these errors are systematic ones' and 'are known to have a strong downward bias'. Blyn does not try to estimate the overall accuracy of his figures and on the whole tends to accept the official view that a minimum error of 3 per cent each way or 6 per cent is reasonable.

Rao, on the other hand, considers that 'the results obtained have shown that taking the country as a whole the figures of agricultural output are not likely to be subject to an error of more than 10 per cent'. The National Income Committee, however, takes a somewhat gloomier view in so far as it regards that for its estimates for 'agriculture, animal husbandry and ancillary activities' the error would be as large as 20 per cent. It would, nevertheless, seem that the difference between Rao's estimate and that of the National Income Committee are not quite as much in conflict as might seem at first sight, because while Rao's estimates depend on the major crops generally, that of the National Income Committee includes a host of minor products where the accuracy of the figures are obviously of a low order. Since for several reasons, it has been found expedient to work on the basis of output figures for certain major crops it would be reasonable to accept the possibility of an error of 10 per cent, that is 5 per cent each way, in respect of the output figures subject, however, to certain qualifying conditions indicated in the following paragraphs".

Now, the statement may be made, in full responsibility, that the various percentages are *all equally meaningless and equally baseless.*

But why should one have to be heroic when facing such problems as the author has set himself? The obvious answer, as has been repeated before, is that there are no scientific tools that have been developed to this day to tackle these problems. What have, however, the so-called econometricians been doing all these days? If a problem like the one the author has chosen for himself is to be tackled in the heroic manner rather than in the scientific fashion, then what are the problems that the econometricians' tools are meant for? The econometricians have indeed been largely concerned with problems of estimation and of testing of hypotheses. However, in this field the econometricians have merely copied various theorems from test books of mathematical statistics into their own text books of econometrics. One finds in a text book of econometrics such things as the maximum likelihood method, the least squares method, etc, and of course also the elementary theorems of the calculus of probability. However, have econometricians ever paid any attention to the logical and conceptual foundations of probability? There are various schools of probability. Which particular conception of probability is applicable to econometrics? The most important and established school of probability is the so-called axiomatic school of which Kolmogoroff is perhaps the most important among the founders. The calculus of probability today in its most rigorous form is almost entirely dependent on the basic postulates of this school. Have the econometricians ever examined whether these basic postulates are acceptable in relation to economic problems? I dare say that they are not. If they are not, according to what other school of probability do the econometricians do their work? When one talks about the maximum likelihood method has one examined whether the conditions under which the method gives optimal results hold good in relation to economic problems? When an econometrician gives a figure, say .05, as the probability of rejection of a certain hypothesis, does he know what precisely this figure means?

The author of the book under review would not be in the quandary in which he finds himself if those who took upon themselves the task of developing econometric methods paid some more attention, on the one hand, to the basic concepts underlying present day mathematical statistics and on the other to the type of data that one has to deal with in problems of economic statistics—the type of data which is the despair, if not of the present author, at least of the present reviewer.



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Plight of Higher Education

Philip Altbach

The Indian University by Robert L Gaudino: Popular Prakashan, Bombay, 1964; 268 pp; Rs 20.

ANY attempt to shed light on the plight of Indian higher education, however, incomplete, is greatly needed at a time of flux in education and of great soul-searching on the part of educators and government officials. Professor Gaudino has performed the valuable service of describing, with notable detachment, the state of higher education in India today. As an outsider, he has been able to see the totality of the situation, though perhaps he lacks some fundamental understanding of the traditions on which the Indian university is built. He has pointed out a number of the key problems facing the Indian university, and his book can go a long way toward providing needed perspective on a broad range of problems which are all too often approached from a very specific point of view or with only one aspect of the issue in mind.

Professor Gaudino places the Indian university in its socio-political setting, thereby providing a point of departure. He sees a number of factors as central to this setting. India, he says, is still a "traditional society with respect for hierarchy and the proper kind of deference." It is also, to quote Myron Weiner, a society of scarcity in many key areas, thereby creating stresses and strains on the resources that do exist. India is also a political society, but with politics of a "uniquely personal sort". It is a democratic society, but with a tendency toward pluralism. Finally, India is a changing society, with new ideas and practices in sharp conflict with older ways.

The typical Indian professor is sympathetically, yet critically examined. Professor Gaudino finds him exemplified by a lack of initiative. Serious scholarly endeavour, with a few notable exceptions does not form part of the life of the professor. While financial remuneration leaves much to be desired, the professor is able to live a fairly comfortable life. Too much deviation from the accepted norms would cause tension, and could perhaps mean loss of opportunity for promotion or even loss of job. The "machinery" of Indian higher education has caught the professor in its gears, and only the most energetic have the vision to overcome the odds against progress and scholarship.

Certainly one of the most fundamental problems facing both teacher and student in the Indian university is the system of external examination. This system, which places a premium on memorization and makes the individual staff member almost irrelevant in terms of the real rewards of academic life, has a profound influence on the entire educational system. No pronouncement by a vice-chancellor or a high level government body can have any effect until this examination system is altered. Professor Gaudino has no panacea to offer, though his discussion does indicate the centrality of this problem.

By Chance, Not by Plan

The unprecedented growth of higher education in India since 1947 has also had a profound inpact on its present condition. Gaudino points out that educational growth has been more by chance than by plan, and that, despite the best efforts of well-meaning educational experts, the newer universities have developed almost at random. True, the University Grants Commission, through its control of some of the purse-strings, can exercise some control and direction, but its impact is too diffuse to be decisive in any one institution. Several notable exceptions to this rule exist, particularly in the Indian Institute of Technology, which proves that it is possible to create educational and research institutions of the first rank in India. The problem, very simply, has been a lack of adequate resources combined with a lack of direction on most levels.

"The Indian University" attempts to discuss the organisation and government of higher education. Despite the complexity and subtlety of this issue, the reader can at least obtain an elementary understanding. The role of the vice-chancellor and rector of the university, and the lack of real democracy in the syndicates due to the preponderant influence of the university administration is spelled out. Academic politics, which can reach alarming proportions, is also discussed. The influence of caste or linguistic group in the appointment of lecturers or professors, and the substantial "patronage" of the rector in terms of appointments and other jobs cannot but have a profound influence on the university. As a political scientist, Professor Gaudino is particularly aware of the influences, the checks and balances, and occasionally the coercion, that enter into many important decisions on the university level. The university is, in fact, a microcosm of Indian political life on the broader level, and as such, must necessarily suffer academically and intellectually. Scholarly inquiry is subordinated to vote-getting in some cases, and the sum total of the situation certainly does not add to the dignity of the professor. Naturally, there are many reasons for this situation, and perhaps the key cause is the lack of adequate resources, which force underpaid staff members to spend undue time thinking about finances.

Professor Gaudino points out that the vice-chancellor (and occasionally the rector) are the "first among unequals". Though technically checked by the syndicate, vice-chancellor has almost unlimited power to make and implement his decisions. The University Grants Commission, the State legislature, and other bodies, can only exercise loose control and guidance over any given institution.

Problem of Indiscipline

What about the teacher and the student in the Indian university? Professor Gaudino points out that the relationship between them is shaped in part by tradition, in part by the system of examinations, and in part by the above mentioned paucity of resources. Most students come to college to obtain a degree, so necessary for a decent job, and without any particularly strong desire for intellectual stimulation or knowledge. They are notably unconcerned with the world around them, and caught between a traditional system of education which is almost extinct, and the Western model, imperfectly copied and slavishly followed. The student is faced with an almost insurmountable problem of language, with teachers who are uninterested in him as an individual, and with a system designed more for memorization than for scholarship. The teacher, however, well-intentioned, finds himself with a long schedule of lectures, thus making adequate preparation difficult. He has neither time nor often interest in meeting with his students and is often afraid of them.

Everyone concerned with education in India discusses the problem of "student indiscipline". Professor Gaudino is no exception. He says: "Fundamental to all indiscipline is the failure of the academic task, the absence of attachment to learning, the lack of the right conversation between teacher and student." As he says, the student comes to higher education at the age of fifteen or sixteen, with insufficient maturity to deal with a complex environment. Lack of stimulating subject matter, and actual physical deprivation on many levels also add to the problem. University and college officials continue to treat students in an authoritarian manner, thereby engendering as much hostility as respect. Afraid of any show of student initiative, they condemn the natural student leaders to frustration.

Professor Gaudino also briefly discusses some of the problems facing Indian higher education in the present period. Such matters as medium of instruction, adequate financial and technical resources and other issues are raised. "The Indian University" despite its valuable summary of higher education in India, has a number of drawbacks. Most important of these is its awkward and often confusing language. The book reads in parts more like a second-rate novel than a scholarly work; this is perhaps the result of Professor Gaudino's attempts to avoid academic jurgon. As a job of reporting, however, it is valuable. As a political scientist, and not an educationist, Professor Gaudino is able to see the issues in somewhat broader perspective. In total, "The Indian University" is a valuable addition to the literature on Indian education. It provides a valuable overview and is essential reading for anyone without knowledge on the subject. It stands out in sharp contrast to most of the treatises written by educationists interested mainly in justifying their own actions or by the various educational commissions, which are more concerned with developing an over-ambitious blueprint than with dealing with live educational issues.

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Political Leadership in India

V M Sirsikar

The central leadership after Pandit Nehru represents a new trend towards collectivism and better co-ordination between the parliamentary and organisational wings of the Congress.

The State Chief Ministers played an important role in the succession battle; their importance in national politics is likely to grow in the years to come. This development reflects the growing strength of the different regions of the country.

The central leadership will also be more responsive to popular pressure than hitherto as the people, who tolerated the lapses of Pandit Nehru, would be now more exacting in their demands. Within the Congress Party itself, the rank and file are likely to become more articulate and critical, leading to a greater democratisation of the party-machine than obtains now.

The opposition parties may increase their pressure on the leadership through alliances or mergers. The same could be said about other organised interests and their efforts to influence Government policy.

THIS brief paper attempts a study of political leadership in the post-independence period in India. The paper is based on current literature on political leadership in India in the form of books, journals, research papers and on personal observation. Leadership is a phenomenon which pervades every human associational activity, but it assumes a certain crucial significance in an emergent democracy which boasts of the largest electorate in the world and also desires to modernise in a short period of time. The very future of this vast experiment depends on the continuous and steady flow of leaders who can be depended upon for the task of 'attending to the arrangements of the society'.

Crisis of Leadership

It is common place to say that India faces a crisis of leadership. The shortage of leadership is a result of the absence of social conditions and arrangements which would promote potential leaders. Thus it becomes urgent to think of the processes, problems and influences that shape the emergence of new leaders. Leadership is as urgent a social problem in India as the paucity of economic resources, technical know-how and trained bureaucrats. The problem assumes greater significance as the leadership is expected to undertake the triple responsibility of strengthening democratic institutions in a mass society, of modernising the masses and of initiating and performing developmental work. The role of political leadership in India has an added significance as the people look to the state as an agency of social change. The dependence on state initiative to undertake any new programme or policy is noticeable even at the lowest level. Thus those who would yield political power have to be initiators in social change. Is the leadership capable of shouldering the responsibility? On the quality of men will depend the answer.

Our argument involves certain broad assumptions. It needs no proof that the Indian National Congress—a party which is in power since Independence both at the Centre and in the States (with a few minor exceptions) is the most important political institution in India. Attention, therefore, has to be focussed on the Congress leadership at the national and State level. This does not mean that there are no non-Congress leaders worth the name. The paper is mainly descriptive and not normative in its approach. It attempts to be as objective as is possible for a contemporary Indian student seeking to describe the leadership situation in the country.

No attempt is made to suggest quick solutions to this basic problem. It is felt that the political leadership of a country is the product of interacting forces, of history, of competing ideologies, of cultural heritage and of the social structure of that community. Thus it is thought that there could be no "western" or mechanical solution to the leadership problem in India. This does not mean that the Indian situation is in any way 'unique', but it is radically different.

Period of National Leadership

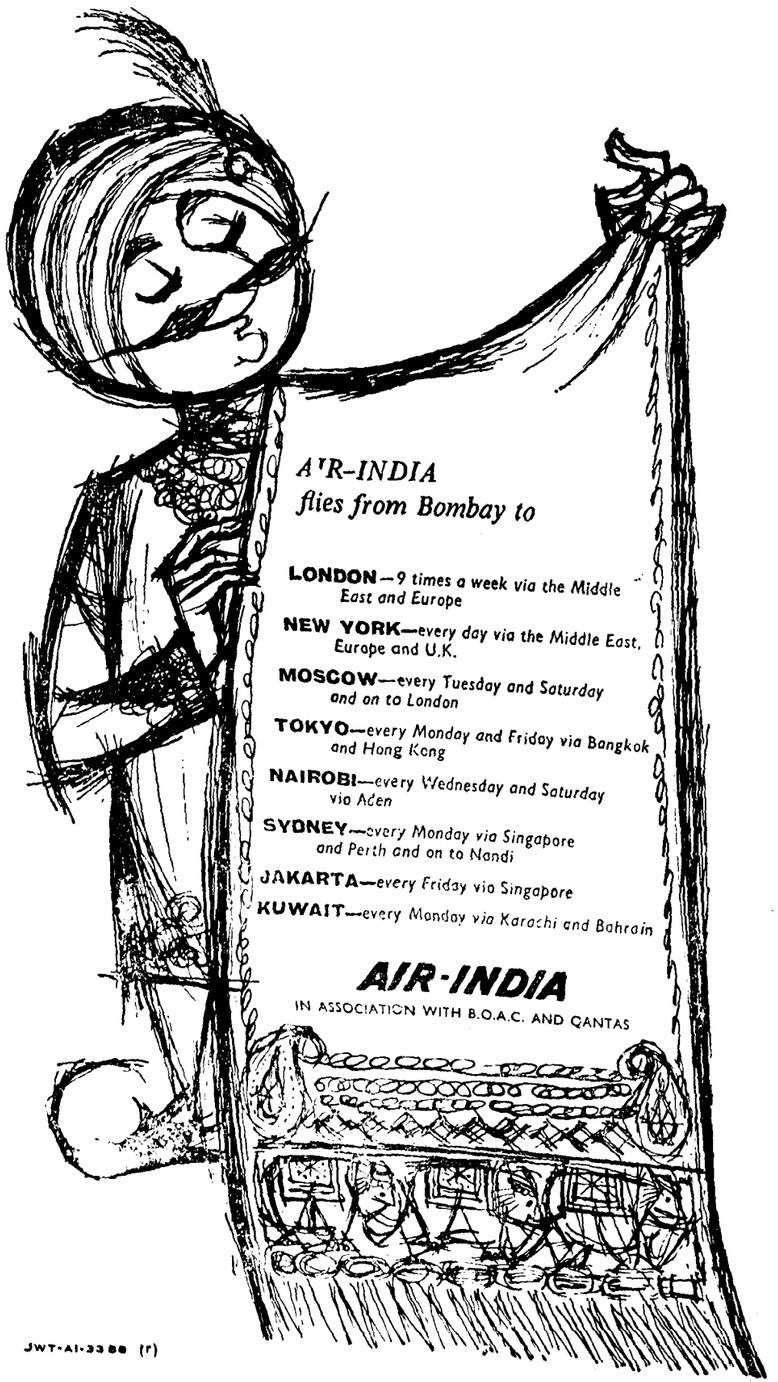
It is not an easy task to survey the developing leadership situation in a country like India, with vast population and cultural variations, in a few pages. Certain obvious limitations are there. What is attempted here is to view the leadership situation in the post-1947 period within its social setting.

It can be stated that the urge for national freedom, unity and the sublimating influence of the non-violent struggle against the imperial power, resulted in throwing up a 'national' leadership, neither interested in sectional, regional or group interests nor in personal advancement. On the other hand, it could be demonstrated that there was a certain social pressure on the leadership to be 'national' in its outlook. No one could hope to be a 'national' leader and still strive for his sectional interests. Their identification with the abstract entity of the Indian nation was complete. The function of this 'national' leadership was to sublimate the parochial caste, communal and narrow regional loyalties into a broad stream of national loyalties for the freedom struggle.

The participation in the freedom struggle demanded from the leaders a certain amount of voluntary sacrifice of their personal careers, properties and even family life. Under Gandhiji's influence they had to live an ascetic life of self-imposed poverty and denial of worldly pleasures. All this resulted in making the leaders very much goal-oriented, and the service (of the people) motive became the dominant note. With the general sentiment in favour of renunciation of power, the power motive could not be much in evidence. Or it could be argued that the power instinct remained suppressed till 1947. It may even be pointed out that in that period, acceptance of a political career automatically divorced the person in question from the sources of wealth-getting. Austerity was thus in part, the consequence of lack of such opportunities.

Two Traditions

There is no doubt that there is a tradition of renunciation in Indian culture. However, this does not constitute a massive factor in any field of



national activity today. In the pre-independence period, achievements in politics, education or any other national activity were possible only on a sacrifice basis and hence the national movement threw up men, organizations and traditions of this type. The sacrifice tradition meant lack of specialized knowledge but the material costs were less and there was an unflinching pursuit of ideals with a zeal. With independence there has been a cataclysmic change in the psychology of the leaders, though the psychology of the people is still to some extent glued to the pre-independence traditions. This fact explains the wide gap in the expectations from, and the fulfillment of these by the leaders.

It can be argued that in the Indian leadership there are mainly two traditions — the Congress and the non-Congress. The Congress tradition continued in that party and the Socialist parties, while the non-Congress tradition is to be found in the C P I and the rightist parties like the Jan Sangh and the Swatantra. The common factor about the non-Congress tradition was that this leadership was mostly away from the national struggle. (A few of the leaders of the Swatantra party were veteran Congressmen and hence the statement does not apply to these individuals, who, however, do not represent the bulk of the Swatantra leadership. The same may be true of those nationalist communists who participated in some of the national movement*). This fact to some extent influences the relationship of the opposition parties to the Congress. The desertions from and to the Congress are again mostly from and to the Socialist parties. The C P I and the Jan Sangh have succeeded in creating a greater doctrinal and party-loyalty amongst their respective followers.

Well-Trained Team

Today it can be rightly said that India was fortunate enough to have at the start, a well-trained team of leaders under the able stewardship of Pandit Nehru. The role of Mahatma Gandhi as the friend, philosopher and guide of this team came to an abrupt end with his assassination in 1948. The sudden removal of the charismatic father-figure from the national scene, though much lamented, was in a sense instrumental in projecting Pandit Nehru as the new father-figure. Pandit Nehru had acquired a world personality even before independence. This fact together with his aristocratic origins, his legendary sacrifice, his revolutionary background and his love for the masses who adored him, contributed to his charismatic hold over the country and its politics.

The 1947 Cabinet contained a few non-Congress and non-party leaders. This had become necessary to give a national character to the cabinet which was mainly composed of Congressmen. The overall picture was that of the Congress monopoly of power throughout the country. The non-Congress elements remained in the government on the sufference of the Congress leadership. The country was passing through the ordeal of partition, facing the enormous problems created by the massive inflow and outflow of refugees and the post-war shortages. The leadership at the Centre was able to tide over these difficulties. There were, no doubt, stresses and strains, heart-burnings and whisper-campaigns, charges and counter-charges amongst the top Congress leaders, specially between Maulana Azad and Sardar Vallabhai Patel (K L Panjabi, "The Indomitable Sardar" and Maulana Azad, "India Wins Freedom"). But these did not reach explosive proportions. Credit must be given to Pandit Nehru for reconciling the divergent elements.

Period of Consolidation

This period could be regarded as a period of consolidation in many senses of the term. The integration of States was achieved peacefully (except in case of Kashmir and Hyderabad). There was a realignment of ideological forces in the country. The Congress Socialists left the Congress to set up the Socialist Party in 1948. The initiative for the break came from the Congress which adopted stricter rules for membership which prevented dual membership. The Socialists had no choice. Even before the Congress Socialists, the Communists had been expelled from the Congress. The Gandhians, mainly the Sarvodayaites, claiming to detest the increasing power struggle, left the Congress to undertake non-political constructive work. Vinoba Bhave and the 'Bhoodan' workers could be cited as the examples. Thus the Congress consolidated as an organisation. But in the process it became more conservative and less idealistic than it was before the attainment of independence. This was not unexpected as the Congress was transferring itself from a broad-based national movement into a closely-knit political party. And those who controlled the party-machine—like Sardar Patel, S K Patil and others—were typically conservative in their socio-economic outlook.

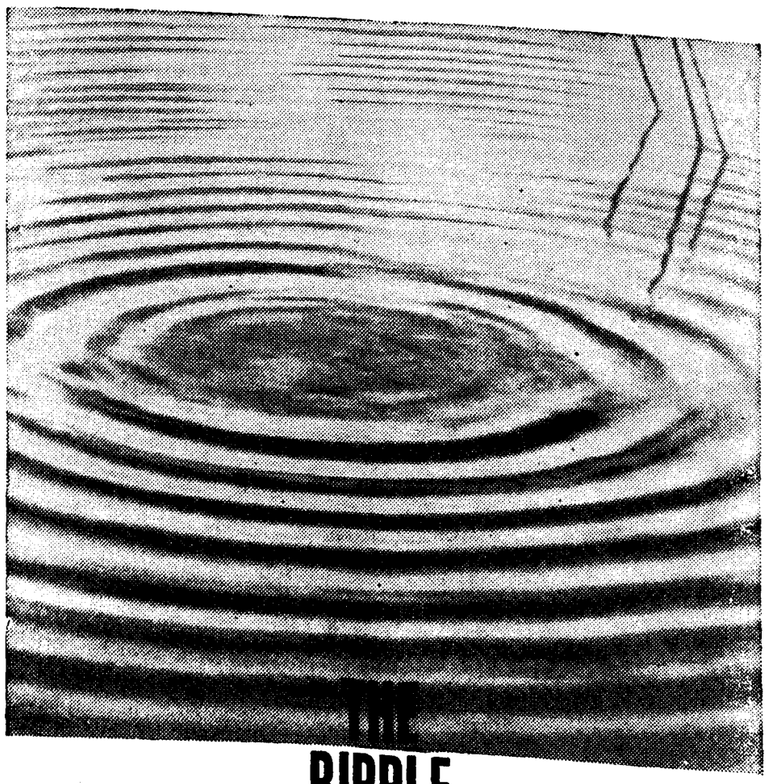
Beginning of Nehru Era

The second period coincides roughly with the start of the First Five-Year Plan, the coming into force of the new Constitution, the death of Sardar Patel, the rise of the Jan Sangh, and the beginning of the 'Nehru era'. The emergence of Pandit Nehru as 'the leader' had certain implications for the Government, the party and the people. It was alleged by the critics, that though the country had adopted the 'cabinet' system of government, in practice it was more of a "presidentialist" system. This, however, did not mean that the Cabinet did not meet or transact business. It meant two things. The domination of the Cabinet by the towering personality of the Prime Minister. It also meant that important policy decisions were made outside the Cabinet. There were, no doubt, instances when Cabinet members differed from the Prime Minister and had the courage to challenge him. Some of them even had the courage to leave the Cabinet. But these instances were rare. Pandit Nehru was never *primus inter pares;* he always remained *unus inter pares.*

The consequences of this for the party were extremely important. Before independence, the President and the Working Committee decided the main policies. But the situation radically changed after the Congres had assumed power and the responsibility of governing the country. Acharya Kripalani resigned his presidentship in protest against the neglect he suffered. All the major decisions were now with the Prime Minister and his Cabinet and the President was not even formally consulted. The exit of Purushottamdas Tandon from the presidentship of the party, a few years later 'was with so brazen a display of expediency' that it was commented on by the press and the public.

The enormous concentration of power in the hands of Pandit Nehru was now complete, with the taking over of the presidentship of the party. He was leader of the House, Chairman of the Planning Commission, Chairman of the Atomic Energy Commission, Minister for External Affairs, in addition to being the Prime Min-

* The term 'national movement' is used here with a limited connotation of a struggle against the foreign rule.



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ister. The immediate result of this was the enfeeblement of the party's organisational wing. The process of 'de-Patelisation' of the party-machine was in progress. The once mighty, highly coveted office of the presidentship went now abegging. Pandit Nehru continued to hold the twin responsibility of leading the Government and the party. The successors to the party presidentship were for all practical purposes, chosen and nominated by him.

A fatal consequence of this process was the reluctance of other leaders in the Government to use their initiative and take risks. S K Patil referred to this when he compared Pandit Nehru to a banyan tree under whose heavy shadow smaller plants did not get a chance to grow. The effect on the people was to encourage them to look upon Pandit Nehru as the infallible leader who would bring them to the promised land. This attitude made them very indulgent towards him.

Socialist Turn

The next phase in the developing leadership situation began with the inclusion of the 'left forces' in the Cabinet. Pandit Nehru's leaning towards the left was tolerated by the rightists in the Congress. But the increasing importance of the leftists, since the Avadi Resolution on the Socialistic pattern of society, and the emphasis in the Second Plan on physical planning was not much to the liking of the rightists. (The influence of Professor Mahalanobis in giving this slant to the Plan was hotly discussed.) This period witnessed the exit from the Congress of a few top conservative leaders like C Rajagopalachariar and K M Munshi who were later instrumental in launching the Swatantra party. The more decisive influence on the leadership situation was, however, the reorganisation of States on linguistic basis. The total effect of this momentous change was to strengthen regionalism, and to encourage local leadership having linguistic and regional homogeneity.

With the linguistic States the leadership became more rural in composition than in the composite States. The identification of this leadership was with more concrete realities like the caste or the linguistic group. This was an important change as it meant that gradually the urban-centred leadership of the highly educated high caste elites would be displaced by the 'new leaders'. These leaders have a stronger mass-base than those of the earlier period. The 'new leaders', it is claimed, belong to the 'new middle class'—the representatives of the newly-educated, rich, middle castes, mainly of the peasant stock coming from rural areas. There is evidence available to prove that many of the leaders are heavily dependent on the support of the particular caste/clan dominant in their constituency.

Power Shifts to the States

The pendulum of power started shifting from Delhi to the States in this period. The Chief Ministers began asserting their independence. This tendency gathered strength with the decline in the popularity of the central leadership and weakening of the party-organisation.

With the achievement of independence, the 'noble cause' motivation ceased to be decisive. But the elections, the plums of office, the chances of improving one's socio-economic status, attracted the 'new men of power'. Only after independence did politics in Max Weber's phrase, become a vocation in India. Those who wanted to live 'off' politics made a significant emergence on the political stage specially at the State and local levels. In contra-distinction to the 'national' leaders of the earlier period, the political support of the 'new' leaders has certain limiting factors. It has now a distinctive regional colour with the over-tones of caste and a bargaining quality. This bargaining quality emerges because of the growing strength of interest groups in Indian politics, specially at the State level. There are now visible signs of interlinking of business and industrial interests and political leadership, specially of the ruling party. This could be regarded as a new trend. This might be owing to the fact that the political leadership now controls the business and industrial sectors, through licensing, exchange controls, and such other mechanisms.

The last phase of the development of the leadership situation started with the 1962 General Election. The growth of the rightist parties in this election was sufficiently perceptible. This swing to the right in Indian politics might have influenced the Congress itself. The rightists in the party were strengthened. Though the Congress continued to rule at the Centre and in the States, the opposition parties, both of the right and left increased in strength. The Chinese aggression brought about many changes in the internal political situation. It significantly affected the unquestioned supremacy of Pandit Nehru. Within the Congress there was articulate opposition to him—a fact unknown before. The consequences were, the exit of Krishna Menon, perhaps much against Pandit Nehru's wish, and a significant change in Indian foreign policy. Public opinion, specially of the vocal section, asserted itself in this case. The three prestige bye-elections to the Lok Sabha returned Lohia, Acharya Kripalani and Minoo Masani and thus increased qualitatively the combined opposition in the Lok Sabha. This was a further proof of the decline in the Congress prestige—specially the influence of Pandit Nehru. K D Malavia, a close associate of Krishna Menon, and a pronounced leftist, had to resign in the Serajuddin Affair. This was interpreted as a victory of the rightists in the Cabinet.

The debate on 'after Nehru who' in this last phase of Pandit Nehru's life indicated the extreme anxiety felt in the party, in the country and outside about the peaceful succession. It also pointed to the close of the Nehru era —already his charisma was wearing thin, with the Chinese aggression.

The Rise of Kamaraj

This leads us to the present phase which can be conveniently termed as the 'Kamaraj era'. The era began with the 'Kamaraj plan' to revitalise the party by asking senior Congress leaders both from the Centre and the States to step down from the office and devote themselves to party-work. Kamaraj, a bachelor, with no family ties, a whole-time politician, with no vices and a simple life, but with innate appreciation of the mechanics of real politics in a democracy, became a symbol of sacrifice and was the first to follow the principle of 'party before post'.

The 'Kamaraj plan' gave an opportunity to Pandit Nehru to drop from his Cabinet six of his colleagues, including pronounced rightists like Morarji Desai and S K Patil. This was alleged to be the attempt to restore ideological balance in the Cabinet, (caused by the exit of Menon and Malavia). The ousting of six Chief Ministers resulted in new power alignments in those States. The plan succeeded because those who were sacrificed, accepted the decision without recrimonious public debate.

There was not even an idea of revolt against the leadership. Events followed in rapid succession with the failing health of the Prime Minister. After the Bhubaneshwar session, Lal Bahadur Shastri, who had resigned under the Kamaraj plan, was recalled to the Cabinet, to share the work of the Prime Minister. Kamaraj emerged as a strong man from the south who had the backing of the southern States and who, unlike his predecessors in office (of presidentship of the party), was determined to use his influence in shaping things after the departure of Pandit Nehru.

Can it be now assumed that the organizational wing would exercise a co-ordinate authority in the selection of the highest office? Or can it be regarded as merely a resultant of many accidental factors that Kamaraj projected himself beyond his capacity in getting Lal Bahadur Shastri through the ingenuous method of "consensus" and avoiding a direct confrontation? The power of Kamaraj is a result of many factors, principally his unchallenged supremacy in Madras, a state where the secessionist D K and D M K movements were posing a threat to the unity of the country. The strategic importance of the southern States in Indian politics, which the populous northern States dominate by virtue of their voting strength — a fact resented by the south — cannot be overlooked. The support which Kamaraj received was from different sections of the party—some of the party bosses, most of the middle cadre of leadership and the general rank and file. Every one of them might have supported Kamaraj for his own motives and sometimes for contradictory purposes.

Kamaraj, with the help of his supporters, was able to smoothen out the succession issue in favour of Lal Bahadur Shastri. This proved that the lessons he had learnt in the 'real politics' of his region, Tamilnad, were useful on a larger canvass. It is necessary to point out that the much-feared and expected 'split' in the party did not occur. Part of the credit must be given to those who were left out of power.

Conclusions

This brief survey of leadership situation in India does not entitle us to draw any inferences of a general character. What follows is to be regarded as tentative indications about the developing situation.

The age of 'the Children of Revolution' as Pandit Nehru said, is coming to an end. This is but natural, since after 17 years of independence the ranks of the freedom fighters are growing substantially thin. In the earlier phases, jail-going was correlated to remarkable social performance and leadership. This criteria will not now be available. Leadership based on the tradition of sacrifice, dedication and austerity would be replaced by the new leaders who represent their hold on their regions, either due to caste or interest group support. Really speaking the problem of substituting the tradition of sacrifice and dedication, by a tradition of specialisation is the basic issue. Specialisation means more material cost but more specialised knowledge of political organization and administrative skills. But to build up a tradition of specialization demands permeation of appropriate cultural values among the people. As yet no solution has been found. This does not mean that the present Central leadership lacks either in the sacrifice tradition or administrative experience. But if no conscious efforts were made to train a cadre of leaders specialised in political organisation and administrative skills, it would mean that the country would suffer from the demerits of both traditions. With the dedication-sacrifice tradition becoming scarce the material costs would increase, while in the absence of specialisation, there would be less expertise and there would also be a decline in the zealous pursuit of ideals. It is necessary to remedy this situation.

With the passing away of Pandit Nehru the chapter of charismatic leadership seems to have come to a close. The Central leadership at present represents a new trend towards collective leadership and better co-ordination between the two wings of the party—the parliamentary and the organisational. The Chief Ministers were influential in the battle for succession. The role and influence of the State Chief Ministers will be more significant in years to come. This might be regarded as a consequence of the strength of regionalism.

The Central leadership will be more responsive to popular pressure as people who tolerated the lapses of Pandit Nehru would be now more exacting in their demands. Within the party itself, the rank and file would become more critical and articulate. Indirectly, this might be a gain as it would democratise the party-machine.

The opposition parties may increase their pressure on the leadership either through united alliances or mergers. The same could be said about the growth of organised interests and their efforts, open and clandestine, to influence policies.

Pandit Nehru's leadership represented certain values in Indian politics like, secularism, modernism, scientism, socialistic planning, non-alignment, and democracy. Though the present leadership could be depended upon to follow these values by and large, yet their emotional commitment to these values is different from that of Pandit Nehru. It is very likely that the internal and foreign policies would be less idealistic and more down to the earth.

The functioning of democratic institutions depends on the internationalisation of democratic values by the community. Though such a claim cannot be made for the whole community it could be said that the leadership, the intelligentsia and the bureaucracy have a workable loyalty to democratic institutions. The smooth transition, contrary to the alarmist fears in certain quarters, from the Nehru era, demonstrates this workable loyalty and its efficacy. Barring an unforeseen catastrophe, the Indian leadership can be trusted to operate the democratic apparatus in a satisfactory manner.

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States' Tax Effort in Third Plan

K Venkataraman

Complaints are heard, on the one hand, that State Governments are not exerting themselves enough to raise additional resources for the Plan and, on the other, that State resources are insufficient and that, therefore, the States cannot be expected to raise substantial additional revenue.

It is necessary to determine which of these viewpoints is more valid.

This article examines the additional taxation, its magnitude as well as nature, undertaken by the States in the first four years of the Third Plan.

THE data used in what follows are a consolidation and representation of the data in the individual annual articles on state finances published in the *Bulletin* of the Reserve Bank of India. When proposals for additional taxation are discussed, they refer to proposals made in budget speeches and/or immediately modified thereafter. In actual implementation, the nature of the taxation as well as the resources derived therefrom might be somewhat different.

Increase Since First Plan

We may begin by looking at the trend of the quantum and structure of State revenues from the beginning of the First Plan. Table 1 gives the average total tax revenue raised by States in the First and Second Plan periods and for the first four years of the Third Plan. (For 1963-64 Revised Estimates and for 1964-65 Budget Estimates have been adopted.)

It should be noted that the averages do conceal substantial variations between the beginning and end of each Plan period, but they are a useful method of looking at trends for our purpose. What strikes us first is the increase by 140 per cent between the First and Third Plan, being made up of an increase of 52 per cent between the First and Second and an increase of 60 per cent between the Second and Third. Interesting features emerge on the side of the structure of taxation too. Firstly, General Sales Tax, Motor Vehicles Tax and Tax on Motor Spirit have roughly doubled in each Plan period. This has been due both to substantial rise in rates as well as the general buoyancy of economic activity. Secondly, land revenue is still important in absolute terms and is second only to General Sales Tax as an important source of revenue among State taxes. What is more, there is some step-up in the yield of this tax. The increase between the First and Third Plan is 88 per cent made up of an increase of 42 per cent in the Second Plan and an increase of 32 per cent in the Third Plan. The increase between the First and Second Plan can be attributed broadly to the revision of assessments consequent on Zamindari abolition and the increase in the Third Plan to general step-up of taxation. Other features which we may take note of in passing at this stage are the growing importance of electricity duties, the spurt in State excise during the Third Plan and the apparent stagnation in urban immovable property tax.

We may now pass on to the additional taxation measures in the Third Plan. Table 2 sums up the additional taxation proposals yearwise and taxwise. Table 3 shows the total tax revenues raised by States in the Third Plan. Certain important features again stand out. (1) The tax effort has been concentrated in the second and third years of the Plan. (2) Almost all taxes have been relied upon, the increases in land revenue, motor vehicles taxes and sales taxes being significant. (3) There is a noticeable effort in electricity duties. (4) In terms of magnitudes of increase, motor vehicles taxation, land revenue and sales tax came in that order in the second year, while in the third year, the order was sales tax, motor vehicles taxes and land revenue.

Trends in Individual Taxes

The next step is to examine the trends of individual taxes in detail but before that we could have a look at the State-wise distribution of the tax effort. Table 4 provides this. Additional taxation targets for the Third Plan have been indicated for each State in the table but no attempt is made to correlate them to actual performance since the rate of growth of revenue from the tax proposals would vary from State to State depending on the component taxes and these rates cannot be reasonably fixed without detailed study. We may however note the estimate made in the *Bulletin* of the Reserve Bank of India with the help of information from the Planning Commission: "Measures taken by the States during 1961-64 are expected to yield over the Plan period an aggregate revenue of about Rs 460 crores and if account is also taken of the resources that will accrue to the States from the changes in inter-State sales tax effected during 1963-64, the additional tax resources accruing to the States in the Plan period will be of the order of Rs 534 crores ... Thus the tax effort of all the States taken together has so far been below the target visualised in the Plan, viz, Rs 610 crores for the five year period! (*Bulletin* of the Reserve Bank of India, May 1964, p 577.)

Inter-State Differences

We should note, however, that the performance of States in taxation and in Plan implementation need not be direct and proportional. A State may raise the targetted additional resources and yet find itself not fulfilling the Plan, if administrative arrangements and other factors stand in the way. Conversely, though with lesser likelihood, States may be implementing the Plan satisfactorily even though they may not have fulfilled their taxation targets.

Now, what does Table 4 show? The most conspicuous feature that emerges is that Bihar has not practically made any additional taxation at all. She appears to have made an effort of Rs 1 crore, vide the following statement in the *Bulletin:* "In the case of Bihar, the tax performance in the Third Plan period has been far from satisfactory, the only proposals being those made in 1962-63 for an additional yield of Rs 1 crore. Consequently the Plan outlay of this State has been reduced in 1963-64." (*Bulletin* of Reserve Bank of India, April, 1963; p 444.)

One other interesting feature is the time distribution of the tax effort in various States. U P's effort was concentrated in the first year while that of West Bengal and Rajasthan in the third year. Madhya Pradesh distributed it over the first three years and Mysore over the first two years. Kerala distributed it in the first and third year while Andhra in the second and third year. Maharashtra and Madras concentrated their efforts in the second year.

II

We now come to individual taxes. Let us take land revenue and agricul-



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tural income tax first. There were straight forward increases in rates of land revenue in most states like Assam, Andhra, Kerala, Madras and Mysore. There was some emphasis on irrigation rates and betterment levies in U P, Orissa and M P. A comparatively new feature was the introduction in Maharashtra of a per acre levy on cash crops in irrigated lands.* Gujarat also proposed a levy on cash crops but withdrew it and substituted it with a straight forward increase in land revenue. Punjab also levied a tax on certain cash crops on a per acre basis with different rates for canal-irrigated and other areas. Another feature was the introduction of a tax on land holdings (related to their capital or annual value), over 30 acres in U P and over 45 acres in Rajasthan. In West Bengal, an increase in land revenue by Rs 1 crore is ascribed to land reform measures.

In looking at the trends in land revenue, however, we must bear in mind two factors. Firstly, devolutions of land revenue are made to local bodies in practically all the States but the manner of its devolution and its exhibition in accounts may vary from State to State. Secondly, local bodies are given powers in many States to levy surcharges on land revenue. For example, in Madras local bodies levy on the average a surcharge of 25 per cent on the basic land revenue. So in assessing the increase in land taxation, we can get a total picture only by taking into account the financial interrelations with local bodies.

Agricultural Income Tax

It is in this context that agricultural income tax assumes greater significance even if it does not result in very considerable increases in revenue (though the revision of the composition rates may itself increase the receipts to some extent). The Taxation Enquiry Commission had recommended the levy and extension of scope of agricultural income tax, particularly from the point of equity. Since its report, however, there have been increases in land tax as well as levy of surcharge by local bodies, both taking the form of flat increases over land revenue. The result is that land taxation is apt to be more regressive now. An examination of the agricultural income tax system with a view to redress this tendency is therefore called for. Economic development is well known to require a measure of redistribution of income from the agricultural sector and hence an examination of the taxation of agriculture with reference to the development strategy applicable to India is essential.

Related to land are the revenues from stamps and registration. They have shown a measure of buoyancy in the last decade, due mainly to land reform measures. In the Third Plan period so far, all States except Andhra, Bihar, Jammu and Kashmir, Madhya Pradesh and Uttar Pradesh have effected straight forward or differential increases in the rates of stamp duty. It is well known that in this sphere there is a certain amount of leakage of revenue due to undervaluation and it is therefore significant that Rajasthan has proposed to take measures to check evasion. Registration fees have been stepped up in West Bengal, Orissa and Madras.

Taxation of Urban Land

Another feature of land taxation that ought to become increasingly important is taxation of urban land. Increasing urbanisation lends scope for this taxation which however seems to be lagging behind its potentialities. In the Third Plan period, Andhra, Assam, Madras, Mysore, Orissa and Uttar Pradesh have introduced this taxation. Jammu and Kashmir has levied a tax on property of commercial establishments and Rajasthan has imposed a tax on vacant

Table 1: Tax Revenue Raised by States

(Rs crores)

	Average in First Plan	Average in Second Plan	Average for Four Years of Third Plan
Land Revenue	65.81	92.91	113.00
Agricultural Income Tax	4.53	8.07	9.66
Stamps and Registration	26.88	36.51	54.93
Urban Immovable Property Tax	1.89	1.98	2.34
State Excise	45.68	47.68	64.98
General Sales Tax	59.72	111.34	207.57
Taxes on Motor Spirits	6.69	11.91	23.17
Motor Vehicles Tax	12.72	24.21	48.30
Entertainment Tax	6.23	10.03	19.22
Electricity Duties	4.49	9.59	22.47
Other Taxes and Duties*	16.98	28.26**	33.63
Total	*251.61*	*382.47*	*599.27*

* Includes sugarcane cess, tax on passengers and goods, tobacco duties, tax on prize competition and betting, inter-State transit duties, tax on raw jute, etc. Excludes non-tax revenue.

** Includes taxes on railway fares (8.51), which come under grant-in-aid during the Third Plan.

Table 2: Addtional Taxation by States During Third Plan (Proposals)

(Rs crores)

	1961-62	1962-63	1963-64	1964-65
Land Revenue and Water Charges	4.60	7.38	4..00	1.00
Agriculture Income Tax	—	***	***	2.20
Tax on Non-Agricultural Land	0.45	1.32	1.40	0.20
Motor Vehicles Taxes (including taxes on fares and freights)	3.08	9.31	6.20	0.03
Electricity Duty	0.50	3.29	2.80	0.08
General Sales Tax	4.49	4.60	11.00	2.84
Tax on Motor Spirits	1.65	0.89	—	—
Stamp Duty	0.18	1.85	2.20	0.55
Entertainment Tax	0.31	0.99	0.50	0.20
State Excise	1.30	0.15	3.00	0.07
Others *	0.30	8.63	3.30	0.95
Non-tax Measures	0.60	—	2.60	0.50
Total	*17.33*	*38.41***	*37.00*	*6.62*

* Including those for which break-ups are not available.

** Subsequent modifications resulted in a loss of 1.63.

*** There were changes in Agricultural Income Tax in Assam, Mysore and Jammu and Kashmir but no break-ups are available.

* The old settlement procedures in land revenue do not recognise improvements made by the farmer for purposes of taxation and do not also in practice fully take into account the profitability of raising particular crops.

lands and a development fee. Gujarat, besides stepping up non-agricultural assessment and having 50 per cent higher rates for vacant plots, seems to have taken a step ahead by withdrawing exemption from assessment for lands in village sites adjacent to towns with a population of over 5,000. Bihar, West Bengal and Punjab which all contain increasing areas of urbanisation do not appear to have taken any steps towards taxation of urban land.

The figures relating to this form of taxation are not encouraging and this may be partly due to the manner of exhibition of these figures in the accounts and partly due to the time taken to put the scheme on the field and begin collection. There is no doubt however that this can be and ought to be an increasingly important form of taxation. Here again, the financial interrelationships between the state governments and the local bodies come into play. Taxation of urban property, whether regularly or at the time of transfer, comes into competition with property taxation by municipal authorities and the Taxation Enquiry Commission had recommended that the urban immovable property tax should be progressively reduced by the States levying the tax as and when and to the extent the municipality concerned raises the rate of its tax. Recognising this, Gujarat decided to discontinue the tax in Ahmedabad, the corporation having agreed to raise the property tax with effect from the same date. Likewise, Maharashtra proposed to transfer the proceeds of this tax to the local bodies and did not take credit in the budget for receipts under this tax.

There is obviously more than one solution to this problem and the solution actually chosen in each State depends on local conditions. The possible solutions are: (1) The entire field of taxation of urban property can be left to the local bodies; (2) The State government can levy uniform rates, collect them and hand them over to the local bodies; (3) The State government may levy, collect and appropriate the tax and give an equivalent amount of grants to local bodies, introducing a measure of equalisation in the process; and (4) The State government may levy such taxes and not accept any correlation at all to municipal taxable capacity or grant-in-aid. Suffice it to say that this question brings into play the entire gamut of State-local relations and the need to achieve a purposeful parity between functions and finances in local bodies.

Motor Vehicles Taxation

We may now turn to motor vehicles taxation, including taxes on fares and freights as well as motor spirits. This is becoming a fertile field of taxation, as already stated. The following are the major trends in this regard: (1) Taking the field of motor vehicles taxation as a whole, Bihar, Mysore and U P are the only States that have not substantially resorted to it. (2) Diversification or enhancement in motor spirits taxation. U P and Rajasthan brought diesel oil within the purview of this taxation, following the example of other States. Assam, Gujarat, Madhya Pradesh, Maharashtra and Orissa have stepped up the rates. The rates, of course, vary from State to State but the sales tax on motor spirit has now reached as much as 12 nP per litre in Gujarat. (3) Introduction, diversification or enhancement of the tax on passenger fares and freights. Assam Kerala, Orissa and Gujarat belong to the first two categories, while many other States have increased the rates. Here again there is an inter-State spiral. The tax is now as high as 25 per cent on fares in Punjab and 10 per cent on freights in Rajasthan. Maharashtra has levied a tax on goods carried by private carriers in addition to the more usual tax on goods carried by public carriers. (4) There were increases in motor vehicles tax proper in all States except Bihar, Mysore, Orissa and U P. Madras has introduced some refinements in the motor vehicles tax by relating the tax substantially to the daily mileage of passenger buses and laden weight of public carriers.

Reliance on Sales Tax

The importance of sales tax as the *prima donna* in State finances is too well known to need emphasis. We shall confine ourselves here to the directions in which the revenue from this source is sought to be increased: (1) There is a greater consciousness of the need to check evasion as evidenced by the steps taken by Kerala, Rajasthan, U P and Madras. (U P took credit for Rs 1.5 crores for 'adjustments and tightening' of sales tax. (2) Increase in the sales tax on luxury goods to 10

Table 3: Tax Revenue Raised by States in Third Plan

(Rs crores)

	1961-62	1962-63	1963-64	1964-65
Land Revenue	65.23	120.07	118.16	118.55
Agricultural Income Tax	9.44	9.59	9.35	10.26
Stamps and Registration	46.57	52.21	59.26	61.66
Urban Immovable Property Tax	3.06	2.97	1.89	1.45
State Excise	58.58	62.81	67.55	70.99
General Sales Tax	153.14	187.52	236.62	253.00
Taxes on Motor Spirit	18.30	21.35	25.72	27.30
Motor Vehicles Taxes	37.93	46.29	54.07	54.89
Entertainment Tax	15.10	18.21	21.38	22.19
Electricity Duties	14.89	19.48	26.10	29.41
Other Taxes and Duties	21.44	29.42	37.38	46.26
Total	*473.68*	*569.92*	*657.48*	*695.96*

Table 4: Addtional Taxation, State-wise (Proposals)

(Rs crores)

	1961-62	1962-63	1963-64	1964-65	5 year target
Andhra Pradesh	—	5.00	6.00	—	53.00
Asam	0.15	1.58	1.60	0.86	16.00
Bihar	—	*	—	—	50.00
Gujarat	0.80	2.23	2.90	0.08	29.00
Jammu and Kashmir	—	1.10	1.00	0.75	8.00
Kerala	2.13	—	5.50	—	23.00
Madhya Pradesh	3.00	5.00	1.90	1.45	48. 00
Madras	—	7.14	—	1.00	45.00
Maharashtra	1.00	5.71	0.90	—	52.00
Mysore	1.70	4.00	—	—	42.00
Orissa	0.69	1.57	0.70	—	23.00
Punjab	1.31	3.80	5.30	—	40.00
Rajasthan	1.35	0.15	4.50	0.58	32.00
Uttar Pradesh	5.21	**	0.30	—	109.00
West Bengal	—	—	6.50	1.90	40.00
Total	*17.33*	*38.41*	*37.00*	*6.62*	*610.00*

* As explained in the text, taxation to the extent of Rs 1 crore is reported to have been made in 1962-63.

** No details are available, though there was some taxation. Presumably the sum of 1.13 needed to tally the total was shared by U P and Bihar.

per cent in pursuance of the decision of the Finance Ministers' Conference in February, 1963. (3) Adjustments made in sales taxation to correspond to the inter-State rate of 2 per cent e g, Madras which increased the sales tax on cotton, cotton yarn, cotton waste, etc, to 2 per cent and Gujarat. (4) Increasing tendency to tax food grains and cereals, as in Kerala, Madhya Pradesh, Orissa and Rajasthan. (5) Inclusion of the Central Government within the scope of definition of 'Dealer' for the purpose of levy of sales tax, in Maharashtra. (6) Though comparisons are difficult and require to be made cautiously, relatively high increases in rates of General Sales Tax in certain states. Punjao increased its general sales tax from 4 per cent to 5 per cent and then to 6 per cent.

There is obviously need for tightening of evasion and for interflow of information and research on sales tax. The question also arises whether there is not need for an all-India survey of the structure of sales tax as well as the procedures in various States. This will throw up a wealth of material conducive to rationalisation in individual States.

We may now briefly refer to the position in respect of other taxes. One feature is the increasing exploitation of State excise after a period of stagnation. This trend is, however, confined to a few States only. Andhra and Uttar Pradesh have proposed to get sizable revenues from this source, the former by the reorganisation and tightening of neera shops (Rs 3 crores) and the latter by changes in vend fees and rate of duty on country spirit and rum (Rs 1 crore). On the side of entertainment taxes, there have been marginal increases in many States, though it is not clear whether the limits of taxable capacity have been reached under this source.

The imposition of electricity duties or taxes on consumption of electricity is probably the most important development in State finances during these years. It has been largely resorted to though it is only in Madras that it seems designed to fetch considerable revenue. Lack of information prevents an examination of this question in detail but if a guess may be hazarded, it looks as if in many States only electricity duties, i e, duties on sales by electricity companies, seems to be levied. But it is the tax on consumption of electricity including the electricity sold by State boards that will fetch large revenues. Such a tax deserves to be widely adopted, for it will be a growing revenue in the context of increasing generation of electricity. Moreover, carefully and differentially applied, it is not a burdensome form of taxation.

New Taxes

New forms of taxation adopted during this period are (1) Tax on state trading in kendu leaves in Orissa (2) Tax on certain forms of advertisement in Rajasthan (3) Tax on purchase of cows and shebuffaloes for disposal outside the State in Rajasthan, and (4) A total on new roads and bridges in Orissa. (No uniform policy seems to be adopted by the States in this regard.) These are, of course, taxes of limited application and very limited potential.

We may refer briefly to the non-tax measures taken: (1) Imposition of fees in all classes above primary stage in Punjab. Kerala proposed a similar measure but withdrew it. Kerala, however, increased the admission and tuition fees in colleges. (2) State trading in kendu leaves in Madhya Pradesh and Orissa. (3) Increase in state transport fares in Kerala and Madras. (4) Rationalisation of rates of royalty on timber in Assam and increase in rates of royalty on minerals in Madhya Pradesh and Rajasthan. Madhya Pradesh in particular seems to have taken up the question of royalties, grazing and mining rules, etc, in detail. The royalties on minerals would require to be looked into by all the States, for the mineral rules were framed long back and may not be quite appropriate now.

III

What conclusions can we draw from this brief and cursory survey?

This survey shows at once the limitations as well as possiblities of additional taxation by State Governments. It also points to the need for collecting information on the tax structures in different States as a measure for inter-State information and rationalisation. A comprehensive enquiry into State finances would be valuable. This apart, there are two sets of broad trends which may be touched upon briefly.

The first set of considerations relates to the short term trends in Central-State fiscal relations. Even though the additional taxation by State Governments has been below the target set in the Plan, State tax and non-tax resources have been able to hold their own relatively to central resources—*vide*, for example, the following statement in the *Bulletin* of the Reserve Bank of India: "Despite a significant addition to the States' share of the divisible pool of taxes consequent upon larger allocation recommended by the Third Finance Commission, as well as the step-up in the tax rates by the centre, the shared taxes in States' tax receipts which had risen from 21 per cent in

Table 5: Transfer of Resources from Centre to States

(Percentages)

Year	Shared Taxes and Grants to Revenue Account	Loans to Total Expenditure	Total Central Resources to Total Expenditure
1956-57	*18.6*	*23.4*	*35.8*
1957-58	*34.4*	*27.5*	*50.3*
1958-59	*39.7*	*25.3*	*52.3*
1959-60	*40.4*	*23.3*	*51.1*
1960-61	*40.8*	*23.0*	*50.3*
1961-62	*35.2*	*27.7*	*52.0*
1962-63	*35.4*	*29.0*	*53.7*
1963-64 (RE)	*36.3*	*29.6*	*54.0*
1964-65 (BE)	*36.7*	*26.0*	*50.5*

Table 6: Revenue Expenditure of States

(Rs crores)

	Average for First Plan	Average for Second Plan	Average for Four Years of Third Plan
Development Expenditure			
Education	78.90	151.46	267.29
Medical and Health	35.90	61.16	110.41
Agriculture, Animal Husbandry and Cooperation	31.46	52.98	95.49
Civil Works	51.06	54.42	89.89
Others	13.27	122.54	207.36
Total	*250.59*	*442.56*	*770.44*
Non-Development Expenditure			
Civil Administration and Collection	148.70	204.56	267.61
Interest on Debts	12.88	55.00	165.78
Others	67.17	84.80	134.19
Total	*228.75*	*344.36*	*567.58*
	(251.61)*	(382.47)*	(599.27)*
Grand Total	*479.34*	*786.92*	*1338.02*

* Tax revenue raised by States.

1955-56 to 27 per cent in 1960-61, have tended to remain more or less at the same level (27 per cent to 28 per cent) during the Third Plan period. A factor explaining this trend is the buoyancy in states' tax revenue and the levy of sizable additional taxation by States during 1962-63 and 1963-64. (*Bulletin*, May 1964, p 581.) Likewise, the total resources transferred from Centre to States, that is, shared taxes, grants and loans, have remained fairly stable as a percentage of the total expenditure of States (Table 5.). It would, however, be rash to draw any general conclusions on Central-State relations from these figures, because (1) they reflect very short term trends and (2) towards the end of each plan period there is a likelihood of increase in central resources, as more plan schemes are implemented and arrears of shared taxes and grants are also also paid.

The other set of conclusions relates to the parallel trends in expenditure. The average revenue expenditure of States in each plan period is shown in Table 6, with the average tax revenues raised by States shown in brackets under the total for non-development expenditure. The results, for our purpose, are clear. The balance from current revenues raised by the States over non-development expenditure has not risen appreciably (as a percentage it seems to decline) due to the substantial growth in non-development expenditure, particularly in debt-servicing. We are not concerned here with the other implications of the Table.

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DA 64/701

Indian Mining Association

Mr Bhaskar Mitter's Call for Fresh Approach to Vitalise Coal Industry

THE following is the speech delivered by Mr Bhaskar Mitter, Chairman, Indian Mining Association, at the Annual General Meeting held on March 16, 1965, at the Bengal Chamber of Commerce and Industry:

GENTLEMEN

I would like to begin the proceedings of this Annual Meeting by paying homage to our late Prime Minister, Jawaharlal Nehru. It is difficult for me to speak of him with restraint, for to me, he was not only a great leader, but also a friend of our family. It is rarely that one sees embodied in one personality such an unique combination of great qualities —I refer to his zest for life, his grasp of affairs, his intellectual affluence, his concern for the individual, and his solicitude for the neglected and the forgotten. He articulated the hopes and aspirations of mankind, transcending national frontiers, and reaching to the far corners of the world. Perhaps the best way to honour his memory is to dedicate ourselves to the great ideals which animated him.

Gentlemen, would you please rise and stand in silence in his memory?

Since we last met, Sri Sanjiva Reddy has assumed charge of the Ministry of Steel & Mines. He brings with him into his new office great ability, and a wealth of administrative experience. Coal is not an unfamiliar subject to him, since he has been closely associated with the working of the Singareni mines in Andhra. We offer him our felicitations, and also our co-operation in the joint endeavours which will have to be made to build up a virile, and greatly expanded coal industry, of which the country as a whole may be proud.

Focus on Fourth Plan

Our Annual Meeting is invested this year with a special significance, for we are about to enter the last phase of the Third Plan, and our sights must accordingly be focussed on the Fourth Plan and beyond. This is the first time when we must assess again the place of coal as a source of energy in our country; estimate what the requirements will be in the coming years; examine the present state of the industry; and devise measures to give it a dynamic impetus, so that it can play its full part in the progressive expansion of the Indian economy. I do not propose, therefore, to catalogue the events of the last twelve months, but rather to discuss some of the more important issues which are before us today.

Depression in Coal

With the commendable efforts that we are making to augment our resources of oil, natural gas, and nuclear energy, it is expected that these sources of power will play an increasingly important role in future. When we consider these different sources, however, we must not lose sight of the fact, that our **per capita** consumption of commercial energy in India is amongst the lowest in the world, and will, in future, have to be raised rapidly, if we are to progress as a nation. Consequently, there is ample scope for all forms of power which we can harness. Whilst in terms of percentage, the coal industry's share in the future energy pattern may be reduced, in quantitative terms of production, its contribution must progressively show impressive advances over current levels of output. In the foreseeable future, coal will remain the preponderant source of commercial energy in India, and its importance to the country's prosperity is basic. On coal's performance will largely depend the success of our national plans as a whole. It is imperative, therefore, that on the eve of the Fourth Plan, we should take a careful look at the present state of the industry. When I talk of the coal industry, I must of course make it clear that I refer primarily to the Private Sector, although most of the issues have application to the Public Sector as well.

Widespread through the industry today there is an air of depression caused by two principal factors — a slump in demand, and a price structure which denies an adequate return.

Slump in Demand

Dealing first with demand, the Third Plan opened on a note of hope and enthusiasm. The target of production for industry was placed at 97 million tonnes — an appreciable increase over the actual production of 56 at the end of the Second Plan. It was authoritatively stated that the country would require the whole 97 million, and, in fact, in order to ensure that the economy did not falter for lack of coal, the industry was asked to create capacity for a total of 104 million tonnes. The plans were laid, a frantic search for finance ensued to match the handsome World Bank loan, to meet foreign exchange requirements, and investments were made on a massive scale. There was hard work at hand, but there was also a quickening of the pulse, for we were participating in a great nation building effort. By the summer of 1963, however, these early hopes began to fade, and it was not long before it was realised that, owing to a combination of various circumstances outside the realm of the coal industry, the tempo of the country's economic growth had slowed down considerably. The Planning Commission's mid-term reappraisal recognised this trend, and thought that a total demand of more than 90 million tonnes would not mature. Since then the rethinking has gone further, and the latest indications are that about 70 million would suffice. This is a far cry from the trumpet call of 97! No useful purpose will be served by indulging in any recrimination over this distortion in the original target, which may have been largely due to unforeseen factors affecting the entire economy. The fact cannot be shirked, however, that the coal industry has been hit badly by this colossal gap between anticipation and reality.

Within the overall figure, the Private Sector entered the Third Plan with a target of 62 million tonnes — an additional 17 over its level of production at the end of the Second Plan. But, currently, it is raising an extra 6

million tonnes only, and this is meeting the demand. If we exclude from this, the additional 2 million which have been contributed by units outside the Plan, in relation to the planned target, the increase required has been only some 4 million tonnes, or less than 25% of the original expectation. To help attain its allotted goal, the Private Sector has invested, under great strain, something over 25 crores during the last three years, and an investment on this scale would have been hardly contemplated if it were known that the extra demand in the current Plan would be so limited. When one considers these facts, it is not surprising that a sense of malaise grips the industry.

Inadequate Price

The other primary cause of this feeling is the inadequacy of the present price structure to make the industry the vital instrument of progress that it should be. This structure is based on the Report of the Coal Prices Revision Committee, which was accepted by Government in 1959. Two of the main conclusions of the Report were that the coal industry should have a notional sum of Rs 1.70 per tonne available to it as an item of expense for depreciation and development. In addition, a gross profit of Rs 1.75 per tonne was considered a fair return. The Committee felt that, if the industry could have these two built-in elements in its prices, it should be in a reasonably healthy state. In practices, the organised section of the industry, which accounts for the bulk of the production, is today unable to get either return as envisaged in the Report. Squeezed between mounting costs and low prices, this section is running into the red, with an available margin inadequate to conserve funds for expansion, and at the same time give a fair return to investors.

The provision of even working capital is becoming increasingly difficult. Between March 1963 and January this year, wages have been raised by some Rs 25 per worker per month. On an average employment of 4,35,000 persons, the industry has to provide an additional Rs 13 crores per year on this account alone. There are also vast sums owing from the Coal Board, which are usually paid long after they fall due. The problem will escalate further if the industry is called upon to meet additional obligations, such as, the contemplated Payment of Bonus Act, the final Wage Board Award, and the threatened imposition by State Governments of increased royalties. The depressed state of the capital market, recently ennanced import duties, restricitons on bank credits, and increase in bank rates, make the task of having adequate finance no easier.

It is not surprising, therefore, that coal is generally regarded today as one of the least inviting fields for new investments. Coal counters in stock markets are among the most neglected, and there is at present little stir over coal in the centres of finance, which attract all the growing, vibrant industries. Even the President of the Coal Consumers Association thought fit to open his presidential address not long ago with the words "The cauldron of coal problems is on the boil..."!

This, then, is the broad picture as we move nearer to the Fourth Plan. Obviously, a situation like this cannot be allowed to fester in a vital sector of our economy.

In regard to the slump in demand, it is anticipated that as the economy begins to grow faster, the present maladies might be gradually overcome. I naturally share these expectations, but there are some aspects of the Fourth Plan to which I must draw attention.

Demand Overestimated

The present indications are that the coal target for the next Plan will be 125 million tonnes, and the tentative allocations between the two Sectors are 72 to the Private, and 53 to the Public. Whilst the overall figure of 125 million appears impressive, I would like to sound a note of caution, having regard to our sad experience in the current Plan. If, as appears likely, a total production of something like 70 million tonnes will suffice for the country's requirements at the end of the current Plan, it would seem that the needs of the Fourth Plan may have been overestimated.

Taking one instance, the present offtake for power generation is about 8 million tonnes including middlings. The next Plan assesses this demand to shoot up to over 30 million tonnes! Whilst the authorities must have access to more precise information than we have, it seems difficult to visualise that coal-based power stations will, within the space of six years, increase their requirements to nearly four times their present needs. A World Bank study team suggested that a total of 110 million tonnes might be a more realistic goal. I would commend a very careful reappraisal of the position, so that we may avoid the quicksands of misleading hopes.

Individual Targets

Within the total figure of 125 million tonnes, if we look at the individual targets of different types of coal, further problems present themselves. In regard to coking coals, the Private Sector is expected to raise its output from the current level of some 14 million tonnes, to nearly 26 million. This poses a formidable challenge, since a substantial portion of this Sector's contribution must come from depillaring with stowing, and from vertical development in depth. It will require a fresh input of capital on an impressive scale. Again, as stowing must play a significant part, sufficiency of sand supplies will have to be ensured. The bulk of coking coal production moreover will have to be washed, and if washing capacity, and the expansion in steel, does not keep pace with increased production of coking coals, the industry's investments might be rendered largely sterile.

In the area of non-coking coals, the extra production required from the Private Sector is some 6 million tonnes over last year's level of 37 million. In this context, it should not be forgotten that this sector had been asked to create capacity during the current Plan for 47 million tonnes, and this has been largely accomplished. Consequently, it will be required to wait till after the end of the Fourth Plan, before offtake approaches the level anticipated for 1965/66.

A curious and, at the same time, unfortunate position is thus reached, in that the Private Sector's heavy investments in non-coking coals will have to mark time before earning the returns originally expected during the Third Plan, whilst vast new investments will be needed in coking coals, with the uncertainties I have mentioned.

The particular situation in the outlying fields must also be seen from another angle. Two years ago, producers were asked to step up output mainly to meet the requirements of Western India. Plans for increasing raisings of even Grade III coals were approved, though further production of this grade was not wanted in Bengal and Bihar. Mineowners in Madhya Pradesh went to great expense in meeting Government's request to develop additional capacity. They, too,

looked forward to a period of further expansion and much needed relief, but they are now informed that no extra coal will be required from them in the Fourth Plan.

Thus, whilst the next Plan with its new urges, holds out the promise of a gradual elimination of the present slump in demand, its detailed projections have brought in their wake major problems to be contended with. Whatever the ultimate size of the Plan for coal, it is manifest that the coal industry will have to discharge a heavy responsibility to make it a success, and this underlines the compulsions of creating a climate in which that industry can realise its full potential.

When discussing the inadequacies of the present price structure, I am fully conscious of the great national problem of checking inflation. Within the imperatives of this overall necessity, however, thought has to be given as to whether it is not desirable to make the prices of some basic things correspond to the realities of costs, so that the vital industries may grow and service the general economy. Presumably it is thinking on these lines that leads to periodic increases in such things as railway freights and electric power charges. Coal prices should not be excluded from this process.

Modern and Viable Industry

It is only a modern and viable coal industry that can, in times to come, stabilise coal prices to the consumer. In Britain, the price of coal had to be raised many times between nationalisation in 1946 and 1962. Huge investments for modernisation of mines have been made, and it is only now, as a consequence of this, that the National Coal Board has been able to stabilise prices. In the USA and Australia, it has been possible to reduce coal prices, but only because in those countries productivity has shown striking advances. In India, productivity remains pitiably low, and I shall refer to this again later.

Undoubtedly, the long term objective of our coal industry must also be stabilisation of prices, but to achieve this, it has to be financially strong. Because coal has been a relatively cheap commodity, inadequate attention is paid by most consumers to efficiency in fuel consumption. Fuel technology is now an advanced science in most developed countries, and it is time that here, also, the importance of this was fully realised. I believe that despite advances in coal prices, industrial costs could be maintained, if not reduced, if greater care is paid to avoiding waste in the use of fuel.

The fear of excessive profits accruing to some units in the industry through an increase in prices should not restrict official policy, as Government have many weapons in their armoury to mop up unhealthy gains. The word 'profit' often conjures up visions of something undesirable. There is no reason why this should be so. We must distinguish clearly between 'profit' and 'profiteering'. No one can support 'profiteering', and we condemn it in unequivocal terms. But profits are not only desirable, but essential, for vitality. It has been said quite rightly that profits are the sinews of growth, and a basic industry like coal must have adequate profits for sustenance and growth. I would submit that a thorough review of the pricing policy in coal has now become an urgent necessity, not only to meet today's needs but also to finance future expansion.

Stowing

Linked to the vital question of adequate prices, is the subject of costs incurred in stowing for safety and conservation. The Coal Prices Revision Committee, realising the importance of stowing to national interest, recommended that its cost should be neutralised in full, subject to an overall ceiling, and the recommendation was accepted. The stowing cess was increased suitably to finance this concept, and it was hoped that those units, which had undertaken this work at considerable expense, would get some much needed relief. However, in implementing the scheme, the Coal Board introduced a complex system of sub-ceilings of assistance under various heads, and arbitrary norms, which have largely eroded the fundamental concept of neutralising these costs. Thus, coal companies have today to incur very substantial losses in the process of stowing. This financial haemorrhage should be stemmed without delay. Then again those producers, who gather and stow sand in accordance with modern technological processes, qualify for less assistance than those who carry on under more primitive conditions. It is surprising that there should be a premium on obsolescence.

Since stowing will have to be extended on a much wider scale in future, I would suggest that both the outlook in giving assistance for stowing, as well as the cumbrous procedures which flow from that outlook, are overhauled with expedition. Then, only, can Government's policy to encourage stowing be fulfilled.

Subsidy Scheme Needs Review

With the gigantic strides in modern technology, the days of shallow pits, where the pick and shovel were the symbols of mechanical sophistication, are fast ending everywhere. They are being replaced by modern units, mining with the aid of the latest techniques that science has to offer. Indeed, if our coal industry is to meet the challenge of the future, it will have to dig deep, and to contend increasingly with the hazards of the dark depths — gas, water and the various geological obstacles, which have to be overcome before the earth will yield up her treasures. One of the necessary corollaries of working at depth, and under difficult conditions, is the question of abnormal costs, and it is recognised that production under such conditions should be subsidised. The subsidy scheme, introduced for this purpose in 1960, however, bears little relation to the actual costs of today, and an urgent review is called for.

As in the case of the stowing subsidy, so with this one for difficult mining, not only is the assistance given inadequate, but the inadequacy is magnified greatly by the long delays which occur in giving it. The prescribed procedures are pedestrian and deny prompt relief. There is a well known principle of jurisprudence that justice delayed is justice denied, and I would urge the authorities to have the process streamlined at the earliest opportunity, so that the policy of Government to give relief in certain circumstances is not enmeshed in a tangle of unnecessary red tape. Another factor which causes delay is, I believe, the lack of funds with the Coal Board. It is indeed regrettable that such a responsible body should not have adequate funds available for the proper discharge of its duties.

Apart from coal prices and subsidies, there is the important question of foreign exchange, which must be considered. At the start of the Third Plan, substantial foreign exchange facilities were organised for the coal industry through the World Bank. The industry has not yet been able to utilise these facilities in full, and this has been commented upon in some

quarters. At a time when the entire country is desperately short of foreign exchange, it is indeed paradoxical that coal should have been unable to take full advantage of the facilities offered. For the answer to this paradox, however, one has to look to the dimensions of the slump to which I have already referred. Indeed, having regard to the conditions prevailing in the industry during the last 18 months or so, I am surprised that it has been able to use as much as Rs 15 crores against a total allocation of Rs 16.5 crores. The incapacity of the coal industry to utilise fully these facilities should not preclude, in any way, the making of suitable arrangements for future foreign exchange requirements in the context of the new capital investments that will be needed.

Rail Transport

I cannot recall any speech at such a meeting, which has not referred to rail transport, with which the fortunes of coal have been traditionally intertwined. I remember when I occupied this chair about a decade ago, a very considerable portion of our time and effort was taken up in dealing with problems arising from a shortage of rail capacity. Today, I am happy to say, the position has improved, but I hope that this will not generate any sense of complacency on the part of the Railways. When the economy recovers its momentum, as it must do, if capacity is again unable to keep up with demand, then we may face a similar bottleneck as was experienced at the end of the Second Plan.

While I commend the general performance of the Railways, there are still areas of dislocation, such as the periodic shortage of four wheelers and, more recently, of even BOX wagons. When wagon supplies are erratic, coal has to be stacked at colliery sidings, which not only involves heavy handling costs, but also results in deterioration in its properties. This important matter has unfortunately not received the attention it warrants. Apart from the risk of spontaneous combustion due to oxidisation, of all the properties of coal, the coking property is possibly the most rapidly affected through storage. It has still to be fully appreciated that the interests of the producers and consumers of coal cannot always be subjected to the convenience of the Railways alone.

While discussing rail transport, we must not be oblivious to the need for developing roads, particularly the feeder roads in the coal-fields. Little has been done yet to improve them, and early action is called for. We had hoped that the Durgapur Expressway would have been nearing completion by now, but progress has been most disappointing. Traffic on the Grand Trunk Road has exceeded saturation point, and this venerable highway, originally aligned by the Emperor Sher Shah, can hardly be expected to cope indefinitely with modern twentieth century traffic. I trust that this much needed Expressway will be commissioned soon.

In common with the strenuous efforts being made throughout the country to promote exports, the time has come for a new drive to stimulate the export of coal. Our outlets today are virtually confined to Pakistan, Burma and Nepal. India has lost traditional markets like Ceylon mainly due to vacillating attitudes in the past. Official policy, over the last six years, has favoured, at different times, a general ban, partial relaxations, and somewhat grudging releases of coal, subject to various restrictions regarding the qualities that could be shipped. No country can hope to establish its exports overseas, and to sustain them, by such myopic measures. What is required is a well defined long term policy, not subject to violent fluctuations, and having as its inspiration the establishment of a steady export outlet for Indian coals. I therefore welcome the setting up recently of a Study Group to go into this matter under the chairmanship of Dr P S Lokanathan. I hope that its work will help India not only to recapture her traditional markets but also to establish markets in new areas as well.

Deterioration in Quality

This brings me to the question of quality, and the complaints, which are heard periodically about the deterioration in coal supplies. When considering this issue, two basic facts must be appreciated. The first is that coal is not a manufactured product, and, therefore, there is no question of inferior ingredients being deliberately used in producing it. The industry can only raise and despatch what nature has bestowed underground in our country. The second is that raw coal is not a highly standardised commodity. Nature has not worked to any standard specifications when laying down our coal seams. Consequently, quality is apt to vary a little and cannot be completely uniform.

If consumers require better coals than the country is endowed with, or completely uniform quality, as in manufactured goods produced under controlled conditions, then the answer must lie in washing on a massive scale. They must, in that event, be prepared to pay greatly increased prices. The only alternative to washing would be to import coals of better intrinsic quality from other countries. At a time when we are going through an acute foreign exchange crisis, the wisdom of adopting such a policy is open to serious doubt.

Royalties to States

I must refer now to an entirely different subject — Royalties. Both the State Governments of West Bengal and Bihar have recently amended the West Bengal Estates Acquisition Act and the Bihar Land Reforms Act. Under these amendments, the intermediary royalty receiving rights in both States have been abrogated. In West Bengal, an earlier attempt to vest these rights retrospectively in the State Government resulted in complex litigation. We have recently been having several meetings with the Finance Minister of West Bengal, and I welcome the initiative shown by him in trying to evolve a fair solution to this long standing dispute. On our part, we have submitted concrete proposals, and I would like to assure him of our full co-operation in finding an equitable compromise.

In Bihar, intermediary royalty receiving rights vested in the State with effect from October last, and the unfortunate experience of West Bengal has been avoided. We are, however, concerned with the Bihar Chief Minister's recent proposal to increase the rate of royalty from 2½% to 5% of the F O R selling prices. Despite the acute financial position of the industry, a feeling appears to persist in some States that the coal mining industry has an unlimited source of funds, which can be constantly tapped to augment their resources. This feeling hardly corresponds to facts. We are already contributing substantially to their revenues by way of royalties, cesses, taxes and other impositions, and if they wish to increase their income, State Governments should turn to other and more affluent sources.

We have been giving careful consideration to the proposed Bill for Amalgamation of Collieries. This Association does not oppose the principle of amalgamation to weld together small coal producing units, so that large viable units can be formed, capable of using the modern processes of production so important to our future. In a basic industry like coal there is no particular virtue in being small and primitive. It is sometimes suggested that amalgamation would help the growth of monopolies and foreign interests. A careful scrutiny of the industry's structure will show that such fears have no foundation whatsoever. The draft Bill as circulated, however, is unlikely to achieve the end in view. Its provisions are so sweeping, that if it is enacted in its present form, the entire infra-structure of the organised section of the industry may well be dislocated. This is a grim prospect, the consequences of which should be seriously pondered. In the years that lie ahead, this section will have to produce vastly increased supplies of coal, particularly coals of the higher grades, to sustain our steel industry, other essential consumers, and our drive for exports. The present provisions of the Bill can seriously prejudice all this. We are in consultation with Government, and I hope that our views will be given mature consideration before anything drastic is done.

Safety in Mining

We have been concerned also with the proposed Payment of Bonus Bill. The fundamental concepts of this measure, and its provisions, have been debated widely throughout the country. The coal industry has been paying a statutory attendance bonus since 1948, and now, in addition to this, we are called upon to meet a new burden not necessarily related to either efficiency or prosperity. This might well introduce a potential area of disputes where none had existed before. It will also involve a further financial strain on this already debilitated industry, and I trust the means will be given to it to meet the additional charges, for which there is no capacity within the present rigid price structure.

Safety in mining continues to receive the constant attention it warrants, and the Industrial Committee on Coal Mining last year approved several amendments to the Mines Act, which are expected to be enacted shortly. I would like in this connection to pay a tribute to the Chief Inspector of Mines, Mr G S Jabbi, and his organisation, with whom we have continued our joint consultations on problems of mutual concern. I firmly believe that it is only by maintaining these close contacts shall we be able to appreciate each other's points of view, and attain that difficult balance of ensuring safety, which we all naturally desire, without impairing the interests of production — particularly production at economic cost.

As in all forms of industrial enterprise, success in this industry also depends on the joint endeavours of management and labour, and I am glad to say that by and large we have worked in harmony.

Productivity

I appeared on behalf of employers before the Wage Board for the Coal Mining Industry, which is now in the process of finalising its recommendations. In my submissions, I pointed out that, from about the middle of 1963, a depression had overtaken the industry and made it financially weak; that the level of wages paid in the industry today compared most favourably with those paid for similar occupations in this part of India; that, within its existing price structure, the industry did not have the capacity to sustain higher levels of remuneration; that, in the interest of production and progress, much greater mechanisation in this industry was necessary; and finally, that while we share the natural aspirations of labour for a progressively better life, ultimately the ability of the industry to meet these aspirations must depend on its own viability, and such vital factors as productivity.

Too little attention is paid to the question of productivity. In the coal industry, despite all the machines introduced in the mines in recent years, and after more than doubling the raisings from highly mechanised open cast workings, the output per man year today is only slightly in excess of what it was thirty years ago! Higher wage rates and better standards of living are necessary not only as social objectives, but also as factors of economic growth. It must be recognised, however, that one of the essential means of achieving them must be productivity. Higher wage rates, without increased productivity, are incompatible with the sustained growth of the economy.

In branches of the Mineral Industry other than coal, progress has been made during the year, though there were some disquieting features. The supply of blast furnace grade iron ore was found to be surplus as a result of the expansion of captive mines by the Steel Plants. Competition in the export market became more acute on account of increased quantities offered by new areas, particularly Australia. While the world prices continued to follow a declining trend, our costs of production, unfortunately, recorded a sharp rise, the major contributory factor being the interim wage increase granted by the Wage Board for the Iron Ore Mining Industry.

The production of limestone and dolomite has expanded in line with the requirements of the steel and cement industries. I would also mention that there has been some improvement in the manganese ore export trade since the latter half of 1964, contrary to earlier expectations. The Government have decided to discontinue the practice of allowing exports of manganese ore against barter and link arrangements from 1st January, 1965, but the results of this change have yet to be seen. The need for making our ores fully competitive in the World Market is of great significance today, and I would suggest that the industry's plea for the restoration of railway freight concessions existing before 31st March, 1963, should be conceded without further delay.

No Expenditure on Welfare

Since the inception of the Iron Ore Mines Welfare Cess Act, 1961, there has as yet been no evidence of any expenditure on welfare amenities for employees in the iron ore mines. There has been a proposal for constituting either separate welfare funds for specified mining industries, or a common fund covering all mines excluding coal, iron ore and mica. At the Fourth Session of the Industrial Committee on Mines other than Coal, it was agreed that a general law, like a Minerals Welfare Act should be enacted by the Centre to foster welfare activities on an uniform basis.

The need for modern techniques of production and management in our mines underlines the importance of fostering better collaboration between men of science and business administrators. At present there is insufficient contact, and comparatively little exchange of ideas, and I would like to make a plea for closer association between the industry and such bodies as the Central Fuel Research Institute

and the Central Mining Research Station.

In the field of training, the industry has been keen to press on with the idea mooted some time ago of sending some of our promising young engineers to Britain for advanced training, through the generous help of the National Coal Board there. We have had further discussions on this subject with Lord Robens during his last visit to India, and I hope that the scheme will be implemented soon.

In the exciting task of building up our nation, the mining industry has a pivotal role to play, but in the industry's present picture, the darker shades stand out more prominently than the brighter ones. This, then, is the time for a dispassionate survey of the problems and their causes. Shapes of things are sometimes clearer under dull skies than in the bright shimmer of a blazing sun. This, then, is the time to frame a bold strategy for advance.

Gentlemen, this morning I have discussed our problems frankly. If at times I have had to sound discordant notes, I am sure you will agree that, with our democratic traditions, it is one's duty to speak one's mind freely in a constructive endeavour to resolve our difficulties. I trust that the suggestions I have made will be carefully considered by the authorities. On the part of my Association, I can assure them of our full support in removing the roadblocks to progress.

Acknowledgments

I would like to mention here that our relations with Government have been most cordial. Whilst on specific issues our viewpoints may have differed, our deliberations have been guided by a spirit of give and take, and we have been appreciative of each other's difficulties. Both Mr N C Srivastava and Mr Chhedilal, the Secretary and Joint Secretary in the Ministry of Steel & Mines, have shown us every consideration, as have our Coal Controller and Chairman of the Coal Board, Mr A C Bose, and his staff. I must also express my appreciation of the co-operation we have received from other Ministries who have an interest in our affairs. I have no doubt that these excellent relations between this Association and Government will continue.

Gentlemen, it has been a source of great personal pleasure for me to have been associated once again from this chair with the affairs of the Indian Mining Association. Another year is behind us—a year which has had its full share of worries and cares. But we cannot allow this to dampen our determination to face the challenge of the future, and move forward to new horizons of endeavour. I would like to end by recalling the words of President Radhakrishnan: *"From the altar of the past we should take the living fire and not the dead ashes. Let us remember the past, be alive to the present, and create the future with courage in our hearts and faith in ourselves."*

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Sen-Raleigh Limited

Increase in Production and Export

Chairman Mr Abhijit Sen's Review

THE fifteenth Annual General Meeting of the Sen-Raleigh Limited was held at the registered office of the Company, Mercantile Buildings, Lalbazar, Calcutta-1, on 19th March 1965 at 3 P M. The following are extracts from the statement by the Chairman, Mr Abhijit Sen.

The year under review was marked by a decided improvement in the Company's production performance. In this period production of bicycles could be increased by all of 30%, whilst production of some components also showed marginal increases. It is a pity however that in no single item could the targets for the year be realised because of unpredictable failures in the supply of materials. Production programmes for bicycles suffered most heavily on this count, whilst those for hubs, saddles and pedals were also affected.

Production

The expansion programme for bicycle production referred to in my last report to you was completed on schedule, but the fullest use could be made of the increased capacity in the absence of a regular flow of materials. Bicycle production could only be maintained at the highest level that irregular material flow would allow and though the increased production achieved in the face of considerable odds has gone a long way in bringing about an improvement in the Company's operating results, these are not as good as could have been expected had materials been available to feed the expansion in full, and had prices for these materials remained at the level of the previous period.

The current financial year has opened on a much healthier note with production of bicycles and components running well ahead of that of the corresponding period last year. The material supply position so far seems to have taken a turn for the better, and should this situation prevail throughout the remaining part of this financial year, the prospects for the year would appear to be brighter than in the immediate past, and an improvement in financial results can be expected.

There is however, still little sign of a break in the pattern of sudden shortages appearing on the scene without notice and making their presence felt in the way of lost production, that no amount of planning can hope to take care of. This has an unsettling effect on production costs and it can only be hoped that with the experience gained in planning over the past decade, it would be possible for the country to come to grips with this problem and overcome it in the not too distant future. In the meantime, we can but strive to operate as near targets as is possible within the limits of an economy, in which the demand for raw materials constantly outstrips its production.

Exports

The bicycle industry produced a very much larger number of bicycles during 1964 than in the preceding year, but this in no way diminished the demand for the product. Judging from the present trends there seems to be every reason to believe that 1965 would see records established in bicycle production and sales. With larger number of bicycles on the road, and more coming out every day the demand for components and accessories grew rapidly—and indeed scarcity conditions ruled for specific items such as hubs, tyres and tubes.

The market for your Company's products—particularly in original equipment field— continued to grow in this period and the demand for more bicycles and components continues into this year. It is hoped to meet some part of this demand through increases in the production of bicycles, chains and hubs as referred to earlier in the report.

Exports of bicycles recorded a steady increase throughout last year following on a revision of the Cycle Manufacturers' Export Pool Scheme and that of granting incentives against cycle and component exports carried out at the instance of the Minister of International Trade. Bicycle exports now occupy second place amongst exports of engineering goods. Our own exports have increased steadily principally to the African and Middle-Eastern markets. Arrangements were made for display of our products at the I F M A Fair at Cologne—the first time Indian exhibits have featured in this International Bicycle Exhibition in Europe. Keen interest was evinced in the Indian products.

From my last report to you, you are aware that the bicycle industry operates under a voluntary price control. The rising trend of prices for materials and services led to a representation being preferred to the Government of India by the Cycle Manufacturers' Association for a revision of the prices of bicycles manufactured by its constituents. Your Company associated itself with this representation. The results of the representation are awaited.

In August last, the Government of West Bengal by an order under the Defence of India Rules compelled your Company, amongst other Engineering units, to increase Dearness Allowances payable to its workers. Following the imposition of this order which has raised the Dearness Allowance payable to the worker by Rs 19.80 per month between August till this day, your Company has preferred a separate representation to the Government of India in its Ministry of Industry for a revision of its selling price for bicycles. This representation is under consideration by the Government and a decision in this matter may be expected shortly.

In my report to you two years back, I had mentioned that following the passing of the Trade & Merchandise Mark Act 1958, the Company had submitted new Agreements for registration of its usership rights in respect of Trade Marks owned by its Foreign Associates for approval by the Registrar of Trade Marks. We have now received communications from the latter which would seem to suggest that we be registered as users of these Marks only for export but we operate inside India without benefit of registration. This is a situation we find untenable, and not consistent with the law as we interpret it. A representation in the matter has therefore been preferred and it is hoped it would result in reason prevailing.

Productivity and Social Benefits

The year saw the introduction of a fresh 5-Year Agreement with the Sen-Raleigh Employees' Union in which the emphasis was on productivity and improved social benefits. Fullest advantage of improved productivity could not be reaped in the face of restrictions on production, due to reasons already mentioned before. Introduction

of a Gratuity Scheme, extension of Medical Benefits till such time as E S I comes into operation in the Asansol area, and better educational and housing facilities are the important social features of the Agreement. After paying retention charges for 12 years, we do feel justified in requesting Government to look into the question of extension of E S I facilities to Asansol without any further delay, as we do not see why we should be paying out twice for the same benefit.

A Consumer Co-operative run by the employees of the Company had already been in operation at Kanyapur for some time past. When the issue of arrangements for distribution of essential commodities to workers was taken up at the Tripartite Labour Conference, this Co-operative readily agreed at our request to undertake the onerous job of serving the needs of the 15,000 odd inhabitants of Kanyapur provided it could obtain some financial assistance from the Company. This is being extended through the Company subscribing to the Share Capital of the Co-operative.

During April and May 1964, we were pleased to receive a visit from a Raleigh Consultancy Team to advise on various facets of our operation particularly on the cost saving aspect.

I would take this opportunity of recording deep appreciation of the services rendered to the Company by Mr D P Harris who has resigned from our Board and Mr R B Mathur whose nomination to the Board has been withdrawn by the Industrial Finance Corporation.

I would close by extending my thanks to my colleagues on the Board, all staff and workers of the Company, Associates and our dealers.

Note: This does not purpor tto be a record of the proceedings of the annual General Meeting.

AROUND BOMBAY MARKETS

Technical Rally

Wednesday Morning

AFTER diving to a new low early in the week, Dalal Street took a pause, turned hesitant, and later moved irregularly higher under the lead of certain selected counters. By Monday-end (March 15)—the market was unofficially closed on Tuesday—the market had regained a considerable part of the ground lost in the preceding week. But this was not because the market had come round to Finance Minister Krishnamachari's view that equity prices would rise after the actual impact of the Budget had been understood fully. The rally seems essentially technical. The decline since the presentation of the Budget had been too steep to be continued without necessary technical adjustments; the bulls had been virtually liquidated and bears had accumulated a sizable 'short' interest.

While technical considerations alone favoured a recovery, sentiment was greatly helped by encouraging corporate news which, in normal conditions, could have given a real boost to the market. Premier Construction announced a one-for-three rights issue at par along with an increase in the dividend from Rs 14 to 20 a share. The extremely conservative Bombay Dyeing raised the dividend for 1964 from Rs 3.50 to Rs 4 a share (Rs 25-paid). But the highest surprise came from National Rayon. In view of the serious labour trouble resulting in a 59-day strike lasting upto the middle of January, few had expected that National Rayon would be able to fare as well as in 1963. But the company reported a 22 per cent rise in its turnover and a 28 per cent increase in its gross profit which enabled the management to step up the dividend from Rs 16 to Rs 20 a share. Shivrajpur too has returned to the dividend list after a lapse of three years.

If the stock market has been unable to present a firm appearance despite very pleasing corporate news, it is because of the general feeling that the average yield on equities which has now come up to around 7.5 per cent is still unattractive compared to the yield on preference shares and debentures and the interest rates offered by numerous companies for short and medium-term deposits received from the public. Equities are known to have yielded much less than debentures and preference shares and the spread has often been wider in the past than at present. If equities have lost most of their charm it is mainly because the general economic climate has seriously affected the prospects for capital appreciation and the volume of speculative activity on the stock exchange has been steadily shrinking. So long as the emphasis continues to be on yield, the stock market will find it hard to resist a further decline in order to bring about the required improvement in equity yields. Unless the interest rates are raised still higher, investors should feel reasonably satisfied with an averaged yield of 8 to 8.5 per cent. If the authorities are really keen on an early revival of the capital market, the least that they can do is to remove the dividend tax and the capital gains tax on bonus shares which can considerably help market psychology without any significant loss of revenue to the exchequer. There is not much substance in the official contention that the dividend tax is intended to discourage frittering away of corporate profits.

No Mystery

Brief mention seems necessary of what the chairman of the Company Law Board, Shri R C Dutt, stated in his address to the members of the Madras Stock Exchange. Shri Dutta is reported to have pointed out that business in the stock markets would pick up only when the "mystery" surrounding the activities of the companies and stock exchanges was removed. He has advised companies and stock exchanges to go out of their way to "woo" the investors by "fully and frankly" disclosing their activities. That stock brokers and the market authorities are doing very little to educate the clientele and to attract prospective investors may be conceded. But surely, no great "mystery" surrounds the activities of the stock exchanges. The stock market, in fact, receives much more attention than commodities from the Financial Press in the country. Shri Dutt's criticism that the "restricted annual reports that were now published (by companies) were not fully informative" will be widely endorsed. But, being the chairman of the Company Law Board, Shri Dutt would do well to address these remarks to himself and pay his utmost attention to how best the companies can be made to give maximum publicity to their practices and transactions.

COTTON

Cambodia Controversy

WHILE consumption continues to be well maintained at a high level, activity in the cotton market has shrunk to modest proportions. Quite a number of mills are reported to be reluctant to take delivery of cotton even after obtaining the purchase authorisation and the relevant certificates from the Indian Cotton Mills' Federation. This, however, is scarcely surprising. Faced with acute financial stringency and somewhat poorer off-take of cloth, it is only natural that mills should be going slow with fresh purchases. But the supply position of cotton being what it is, the slackness in mill buying should pose no problem.

Reduced spinner inquiry has imparted an easier tendency to the market but still most varieties are quoted above the ceilings. If price control has any meaning then the decline in unofficial premiums should be welcomed rather than regretted. In fact, growers and traders have little to worry about any possible decline in prices as the Indian Cotton Mills' Federation has already given an undertaking that it will be always willing to take up any cotton that is offered to it during the season at 5 per cent below the appropriate ceilings.

The Federation has recently reiterated that it firmly stands by its original commitment to purchase all the cotton offered to it. The need for such an assurance arose following the offer of several lots of Cambodia cotton. Market reports indicate that not all the Cambodia cotton offered by the trade has been accepted by the Federation. This is said to be due mainly to dispute over prices arising from the determination of appropriate ceilings. The Federation is said to insist that the offer to sell should be firm and that the verdict of the East India Cotton Association's sworn surveyors should be final in regard to the quality of cotton for the determination of appropriate ceilings. The trade wants the Textile Commissioner's Ad Hoc Committee's verdict to be final and then again it wishes to have the option whether to sell the cotton or not. It is really unfortunate that the trade should not be satisfied with the verdict of EICA sworn surveyers who are known to enjoy very high reputation in all respects. And if the trade is really keen on disposing of its cotton there is no reason why its offer should not be a firm one, especially when the Federation has given an undertaking to purchase all the cotton offered to it at 5 per cent below the appropriate ceilings.

The controversy about Cambodia cotton seems to have arisen mainly because of its rather poor quality. The general feeling in market circles is that Cambodia cotton this season has a poor spinning value and that this is the chief reason why its prices have suffered a bigger decline than other varieties. If the trade is satisfied with the quality of this cotton and it is also anxious to dispose it of, it does not have to sell the cotton at 5 per cent below the ceiling prices. It can realise much better prices by tendering this cotton against the maturing March hedge contract. The trade is not unaware of this facility; if it does not care to avail of it this must be because it does not wish to take the risk of survey by the E I C A.

OILSEEDS

Oil Exports — When and How

WITH the arrivals of the first consignment of a little over 5,000 tonnes of soyabean oil from the U S, speculation about the export policy for vegetable non-essential oils has gained considerable currency recently. All the 30,000 tonnes of soyabean oil for which purchase authorisation has already been issued are likely to reach India by the end of April. When the remaining 45,000 tonnes will be received is uncertain. In addition to 75,000 tonnes of soyabean oil for the vanaspati industry, 50,000 tonnes of mutton tallow are being imported for soap manufacturers in order relieve the pressure on edible oils. Moreover, the Government has also arranged for the import of 25,000 tonnes of rapeseeds. All these imports will considerably augment the domestic supply of vegetable oils and, fortunately, domestic production of oilseeds is much better than in the previous season.

Whether exports of vegetable non-essential oils, especially groundnut oil, should be allowed or not is a moot point. According to well-informed sources, however, the Government of India has only been waiting for the arrival of soyabean oil for lifting the ban, which had been imposed early in July 1964, on the export of vegetable non-essential oils. Reports are that New Delhi has virtually decided to permit free export of vanaspati and also release in the first instance, 35,000 tonnes of groundnut oil for export. The Government is said to be waiting simply for a suitable opportunity for making official announcement to that effect.

Improved supply position apart, the question of export of oils has gained importance because of the pressing need for importing copra in adequate quantity for meeting the requirements of the soap industry. The difficulty in taking a quick decision on the export policy arises from the fear of its likely effect on domestic prices of edible oils. Internal prices are highly sensitive to exports. But if exports have been having an exaggerated effect on internal prices it is mainly due to lack of a well thought-out policy for exports. That Exports have to be subsidised in one form or another so long as domestic prices keep well above world parity will be readily conceded. The important point is how to keep the cost of subsidy at the minimum. In the past, insufficient attention has been paid to a proper study of the price trends here and abroad and incentives have not been carefully thought out. If the Government wishes to effect substantial exports without unduly pushing up domestic prices it would be well advised not to announce the export policy for another two months by which time domestic prices would have registered a further sizable decline under the impact of increased arrivals of mustardseed, linseed and other crops. And even when it decides to allow exports it should so devise the incentive scheme that export becomes remunerative only when domestic prices keep at a level which is considered to be reasonable from the point of view of consumers and producers. The ideal way would be to devise a centralised system of effecting purchases for export whenever prices decline below certain levels. Unfortunately, strong pressure from vested interests makes it difficult for the Government to follow a policy which would be in the best interests of the country.

The oilseeds market last week displayed a distinctly steadier tendency, with prices registering moderate recovery from the lowest levels recorded in the previous week. Linseed June

and castor June which had been marked down to Rs 83.20 and Rs 73.15 in the preceeding week were bid up to Rs 85.85 and Rs 77.15 respectively (per quintal). During the same period, castor March rose from Rs 201.75 to Rs 207 (per 250 kgs) and linseed March hardened from Rs 43.62 to Rs 44.50 (per 50 kgs). Groundnut oil ready recovered from Rs 19.75 to Rs 20.60, linseed oil from Rs 17.25 to Rs 18 and castor oil Commercial from Rs 15.75 to Rs 16.15 (all per 10 kgs). Last week's recovery was due both to short covering and fresh bull support induced partly by technical considerations and partly by optimism about early announcement about export of vegetable non-essential oils. Export houses reported fairly good business in groundnut extractions and cottonseed expellers and extractions.

BUSINESS NOTES

Dalmia Iron

DURING the year to September 1964, Dalmia Iron and Steel had to contend with a number of difficulties and some of these are yet not over. Apart from the temporary suspension of production due to a sudden breakdown of the main power supply equipment, the licensed capacity of steel foundry could not be achieved due to non-receipt of the new arc furnace. The suppliers had promised to deliver it in April 1964 but they could not keep to the schedule. It is now expected to be commissioned by the middle of 1965. The production of spun iron pipes was limited to about a third of the installed capacity due to non-availability of pig iron. The company has modified the plant to suit the changed pattern of demand for smaller diameter pipes, but the management says that unless the pig iron quota is trebled the plant will have to run much below the installed capacity.

In spite of these difficulties, the 1963-64 results are satisfactory. There has been a fair increase in production, turnover and gross profits, but higher provisions for depreciation and taxation have more than erased the improvement. Sales are up from Rs 2.17 crores to Rs 2.73 crores and gross profits have advanced from Rs 40.09 lakhs to Rs 47.73 lakhs. Inclusive of Rs 1.55 lakhs being the triple shift allowance in respect of last year, the provision for depreciation at Rs 15.80 lakhs is Rs 2.44 lakhs more than the previous year's. Due to a smaller amount of development rebate to which the company is entitled and a provision of Rs 1.10 lakhs for the estimated liability of sur-tax, taxation is much higher at Rs 15.50 lakhs compared to Rs 8.75 lakhs last year. Allocation to development rebate reserve has been lowered from Rs 4.50 lakhs to Rs 2 lakhs but that to general reserve has been raised from Rs 4.50 lakhs to Rs 6.45 lakhs. A sum of Rs 8 lakhs, against Rs 10 lakhs, is transferred to dividend equalisation reserve out of which the proposed dividend of 10 per cent is to be paid.

In December last there was a strike by workers that lasted for 13 days, and the matter was settled by raising the dearness allowance which will inflate the wage bill by Rs 3 lakhs per year.

National Rayon

THE year 1964 has proved more profitable for National Rayon than generally expected. The company has produced impressive results which, according to the preliminary statement, show a jump of well over Rs 2.5 crores to Rs 14.9 crores in sales. This is accompanied by a proportionately larger rise of over Rs 70.5 lakhs to Rs 3.25 crores in profits. There is, consequently, a rise in margins on sales from 21.81 per cent in 1963 to 22.88 per cent in 1964. This outcome is the more satisfactory in view of a prolonged period of labour unrest culminating in sit-down strikes by factory workers. There was also a huge accumulation of unsold yarn stocks which the company had to carry for a considerable period during the year as a result of the unfavourable conditions in the yarn market. In fact, in view of these adverse factors very few in the stock market expected such good results from the company and the actual announcement caused a quick spurt in the price of the share.

The necessary provisions have taken away more out of the profits than in the last year: depreciation has absorbed Rs 34.21 lakhs more at Rs 164.73 lakhs, taxation Rs 18 lakhs more at Rs 84 lakhs and development rebate Rs 5.60 lakhs more at Rs 14.75 lakhs. But even then the net profit is sizably higher than last year's. As before, the preference dividend claims Rs 9.67 lakhs. After taking credit of Rs 6 lakhs, being the excess provision for taxes in previous years compared to Rs 1.90 lakhs withdrawn last year from deferred taxation reserve, equity profit works out at Rs 57.43 lakhs about a half more than last year's Rs 38.55 lakhs. The proposed equity dividend requires Rs 48.22 lakhs against Rs 38.55 lakhs and is covered 1.19 times by earnings, whereas the previous lower distribution was slightly short-earned.

J K Synthetics

THE 1963-64 report of J K Synthetics is impressive on three counts. First, the dividend is raised by 2.5 per cent to 12.5 per cent of which nearly a half is estimated to be exempt from tax. Secondly, both sales and profits have recorded substantial improvements over the previous levels, providing a stronger earnings cover for the increased dividend despite much larger amounts required for necessary provision. Lastly, the company has embarked upon its scheme for first stage expansion for which purpose loans of Rs 10 lakhs each have been secured from Rajasthan Financial Corporation and Bank of Rajasthan, besides a foreign exchange loan of Rs 16 lakhs from I F C.

During the year to June 1964, sales have jumped 93 per cent to Rs 2.78 crores and gross profit about 83 per cent to Rs 1.06 crores. After providing for depreciation Rs 23.41 lakhs against Rs 11.87 lakhs, for taxation Rs 26.50 lakhs against nil and for development rebate Rs 16.50 lakhs against Rs 20 lakhs, equity profit of Rs 40.78 lakhs is over a half more than last year's Rs 26.31 lakhs. The proposed dividend should cost Rs 15.63 lakhs against Rs 12.50 lakhs previously.

Asian Cables

LOSS of 25 working days due to two strikes and rise in costs and interest rates have not only belied expectations of "better results" from Asian Cables in the year ended September 1964, but the performance has actually turned out to be disappointing. Though sales are over Rs 10 lakhs more at Rs 74.78 lakhs, the net outcome is a bigger loss of Rs 5.37 lakhs than last year's Rs 0.59 lakh. This loss has been arrived at after providing Rs 6.07 lakhs against Rs 6 lakhs for depreciation and after setting aside an expenditure of Rs 5.32 lakhs against Rs 1.89 lakhs incurred during the period of construction to be adjusted on completion. Together with the previous losses, a deficit of Rs 18.13 lakhs is carried to the balance sheet.

The performance in the first five months of the current year, however, has again raised hopes of "a much better picture". Sales in this period are stated to have shot up to Rs 45 lakhs from Rs 24 lakhs in the corresponding period last year. A few sections in the factory have already started working two shifts, and other sections are expected to follow soon. The company's project II for the manufacture of power cables and magnet wires is nearing completion, and is expected to be commissioned in parts from April onwards. Exports are being fast developed, and steps are afoot to increase production of P V C insulated cables which are in greater demand in most foreign countries.

Martin Burn

PROFITABILITY of electric supply and railway companies managed by Martin Burn has declined but satisfactory showing by engineering companies has helped to bring about an improvement in gross profits despite an appreciable fall in total sales during the year to September last. But this improvement is more than wiped off by the "penal" taxation. The dividend is maintained at 25 per cent including the 10 per cent interim payment. Total sales have decreased by nearly 7.5 per cent to Rs 8.11 crores but gross profit has increased by five per cent to Rs 99.31 lakhs. Depreciation is slightly lower at Rs 2.67 lakhs than last year's Rs 2.84 lakhs, but taxation has syphoned off Rs 5.75 lakhs more at Rs 52.75 lakhs. Net profit is, therefore, a shade lower at Rs 43.89 lakhs against Rs 44.60 lakhs. Of this, the total dividend absorbs Rs 40.68 lakhs.

The Lucknow and Allahabad licences operated by U P Electric Supply and the licences operated by Upper Jamuna Valley Electric Supply were acquired by U P State Electricity Board in September and June 1964, respectively. The directors say that they have brought the difficulties of railway companies to the notice of the State and Central Government. These companies continue to face road competition, on the one hand, and mounting operating costs on the other.

United Bank

IN step with the performance of the banking industry, United Bank of India, has shown all-round progress in the year 1964. Deposits of the Bank have recorded a rise of Rs 15.98 crores to Rs 88.59 crores, as against a rise of Rs 7.90 crores to Rs 72.59 crores in 1963. The rise in 1964 over 1963 has been 22 per cent, as against a rise of 12 per cent in deposits of all scheduled banks. Advances have gone up by Rs 8.16 crores, from Rs 47.16 crores to Rs 55.32 crores, and constitute 62.45 per cent of the total deposits as compared to 65 per cent in 1963. The Bank's investments in Central and State Government securities and other trustee securities have registered a rise of Rs 9.6 crores to Rs 28.28 crores. Investments in these securities alone work out to over 31 per cent of deposit liabilities.

During the year, the Bank's total income has increased by Rs 1.09 crores to Rs 5.12 crores of which interest and discount have counted for Rs 4.26 crores (against Rs 3.31 crores), and commission, exchange and brokerage for Rs 69.80 lakhs (against Rs 55.92 lakhs). On the expenditure side, interest paid on deposits and borrowings has increased from Rs 1.25 crores to Rs 1.82 crores and salaries, allowances and providend fund have risen from Rs 1.91 crores to Rs 2.36 crores. After providing for taxes, the Bank has earned a net profit of Rs 26.34 lakhs, a shade lower than last year's Rs 26.39 lakhs. Of this, the unchanged dividend of 7.5 per cent absorbs Rs 20.20 lakhs. After bringing in last year's surplus of Rs 4.15 lakhs, Rs 5.30 lakhs have been allocated to reserve fund and Rs 4 lakhs to building funds. The surplus of Rs 99,936 is to be carried forward.

Greaves Cotton

THE subscription list of Greaves Cotton's Rs 1 crore 7 per cent debentures 1975-78 opened on March 11 and is to close on March 22. The issue is fully underwritten by I C I C I and U T I. Apart from repayment of loan to I C I C I, the main object of the issue is to enable the company to invest in the expansion programmes of the associated company, Crompton Parkinson (Works) Ltd and the subsidiary company, Ruston and Hornsby (India) Ltd as also in its own two new projects for manufacture of complete diamond drills and operation equipments and of crucibles.

The expansion programme of Crompton Parkinson will commence during this year, and the completion of installation of the full expanded capacities is expected to be achieved within two to three years of the issue of necessary licences. Expansion of production of Ruston and Hornsby will begin by the end of this year, and the expanded production targets are expected to be reached by the end of 1966. The manufacture of complete diamond drills and operation equipment is expected to materialise by the end of this year. With regard to the manufacture of crucibles it is expected that, subject to Government approval being received during 1965, production should begin by the middle of 1967.

The increased returns from further investment in Crompton Parkinson and Ruston and Hornsby and from the company's own two new manufacturing projects should be more than adequate to cover Greaves Cotton's commitments in regard to interest and repayment of these debentures.

Adarsh Chemicals

INADEQUATE and irregular supplies of raw materials restricted production of Adarsh Chemicals and Fertilizers during the year ended August last, and the company could not cope up with the rising demand for superphosphates. It has been now permitted to increase production upto 54,000 tonnes a year, provided it secures the additional requirements of sulphuric acid from the market. Meanwhile, erection of plant and machinery for the new projects of phosphoric acid and alum is in progress. Production can be expected to commence soon if the additional requirements of sulphuric acid are obtained.

The company has put up a good performance during 1963-64 enabling the management to clear arrears of preferential dividends upto August 1962. Production of superphosphates amounted to 37,918 tonnes, and the entire quantity was sold out. Sales rose from Rs 55.40 lakhs to Rs 85.76 lakhs, and gross profits advanced more briskly from Rs 5.45 lakhs to Rs 9.83 lakhs. A major portion of the profits, however, is absorbed by the provisions for depreciation and development rebate reserve — the former taking away Rs 5.09 lakhs (Rs 4.84 lakhs) and the latter Rs 3 lakhs (nil). A sum of Rs 0.33 lakh is utilised to write off a part of the preliminary expenses and previous year's tax liability.

Working of the Public Sector Undertakings

(Rs. Lakhs)

Name of Concern (with year of incorporation)	Year	Resources					Capital Employed	Working Results						Profitability Ratios		
		Equity	Loans	Cash Credit	Internal Resources	Total		Sales Operating Income	Ratio of Sales to Capital Employed	Gross Profit	Net Profit	Dividend	Retained Profits	Gross Profit to Capital Employed	Net Profit to Equity	Net Profit to Net Worth
Hindustan Steel (1953)	63-64	44700.0	35710.0	28.3	5121.8	85560.1	66449.6	18106.0	27.3	1312.5	(—)478.9	...	...	2.0	...	...
	62-63	36700.0	35710.0	714.3	2445.7	75570.0	63175.5	12441.0	19.8	(—) 604.0	(—) 2390.8	...	...	...	...	...
Bharat Electronics (1954)	63-64	521.2	196.7	205.4	209.3	1132.6	897.8	469.3	52.3	72.7	33.6	...	33.6	8.1	6.4	6.1
	62-63	1.2	100.0	185.3	141.9	948.4	789.6	360.7	45.7	57.2	44.2	...	25.5	7.2	8.5	8.4
Hindustan Aircraft (1940)	63-64	2000.0	464.3	...	1274.4	3738.7	2319.3	1204.9	51.9	135.5	109.8	...	109.8	5.8	5.5	5.6
	62-63	2000.0	327.1	...	1033.2	3360.3	2175.9	1089.2	50.1	114.1	94.4	...	94.4	5.2	4.7	4.8
Hindustan Cables (1952)	63-64	160.5	177.7	88.7	141.4	568.3	387.1	369.3	95.4	42.7	19.5	9.7	8.8	11.0	12.1	9.0
	62-63	160.5	122.0	71.2	120.6	474.3	373.1	324.9	87.1	48.1	22.1	8.2	10.8	12.9	13.8	10.6
Hindustan Machine Tools (1953)	63-64	800.0	678.7	72.6	596.6	2147.9	1528.6	982.7	64.3	327.0	245.0	74.6	147.2	21.4	30.6	23.2
	62-63	806.0	313.3	...	371.8	1491.1	1119.9	708.2	63.2	233.4	170.5	62.3	100.4	20.8	21.2	17.9
Indian Telephone Industries (1950)	63-64	400.0	257.5	253.9	389.0	1300.4	1049.8	950.6	90.6	171.3	59.3	18.0	41.3	16.3	14.8	10.8
	62-63	400.0	205.0	200.4	311.1	1116.5	878.2	788.0	89.7	121.6	40.1	16.0	24.1	13.8	10.0	8.0
Nahan Foundry (1952)	63-64	40.0	7.5	4.7	36.3	88.5	43.6	27.1	62.2	(—) 4.5	(—) 5.1	...	...	...	...	...
	62-63	40.0	7.5	4.4	38.3	90.2	48.5	23.3	48.0	(—) 4.9	(—) 5.2	...	...	...	...	...
National Instruments (1957)	63-64	114.0	15.0	...	41.7	170.7	119.4	97.4	81.6	19.2	9.8	3.7	5.1	16.1	8.6	7.7
	62-63	106.0	20.0	...	30.5	156.5	110.6	80.0	72.3	12.3	5.3	1.8	2.3	11.1	5.0	4.8
Praga Tools (1943)	63-64	150.5	86.4	26.3	75.4	338.6	233.9	104.9	40.9	10.7	5.1	...	5.1	4.6	3.4	3.5
	62-63	150.5	20.0	41.4	61.8	273.7	154.7	74.6	48.1	2.9	0.3	...	0.3	1.9	0.2	0.2
Fertilisers and Chemicals (1943)	63-64	696.0	822.7	189.0	440.2	2147.9	964.1	530.5	55.0	36.0	12.5	...	12.5	3.7	1.8	1.6
	62-63	556.0	533.5	2.9	472.8	1565.2	879.3	479.9	54.5	(—) 14.1	(—) 35.7	...	...	...	...	...
Fertilizer Corporation of India (1961)	63-64	4805.1	3426.3	104.7	4333.1	12669.2	6448.3	2688.6	41.7	292.9	222.6	...	216.2	4.5	4.6	3.9
	62-63	4208.1	3045.9	98.8	3460.3	10813.1	6436.8	2260.9	35.1	237.7	150.7	...	136.4	3.7	3.6	3.1
Hindustan Antibiotics (1954)	63-64	247.3	...	...	624.3	871.6	651.3	453.4	69.6	144.8	74.7	24.7	50.0	22.2	30.2	10.9
	62-63	247.3	...	...	523.2	770.5	622.8	407.4	65.4	139.9	69.6	15.5	54.1	22.5	28.1	11.0
Hindustan Insecticides (1954)	63-64	97.0	17.2	...	170.9	285.1	211.2	155.7	73.7	36.8	16.5	5.8	10.7	17.4	17.0	8.4
	62-63	97.0	25.3	...	147.7	270.0	191.8	160.5	83.7	44.5	16.4	5.8	10.6	23.2	16.9	8.9
Hindustan Salts (1958)	63-64	167.2	...	...	69.9	237.1	181.1	153.9	85.0	24.9	12.4	...	12.4	13.7	7.4	6.8
	62-63	167.2	...	...	41.6	208.8	160.6	90.7	56.5	15.9	12.4	...	12.4	9.9	7.4	7.3
Indian Rare Earths (1950)	63-64	100.0	...	...	75.2	175.2	122.0	81.4	66.7	22.5	17.8	7.0	10.8	18.5	17.8	14.5
	62-63	100.0	...	...	58.2	158.2	108.9	72.7	66.8	12.2	11.3	4.5	6.8	11.2	11.3	10.3
National Coal Development Corpn. (1956)	63-64	4440.2	4339.4	...	1908.7	10688.3	7835.6	1872.3	25.1	102.9	16.8	...	16.3	1.3	0.4	0.4
	62-63	3535.2	3444.4	...	1554.3	8533.9	6161.5	1718.5	27.9	203.6	97.8	...	97.8	3.3	2.8	3.3
Travancore Minerals (1956)	63-64	50.0	...	...	34.3	84.3	75.1	20.1	26.8	2.9	2.9	2.5	0.4	3.9	5.8	3.9
Garden Reach Workshops (1934)	63-64	80.0	65.0	49.3	141.4	335.7	249.9	284.6	113.9	22.8	7.3	...	7.3	9.1	9.1	5.1
	62-63	80.0	65.0	58.3	129.0	332.3	253.7	195.5	77.1	17.7	9.6	...	9.6	7.0	12.0	7.1
Hindustan Shipyard (1952)	63-64	598.5	6.3	11.9	205.1	821.8	603.9	349.3	57.8	0.9	0.9	...	0.6	0.2	0.2	0.2
	62-63	585.9	6.6	...	182.4	774.9	579.3	552.9	95.4	0.4	0.4	...	0.4	0.1	0.1	0.1
Mazagon Dock (1934)	63-64	98.0	75.0	66.0	105.0	344.0	272.8	433.9	159.1	32.3	15.8	...	15.8	11.8	16.1	11.4
	62-63	73.0	75.0	8.4	85.2	241.6	177.8	281.5	158.3	21.1	6.5	...	6.5	11.8	8.9	6.7
Air India (1953)	63-64	1340.8	1804.6	...	1476.3	4621.7	3728.6	2681.0	71.9	399.5	308.7	67.0	237.2	10.7	23.0	15.1
	62-63	1340.8	1822.0	...	1009.1	4171.9	3544.3	2452.7	69.2	293.6	260.9	66.7	127.1	8.3	19.4	14.4
Indian Airlines (1953)	63-64	1097.1	1772.5	...	901.3	3770.9	2198.4	1937.8	88.2	114.8	111.1	...	104.4	5.2	10.1	10.0
	62-63	1074.0	1074.0	...	701.4	2849.4	1718.4	1697.2	98.8	62.7	62.7	...	60.9	3.6	5.8	5.5
Mogul Line (1938)	63-64	101.2	...	...	367.7	468.9	151.4	126.3	83.4	32.0	30.0	...	30.0	21.1	29.7	11.1
	62-63	101.2	...	...	411.6	512.8	206.2	166.4	80.7	36.1	27.1	6.1	21.0	17.5	26.8	8.4
Shipping Corporation of India (1961)	63-64	2345.0	769.1	47.0	1295.9	4457.0	3299.4	1300.0	39.4	173.8	136.4	...	136.4	5.3	5.8	4.9
	62-63	2345.0	305.6	94.2	980.6	3725.4	2706.0	1043.2	38.6	169.4	133.2	...	133.2	6.3	5.7	5.0
Ashoka Hotels (1955)	63-64	150.0	27.0	...	109.6	286.6	196.7	114.0	58.0	37.2	15.1	...	15.1	18.9	10.1	8.9
	62-63	150.0	32.0	...	96.5	278.5	199.0	104.4	52.4	35.0	13.0	...	13.0	17.5	8.6	7.8
Hindustan Housing Factory (1953)	63-64	44.0	43.8	3.2	20.3	111.3	99.2	136.2	137.3	6.3	1.4	...	1.4	6.3	3.2	2.6
	62-63	40.0	35.0	13.9	16.0	104.9	95.4	74.5	78.1	5.9	2.0	...	2.0	6.2	5.0	4.2
Indian Oil Company (1959)	63-64	497.2	475.0	1067.0	182.7	2221.9	1982.9	5243.3	264.4	159.8	82.8	...	82.8	8.1	16.6	12.8
	62-63	322.3	300.0	102.6	80.4	805.3	664.1	2135.5	321.6	78.4	60.6	...	60.3	11.8	18.8	16.5
National Buildings Const. Corpn. (1960)	63-64	94.5	94.0	80.1	(—) 60.8	207.8	190.9	449.8	235.6	(—) 34.4	(—)43 .7	...	...	...	...	...
	62-63	72.0	67.0	70.7	(—) 23.8	185.9	175.9	352.3	200.3	(—) 26.5	(—) 31.7	...	...	...	...	...
National Newsprint & Paper Mills (1947)	63-64	494.5	55.0	...	328.5	878.0	554.2	318.1	57.4	76.0	56.0	29.4	21.6	13.7	11.3	9.7
	62-63	494.5	66.0	...	257.6	818.1	554.6	280.9	50.6	55.5	55.5	...	50.5	10.0	11.2	10.6
National Projects Const. Corpn. (1957)	63-64	135.0	123.7	117.4	144.2	520.3	424.4	510.5	120.4	47.9	30.2	8.0	22.2	11.3	22.3	16.5
	62-63	133.0	115.0	3.4	79.9	331.3	277.8	240.4	86.5	22.9	20.8	...	20.8	8.2	15.6	13.0
State Trading Corpn. of India (1956)	63-64	200.0	...	118.0	760.3	1078.3	1057.6	5796.5	548.1	223.4	59.9	20.0	39.9	21.1	29.9	6.2
	62-63	200.0	...	41.4	825.9	1067.3	1046.3	8785.0	839.6	449.6	141.3	20.0	121.3	42.9	70.7	13.9
Minerals and Metal Trading Corpn. of India (1963)	63-64	200.0	...	276.1	6.2	482.3	481.9	2457.9	510.0	15.0	5.4	...	5.4	3.1	2.7	2.6

SOURCE: "Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government for the year 1963-64", Ministry of Finance, Government of India.

BANKING RETURNS

(Rs crores)

Reserve Bank

	Mar 12	Mar 5	Feb 12	Mar 13, '64
1 Note circulation	2633.66	2607.52	2597.91	2472.43
2 Rupee coin	94.73	95.19	96.01	106.79
3 Deposits				
(a) Central Govt	84.23	104.91	52.41	109.35
(b) Other Govts	4.40	5.46	17.65	8.42
(c) Banks	90.40	88.77	95.74	80.01
(d) Others	147.35	148.73	149.04	160.06
4 Foreign securities	69.46	69.46	74.79	112.46
5 Balance abroad	14.85	11.93	4.60	16.02
6 Rupee securities	2346.32	2336.38	2306.39	2149.69
7 Investments	111.64	141.34	183.38	187.73
8 Loans and advances to Govts	87.80	77.45	72.38	80.74
9 Other loans and advances	299.50	296.36	262.53	234.93

Scheduled Banks

	Mar 5	Feb 26	Feb 5	Mar 6'64
1 Aggregate deposits (net)	2559.69	2581.27	2543.26	2266.70
Demand (net)	1213.64	1226.60	1211.55	1030.80
Time (net)	1346.05	1354.67	1331.71	1235.90
2 Cash in hand	67.07	66.60	75.95	61.73
3 Balance with Reserve Bank	97.17	98.61	96.51	81.45
4 (2) + (3) as % of (1)	6.42	6.40	6.78	6.32
5 Borrowings from Reserve Bank	129.93	90.75	75.04	106.94
(a) Against usance bills and/or promissory notes	31.37	10.07	12.55	46.64
(b) Others	98.56	80.69	62.49	60.31
6 Advances	1668.35	1645.01	1595.66	1487.10
(a) State Bank	423.54	413.81	394.36	336.72
(b) Others	1244.81	1231.20	1201.30	1150.38
7 Bills discounted				
(a) Inland	237.14	225.60	234.95	234.65
(b) Foreign	77.78	76.79	74.91	64.41
(c) Total	314.92	302.39	309.86	299.06
(i) State Bank	26.05	26.13	24.98	21.47
(ii) Others	288.87	276.26	284.88	277.59
8 (6) + (7) as % of (1)	77.48	75.44	75.00	78.80
9 Investments in Govt Securities	722.74	731.09	734.81	643.73
10 (9) as % of (1)	28.24	28.32	28.89	28.40

Bombay Money Rates

(Per cent per annum)

	Mar 5	Feb 26	Feb 5	Mar 64
Call money from Banks	6.88	5.97	4.95	6.02
Deposits				
14 days	—	—	—	—
Three months	5.00	5.00	4.00	—
Six months	5.50	5.48	4.50	3.75

LOAN TRANSACTIONS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

States/Union Territories	Loans Advanced in 1962-63	Loans Repaid in 1962-63	Loans Outstanding at End of 1962-63	Of Which Overdue at End of 1962-63.
Andhra Pradesh	32,91,69	20,37,70	46,95,75	6,56,56
Assam	32,74	33,10	1,79,59	1,30,03
Bihar	3,31,92	2,50,57	3,83,23	1,61,73
Gujarat	28,96,13	24,70,26	32,60,77	7,91,90
Jammu and Kasmir	95,42	87,88	1,38,15	51,00
Kerala	8,54,54	6,34,32	9,74,28	1,67,81
Madhya Pradesh	20,21,38	14,65,73	27,73,08	8,46,74
Madras	36,70,23	28,05,44	48,75,93	3,70,09
Maharashtra	55,51,25	40,56,52	75,31,82	20,56,70
Mysore	13,80,62	11,47,55	25,62,87	9,82,71
Orissa	6,83,32	4,85,73	9,99,59	2,56,49
Punjab	16,10,49	13,22,03	23,21,60	5,62,61
Rajasthan	5,20,55	5,40,93	6,55,18	2,96,62
Uttar Pradesh	43,33,86	37,64,12	37,19,91	5,56,60
West Bengal	5,82,00	4,13,13	7,15,49	1,49,48
Andaman & Nicobar Islands				
Delhi	47	14	1,01	55
Goa, Daman and Diu	48,26	40,13	64,96	8,97
Himachal Pradesh	—	—	—	—
Laccadive, Minicoy and Amindivi Islands	14,94	9,25	29,86	12,09
Manipur	—	—	—	—
Pondicherry	11,60	7,14	12,57	10,16
Tripura	28,04	25,65	30.69	1,50
Total 1962-63.	4,47	7,10	17,27	13,34
	2,79,63,92	2,16,04,42	3,59,43,60	80,83,69

INDEX NUMBER OF WHOLESALE PRICES

(Base . 1952-53 = 100)

Group and sub-group	Jan 1964	Dec 1964	Jan 1965	%Increase (+) or Decrease (–) Jan.1965 as compared with Jan 1964.
Food Articles	**137.0**	**166.0**	**167.9**	**21.8**
Cereals	118.5	142.1	145.3	22.6
Pulses	124.0	194.8	196.3	58.3
Fruits & Vegetables	147.6	189.0	174.7	18.4
Milk & Ghee	126.6	146.3	153.5	21.2
Edible Oils	149.8	222.5	220.4	47.1
Fish, Eggs & Meat	155.8	178.8	185.8	19.3
Sugar & Gur	183.0	193.6	182.0	— 0.5
Others	178.1	173.0	183.0	2.8
Liquor and Tobacco	**122.7**	**135.3**	**137.6**	**12.1**
Tabacco	120.1	133.2	135.7	13.0
Fuel, Power, Light & Lubricants	**139.5**	**145.3**	**146.6**	**5.1**
Industrial Raw Materials	**141.1**	**171.4**	**172.0**	**21.9**
Fibres	134.7	143.5	145.4	7.9
Oilseeds	153.6	220.9	219.0	42.6
Minerals	91.6	115.7	129.3	41.2
Others	133.1	134.8	136.8	2.8
Manufactures	**131.7**	**139.8**	**140.7**	**6.8**
Intermediate Products	**140.2**	**158.9**	**161.7**	**15.3**
Finished Products	**130.4**	**136.7**	**137.2**	**5.2**
Textiles	128.5	134.5	134.5	4.7
Cotton	135.9	136.5	136.5	0.4
Jute	100.4	125.1	121.9	21.4
Woollen	162.4	169.2	169.2	4.2
Silk & Rayon	143.5	136.9	144.3	0.6
Metal Products	163.0	169.5	169.5	4.0
Chemicals	118.7	120.5	121.7	2.5
Oil Cakes	165.1	216.1	226.4	37.1
Machinery & Transport Equipment	125.5	128.4	128.4	2.3
Others	128.0	128.2	128.8	0.6
All Commodities	**136.3**	**158.0**	**159.4**	**16.9**

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The Tata Iron and Steel Company Limited

IWTTN 2068A

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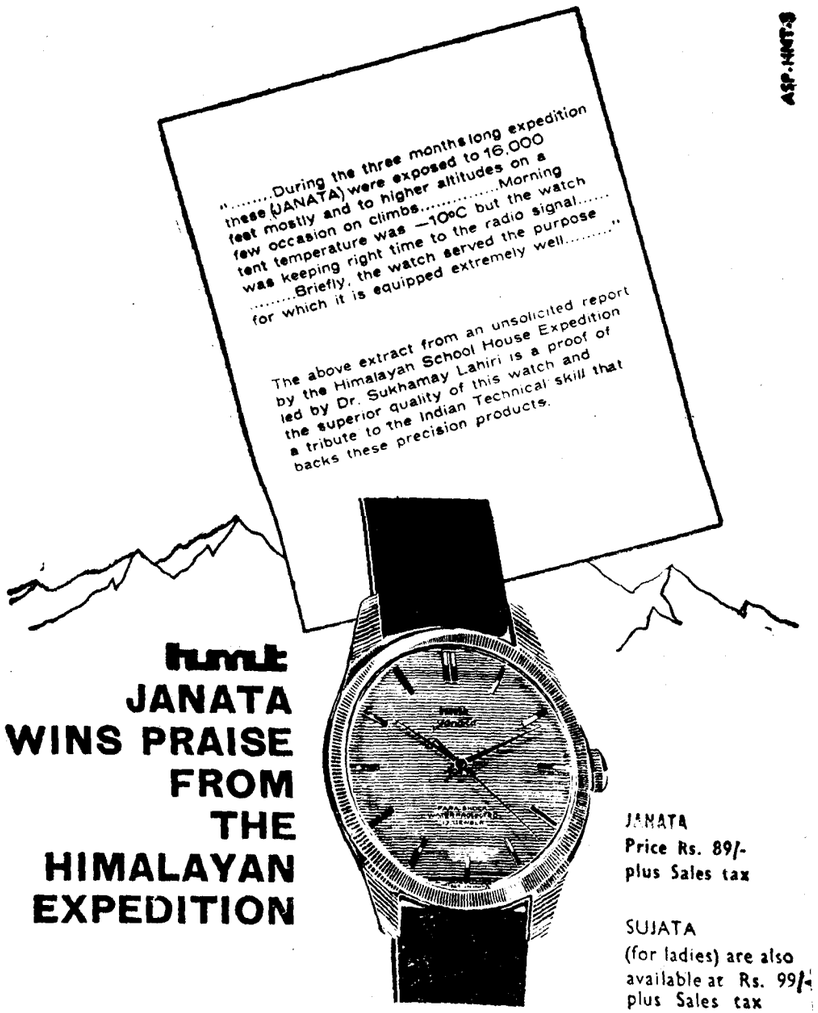
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THE ECONOMIC WEEKLY

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Thoughtless Move

THE general objective behind the amendment of the Income-Tax Rules setting limits on certain expenditures by companies is, let it be stated at the outset, unexceptionable. At present these expenditures are deductible from taxable profits and so companies are encouraged to inflate them—in any case, they have little incentive to control them as stringently as they might otherwise—since, in effect, something like one-half or more of the additional expenditure comes out of the Government's tax revenue and only the rest has to be borne by the company. As the Finance Minister pointed out when presenting the 1964-65 Budget: "the provisions of the Income-Tax Act allowing as deductible expenditure amounts spent wholly and exclusively for the purpose of business are being abused in respect of certain types of expenditure. Unduly large amounts are spent on daily allowance, on unnecessary bookings on planes and trains, on advertisement and on the maintenance of guest houses and suites of rooms in hotels outside the specific places of business, on providing conveyances and in paying high rents for accommodation for their officers and directors and in many other ways..... this tendency amongst companies is responsible in no small measure for the present high costs and the time has come to put a check on some at least of these expenses". With these views of the Finance Minister we are in the fullest agreement; in fact, we deem it a pity that action along the lines he had proposed should have been so long in coming.

Having said that, we come to the main point of this editorial which is that in putting a ceiling on expenditure by companies on advertising, residential accommodation and travelling, the Finance Ministry has completely ignored, or missed, the distinctive character of expenditure on advertising which sets it apart from the other two types of expenditure. For the advertiser, the purpose of advertising is, of course, to make known some product or service or institution. From this point of view, the maximum now prescribed for advertising expenditure will be claimed to be inadequate to fulfil the legitimate and reasonable purposes of advertising. It is not proposed here to go into this question though, since the advertising requirements of different companies necessarily vary very widely depending on the nature of their products or services, the criticism that a uniform maximum rate is unduly harsh on certain companies has much force.

But the restriction on advertising expenditure needs to be judged as much from the point of view of advertising media (we shall be concerned here with the press) as from that of advertisers. This should be obvious if we consider the fact that advertising constitutes a major source of revenue to the press. To put the matter differently, the press is a producer of joint products — it sells copies of newspapers to readers as well as advertising space to advertisers. What the restriction on advertising by companies achieves, in effect, is to circumscribe the market for the second of the two products. The grave implications of this for the press deserve the most careful consideration, but it is clear that no such consideration has been given by those responsible for the decision to amend the Income-Tax Rules. If they had, they would certainly not have imposed the limit on advertising expenditure as casually as that on expenditure on residential accommodation and travelling!

It is true, of course, that advertisement expenditure as such has not been pegged, only the expenditure deductible for calculation of tax. Expenditure over the permissible limit will be disallowed and to that extent taxable profit inflated. This amounts to a tax on advertising above the permissible maximum at the marginal rate of tax applicable to the company. No sophisticated estimates of the price elasticity of advertising are necessary to show that advertising above the deductible maximum will be severely restricted as a consequence.

Reliable data on the economics of the Indian press are notoriously non-existent, the Registrar of Newspapers' copious two-volume annual reports

being little better than useless. In the U K the mass circulation dailies almost all derive the major share of their revenue from advertising and for the periodicals, particularly the quality ones, the proportion is even higher. *The Economist*, for instance, earns roughly twice as much from advertising as it does from circulation. The Indian press, with far smaller circulations, is if anything more dependent on advertising. And while advertisers generally follow the principle "to him who has shall be given", in terms of their total revenue it is the smaller papers who depend most on advertisement (excluding, of course, those which are overtly or covertly subsidised by individuals, special interests, political parties and, not least, foreign embassies). It is these papers, again, on whom the advertiser's axe, as he looks around to cut his advertising, will first fall.

This is not the place to debate whether advertising is a desirable influence on the press or not, but it certainly enables newspapers to sell at prices which bear no relation to their costs of production and thus to reach a far larger readership than they would otherwise. Without advertisements this paper, for instance, would cost upwards of Rs 2 per copy. Theoretically, there is, of course, the possibility of exploiting economies of scale through larger circulation, but in practice both such economies and the possibilities of increasing sales have very definite limits, for each newspaper as well as for the press as a whole. In any case, talk of increasing circulation is academic in the present context of newsprint shortage and rationing. It was not so long ago that this paper was officially advised to cut down its size to reduce newsprint consumption!

As an industry producing joint products, the press thus has the supply of one of its products — copies of newspapers — limited by the control on newsprint and the demand for the other — advertisement space — limited by the ceiling on companies' advertising expenditure. Neither of these restrictions, it is true, may have been motivated by any wish to interfere with the freedom of the press. Yet insofar as this freedom consists in the right to inform the public of the facts and issues of the day and to express opinions about them, a society in which this right is circumscribed for economic reasons loses very substantially the distinction that sets it apart from societies where the same right is politically circumscribed. Newsprint control is perhaps unavoidable, but the restriction on advertising expenditure by companies is an appallingly thoughtless step. It will, we hope, be withdrawn immediately before it does the deep damage it is capable of.

Verdict in Ceylon

THE results of Ceylon's general election will appear far less decisive or portentous than the right-wing press in Ceylon has made it out to be if it is remembered that in the elections of 1960 the Sree Lanka Freedom Party had polled less than one-third of the total votes. Further, it had got over 100,000 votes less than the United National Party. If in spite of this the SLFP secured 75 seats which, along with six nominated members, gave a majority to the party in the 151-member House and enabled Mrs Bandaranaike to form the Government, it was because of the very effective election pacts which the party had made with parties other than the UNP. Details of the voting in the latest election are not available yet and so the shifts in the political balance revealed by the election remain unclear. But, broadly speaking, it would appear that the major changes have been in the relative positions of the SLFP and the UNP. None of the other parties, certainly not the genuine leftist parties, appear to have lost any ground to the UNP.

To interpret the defeat of the SLFP as the defeat of the left is clearly inadmissible. The SLFP, like the Congress in India, is an amorphous collection of politicians, not a few as committed to vested interests as any in the UNP and many others with nothing more than opportunism to light their political path. It was no small achievement of Mrs Bandaranaike's that she managed to hold together this incoherent mass by adroit distribution of the loaves and fishes of office. Unfortunately, the same skill did not mark her management of the affairs of State. In fact, if the election results can be said to be a verdict on anything, it was on the colossal inefficiency of Mrs Bandaranaike's Government. Its attempts to clip the wings of the scurrilously anti-Government Lake House group of papers are unforgettable for their clumsiness. The Press Bills had to be repeatedly withdrawn after their introduction in Parliament and redrafted to correct flaws undetected in the original drafts. Only such unmitigated incompetence on the part of the Government could have enabled the UNP to raise the bogey of "marxist dictatorship" and emerge as the champion of civil liberties.

At the time of writing it appears that the UNP will form the Government with support from the SLFP rebels, the Federal Party and the Tamil Congress. But there is no reason why this alliance should prove any more durable than those which Mrs Bandaranaike sought to form when in office. The Tamil Congress's and the Federal Party's honeymoon with the UNP is likely to be short-lived, coming to an end as soon as the Government faces the Sinhalese vs Tamils issue and the problem of the stateless Indians. Besides, it will be interesting to see how the UNP, with its hard core support coming from the Roman Catholics, confronts the most significant development in Ceylon politics in recent months—the return of the Buddhist monks as a political power to reckon with. In addition, of course, there is the generous legacy of economic problems which the new Government inherits from its predecessor. All in all, it seems Dudley Senanayake will be over-optimistic to view the result of the elections as a mandate to rule Ceylon undisturbed for the next five years.

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY has been raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs 20. Foreign annual subscription rates are 70s and $10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager

Weekly Notes

Revolving Fund Stagnant

THE revolving fund set up by the Export Credit Guarantee Corporation five months back for extending foreign exchange credits to manufacturer-exporters has not got off the ground. As against the foreign exchange resources available to the fund so far, which amount to Rs 15 crores, only two applications for a total sum of Rs 3 lakhs have been received. Under the scheme, any commercial bank licensed to deal in foreign exchange can arrange for a line of credit from its correspondents or principals abroad. It can then lend for a maximum of 18 months at one per cent above the bank rate of the country of origin to finance imports of raw materials, components and spare parts on condition that these imports are embodied in export of commodities within the loan period. ECGC guarantees fulfilment of the export obligation (there is a rupee penalty in event of non-fulfilment) and the Reserve Bank releases the necessary foreign exchange if the requisite exports fail to materialise.

Non-utilisation of this assistance clearly indicates — if any further proof were required — that the ubiquitous clamour for imported components and materials arises almost wholly from the pressures of home demand. The revolving fund was set up on the recommendation of the Mudaliar Committee and Mathrani Group, both of which were inundated with complaints that export of many non-traditional commodities was inhibited by non-availability of relatively small imported elements. Imports financed by the revolving fund can be used only for exports and cannot be sold away or used for sale of finished products at home. Since the imports precede the exports, the latter do not qualify for import entitlements except insofar as the exporter qualifies, after fulfilling his export obligation, for another slice of the foreign exchange credit.

True, the scheme has not been in operation long enough to be appraised fully and is obviously out-rivalled by more attractive alternative schemes. The suggestion that inadequate publicity is responsible for its lack of progress is, however, absurd. Had it been really attractive, by itself or in conjunction with allied schemes, manufacturers would have smelled it from afar, without the benefit of any publicity. How to make the scheme more attractive? So long as freely transferable import entitlements continue in their present form, and the penalty for non-fulfilment of export obligations is kept at as much as 50 per cent, there can be little hope. What kind of exports after all are covered by the revolving fund? Cotton and jute exports are left out because their imports of materials come under other arrangements; tea does not need this assistance; iron ore, manganese and oilseeds cannot qualify. That leaves only non-traditional exports and these, by and large, get the plums already in the form of import entitlements ranging from 40 to 70 per cent of exports. Besides, thanks to the proliferation of foreign collaborations, our demand for materials, components and spares has become highly fragmented and specific to certain countries; even if the domestic cost barrier is surmounted — an achievement in itself — it is not always possible to match demands against available lines of credit.

The remedy is not to make imports under the scheme negotiable, though some relaxations could be effected there, but to make exports more attractive, for instance, by tying up the scheme with the new tax credit certificates proposed in the Budget.

Failure of Monetary Policy

THE ineffectiveness of monetary policy in India has been explained by reference to fiscal policy and government spending, or more particularly, deficit financing, which swell money supply and over which the monetary authority—strictly defined to mean the Reserve Bank of India—has no control. From this it follows that the main objective of monetary policy is to maintain stability in the supply of money by preventing it from rising at a faster rate than required by the rate of growth in national income. At least, this is how the Reserve Bank appears to view its own task. In two lectures delivered this month at the Kerala University, Professor K N Raj of the Delhi School of Economics has examined this view of monetary policy and analysed its relevance in terms of the requirements of planned development.

The preoccupation with the quantity of money, Dr Raj points out, ignores the role of velocity of circulation of money. The fact that velocity can increase—and it is wrong to attribute any stability or even an "upper limit" to this phenomenon—implies that the effect of a credit squeeze could be nullified. This, in fact, is what has happened in India in recent years with current deposits declining as a proportion of national income on the one hand and their velocity rising—at approximately 5 to 6 per cent per annum — on the other.

Since it has no control over the quantum of credit extended to Government, the efficacy of the Reserve Bank's policy has to be judged from its success in curbing credit to the private sector. And it is Dr Raj's judgment that "in spite of the massive, sophisticated and discriminating use of all techniques of control, the Reserve Bank cannot be said to have had any conspicuous success in its attempt to restrict expansion in bank credit when and where such restriction was really most needed". In support of this he points out that the increase in scheduled bank credit in the period 1950-56, when the Reserve Bank had *not* followed an active policy of restriction, was of a much smaller order than the expansion in subsequent years. The reasons for this are many, but most of them stem from the basic weakness of the "lender of the last resort" function, through which the Reserve Bank has sought to influence the cost and availability of credit. Banks have been able to keep down borrowings from the Reserve Bank by reducing their cash reserves and liquidating securities (both found possible despite the increase in the statutory liquidity ratio) and by inter-bank borrowing. Equally, the profitability of banking operations has made banks in general insensitive to the higher cost of Reserve Bank credit.

The failure of monetary policy has a qualitative aspect as well. Dr Raj's conclusion is that the scale and terms on which bank credit has been made available to manufacturing industry have not exerted any pressure towards inventory control—or, in popular parlance, reduction in hoarding. Selective credit controls have failed because evasion is easy and, at best, what is altered is the location of the hoards and not the quantity hoarded.

It is again on the qualitative aspect

that the "alternative approach" to banking organisation and monetary control outlined by Dr Raj rests. The true purpose of monetary policy is not the control of the cost and total availability of credit—as now interpreted—but the optimal allocation of credit. This purpose, of importance even in a system uncommitted to centralised planning, is vital to an under-developed economy committed to planning and to certain social objectives. Private commercial banking, operating according to "sound" lending practices, tends to perpetuate and increase market imperfections, which tendency cannot be counter-balanced by supervision and control by the monetary authorities. The nationalisation of the Imperial Bank of India and the creation of various specialised financial institutions, all bear witness to this fact. It is this kind of promotional activity, according to Dr Raj, that has "saved monetary management in India from getting reduced to what might otherwise have been a series of sterile and ineffective, and in cases even unhelpful, operations." Only a nationalised banking system, discriminating between end-uses of credit and unhampered by the operational concepts of private banking, can achieve optimal allocation of credit, he concludes.

Life Insurance Rebate

I S Gulati writes:

APROPOS the editorial, 'Lost Opportunity', in the issue of March 6, 1965, I may be allowed to explain what lies behind the move to replace the existing system of rebate on sums paid as life insurance premia, provident fund contributions and cumulative time deposits by an outright deduction of 50 per cent of the qualifying amount of such payments. The qualifying amount was and is 25 per cent of the total income of the assessee subject to the maximum limit of Rs 12,000 for individuals and Rs 25,000 for Hindu Undivided Families. (Incidentally, the Memorandum Explaining the Provisions of the Finance Bill states that the qualifying amount is limited to 10 per cent of total income but a reference to the relevant provision in the Bill shows that the limit is still 25 per cent and not 10 per cent. The error needs to be rectified to correct any misunderstanding.).

Before the Finance Act, 1964 came into force, the rebate was restricted to a maximum of 25 per cent of the qualifying amount. In other words, an individual with income attracting the highest rate of income-cum-super tax was eligible for a maximum income tax rebate of 25 per cent of the qualifying amount, i e, Rs 10,000 or one-fourth of the total income whichever was less. Thus, on a salary income of Rs 70,000, an individual was liable to pay Rs 33,600 by way of tax (i e, at the average rate of approximately 48 per cent). But the qualifying amount on which rebate was admissible could not exceed Rs 10,000 even though the individual concerned had made such rebate-worthy payments exceeding Rs 10,000. And on this maximum of Rs 10,000 he got an income tax rebate of Rs 2,500. That is, he would be liable to pay Rs 31,100 (Rs 33,600 minus Rs 2,500) by way of tax.

In the Finance Act, 1964 the limit on rebate was raised from 25 per cent to 50 per cent but that on the qualifying amount was allowed to remain unaltered. The result of this change was that the individual in the above illustration was able to claim by way of rebate Rs 4,800 instead of Rs 2,500 as before (at the 1963-64 rates). The change effected through last year's Budget was clearly calculated to benefit income tax payers whose effective tax liability (and not just the marginal rate of income-cum-super tax) exceeded 25 per cent. It was, therefore, a clearly regressive step.

In the Finance Bill, 1965 what is proposed is to allow the reduction of taxable income by 50 per cent of the qualifying amount. Thus under the new scheme, rebate is allowed not at the average or effective rate applying to the total income but at half the marginal rate applying to the highest slice of income before the above reduction. Of course, the monetary limit of the qualifying amount has also been raised in the Finance Bill.

Thus, the individual in the above illustration who got a rebate of Rs 4,800 at the 1963-64 rates and of Rs 3,800 at the 1964-65 rates (payment by way of annuity deposit did not qualify for rebate), would, at the 1965-66 rates, get a rebate of Rs 3,900. All along we have so far assumed that the entire income is wholly earned. Since on unearned income the rate of tax is higher, the rebate earned on life insurance and other payments is correspondingly higher.

It will be observed that the really retrograde measure (insofar as one regards a regressive tax concession as such) was adopted in the year 1964. By raising the ceiling on rebate from the previous 25 per cent to 50 per cent of the qualifying amount, the Finance Minister was clearly benefiting the upper-income groups, the groups who paid tax at the average rate exceeding 25 per cent, i e, with an annual income exceeding Rs 25,000-28,000.

It has not been disclosed what exactly was the revenue loss as a result of change effected in the 1964-65 Budget. Let us hope some alert member of Parliament will persuade the Finance Minister to indicate the estimated loss. Assuming that (a) the rebate-worthy payments are currently running at around Rs 125 crores a year (this should, if anything, be an under-estimate for the total of life insurance premia payments, employees' contributions to provident funds and cumulative time deposits), and (b) the average rate of rebate admissible on these payments will be higher than the average rate of tax payable by non-corporate non-firm assessees, the total amount allowed currently by way of rebate should have gone up from around Rs 20-25 crores in 1963-64 to Rs 35-40 crores in 1964-65. This is by no means a small gift to the high-income groups.

Gradual Animal Husbandry!

AVOIDING conflict may be a laudable objective, but often it just cloaks the lack of a will to face issues squarely. Has one not heard enough the plea for a "balanced approach" and the "middle course" when the choice is clear and unequivocal? To Food Minister Subramaniam's appeal at the All-India Gosamvardhan Sammelan that "in the development of cattle, prejudice, sentiment and tradition had to be shed" and that in tackling the problem of the unchecked growth of cattle "the choice between science and sentiment" had to be made now, Prime Minister Shastri replied that compromises were necessary. In India, said the Prime Minister, any conflict between science and tradition and logic and sentiment would have to be resolved by striking a balance. He wanted a "middle path" between "extreme modernism" and sentiment.

Capital View

AS Capital View was received late, it appears on page 575.

And as far as the cow was concerned, the sentiments of so many people were involved that a strictly logical approach was of no use. He was against the slaughter of uneconomic cows and wanted that "steps should be devised for their utilisation". But why cow slaughter, even with regard to modern methods of animal husbandry like cross breeding and sterilisation to improve the quality of cattle, Shastri pleaded that neither the Gosamvardhan Council nor the Government should be "adamant". "I would like to tell Mr Subramaniam", he said, "that we could accept to the extent the Gosamvardhan organisation could go in these matters after which we can discuss, persuade and convince them. *It does not matter if we proceed gradually*" (italics added).

Unfortunately there happens to be no "gradualness" in the growth of our cattle population. The increase was 10 per cent in the Second Plan period. And about 40 per cent of this growing population are uneconomic and useless and are just a burden on available cattlefeed. Is it any wonder then that the average milk yield per lactation period in India is 400 lbs against 8,000 lbs in the developed countries? This inescapable logic has no "middle way" and ironically the tradition-bound villager is the first to admit it. He weeds out excess cattle by starvation and neglect because his society denies him a more humane and economical solution.

One recalls in this connection the furore over the proposal to set up a modern abattoir in Bombay some two years ago. It was then pointed out editorially in this paper how in our approach to a question like slaughter of animals we "ignore that there are slaughter houses, that the vast majority of Indian people are not vegetarians, that the quality of meat which is sold in the market is far below the standard desirable and that a poor country, particularly one which is bent upon economic development, cannot afford the continued wastage of valuable animal products". Prejudice against cow slaughter is, of course, deep-rooted in the Hindu mind, but that does not mean that cows are not slaughtered; what happens to unwanted cattle everyone knows, though no one would perhaps care to admit it. They are either starved to death or disposed of to agents to find their way eventually into a slaughter house. As we commented in the editorial referred to above, "by a curious twist of the Hindu mind, the idea of sin is dissociated and passed on from the principal to the agent—it is the Kaseem Alis who do the actual act of slaughtering!" It is the same curious twist of the Hindu mind that wants "measures to be devised for using unwanted cattle", when by definition they cannot be used, except after they have been slaughtered. The state of our leather industry is a measure of the price we pay. Carcasses of poor quality cattle cannot yield good hides and so, in spite of the largest cattle population in the world, we import a crore of rupees worth of hides.

After what he had to say at the Gosamvardhan Sammelan, Shastri can congratulate the State Governments. They have certainly followed his advice in implementing animal husbandry programmes. Out of an allocation of Rs 78 crores for these programmes in the first two Plans, only Rs 49 crores were spent and in the Third Plan even 40 per cent of the outlay of Rs 90 crores had not been spent in the first three years. The scheme to install 3 abattoirs, not surprisingly, remains on paper. According to preliminary estimates, the Fourth Plan is expected to provide Rs 157 crores for animal husbandry schemes. But what do these increasing financial allocations amount to when the Prime Minister counsels "gradualness" in the adoption of policies which are the pre-conditions for the success of any animal husbandry programme?

Tax on Unaccounted Income

A Correspondent writes :

WHAT is the effective rate of tax on unaccounted income under the scheme for disclosure of such income? Is the tax payable on the amount *disclosed* or on the total *unaccounted* income, whether held in one form of assets or another or spent.

To illustrate the point, if a person had an income of Rs ten lakhs over the last five years but did not declare it to the Income Tax Officer, his total *unaccounted* income is Rs 10 lakhs. But of this income, he has now left with him only Rs 5 lakhs. He discloses this latter sum to the Income Tax Officer. What is his tax liability—60 per cent of Rs 10 lakhs or of Rs 5 lakhs? If the latter, the effective rate of tax on *income earned but concealed* works out to only 30 per cent.

This question is not of academic interest only. It has been argued that the tax under the disclosure scheme is payable on the amounts disclosed. This can be true only in the sense that since the declarant still conceals a part of the income that actually accrued to him during a certain period, he manages to get away by paying 30 per cent tax and is enabled thereby to introduce the balance of 20 per cent of his total unaccounted income into his regular ('white') accounts. But he has obviously achieved this result by concealing a part of his income. Therefore, the immunity that the new scheme gives to the declarant cannot be taken to apply to this undeclared part of the past unaccounted income.

Or is it that under the above scheme, the declarations of unaccounted income are to be accepted at their face value and that the tax authorities are precluded from checking the veracity of the sums declared? If so, the effective rate of tax on unaccounted income could be even lower than 30 per cent, depending on what proportion of the total unaccounted income a declarant actually discloses under the scheme.

Good Chits and Bad

"THE evils of ultra-nationalism" is not ordinarily a likely theme for a bank chairman's annual statement to his shareholders, but then the Chartered Bank is no ordinary bank. With offices in almost a score of countries and with operations spanning continents, it is perforce acutely sensitive to changes in political climates. And in some of the countries of its operation such changes have been mercurial in recent years. In 1964, for instance, the Bank had to countenance the involuntary winding up of its activities in Iraq, Indonesia, Burma and Cambodia. It pains the Chairman of the Bank, Vincent Alpe Grantham, that it should meet with such fate in countries where it had been operating "for over hundred years, through good times and bad", whose wealth it had helped to open and build up and in whose overseas trade and local investment it was still paying an important part. But is this really surprising? Is it not the very importance of the Chartered Bank, and of institutions like it, which makes them the immediate subject of attention when there are political upheavals?

Grantham's succinct and penetrating survey of political and economic developments in the countries where his bank operates follows a pattern: stability is applauded, sudden changes are viewed with caution and left-ward

political swings are decried. No doubt, a certain political philosophy colours these judgments, but not all the way. If leftist politicians and policies are viewed with disfavour, it is because they spell nationalisation, restriction of private enterprise and political tension arising from conflict with entrenched interests. Ultimately, these may threaten the Chartered Bank's own operations and even its existence. But economics, not politics, dominates Grantham's judgment. His comments on China are proof of this. Here we have a sober, shrewd assessment of the Chinese economy. There is enthusiasm at China's vast trade potential and satisfaction that the break with the Soviet Union has diverted some two-thirds of her total trade to the West. The U K's trade with China, which has been growing at the rate of about 50 per cent per year, is regarded as still low and capable of much expansion. Evidently, the Chartered Bank's role in China's trade is neither inconsiderable nor unprofitable, though we are told nothing more than that the Bank's Shanghai branch "has had a satisfactory year and is well situated to assist in any increase in trade".

Grantham's view of India is cautious, but some of the Government's policies come in for severe criticism. These include allegedly undue emphasis on industry to the neglect of agriculture, restrictive regulations which impede the inflow of foreign private capital, high taxation which stifles investment and enterprise, tight credit which denies finance for legitimate business and contributes to the stagnation in the capital market and Government's failure to "confront" left-wing trade unionists.

Some of Grantham's facts can certainly be challenged — e g, his assertion that the returns on foreign investment in India are "small" — but, his overall view of the Indian economy is one with which an influential section of Indian opinion will enthusiastically agree. Of course, others may find his confident expectation that the Fourth Plan "will be trimmed to a more realistic basis than its fore-runners and with perhaps a more significant role assigned to private enterprise" rather disconcerting.

Corrections

IN the article "Agricultural Extension, Inputs and Community Development" by J P Bhattacharjee in our Annual Number, in the table on page 293, the figure in row 4 column 4 should read—1.5 insteed of +1.5 and that in row 5 column 4 should read +1.5 instead of —1.5.

In the article "Irrigation Rates versus Betterment Levy" by Nasim Ansari, also in the Annual Number, in Table 1 on page 299, the irrigation rate in Bombay for sugarcane should be Rs 80.00 to 120.00 instead of Rs 80.00 to 12.00. In Table 3 on page 303, "Upper Bari Donald Canal" should read "Upper Bari Doab Canal". In the same table, in foot-note (**) line 4, "more than 100 per cent on the intensity of cropping" should read "more than 100 per cent depending on the intensity of cropping".

The errors are regretted.

—*Ed.*

TVS

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'Tax' on Advertising

S L Rao

THE Finance Minister is very good at introducing proposals for different reasons, when his object is only to increase tax revenues. Yet another instance of his devious methods of raising tax revenues is provided by the publication this week of the amendment to the income tax rules setting out new limits and conditions for allowance of expenditure permissible under the Income-tax Act. The intention to lay down free limits of expenditure on advertising, residential accommodation including guest houses, and travelling by business houses, was announced last year. The new rules take effect from the fiscal year beginning on the April 1, 1965.

This is not the first time that a government is trying to regulate business expenses. The first year of the Kennedy administration in the U S A saw the introduction of detailed proposals to regulate entertainment expenses in business houses. Some years ago, the Conservative Government in the U K introduced a tax on television advertising with a view to mop up some of the excessive profits of the independent television contractors as well as to try and limit the level of advertising expenditure on television. Even though most of the tax was passed on to the advertisers by the television contractors, the amount of money spent on television advertising did not decline, and the so-called "natural break" in the middle of a programme continues to plague viewers on the Independent Television (as opposed to the B B C which is a wholly government-owned Corporation and does not take any advertising).

Prejudice Against Advertising

A cursory study of the new rules reveals a violent prejudice in the Government of India against advertising. The permissible limits of expenditure on advertising, beyond which tax will have to be paid at the usual rates on income, are given in the table. Thus on a turnover of Rs 1.50 crores, the permissible extent of expenditure on advertising is only Rs 1.12 lakhs, or, 0.8 per cent. A business with a turnover of Rs 5 crores, will be permitted to claim tax deduction only on about Rs 2 lakhs which is 0.4 per cent of the turnover. The larger the business, the more minuscule the proportion of its turnover that the business can claim as advertising expenditure for tax purposes.

Any Government is, of course, fully justified in laying down limits to different types of expenditure that can be incurred by a business, to protect the interests of the shareholders, the consumers, and the Government's own interest in tax collection. Thus the newly-announced rules lay down limits on travelling expenses and on guest houses for example, which seem quite reasonable. The same cannot be said of the rules regarding advertising expenditure. On the pretext of controlling expenses, businesses will now be penalised for incurring what to them is necessary expenditure to maintain their identity and future growth. The effect of these rules will be to reduce advertising expenditures substantially.

Already, the Indian Society of Advertisers is believed to have recommended to its members to suspend advertising in newspapers, cinemas, and other media from April, until clarification is obtained from Government. Obviously, this suspension will not be indefinite. But it will still have considerable impact on revenues, particularly of the newspaper industry. If the rules are not modified, to raise the permissible limits substantially, there will be substantial reductions in advertising expenditure. This in turn will have adverse effects on the quality of products and services sold to the Indian consumer, and by placing brakes on the expansion of many industries, limit the overall rate of economic growth.

Definition Not Clear

The Rules also do not define what is meant by advertising expenditure. Does it include only expenditure on press and cinema advertising? Or does it also include advertising through posters, and in shops? What about special schemes that are run from time to time to enable the consumer to sample the product temporarily, wholly or partly at the cost of the manufacturers? Unless the Government also lays down the prices and terms at which all goods and services can be sold, it is unlikely that the Government can control advertising other than on what is called "theme", namely through press and cinema. It is possible that a great deal more emphasis might come to be placed on promotional expenditure. If this happens and manufacturers promote their products constantly through "special" and "limited" offers to the consumer, this is likely to reflect itself on the price that the consumer has to pay for the product.

All businesses, whether large or small, particularly those offering goods and services directly to the consumer, will be adversely affected. Not much thought seems to have been given to what can be bought with the pitiful sums that can now be spent on advertising.

All advertising aims to communicate effectively to the consumer about the product or service that the advertiser has to sell. Effective advertising requires that the advertiser should be clear as to the sort of people who are likely to buy his product. Having determined this, he then selects such media as his prospective customers are most exposed to. In the West this has become extremely easy, with a range of industrial magazines circulating among people belonging to certain industries or trades, magazines mainly bought by women, or teenagers or university students, or ethnic groups, etc. In India such specialisation does not exist. Almost any advertiser, in order to get his message across, has to advertise in papers which circulate also among people who are unlikely to be his potential customers. Hence a larger proportion of his expenditure is wasted in that, he is advertising in papers which charge rates in relation to their circulation and he has to pay that rate though he is interested only in a part of that circulation. As more

Table:

Turnover or Gross Receipts	Percentage Allowed	Maximum Permissible
First Rs 25 lakhs	2 per cent or Rs 5,000 whichever is higher	Rs 50,000
Next Rs 25 lakhs	1 per cent	Rs 25,000
Next Rs 50 lakhs	0.5 per cent	Rs 25,000
Next Rs 50 lakhs and over	0.25 per cent	Rs 12,500

specialised papers develop in India, this kind of waste is likely to be reduced and manufacturers will be able to aim more and more only at the people who matter for them, their potential customers.

In this context, in order to advertise effectively, there is an irreducible number of papers, and in the case of some products and services, cinemas, which almost any advertiser has to use. Normally the pressure of demand on the space available makes these particular papers and cinemas very expensive. With the new rules, most advertisers cannot even do a minimum of advertising, without having to pay tax on the expenditure.

Why Advertise?

It can be argued, of course, that it is not necessary to advertise except perhaps once a year to inform customers of the existence of a product. Obviously there are no hard and fast rules on how often to advertise. However, it is a fact that the customer's memory is fickle, and he must be constantly reminded about the product or service, and the benefit that it offers him. While past advertising continues the identification of a brand in the consumer's mind with certain attributes, the stoppage of advertising soon results in the loss of this identity. More important, a business which is advertising its product or service, cannot afford to take risks with its quality. By bringing and keeping the product or service in the consumer's attention, and claiming certain attributes for it in the advertising, the advertiser has to meet these claims in the quality of his product. If he does not, his product or service is soon found out to be unable to meet what is claimed for it, and the consumer shifts to another brand which claims to offer greater satisfaction.

The Soviet Union, till a few years ago, did not believe in making a multitude of brands of the same product. Nor was there competition for the consumer's rouble among different manufacturers. The consumer bought what was available or did without it. India does not claim to be such a rigidly controlled economy. Where there is a free market, and more than one manufacturer of one type of product (or supplier of one type of service), the consumer has to choose. In order to do so, he has to be informed, and this has to be done effectively. With the sums that will now be available for advertising it is unlikely that this can be done at all effectively. (Even the Soviet Union, with the recent emphasis on consumer satisfaction, is moving towards advertising products and services).

We are daily exhorted to export more. The export market is a highly competitive one. This competition is expressed in vigorous and heavy advertising. In the absence of a healthy advertising industry in the country, we are unlikely to be very competitive in foreign markets.

The choice that the Finance Minister is giving to businesses in India now is not an enviable one. He says in effect "Spend as much as you think is reasonable on advertising your product but pay for most of your expenditure from your profits. Or, do not spend as much as you think you need to communicate effectively to your market, and so reduce the prospect of your future growth and future profits".

One hopes that the Government will reconsider the rates that they have published and increase the permissible levels of advertising expenditure to more reasonable levels.

While the Government may not be very responsive to anguished cries from the private sector — after all, anguish is becoming a fairly common emotion in the private sector in recent months! — the newspaper industry should also consider what effect the substantial likely reductions in advertising expenditures, is likely to have on its already difficult economics. When there is so much talk of encouraging smaller papers, a measure which will reduce their advertising revenues, seems peculiar.

The chances are that most advertisers will prefer to advertise, perhaps less than before but still at a much higher level than can be done without increasing tax liability. The Finance Minister will get more in tax revenues without announcing a new revenue measure. The consumer, will probably be the worst sufferer in the long run.

FROM THE LONDON END

Growth Target Too Ambitious?

IT is only natural, with the budget looming ahead, that there should be much discussion of the direction that the British economy should take. The controversy over whether what is needed is an expansionary or a deflationary budget continues to rage. With the overriding need to reassure her foreign creditors, Britain may be tempted to impose a tough budget, but it is certainly against the natural bent of a Labour Government to undertake a policy that might well produce a recession and could do a great deal of damage to the long-term plans for economic development to which this Government is committed.

Whitehall's Dilemma

Some indication of the dilemma which is exercising Whitehall was reflected in a recent speech by Austen Albu, the Minister of State for Economic Affairs, to American bankers in New York. Albu pointed out that the Government was well aware that as the level of exports increased, domestic demand would have to be restrained, but the full deflationary effect of the autumn budget, together with the "severe squeeze" on bank liquidity and a "very high" Bank Rate, had not been fully appreciated. Albu stressed the fact that while the Government was always ready to take any corrective action necessary, it could not accept that "in order to try to secure a temporary improvement in the balance of payments we should push deflation to the point at which it would utterly defeat our long-term objectives". The real need of the economy was for consistent and enduring policies which would encourage growth and the modernisation of both equipment and human attitudes by which alone the recurring cycle of balance of payments weakness could be overcome.

This is certainly a pointer that the Labour Government has not yet given up hope of persuading opinion abroad that harsh deflationary measures would do more harm than good.

The views of Anthony Crosland who is now Secretary for Education, but was formerly Brown's deputy are also indicative of the same vein of thought. While he agreed that "we must so control demand as to release the resources needed to provide the exports and the import substitutes ... the illegitimate view is that we should deliberately deflate home demand not as a condition of correcting the balance of payments deficit, but as the sole means of correcting it". This, according to him, "would run wholly counter to the philosophy of Keynes and Bretton Woods".

The Bank of England's quarterly Bulletin published recently is also certainly less in favour of deflation than the National Institute of Economic and Social Research which advocated £200 to £300 a year more in new taxes. The Bank says "it is a matter of nice judgment whether the prospective demands upon the economy are likely to be met without excessive strain on valuable resources". It referred to a number of factors which together "constituted an appreciable deflationary force, the effect of which might become increasingly apparent as time went on".

Harrod Against Deflation

A much more forthright case for abandoning deflationary policies was put forward by Roy Harrod who said, in effect, that Britain would be unwise to proceed with deflation and that she should go ahead to promote economic expansion, regardless of foreign opinion which favours caution, since the views of these foreign Governments could safely be ignored as Britain's creditors would not dare to run the risk of withholding support from sterling.

The Government appears to be banking on restraint on incomes and increased productivity to remedy the underlying deficit in the balance of payments. Roy Harrod argues that "any application of 'stop-go' in the period ahead would doom the incomes and productivity policy to failure". The Unions would refuse to abandon restrictive practices if unemployment were rising. Britain's creditors have little leverage, according to Sir Roy, for compelling the U K to deflect her domestic policy from the lines Britain thinks best. Britain's negotiating strength lay in the weakness of the dollar. If the pound were to be devalued, serious doubts would be raised concerning the dollar. Therefore, he says, Central Banks will come to the support of sterling so long as the dollar remains weak. Furthermore, any bout of deflation in the U K would place an extra strain on the American balance of payments.

On the other hand, industrial production is continuing to rise strongly, the unemployment figure in February was among the lowest for ten years, and industry raised the level of its spending on new buildings, plant, machinery and vehicles by more than 3d in the pound last year—the fastest rise since that recorded during the big investment programme of 1959 to 1961. These facts indicate that the economy is on the way to becoming overstretched, and some economists suggest that what is now really needed is a tougher budget. This is certainly the view of Professor Paish who claims that a greater measure of unemployment is necessary in order to restrain the pressure on rising prices.

Sharp Rise in Production

The rapid increase in output has also prompted thoughts on a viable rate of economic growth for the U K. The January production index confirms the impression that output was up sharply for the fourth month running and reached a level of 6 per cent higher than twelve months before. The seasonally adjusted index of industrial production compiled by the Central Statistical Office was up by another point in January to 133, and the index for manufacturing industries only jumped two points to 135. However, the pattern of increase is not uniform. In contrast to every period since 1961, it is now the heavy industries that are setting the pace. As a result, production in the steel industry is now running at record levels of 30m tons a year. The British steel industry seems to have benefited more than most from the introduction of the import surcharge which has had a noticeable effect in switching demand towards the home producer. By contrast, the consumer industries are prosperous, but by no means excessively so. The motor-car industry continues to make progress, but other consumer industries, notably textiles and domestic appliances are only moderately active and are working below capacity. Opinions are still divided on the course the economy is likely to pursue later in the year. Many businessmen share the concern attributed to Brown's Ministry of Economic Affairs about a possible downturn.

The economic plan which Brown's Ministry was going to publish showing the way to a 25 per cent growth in national product by 1970 is taking longer to produce than expected. This adds particular interest to the recently published Political and Economic Planning broadsheet which takes a hard look at a viable economic growth rate for Britain. It casts doubt on the realism of the Government's growth target.

The author, Geoffrey Denton, lecturer in economics at Bedford College, London, points out that the Government has quietly scaled down the annual growth rate from 4 per cent, to 3.8 per cent and introduced a greater flexibility by phasing the plan over six years. "Unless there are indications of a fundamental improvement in the economy deriving purpose from an incomes policy, or from measures to improve the balance of payments, there would seem to be disadvantages in committting ourselves even to a phased target".

Export Needs Over-estimated

The broadsheet examines the causes of the failure of Neddy's first attempt in economic planning with a 4 per cent growth target. Although the target is not impossible from the point of view of the capacity of industry to expand "it showed a great lacuna in the case for 4 per cent in respect of export requirements". With import figures rising, the export target had to be raised from 5 per cent to 5.1 per cent to keep the growth rate consistent with a satisfactory balance of payments. Exports failed to rise significantly in 1964, and the target had, in practice, to be abandoned.

This brings one back to the fact that, as in India, exports have a fundamental role to play if the British economy is to expand. Indeed, export requirements were the main flaw in the original N E D C plan. It would, therefore, be unwise to base further plans for growth on the assumption that there will be a major improvement in export trends. Efforts to raise the standards of competitiveness of British industry can only pay off after a period of years. The same is true of more direct measures to step up exports, though P E P considers there is a strong case for re-examining the part a value added tax could play as a general incentive to exporters. As for the possibilities of developing import substitution, these are described as "at present little more than interesting ideas".

The verdict of the PEP study seems to be that the immediate prospects for fundamental improvements in the balance of payments are very limited, and without this there must be considerable doubt about the possibility of Brown's 25 per cent target.

Kerala without Democracy

THE heavy poll and the spectacular advance of the Left Communist Party to the position of first party, are clear enough evidence that democracy is alive and alert in Kerala. That it has failed so far to produce the possibility of stability is the result of the inability of the Left forces to hold together combined with a resurgence of communalism. This disastrous combination is likely to leave Kerala without democracy for some years.

It cannot be insisted too strongly that the combined votes of the two Communist Parties, the RSP and, to an extent, of the SSP demonstrate that the Left has not retreated an inch in popular support since 1960, that it seems to have crossed the 40 per cent barrier even without unity. Given an united front, the Left will sweep Kerala. The accumulated and spreading discontent against the Congress is reaching the point of detonation in this State. More acutely than ever the problem becomes one of an alternative with a concrete programme of rapid development and equality.

It would be fatal for the Left to imagine that the people will mark time or that their anger against the almost inevitable continued Congress misrule will keep on increasing till the Left reaches a safe electoral majority. The point is that as of now popular anger is tinged with radical hope. It could become anger against the Congress combined with disappointment with the failure of the Left to produce a coherent alternative. If this stage is reached, the Left in Kerala will face a set-back from which it will take long years to emerge.

Strength of Communalism

And it should be remembered that there are other contenders in the field. The Kerala Congress-Muslim League combine has shown a striking strength which is fairly formidable today and fraught with menace in the near future. The Muslim League suffered serious reverses in some of its traditional strongholds at the hands of the Left Communist Party, yet its vote has not gone down substantially. If we add to it the poll of the six "Independents", supported by the League and the Left Communists but who immediately joined the League after their victory, then a slight increase can be noticed. The communal incident at Tanur after voting is an ugly pointer to the allegiance of Muslims in Malabar to the unabashed communalism of the League.

The Kerala Congress was equally unabashed in its reliance on Nair and Catholic communlism, with the former slightly more to the fore. Mannath Padmanabhan demonstrated that in the game of communalism there are very few, indeed, who are his peers. He has also made it clear that he is now thinking in terms of using the success of the dissident Congress in Kerala to push ahead with the formation of similar groups, based on the same social conservatism, in other Southern States — Mysore to begin with. It should not take long for that other octogenarian, Rajaji, to catch on to this game and go forward with his absorption tactic. It may also happen that the Jana Sangh will acquire a real mass base in the South by uniting with and transforming this trend. It should be remembered that Hindu revivalism has got going on a vast scale in the South and that it does not necessarily need a Muslim antagonist to take on a political shape. It can emerge as a genuinely conservative party seeking to freeze social development for as long as possible.

Policy for Leftists

The failure of the Congress to provide any sort of meaningful ethos will soon enough lead to the organised entry of open social conservatism, if it is not compensated by the significant emergence of a radical democratic standard of values. The resources of Hinduism for this are enormous and sufficiently flexible, too, to accept the most Western of models of economic growth.

It should not be imagined that the Kamaraj strategy for Kerala was free of communal considerations. While he banked heavily on rallying the Ezhavas to the Congress banner, he did not overlook the tactic of attempting to drive a wedge in the Nair-Catholic leadership by adopting the late P T Chacko's brother and a prominent Nair Service Society leader as official Congress candidates. At the lower levels there was no lack of appeal to all the communal forces possible. This tactic did not pay off, since the sins of the Congress Ministry were so great and so recent that the electorate could not be cajoled. As things stand, there is very little chance of the Congress rehabilitating itself. What may happen, if Kamaraj follows up his recent attack on the "new class of new rich", is that the Congress will convert itself in Kerala into the minority party of the petty bourgeoisie. This would be such a revolutionary transformation that scepticism about it is more than legitimate.

What should be done by the various Left forces is to follow a policy of patient consolidation and continuous attempts at unity on all conceivable issues. The immediate is, quite obviously, the release of the Left Communists, particularly the detenus who have been elected. It is true that this is an all-India issue but the strength of the protest can and must be at its most formidable in Kerala. There should be no support by the Left to any party or coalition of parties, anxious to form the Government, who are not pledged to do their utmost in this regard. But even this minimum degree of unity will be far from easy. The election campaign has left a trail of bitterness.

Hopeful Trends

There are indications that hopeful trends are emerging in both Communist Parties. It is only to be expected that Namboodiripad would, to begin with, rub home the fact that he has swung the major section of the traditional Communist base behind him. It is equally natural that Achuta Menon should underline the fact that the Left Communists have not been able to achieve the end of instability because of the strength of the Kerala Congress and Muslim League against whom they did not fight. But these initial reactions are wearing off and there seems to be an appeal for rethinking on both sides — each, of course, insisting that the other needs to do more of it! Rather than attempting ideological-political unity, much less organisational merger, it would be more to the point to try for joint campaigns and movements from issue to issue. If this approach is adopted the verdict of the election can still be the basis for the advance of democracy in Kerala even though the State may be without a democratic government.

Working of Public Undertakings

Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government for the year 1963-64 Ministry of Finance, Government of India, March 1965; iv+182 pp.

THE balance-sheets and annual reports of the Central Government's industrial and commercial undertakings are required by statute to be presented to Parliament. In addition, a composite review of all such undertakings was published for the first time in 1962 relating to 1960-61. Since then this review has been published annually and the latest relates to 1963-64. It covers 61 undertakings in which the Central Government has some investment; it also contains a chapter on 10 others, like the Damodar Valley Corporation, in which the Central Government has some investment, without being directly responsible for their management. It excludes departmental undertakings, like the Chittaranjan Locomotive Works, the ordnance factories, etc.

The 61 undertakings have been classified into four categories: "undertakings under construction", "running concerns", "promotional and developmental undertakings" and "financial institutions". Among the running concerns, Hindustan Steel has been separated from the rest and treated separately in view of its size.

Investment

The total investment in the 61 undertakings stood at Rs 1,780 crores at the end of 1963-64, showing an increase of Rs 309 crores over the previous year. Of this, the Central Government contributed the lion's share: 94 per cent (see Table 1). The distribution of total investment among different industries is given in Table 2. The Report says that Government policy is to evolve a capital structure in new undertakings in which equity and loans are roughly equal. At present the proportion of equity capital in total investment is higher. It stands at Rs 1,039 crores as against Rs 741 crores of loans. This imbalance is due to past investments, repayment of loans by some undertakings, and initial investment in the form of equity in new undertakings. The Report anticipates a further investment of Rs 320 crores in public undertakings during 1964-65, and a total investment of Rs 2,400 crores by the end of the Third Five Year Plan. The distribution of property, or gross block, of the public undertakings in various States as on March 31, 1964 is given in Table 3.

The Report proceeds to deal with each category of undertakings separately. For each of them it presents a consolidated balance sheet and a profit and loss account (or income and expenditure account in the case of promotional and developmental undertakings and financial institutions), as well as an analysis of the accounts of each undertaking.

Undertakings Under Construction

Fourteen undertakings are described as being under construction. These undertakings had 30 different schemes under implementation during the year at an estimated total cost of Rs 1,300 crores. Investment in these undertakings at the end of the year stood at Rs 397 crores and accounted for 22 per cent of total investment (see Table 4).

The most important undertakings in this category, in terms of investment, are Heavy Electricals, Heavy Engineering Corporation, Neyveli Lignite Corporation, Indian Refineries and Bokaro Steel. Indian Refineries was amalgamated with Indian Oil on September 1, 1964 to form the Indian Oil Corporation. The construction of Bokaro steel plant was originally entrusted to Hindustan Steel, but a separate company, Bokaro Steel, was incorporated on January 29, 1964. The two oldest undertakings still under construction are Heavy Electricals and Neyveli Lignite Corporation, both having been incorporated in 1956. Heavy Engineering Corporation, Ranchi, and Indian Refineries were incorporated in 1958, and Bokaro Steel in 1964.

The report throws some light on the reasons for the delay in completing the Heavy Electricals project. The project report was received in November 1956. But subsequently adjustments were made in the types of products, entailing changes in the design of the plant and raising costs. Then in September 1963 the Government approved the execution of certain ancillary and supplementary works to provide for diversification of production, and also approved in the same month an expansion of the plant to

Table 2: Distribution of Investment in Public Undertakings by Industry

(Rs crores)

	1963-64	1962-63
Steel	804.1	724.1
Engineering	269.3	197.8
Chemicals	171.7	134.8
Petroleum	169.6	109.9
Mining and Minerals	129.8	105.8
Aviation and Shipping	92.3	80.6
Financial Institutions	80.9	68.2
Building and Repairing Ships	9.2	8.9
Miscellaneous	53.0	40.6
Total	*1779.9*	*1470.7*

Table 3: Value of Property (Gross Block) in Different States

(As on March 31, 1964)

(Rs crores)

Andhra Pradesh	13.7
Assam	24.3
Bihar	228.1
Delhi	6.1
Gujarat	0.9
Himachal Pradesh	0.8
Kerala	20.6
Madhya Pradesh	317.2
Madras	123.5
Maharashtra	35.1
Mysore	46.7
Orissa	260.2
Punjab	35.7
Rajasthan	2.1
Uttar Pradesh	9.8
West Bengal	234.7
Unallocated	191.0
Total	*1550.5*

Table 1: Investment in Public Undertakings

	1962-63		1963-64	
	Amount *(Rs crores)*	Percentage	Amount *(Rs crores)*	Percentage
Central Government	1668.1	*93.72*	1385.3	*94.19*
State Governments	8.7	*0.48*	8.7	*0.59*
Private parties (Indian)	46.8	*2.63*	42.6	*2.90*
Private parties (Foreign)	56.3	*3.17*	34.1	*2.32*
Total	1779.9	*100.0*	1470.7	*100.0*

manufacture steam turbines and turbo-alternators.

Hindustan Steel

Hindustan Steel has been treated as a separate category by itself because the investment in it, Rs 804 crores, represents 45 per cent of all investment in running concerns. HSL's turnover in 1963-64 was Rs 181 crores, as compared to Rs 124.4 crores in the previous year, and there was a gross surplus of Rs 45 crores. After providing for depreciation and interest, this turned into a loss of Rs 4.8 crores, as compared to a loss of Rs 23.9 crores for 1962-63. (Due to certain adjustments relating to previous periods, the loss at the close of the year rose to Rs 6.8 crores.) The cumulative loss rose from Rs 61.6 crores in the previous year to Rs 68.4 crores at the end of 1963-64.

Production in HSL's three steel plants had more or less reached installed capacity during the year. Production of ingots and saleable steel was 97 per cent and 94 per cent, respectively, as against 83 per cent and 76 per cent last year. The selling price of steel of all categories was controlled up to March 1, 1964. Since then price control has been retained only on certain items in short-supply, following the recommendations of the Raj Commmittee. The prices of decontrolled categories are fixed by a Joint Plant Committee in which Hindustan Steel is represented along with other main producers.

Programmes for expansion of all the three plants are under way. The Rourkela plant is being expanded to 1.8 million tonnes of ingot capacity, Bhilai to 2.5 million tonnes, with provision for further expansion to 3.5 million tonnes during the Fourth Plan, and Durgapur to 1.6 million tonnes, also with scope for further expansion to 3.5 million tonnes during the Fourth Plan.

An alloy steel plant is being put up at Durgapur with an initial capacity of about 0.1 million tonnes of ingots. Construction is behind schedule and the plant is expected to go into production in 1967 instead of 1966.

Hindustan Steel also owns and manages a fertiliser plant at Rourkela which uses the nitrogen released in steel making. The Fertiliser Corporation of India operated the plant till April 30, 1964 on behalf of Hindustan Steel. However, to secure greater coordination through common control of both the steel and fertiliser plants, its management was taken over by Hindustan Steel. Production in 1963-64 was only 25 per cent of rated capacity, due to inadequate supply of coke-oven gas.

Other Running Concerns

There are 33 concerns other than HSL which are classified as running concerns. Of these the first annual accounts for two—Janpath Hotels, incorporated in September 1963, and Central Road Transport Corporation, established in March 1964—were not due yet. For the Minerals and Metals Trading Corporation 1963-64 was the first year of operation. In terms of percentage of paid-up capital the aggregate net profit of the remaining 30 concerns rose to 8.1 per cent from 7.3 per cent. Similarly, the percentage of net profit to net worth rose to 6.9 per cent from 6.4 per cent. Gross profit as a percentage of capital employed, however, remained stationary at 7.5 per cent.

Taken individually, two concerns suffered losses, eight showed a decline in profitability (among them the National Coal Development Corporation and the State Trading Corporation) and 20 improved their profitability, formost among them Hindustan Machine Tools, Hindustan Antibiotics, Air-India and Indian Airlines.

Developmental and Financial Undertakings

There were nine promotional and developmental undertakings. Total investment in them at the end of the year under review was Rs 117 crores (equity Rs 94 crores; loans Rs 23 crores) as compared to Rs 81 crores in the previous year. This forms 6.6 per cent of total investment in public undertakings (Table 4). The working results of these undertakings showed an excess of income over expenditure of Rs 66 lakhs, after taking into account grants totalling Rs 45 lakhs from the Central Government.

Four undertakings are classified as financial institutions. Total investment in them was Rs 80.9 crores (equity Rs 13 crores, loans Rs 67.9 crores) at the end of 1963-64 as against Rs 68.2 crores in the previous year. This forms 4.5 per cent of the total investment in public sector undertakings (Table 4). Their working results showed an excess of income over expenditure of Rs 88.9 crores. Of this Rs 87.6 crores came from the Life Insurance Corporation and Rs 1.3 crores from the Industrial Finance Corporation.

Table 5: Distribution of Inventories of the Industrial Running Concerns

(Rs crores)

	1963-64	1962-63
Raw Materials stores and spares	140.76	114.04
Work-in-progress	23.93	20.28
Finished goods	31.67	35.04
Others	8.93	7.43
Total	*205.29*	*176.79*

Table 4: Distribution of Investment Among Categories of Undertakings

	1963-64		1962-63	
	Amount *(Rs crores)*	Percentage	Amount *(Rs crores)*	Percentage
Undertakings under construction	396.8	*22.29*	274.8	*18.68*
Running concerns — Hindustan Steel	804.1	*45.18*	724.1	*49.24*
Running concerns—other than Hindustan Steel	381.2	*21.42*	322.8	*21.95*
Promotional and developmental undertakings	116.9	*6.57*	80.8	*5.50*
Financial institutions	80.9	*4.54*	68.2	*4.63*
Total	1779.9	*100.0*	1470.7	*100.0*

Table 6: Employment in Public Undertakings

	No of Employees		Salaries and Wages Including Other Benefits *(Rs Lakhs)*	
	1963-64	1962-63	1963-64	1962-63
Completed undertakings	3,42,707	3,11,371	92,81	83,70
Undertakings under construction	49,532	32,489	10,98	7,55
Total	*3,92,239*	*3,43,860*	*1,03,79*	*91,25*

The total investment (excluding loans) of the Central Government in the 10 undertakings not managed by the Central Government amounted to Rs 64 crores at the end of 1963-64. The bulk of this, Rs 59 crores, was in the Damodar Valley Corporation and Oil India. Eight of these Undertakings declared dividends of which the share of the Central Government was 2.01 crores. This worked out to a return of 11 per cent on a capital investment of Rs 18.17 crores. The Damodar Valley Corporation, one of the remaining two concerns, had received upto 1962-63 Rs 51.2 crores and Rs 1.1 crores for power and water supply, respectively, on a net capital expenditure of Rs 164.1 crores.

Internal Resources

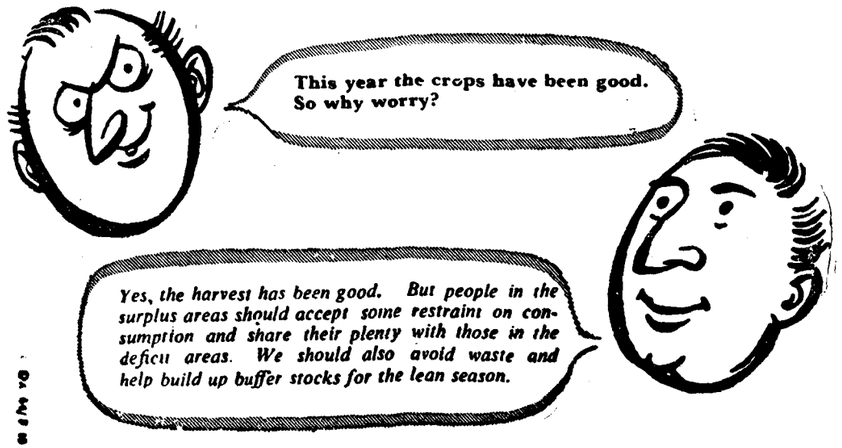
The Third Five Year Plan envisages a contribution of Rs 300 crores from public sector undertakings in the form of "internal resources". Internal resources represent the amount available after providing for working expenses, current replacements, interest and dividend. This amount may be retained by an undertaking for financing its capital outlay, and will consist of mainly depreciation provision, appropriation to the different reserves, and any other provision in excess of actual requirements and amounts "carried forward' to next year in the balance sheet.

During the first three years of the Third Plan total internal resources amounted to Rs 128 crores, of which the addition in 1963-64 was Rs 60.9 crores. Almost half of this came from Hindustan Steel (Rs 28.3 crores), the second largest contribution being that of the Fertiliser Corporation of India, with Rs 6.9 crores. However, the Fertiliser Corporation was at the top of the list of undertakings which had used internal resources for the creation of capital assets, having utilised Rs 28 crores.

The turnover of all the undertakings (excluding financial institutions) totalled Rs 550.1 crores, an increase of 33 per cent over last year's figure of Rs 414.9 crores. Of this about Rs 33.3 crores were from undertakings under construction which had started production during the year. The turnover in 22 running industrial concerns, inincluding Hindustan Steel, and in 5 units of undertakings under construction, was Rs 332.2 crores. The turnover of the nine promotional and developmental undertakings was Rs 11.7 crores, and that of 10 undertakings engaged in trading, transport, construction and miscellaneous activities was Rs 206.2 crores. Of these, the turnover of the Indian Oil Company showed an increase of Rs 31 crores, from Rs 21.4 crores to Rs 53.4 crores. The turnover of the State Trading Corporation, however, decreased from Rs 86.8 crores during the previous year to Rs 80.4 crores in 1963-64, reflecting the transfer of trade in mineral ores and metals to the new Minerals and Metals Trading Corporation of India.

The total working capital of Hindustan Steel and the 31 other running concerns on March 31, 1964 was Rs 264 crores, representing 7.7 months' value of production in business of these undertakings. The inventories held by Hindustan Steel at the close of the year aggregated Rs 95.3 crores. This represented 9 months' value of production as compared to 10 months' last year. Inventories held by the other running industrial concerns represented an average of 14 months' production. Some of these undertakings, however, held inventories which were very high indeed. Hindustan Aircraft and Hindustan Shipyard held inventories of the value of 40 and 37 months' production, respectively. The broad distribution of inventories of the running industrial concerns is given in Table 5.

Table 6 shows the number of employees of the public undertakings and wages and salaries paid during 1963-64, as compared to the previous year. The number of employees in the public undertakings increased by 14 per cent over the previous year.



Planning and Growth in Pakistan

Amartya K Sen

The Strategy of Economic Planning : A Case Study of Pakistan by Mahbub ul Haq; Oxford University Press, Karachi; 278 Pp; Price in India Rs 31.25.

"ALL economic plans read alike." Thus begins this treatise by Mahbub ul Haq on the strategy of economic planning. "If one picks up the plans of India, Pakistan, Ghana, Egypt, Nepal or Ceylon, at random, what is surprising is not their apparent differences but their basic similarity. This is no accident. This basic similarity in planning techniques is due to the basic similarity of their problems of development." If this is true of development planning in general, it is all the more true of development planning in India and Pakistan, for our problems are remarkably similar. In view of this, it is perhaps more than a little surprising how little study of planning experience in Pakistan is made in our country. And if the Indian economist wants an introduction to the subject, he cannot do better than be guided by Mahbub ul Haq's astonishingly lucid presentation.

Growth Philosophy

The book has seven chapters and three Appendices. There is, to start with, a chapter on approaches to economic planning, where the problems of accumulations of capital are discussed in the context of "a growth philosophy" in general, and in terms of four alternative definitions of a "socially necessary rate of growth", in particular. Four criteria of adequacy are used: (a) to maintain per capita incomes; (b) to absorb net current additions to labour force during the plan period; (c) to keep the country abreast of its underdeveloped neighbours in its economic race with them; and (d) to maintain the momentum of development and lead to a self-sustained growth in the long run.

The literary arguments are supplemented by numerical exercises of a contrast between what Haq calls "the Russian model" and "the Rostow model", which "is basically a comparison of high and low growth rate models and has nothing to do with the political background of each model". Haq concludes that "the sacrifice of consumption is less, not more, in choosing a higher growth model". The clue to the apparent paradox is in judging "sacrifice" of consumption not in terms of the ratio of consumption to income, which individuals tend to do, but in terms of alternative profiles of consumption level as such. With a 25 year horizon that Haq uses, combined with a given capital-output ratio, the result is indeed not surprising, and fits in well with recent discussions of optimum accumulation in terms of a Harrod-Domar type of model. Haq argues his case extremely persuasively, and supporters of "bold planning" in India will find it useful to look through this section carefully, including his pointed reminder that "if India and Pakistan manage to maintain an annual growth rate of 5 per cent and pass through roughly the same 'take-off' period as Rostow identifies for many of the Western countries, their per capita income after another twenty years will be no higher than the present-day per capita income in Egypt".

Shadow Prices

The second chapter goes into the "rationale" of planning decisions. There is a versatile discussion of "shadow prices", with rapidly alternating presentation of economic theory and practical problems, with the discussion concentrating on the shadow prices of unskilled labour, capital and foreign exchange. What Haq takes up is really an exercise in the theory of the "second-best", and the reviewer finds this chapter a little too sanguine. However, it should be borne in mind that Haq claims no greater merit for his rules of thumb in shadow prices than that "there is some virtue in deriving rough and ready shadow prices for planning purposes and in experimenting with them on a basis of trial and error, till economic theory provides a better basis for the empirical derivation of shadow prices". There are, in addition to all this, interesting discussions on the role of an "infrastructure", and some useful thoughts on controls, and on government policies related to conflicting objects like growth and social justice.

The third chapter is on a long-term growth model for Pakistan. This is done largely at an aggregative level, using considerations outlined in the previous two chapters. In this chapter and the ones that follow Haq's role as one of the chief architects of Pakistan's economic planning has to be borne in mind, for Haq shuttles between his own notions of optimality and the ideas implemented in Pakistan's planning. Haq is no blind admirer of the way things are going in his country; indeed quite the contrary. But he sees hopeful signs in "the recent revision of the Second Plan...in favour of a higher growth path."

Haq envisages a bold plan of export expansion, but notes himself that "such 'high' targets for exports will cause eyebrows to be raised because Pakistan has been having considerable difficulty in maintaining her export earnings, let alone increasing them". He indicates several channels of possible expansion, including a closer trade link with India. Even with all this export optimism, however, Haq sees no way of escape from building up a sizeable capital goods sector within the economy. This touches on a point of some controversy in India today, and the Indian reader might lament the fact that Haq does not give more data on the comparative economics of domestic production and exports, with which he is undoubtedly concerned as a practical planner in Pakistan, and which undoubtedly forms the raw materials to his conclusions that he reports in this section.

Regional Planning

To the reviewer, much the most interesting and important chapter in the book is Chapter 4, which goes into models for regional planning. The question of the contrast between the two wings of Pakistan has been a burning one in that country, and not surprisingly Haq devotes a great deal of time and analysis to a study of this problem. The background to the problem is lucidly clarified. He starts with a comparison of formal income data, which indicates that in 1959-1960, the per capita income of West Pakistan was 29 per cent higher than that in the eastern wing. Then several refinements are introduced. The remarkable difference in the structure of relative prices in the two wings is noted. Under such circumstances comparison of real incomes has several notorious difficulties. Haq uses a basis of comparison which will probably be criticised by some, but which seems to have some strong merits. He notes that "in national income terms, one ton of rice in East Pakistan has more than twice as much value as one ton of wheat in West Pakistan, whereas one ton of rice has roughly the same nutritional value as one ton of wheat". When Haq makes a correction for this, taking nutritional equivalence to be equivalence in terms of satisfaction, it turns out that the "true" extent of the disparity in per capita incomes of West and East Pakistan in 1959-1960 was about 60 per cent rather than 30 per cent.

How sound is this correction? It might be thought that it runs quite counter to consumers' sovereignty which provides the basis for conventional national income comparisons, and in some sense it does. But perhaps not as much as might appear at the first sight. There is no doubt that an East Pakistani will get a great deal more satisfaction from a ton of rice than he will get from a ton of wheat, nutrition or no nutrition. But what is being compared is not how much satisfaction an East Pakistani gets from one ton each of the two crops, but how much satisfaction an East Pakistani gets from a ton of rice compared with the satisfaction that a West Pakistani gets from a ton of wheat. And it is not at all clear why it should be assumed that the relative prices of rice in East Pakistan and wheat in West Pakistan represent relative satisfactions that the two groups of people get from a ton each of the respective cereals.

Relevant to India

The whole problem arises from the fact that conventional national income comparisons make sense when the two groups compared can be assumed to have the same tastes and when they face a uniform set of prices. Neither condition holds, and the contrast in both the fields is very sharp. Under these circumstances assuming nutritional equivalence to be the same thing as equivalence in terms of satisfaction is still open to doubts, but does not seem to be inferior to any other basis of comparison that one can think of. In this exercise, Haq suggests an approach that might well be found interesting and useful in the context of regional national income comparisons in India also.

The detailed vector-comparison that Haq supplements his analysis with is also quite significant, and confirms his thesis that conventional national income comparisons understate the degree of disparity. It seems that "an average West Pakistani consumes about 19 times as much electricity, about 10 times as many cars, about 8 times as much tea and petrol, about 7 times as many radios, about 6 times as many cigarettes, about 3 times as much cloth and sugar, and about twice as much paper and coal as an average East Pakistani."

Disparity and Government Policy

It turns out also that the disparity has been growing between the two wings, and part of the reason seems to have been the result of government policy itself. Haq estimates that each year 1 to 2 per cent of East Pakistan's income has been transferred annually to West Pakistan, and this transfer along with a disproportionately higher allocation of foreign borrowings and aid, has allowed West Pakistan to maintain an investment rate of 12 per cent with a regional saving rate of only 7 per cent in the pre-Plan period (up to 1955) and 5 per cent in the period of the First Five Year Plan. The other side of the coin is seen in East Pakistan's regional saving rate of about 7 per cent in both these periods with a gross investment rate of 5 per cent in the pre-Plan period and of 6 per cent in the period of the First Plan.

In the light of this background, Haq considers alternative models for regional planning. He rejects any plan that will increase the present disparities, and considers the requirements of an egalitarian plan that will eliminate the disparity altogether by 1985. A plan of maintaining constant disparities is also considered, but since this is done in absolute terms, with differential rates of population growth, this amounts to some intensification of disparities of per capita income. The implications of the model of elimination of disparity are judged to be unrealistic in terms of the necessary marginal savings required and also in terms of the possible upper limit to the acceleration of the pace of growth in East Pakistan. Haq ends up by recommending a regional plan lying somewhere in between the maintenance of the disparity and complete elimination of it. The exact plan outlined is relatively less instructive from the point of view of economic insight, than the considerations underlying the problem that Haq analyses with such lucidity and force.

Chapter 5 goes into an evaluation of Pakistan's First Five Year Plan. The targets and policies are discussed, and the underlying methodology is analysed. The neglect of a producer goods sector and of mining comes under heavy fire, and so does the neglect of primary education in contrast to higher education, and the lack of a satisfactory agricultural policy. The picture about domestic savings is discouraging, related to what Haq finds to be an inadequate spelling out of policies in this field, and it appears that the marginal rate of saving was *minus* 21 per cent in this period.

Haq, however, gives better marks to the Second Plan, which came into operation in 1960, and which is just reaching completion. Some shortcomings are, however, listed, and the Indian reader might find it interesting to note that Haq's list of these is very similar to what seem to have come out to be the shortcomings in his neighbouring country as well. I cannot resist the temptation of quoting: "These include: lack of basic information on private investment, domestic saving, foreign exchange component and income distribution; distortion of Plan priorities in the course of actual implementation; an inordinate rise in the cost of various projects above the original estimates; increase in the general price level affecting the cost of development; excessive dependence of project-type assistance which conflicts with the sanctity of national planning; and the lack of consumption planning."

Moderate Blue-print

The last chapter outlines a "blueprint for Pakistan's Third Five Year Plan", which starts with the classic statement that "blue-prints are usually embarrassing"! In some ways this is indeed a weaker chapter than the rest of the book, as in fact one would expect. Its main usefulness lies in clarifying the lessons learnt from the earlier two plans, and in putting into focus some of the general ideas that form the core of Haq's general approach to planning. As a document it is not unlike various proposals that make the rounds in New Delhi about a year and a half before the next Plan is due to begin. The tone here is rather more moderate in contrast with the radicalism of the earlier chapters of the book, and some of the readers could feel that the pointed analysis of the

earlier part of the book does not get adequate representation in the blueprint put forward by Haq. This might, however, be a futile complaint, for it is perhaps shaped as much by the considerations of economic optimality outlined by Haq, as it is by his conservative evaluation of political feasibility. There are three Appendices to the book, providing the background sums to Chapters 3, 4 and 5.

Altogether the book is a very impressive one, and the reader will find Haq's presentation of Pakistan's planning problems to be extremely lucid and interesting, and his general approach to development planning to be deep and instructive. Some of the more technically minded readers might lament the absence of such creatures as input-output tables and other modern quantitative techniques of development planning. But the document is not concerned with that kind of issue at all, and goes deeply into a type of planning problems that fit in well with Haq's own fields of interest.

There is, however, one technical point on which I would like to take issue with Haq. This is on his suggestion that "in the case of unskilled labour, it should be legitimate to use a shadow price which is x per cent lower than the market price if unemployment is x per cent in the country". Why? Haq points out that "if all the labour force can be employed with the existing total wage bill, it will increase

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the total production without reducing the total investible funds. This means that if a certain percentage of the labour force remains unemployed at the ruling wage rate, then the wage rate should be 'reduced' by the same percentage so as to employ all the labour force with the same fund as before."

One can view a shadow wage rate in two ways: either as a pure *accounting* concept without any change in the actual cost of employing labour to employers, or as the cost of labour employment that is *actually reflected* on to the employer through taxes and subsidies. In the context of the former, there is obviously little justification for the proposed shadow price. Since the origin of the problem that Haq considers is the consumption-creating effect of additional employment, even when there is surplus labour, it is not clear how an x per cent reduction in the accounting wage rate without any change in the actual wage rate will make the allocation right. For the private sector, however, he takes the concept in the latter sense, and recommends that the employers be actually subsidised to the extent of x per cent of his wage cost, and the cost of it be met by taxation on the wage earners in general; or alternatively, by taxing profits.

But is this all right? If we do grant that the fiscal machinery is so powerful that it can keep the consumption level constant through these means irrespective of the wage bill, should not then the relevant shadow price simply be given by the appropriate alternative marginal productivity of labour? (Note that considerations of the second-best type are not introduced.) Perhaps the following procedure will make the point involved clearer. We assume unemployment and a fiscal machinery of the type considered by Haq. Let the government first consider a shadow wage rate of zero, by subsidising the entire wage rate and having the desired level of consumption through taxes of one kind or another. If at this shadow wage rate of zero, the entire labour force is absorbed and there is an excess demand, then clearly this was the wrong wage rate. Then, instead, a positive shadow wage rate is considered, and higher and higher values of this wage rate is taken until the labour market completely clears. Presumably at this point the marginal product of labour in every field just equals the wage rate and, therefore, equals each other. Except through a pure coincidence there is no reason to expect that this wage rate will turn out to be just equal to that obtained by taking x per cent off the initial market level of wages when x is the percentage of initial unemployment.

The essential point to note is that if the fiscal machinery is really powerful enough to keep consumption at the level desired, i e, to give the desired pattern of capital accumulation, then the only condition that the labour market has to satisfy (assuming that other markets are competitively cleared) is that the marginal productivities be equated all around and equal the supply price of labour. The current ratio of unemployment does not come in at all unless we happen to make some coincidental assumptions. If we wish to bring in fiscal limitations, as some people have tried to, then the relevant labour cost can be calculated only by explicitly bringing in the extent of the limitation. If there are some distortional effects of taxation, or some other costs attached to a high level of taxation, that too must be brought in. There is no *a priori* reason to expect that the shadow wage rate calculated in this way, with an explicit statement of the fiscal limitations and an explicit statement of the objective function involving present and future consumption will turn out to be equal (or even be close) to x per cent below the initial market wage rate when x is the proportion of initial employment. I should, however, add that this point is not crucial to Haq's approach to development planning, and indeed whether the rule of thumb of shadow wage rate that is proposed by him is taken or not, does not affect the general run of his arguments in the rest of the book.

Goodwill at Economists' Level

In conclusion, it is worth emphasising that Haq's admirable book should be studied by all students of development planning, not only because of the light it throws on the problems of Pakistan, but also because of the general range of issues that Haq succeeds in covering in this slender volume. The question of regional disparities is, in particular, an extremely important one for practically all underdeveloped countries, irrespective of whether it is as big as India, or whether it is as small as British Guiana. Haq himself is from West Pakistan, but his wife, who is an able economist in her own right, is from the East. The work is acknowledged by Haq to have been done in close co-operation with her, and indeed it seems to be a very good team to work on this thorny question on regional disparity. Indeed, the question of regional allocation has engaged some of the best brains of Pakistan, as indeed one would expect. The same interest, I am afraid, has not been expressed on this question in India. No doubt this is partly because the contrast takes a particularly sharp form in Pakistan because of its division into two nearly equal wings, whereas in India the regional disparities get more diffused because of the variety of Indian divisions. But this does not mean that the problem is any less serious in India, and in fact the "real" income contrast between some of the Indian States (e g, Punjab and Orissa) may well turn out to be greater than that between the two wings of Pakistan. Indian economists can gain considerably from studying this aspect of Pakistani economists' thinking.

One final comment on the economic thinking in the two neighbouring countries may not be out of place. Not only are the economic problems faced by the two countries similar, one is continuously struck by the impartiality and goodwill in terms of which the best Pakistani economists seem to discuss the problems involving the two countries. This is in sharp contrast with the feeling of competition that the leaders of the two countries are known to feel, and a study of the impact of which on planning provides one of the themes that Haq discusses, viz, the plannig objective to "rival growth rates experienced in neighbouring underdeveloped countries". Haq's analysis of this "economic competition" is eloquent. "This economic competition may be overtly publicised or dimly felt; it may be the reflection of a political struggle or an ideological competition; it may be overplayed sometimes to attract attention and get more aid (as India's competition with China) or underplayed sometimes to keep public expectations in check (as Pakistan's competition with India); but it remains a hard reality." Indeed it does, but the benign side of the reality includes the fact that the penultimate sentence will probably be resented by proportionately just as many Pakistanis, as the sentence before that will be resented by Indians. And at the risk of sounding somewhat sentimental and gooey, I would like to suggest that in this there is a lot of hope.

When Durgapur's 1500 ton blast furnace

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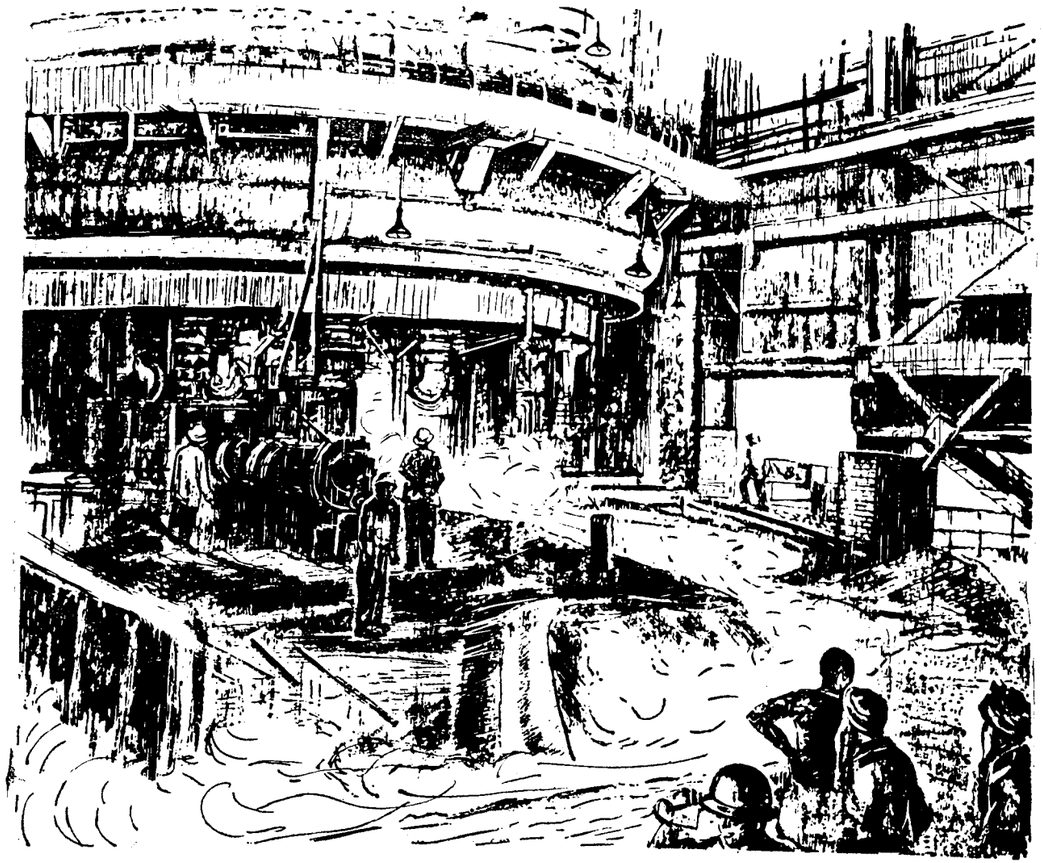
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Structure of Trade Union Organisation

P K Ghosh

The structural organisation of the Indian trade union movement has been shaped by a variety of factors.

Predominance of unskilled and semi-skilled workers, vast differences in employment conditions in different industries and industrial regions, workers' concern with their immediate problems at the plant level, and the leadership of outsiders eager to maintain their hold over isolated small unions have combined to foster the growth of independent industrial unions, particularly of the one-shop variety.

The solidarity and cohesion which go with homogenous national unions are thus lacking. Horizontal organisations in the form of trades councils and co-ordinating committees are occasionally formed at the city level, but these are mostly ad hoc *bodies.*

The diverse pulls of political ideologies and sharp differences among the trade union leaders have remained too strong so far to allow a national trade union centre to be established.

THE character and philosophy of a country's labour movement are closely bound up with the structural pattern of its trade unions. The structure of union organisation not only determines the strength and cohesion of membership, but also plays an important role shaping inter-union relations, union policies, control of unions and the possibilities of union reform.[1] The growth of trade unionism in India has been a fascinating subject of study in more than one respect. The origin of the movement lay in the philanthropic zeal of social reformers, but it has acquired a distinct political tinge in more recent times. The rank and file workers have also developed a class consciousness with the emergence of new industrial towns over wider areas and their conglomeration in particular regions.

Whether the labour movement will become a recognisable social force in due course of time is a matter of conjecture. But there is no doubt that it is increasingly gaining ground as a distinct political force entrenched, as it is, in some of the key sectors of the economy. In any case the present trends indicate that potentially organised labour is destined to play an important role in the industrial society of tomorrow. The future in this respect is impregnated with interesting possibilities in view of the new strategies which organised entities are likely to devise and adopt in a mixed economy. The present paper aims at tracing the evolution of the organisational structure of trade unions in India, and analysing the implications of that evolution with reference to inter-union relations and national trade union policies.

The term 'Organisation' signifies a co-ordinated set-up geared to the achievement of specific objectives. The structure of an organisation indicates the relative position of its constituents determining the scope of their respective functions and the degree of mutual dependence in the common endeavour. The organisational structure of any institution may be either horizontal or vertical. In a horizontal organisation, the units are at the same level of authority in their respective spheres of activity. For mutual co-operation and functional co-ordination the constituents have a council or board in which representatives discuss common issues, lay down common policies and programmes of action. The unity thus derived rests on the realisation of the commonness of issues and the conditioning factors which make for the significance of mutual co-operation. The relationship between the constituents in a vertical organisation is hierarchical. This presumes more than one level of authority in the set up, the lower level constituents being subordinate to those at the higher level.

Organisation at Various Levels

The hierarchical relations in this type of organisation may be of two kinds, viz, federal or unitary. The constituent elements may be united in a federation thereby retaining their independent status except for certain common purposes and ends. The federating body has powers and responsibilities only with regard to the matters of common concern. The constituents are affiliated to the federation and surrender their right of independent action over a specific area or in respect of broad policies. In the alternative, there may be a central body with direct membership of the constituents and possessing unitary power and authority. The constituents enjoy only delegated powers, and function as so many arms and wings of the parent body. They have no independent authority nor any separate entity of their own.

To start with it may be useful to recognise the alternative bases of trade union organisation at the primary level. The basis of organisation may be somewhat restrictive or liberal. Thus workers may be organised on the basis of identity of 'crafts' or 'occupations' or 'clearly defined skills' (Craft Unions); or on the basis of employment in a particular industry or trade (Industrial Unions); or on the basis of employment under a common employer owning more than one establishment (Common Employment Unions); or membership may be open to all workers irrespective of the craft or industry in which they are employed (General Unions). But small, independent unions organised at the shop, plant or local level do not become viable units. They do not have sufficient organisational strength to face the opposition of employers who are also organised in their own interest. Moreover, to influence state action in the interest of the working class they have to have an united front to initiate desirable moves and counteract the power and influence of the employers' organisation. Trade unions at the primary level must therefore be united on the regional or national plane whether on the basis of crafts, industries, or in a general way.

The organisational structure with wider coverage may be centred round homogeneous national unions with direct membership of the workers. It may have local units at the plant level acting as so many branches. The central body may also form zonal or regional committees for effective co-ordination of activities over limited areas, the general policies and programmes being laid down by the central union. Alternatively, trade unions formed at the plant level may be united in a federation with the individual unions retaining their separate existence. They enjoy autonomy of action except for certain common policies framed by the federal body. The essential difference between the two types of vertical organisations is that the national union exercises direct control over the activities of its constituents whereas the federation is more or less a co-ordinating body having regulatory

powers which the affiliated unions choose to surrender in mutual interest. Yet another way in which the primary unions may retain their right of independent action as well as separate entity and also derive the benefit of organisational unity, is by means of horizontal association. At the local level, the independent unions may form 'trades councils' or 'co-ordinating committees'; at the regional or district level there may be Regional/District Committees or Councils, while at the national level, the representatives of national unions or federations may constitute the national trade union centre. This form of organisation obviously presupposes the existence of a broad basis of trade union unity at all levels.

The relative merits of industrial unions over the craft and general unions are well known. In India, as in many other countries of South-East Asia, the trade union movement has been predominated by industrial unionism. Craft unions did not thrive in the early stages of industrialisation because of the small number of recruits in skiled occupations and the corresponding predominance of semi-skilled and unskilled employees in the working class. Partly this was also due to the lack of initiative on the part of skilled workmen who enjoyed better conditions of employment as a result of their relative scarcity. Later on, when large industrial establishments adopted capital intensive methods of production and the size of industrial workers increased, the scope of craft unionism was further reduced through the diffusion and dilution of industrial skils. There are exceptions no doubt to this general trend. The Ahmedabad Textile Labour Association which is a local federation of several craft unions is the most outstanding example of union organisation on craft basis. Similar organisations also exist in certain professional occupations like those of the working journalists, maritime workers, etc. But these are not the common union types.

On the other hand, general unionism has also not found favour with union organisers as working conditions differ from industry to industry, and workers belonging to any particular industry cannot feel certain that sectional interests would be made a common cause. Moreover with the growth of industrial employment, workers have been more urgently concerned with the improvement of working conditions in particular establishments rather than fighting for any general cause. Actually this single motivation in unionisation has led to the formation of more one-shop or plant-level unions than unions for particular industries as a whole. For more or less the same reason, the basis of unionisation has been the 'place of work' rather than the 'place of residence'. The leadership has encouraged this trend in their own interest. It is obviously easier to maintain one's hold over small unions organised at the plant level. General unions have a tendency to become too big to be controlled and managed by union leaders having limited ability. It is true that one-shop unions have small membership which makes them financially and organisationally weak. But with larger membership, the strength of general unions is also reduced by sectional pulls and coterie formation on industrial and occupational lines, besides the common malady of religious, linguistic and political cleavages among members, which pervade all types of unions.

Federations vs National Unions

Trade unions at the shop or plant level cannot function effectively if they remain in isolation. There are three reasons which make for the growth of organisations on a wider plane: (a) to co-ordinate the activities of small unions in the general interest of all workers, (b) to counteract the organised strength of employers, and (c) to influence the legislative and administrative organs of the state in the workers' cause.

An unmistakable trend in this growth is the emergence of federal organisations with affiliated unions, and the virtual absence of national unions with direct membership of workers. There are at present four all-India national federations and a large number of industrial federations. In the former category are: the Indian National Trade Union Congress (INTUC), All India Trade Union Congress (AITUC), Hind Mazdoor Sabha (HMS) and the United Trade Union Congress (UTUC). Among the more important industrial federations are the National Federation of Railwaymen, All India Defence Employees Federation, All India Seafarers' Federation, Port and Dock Workers' Federation, National Federation of Post and Telegraph Workers' Unions. Of course, the federal structure does not pervade the entire field. The number of unaffiliated trade unions is quite large. Out of about 6600 trade unions which submitted returns in 1959-60, only 1500 were reported to have been affiliated with federations which numbered as many as 66.[2]

Ordinarily a federation is a loose type of organisation, in which the affiliates retain separate entity and power of decision making on their own initiative. The federation is at best a co-ordinating body having powers to negotiate with employers' organisations and make representation to the Government on matters of general importance. This does not make for the same kind of organisational unity in the workers' ranks as could possibly be had in the alternative form of homogeneous national unions with unitary powers of regulation and control. An important source of strength of trade unions in the United States is said to be the 'existence of national unions which, in times of need, can marshall the finances, the leadership and the moral support of members throughout an industry, not simply in one plant or locality.'[3] The same kind of cohesion, solidarity and strength cannot surely be had in the federation of independent unions.

Since there is decentralisation of power in a federal organisation, it is sometimes contended that the diversity of employment conditions in different establishments justify a federal structure of trade unions. For it is within such an organisation that local unions can maintain close touch with the workers and thus handle specific problems more promptly as well as in accordance with the local conditions. Dearth of capable leadership is a serious handicap in national unions especially because leadership is yet to grow out of the rank and file workers and because of the absence of educated personnel in the membership of unions. Basically it is also difficult to finance and administer national unions with direct membership spread over the country. On the other hand, foreign experience suggests that these unions often lead to over-centralisation of powers and oligarchic management. Moreover, it suits the convenience of outside leaders to retain greater independence of action at the local level as the growth of homogeneous national unions poses a threat to their power and prestige. Communal, linguistic and political rifts create inter-union rivalry. Thus even small unions are keen on retaining separate organisational entity and as much power of independent action as possible. This line of reasoning, however, takes only a

short-sighted, narrow view of things, and is a sign of immature unionism. For organisational solidarity and strength are more important in trade union organisation. These are better assured under the homogeneous national unions than in federal organisation.

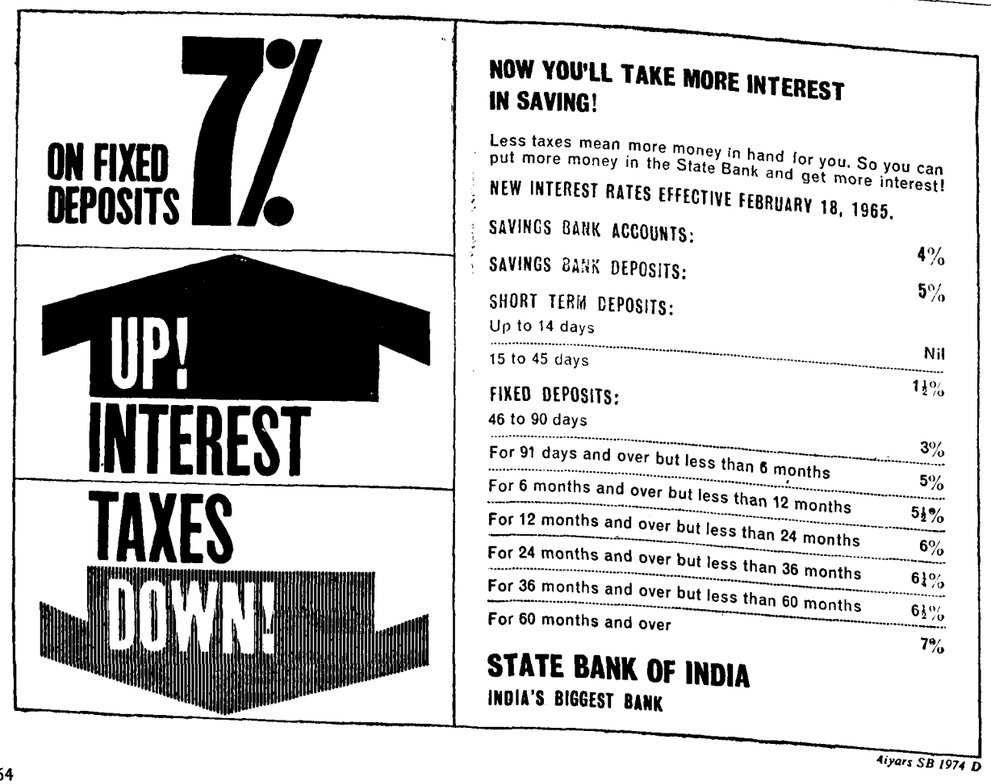
Although a vertical structure of organisation through federation of independent unions is more conspicuous in India, there is some indication of a horizontal structure also evolving side by side. At the local (city) level, or the regional (district) level the trade unions have felt the obvious need for mutual co-operation and co-ordination of activities. There are instances of co-ordinating committees or trades councils being formed in the more important industrial towns. The earliest organisation of this kind was the Bombay Trades Council formed sometime in 1928. But it did not survive the test of time. Other similar attempts also led to the formation of only temporary ad hoc committees for limited ends e g, securing mutual support at the time of making a representation or organising strikes. Such co-ordination committees were formed in Ahmedabad (1952), Jamshedpur (1953) and Calcutta (1955) for staging general strikes.

Multiple Trade Union Centres

The most crucial aspect of horizontal organisation is however the growth of more than one national trade union centres based on political ideologies. The significance of a single united national centre of trade unions arises from four essential needs: (a) presenting an united front of the working class as a separate force influencing social and economic policies; (b) initiating and influencing legislation of national importance in the interest of workers; (c) to help, guide and coordinate the policies and programmes of independent trade unions; and (d) to represent the working class in international bodies.

In a democratic society it requires leadership of an exceptional calibre to forge the necessary unity in the trade union movement so as to make it a recognisable social force. The International Labour Organisation which provided the initial spurt in many a country to organise national trade union centres, also gave birth to the All India Trade Union Congress in 1918 constituting the first united platform of the working class in India. Within the next three decades, trade unions grew in number and derived increasing strength. Being centred in some of the key sectors of the developing economy — modern factories, transport, mining and plantations — the movement not only acquired political significance, but also became one of the 'few concrete identifiable forces in the huge unorganised population mass of India.'[4] No wonder that the political parties and leadership of various shades of opinion desired to secure the allegiance of the working class to strengthen whatever cause they upheld.

The communist-nationalist coalition dominated the leadership of the AITUC till 1929 when the moderates broke away and formed the Indian Trade Union Federation with 30 affiliated unions. This organisation amalgamated with the National Federation of Labour which was brought into existence in 1933. In the meantime the more radical elements among the communists left the AITUC and formed the Red Trade Union Congress in 1931. These dissensions weakened the labour movement and efforts were made to reunite the dissident groups. The Red TUC merged with the AITUC in 1935 but the original position was reestablished after another five years. The NTUF became an affiliate of the AITUC in 1938 and finally merged with it in 1940.



Rift in AITUC

The unity was however shortlived. A rift was again precipitated when a section of the leadership desired to actively support the Government's war effort. They seceded from the AITUC in November 1941 and organised a rival central federation—the Indian Federation of Labour — with as many as 182 affiliates. At the end of the war the AITUC emerged again as the most dominant trade union body on the national plane. But then came realignments of a more fundamental nature. Within two years of independence, the trade union movement was split into four rival bodies and created similar divisions among the unions at the primary level. The militancy of the AITUC was considered to be a threat to the political philosophy of the ruling party based on industrial peace and a moderated approach to the labour movement for the sake of orderly progress. Thus the Indian National Congress entered the field of trade unionism and formed the INTUC in May 1947. In December 1948 was born the Hind Mazdoor Sabha (merging the IFL) on the initiative of the socialist labour leaders who were neither in agreement with the militancy of the AITUC, nor felt happy with the INTUC's policies of moderation and compromise. Another group of socialist leaders ranging in their views between the AITUC and the HMS formed yet another central organisation in May 1949 known as the UTUC, and proposed to carry forward the movement on non-party lines.

The Indian trade union movement is thus pulled in different directions by the four national federations which are at the apex of the organisational structure to-day. Divisive pulls on the basis of political views and trade union methods are also known to have created rifts among the ranks of the industrial federations. The organisations at the base as much as those at the apex are yet to discover a broad basis of unity so as to establish an united trade union centre on the national plane. The INTUC enjoys the tacit support of the ruling party and is considered to be the most representative all-India organisation of the working class. But the membership of its close rival — the AITUC — comprises a sizeable proportion of the organised workers in India. And even if the numerical strength of the HMS and the UTUC would appear to be small, their significance in the working class movement is much greater in view of their hold on the unions organised in some of the more progressive sectors of the economy. Above all, there are quite a large number of unaffiliated unions besides the independent industrial federations[5]

Some Conclusions

The structural organisation of the Indian trade union movement may thus be said to have grown out of a large variety of factors. Predominance of unskilled and semi-skilled workers, diversity of employment conditions in different industries and industrial regions, the workers' concern with their immediate problems at the plant level, and the leadership of outsiders eager to maintain their hold over isolated small unions, have combined together to foster the growth of more independent industrial unions particularly of the one-shop variety. The organisational structure has assumed a distinctly vertical pattern with federal bodies claiming a more predominant place. This has meant only a loose type of unity among the trade unions at the local/plant level.

The solidarity and cohesion which go with homageneous national unions are thus lacking in the present state of unionism in India. Horizontal organisations in the form of trades councils and co-ordinating committees are occasionally formed at the city level but these are mostly *ad hoc* bodies. Trade union unity at the all-India level is yet to be achieved. The diverse pulls of political ideologies and sharp differences among the trade union leaders on union methods have remained too strong so far to allow a national trade union centre being established.

The remedy to this state of affairs would seem to lie with the workers themselves. For if the workers are conscious of their strength in unity and throw up leaders from their own ranks, the objectives of trade unionism as such are bound to replace the objectives foisted on it by political creeds and dogmas as well as the vested interests of outside leaders. A national front of the working class will then emerge and play its due role in social transformation, shaping the destiny of workers as much of the nation.

Notes

1 R A Lester, "Economics of Labour", p 567.

2 Indian Labour Year Book (1961), Labour Bureau, Government of India.

3 Victor D Kennedy, "Reflections on Indian Trade Unionism and Labour Relations", in *Free Labour Herald*, October 1954.

4 Charles A Myers, "Industrial Relations in India", p 99.

5 An unprecedented though temporary unity was achieved in 1960 during the Central Government employees' strike which was organised by different Central Federations of Government employees' unions, and was backed by the three rival national Federations—AITUC, and UTUC.

Concern over Agriculture in Asia

AGRICULTURE and trade were the outstanding topics of the debate on the economic situation of Asia which marked the beginning of the ECAFE annual session in Wellington, New Zealand, on March 16. The question that concerned most of the delegates was how to instil new life into a sluggish agriculture and to turn the scales of foreign trade more in favour of Asian countries. Trade and agriculture, instead of hindering development, should become its dynamic force, the delegates emphasized.

The delegates stressed the seriousness of Asian economic problems aggravated as they were by increasing political and military difficulties in the Region. The discussion was also given a sense of urgency and gravity by the fact that it was taking place at mid-point of the United Nations Development Decade and not so long after the Geneva Conference on Trade and Development. Asian production, it was observed, was lagging behind target figures and national income growth was below the Decade's goal.

The Budget and Foreign Investment

Mahesh Bhatt

The whole approach to taxation of income from foreign investment in India is based on the premise that taxation is a major impediment to foreign investment.

This is a premise of doubtful validity. Studies conducted in the capital exporting countries show that taxation is not a major factor influencing investment abroad.

However, even assuming that tax concessions have some influence of a psychological nature in creating a climate favourable to investment, their effectiveness is considerably reduced by the practice in the capital exporting countries of taxing the entire world income of their citizens. And where this is avoided by tax-sparing agreements, there emerges a distinct inducement to repatriate earnings from the capital importing countries.

These considerations have to be borne in mind while examining the 1965-66 Budget proposals relating to taxation of foreign individuals and companies.

TO attract foreign investment in India the 1965-66 Budget continues and extends the scope of the policy of giving tax concessions to foreigners and foreign enterprises. The major change made in the Budget in the taxation of non-residents other than companies is the abandonment of the concept of 'total world income.' At present such non-resident assessees are charged to tax on their income arising or received in India at the maximum rate of income-tax (including surcharge) plus super tax at 19 per cent, amounting in all to 48.37 per cent. In the case of non-resident assessees whose income attracts super-tax at a rate higher than 19 per cent, super-tax is charged at the higher rate. However, if the non-resident exercises the option to be assessed on his income in India at the average rate of tax applicable to his total world income, tax is charged on that basis. Under this system the non-resident had to declare both his Indian and world income, although the tax was levied only on the Indian income. This method of assessment led to taxation of the personal income of many non-residents at unduly high rates. Besides this, there was the difficult administrative problem of determining and ascertaining the total world income. The change made in the 1965-66 Budget, undoubtedly would provide considerable tax relief to non-residents.

Favoured Treatment

It should be also noted that although a non-resident will not be able to avail of the minimum exemption limit and also of the personal allowances for married individuals which are available to a resident, he will continue to enjoy allowances on expenses wholly and necessarily incurred in the performance of the duties — living allowance, travelling allowance and children allowance of Rs 2,000 per child or 25 per cent of his total income, whichever is less.

Further as a consequence of the changes in the Finance Act, 1964, a non-resident who derives any income from purchasing goods in India and exporting them will not be liable to tax on such income even though he may have an office or agency in India and even though the goods may be subjected to some kind of manufacturing process before being exported from India. Similarly, any income carned by a foreigner on tour of duty in India is exempted from income-tax if his stay does not exceed in the aggregate a period of 90 days in any financial year.

Taxation of Companies

The 1965-66 Budget extends the scope of tax-exemption enjoyed by foreign technicians. Under the existing provisions, in the case of a technician who has special knowledge and experience in industrial or business management techniques his income from salary is exempted for a period of six months while in the case of other technicians this period of exemption is three years if the contract of service is approved by the Government and is further extended for two years if the tax on his income is paid by his employer. The 1965-66 Budget extends this latter exemption to a further three years, i e, upto a maximum of five years. Thus the total tax holiday enjoyed by a technician in India would be eight years, instead of five years as at present.

With regards to non-resident companies no major changes are made except in the capital gain tax. If non-residents or foreign companies invest the whole or a part of the capital gains accruing to them, the tax on capital gains or a proportionate part thereof will be refunded to them. The purpose of this concession is to encourage reinvestment in the economy. Here it is also necessary to note that in the 1964 Finance Bill a large number of non-resident companies who have invested in Indian companies or who are giving technical assistance to Indian industries were given major tax concessions. For example, the income earned by non-resident companies by way of fees for rendering services is taxed at 50 per cent. Similarly, at present on income from dividend payable by a Sec 103 company (on old 23A company) or a wholly-owned subsidiary of such a company which is engaged in priority industries (some 16 industries are mentioned) the rate of tax is only 15 per cent. If such dividend is payable by an Indian company the rate of tax is 25 per cent. But the most important change made in last year's Budget is the complete abolition of super-tax on inter-corporate dividends. It is true that in respect of incomes other than dividend income, royalties or fees for technical services or interest from tax-free Indian securities, the rate was raised from 63 per cent to 65 per cent. It may be noted, however, that the income tax and super tax rate of 65 per cent would be levied only after taking into consideration the various exemptions and reliefs, such as the five-year tax holiday for new industrial undertakings and hotels, the Development Rebate, etc.

Comparisons Misleading

If these various tax concessions are taken into consideration it would be obvious that any comparison of the tax rate on foreign companies in India with that in other countries would be extremely difficult, if not misleading. The net burden would depend on the nature of income received by the companies. Similarly, any international comparison of marginal tax rates applicable to individuals must take into account the base to which these rates are applied. It is true that marginal rates of taxation in India are quite

high but due to various tax concessions and tax-exemptions, the base on which these rates are applied is considerably narrowed, with the result that the effective rates in India may not be very unfavourable as compared with the effective rates in other countries.

Moreover, in the case of non-resident companies which are merely branches or subsidiaries of international concerns, there is scope for them to reduce the tax burden by 'profit shifting'. Since such companies sell or buy from the foreign company of the same group, the prices charged are in fact internal accounting prices. It is well known that an international concern operating through a chain of subsidiaries can easily "shift" its profits from one country to another by changing the prices which the subsidiaries charge to one another. Thus the profits made in refining petroleum may be under-stated by invoicing export at unduly low prices and by invoicing imports at high prices.

Wrong Premise

The whole approach to taxation of foreign income in India is based on the doubtful premise that taxation is the obstacle impeding foreign investment and that hence tax concessions can act as an incentive to foreign investment. But several studies in U S A, which is one of the greatest exporters of capital, show that taxation does not play a very important part in influencing investment abroad. It has been observed that for many economically less developed countries the tax system is relatively unimportant, compared to other factors impeding investing.*

The more important obstacles to foreign investment are (1) the underdeveloped state of the economy itself; (2) scarcity of domestic capital; (3) limited market or restricted potential demand; (4) the unavailability of credit facilities or skilled or industrially disciplined labour and technicians; (5) inadequacies in the country's transportation power, health and educational facilities; (6) political uncertainty and unrest; (7) ignorance of foreign investor about investment opportunities; (8) uncertain and erratic changes in economic and taxation policies; and, (9) procedural delays, etc.

Assuming that tax concessions have some indirect influence of a psychological nature in creating a climate of general encouragement to investment, its effectiveness is considerably reduced because of the general practice in the capital exporting countries of taxing the entire world income of their citizens. In such a situation any concession given to foreigners in the capital importing countries only results in increase in the revenues accuring to the Governments of the capital exporting countries, leaving the burden on the investor unchanged, except in those cases where the rates of tax in the capital importing countries are relatively higher. Of course, some of the capital exporting countries have shown recently their readiness to make adjustments in their tax structure in order to encourage overseas investment. India has recently entered into such tax-sparing agreements with Japan and West Germany, and U K and U S A also have moved in this direction. Such tax-sparing agreements in addition to providing the tax credit for foreign taxes paid in the country of income origin, also give credit for taxes that would have been paid in the country of income origin if certain tax exemptions had not been given.

Tax-Sparing Agreements

It should be noted that such tax-sparing agreements are destructive to progressivity and equity in the tax structure of both capital importing and capital exporting countries and, therefore, go against the very spirit of double taxation agreements which aims at equal treatment of equally situated individuals whatever may be the source of their income. What is more important is the fact that such agreements do not eliminate or modify the numerous obstacles impeding foreign investment. In fact, such agreements are likely to provide incentive to foreign investors to withdraw income from the capital importing country instead of reinvesting them in the country of origin. For example, tax-holiday type of concessions are available only for the first few years and if the investor wants to benefit from such concessions the tax-sparing agreement would provide an incentive to withdraw earnings from the capital importing country.

Another important implication of tax-sparing agreements is that they bring the largest benefits to the most profitable enterprises with the result that the capital exporting country sacrifices considerable revenue in subsidising very profitable investment, whose development-worth from the view point of the capital importing country may be questionable. Further, it need not be emphasized here that when an enterprise is very profitable it needs less incentives, not more.

Self-Defeating Concessions

Another factor which reduces the effectiveness of tax concessions is the tendency on the part of the many capital importing countries to copy tax concessions given by one another with the result that the competing concessions largely cancel out each other. Here there is a clear case for international discussion possibly leading to conventions or agreements that would eliminate the competition which undoubtedly exists at present.

Besides this, one of the ways of increasing foreign investment is to encourage reinvestment. We have already observed that existing tax-sparing agreements are likely to encourage withdrawals at the very time when we need more foreign investment. Perhaps what is needed at present is some kind of agreement with the capital exporting countries that they would tax the incomes of their citizens only when the incomes are withdrawn from the capital importing country. Such a provision would discourage withdrawals and encourage reinvestment in the country of origin if other impediments are removed. It is also possible to encourage non-resident companies to retain profits by taxing such profits preferentially.

Finally, investment whether foreign or domestic depends on profitability and the profitability of investment is guaranteed in India because the building up of the infra-structure of development and the increased tempo of investment in the Plans, coupled with the continuation of a restrictive import policy, ensure an expanding and profitable domestic market. This is clear from the fact that the earning

* See Barlow and Wender: "Foreign Investment and Taxation". According to this study, one of the important factors retarding the inflow of foreign investment was that potential foreign investors were either ignorant or disinterested. This indicates the need for opening more investment centres for providing information to foreign investor about investment opportunities in India.

The U N study on "The Effects of Taxation on Foreign Trade and Investment" also found that taxation was not a major factor inhibiting investment abroad.

of U S investments in India were as high as 20.6 per cent in 1962, whereas the figure in respect of certain other Asian countries and Latin America was lower. Similarly, a study of the British Board of Trade shows that British direct investments in India had an earning ratio of 9.4 per cent which was higher than similar investment in the U S, Canada and Australia.

It is true that taxation cannot be totally neglected as one of the factors influencing profitability and, therefore, the foreign investment. Nevertheless, it would be more correct to maintain that what investment, whether foreign or domestic, needs is not just lowering of taxation (which may be of doubtful utility in attracting foreign investors particularly, for the reasons stated above) but stability in economic policies in general and taxation policies in particular.



CHAIRMAN'S STATEMENT

The Chartered Bank

Statement by the Chairman, Vincent Alpe Grantham, Esq

THE following are extracts from the text of the Statement by the Chairman, Vincent Alpe Grantham, Esq, to be presented at the One-Hundred-and-Eleventh Annual General Meeting of the Stockholders of The Chartered Bank to be held at the Bank's premises at 38, Bishopsgate, in the City of London, on Wednesday, the 31st day of March 1965, at 12 Noon precisely:

With events, both political and economic, moving at an ever-increasing rate in the countries in which The Chartered Bank Group operates, we have all the time to deal with more and more complex problems. Not only do the banking propositions themselves tend to become more unorthodox but sudden restrictions, or changes in local regulations, can at any time alter the scope or the risk and add to the complexities of our day-to-day business.

Fortunately the wide knowledge obtained by our officers and staff in the countries in which they are working has gone a long way towards overcoming our difficulties, retaining the goodwill of our customers and keeping the reputation of the bank very high.

Finally, the responsibility for directing the bank's affairs in a highly competitive banking area falls on the general management and in the last few years they have had to contend with increased competition, not only from local national banks, formed and often assisted by their governments, but with the aggressive activities of the foreign departments of the British and American banks. That last year we succeeded in increasing our profits in spite of this added competition and some political setbacks is a tribute to all concerned.

We are pursuing our policy, started in the mid-thirties, to train and use local officers at every opportunity and it is unfortunate that even an acceleration in this programme has failed to satisfy some countries and we are encountering difficulty in obtaining entry and work permits for our European officers.

The Court of Directors

Mr. D. L. d'A. Willis, a managing director of Lazard Brothers & Company Limited, has been appointed a director of the bank and the Stockholders will be invited to confirm his election at the approaching annual general meeting.

Tours

In August, accompanied by the Chief General Manager, I visited San Francisco for the opening of our new subsidiary, The Chartered Bank of London and of the new agency of The Chartered Bank in that city. The Chief General Manager was present at the opening of The Commercial Bank S.A.L. in Tripoli, Libya in June with Sir Evan Jenkins and Sir Tom Hickinbotham and he also attended the annual meetings of the International Monetary Fund and the World Bank in Tokyo in September.

Mr. Stafford Northcote visited Australia in December in connection with our acquisition of a shareholding in the Mutual Acceptance Company Limited and Mr. A. T. Hobbs has recently returned from a tour of the bank's branches in India and Pakistan. During the year Mr. R. A. S. Lane visited our Hamburg office and also our branches in Vietnam, Cambodia, Thailand and Indonesia.

The Mutual Acceptance Company Ltd., Sydney

Before the year ended we were able to complete successfully talks which had been taking place with the Mutual Acceptance Company Ltd., of Sydney as the result of which the bank has taken a 40% interest in the equity capital of the Australian company which, when fully paid-up, will amount to an investment of A£1,922,235.

The Mutual Acceptance Company Limited was established in Sydney as a hire purchase company in 1936 and over the years, excluding the war period when hire purchase activities literally ceased, the Company's business has prospered, the years from 1950 onwards having shown outstanding progress. The dividend history of the Company has been satisfactory and a policy of diversification into the various fields of finance has been followed so that Mutual now have a substantial investment in mortgage loans and leasing in addition to the conventional field of hire purchase for household goods and motor vehicles. There is every reason to expect considerable expansion in the Australian economy in the years to come and we are sure our first investment in Australia will prove profitable to ourselves and to our new partners with whom we are very pleased to be associated. Our Chief General Manager, Mr. W. G. Pullen, has been invited to join the Board of Mutual and our shareholding will be registered in the name of Hatton Court Pty. Limited, which has been formed as a wholly owned Australian subsidiary of the bank.

The Chartered Bank of London

This wholly-owned subsidiary of ours was officially opened and commenced business in August in very attractive premises on California Street in the business and banking centre of San Francisco.

Our initial advertising created considerable interest in the bank and satisfactory progress is being made in this and in our new agency, opened concurrently with the bank.

We consider ourselves fortunate in having among our first directors Messrs. Leslie C. Dorking, Ben K. Lerer and Stanley Powell senior, three well known and respected San Francisco businessmen.

The Commercial Bank, S. A. L., Libya

The above bank, in which our Group has a forty-nine per cent shareholding, opened for business in Tripoli in June and, although we hope to have a further branch in Benghazi shortly, business has been slow to build up.

We are, however, fortunate to have as our Chairman His Excellency Saddigh Bey Muntasser, an influential and well-known local figure, and any spread of the country's wealth to the people and an extension of the banking habit should be reflected in our figures next year.

Allahabad Bank Limited

Our Indian subsidiary will be celebrating its Centenary in April and Mr.

Pullen and I plan to visit India to join in this important event. The Allahabad Bank is the oldest joint stock bank in India and, as evidence that it has not lost its virility over the century, twelve new branches were opened in the past year and further expansion is planned. I informed you at this time last year that we had welcomed Mr. S. P. Puri as the first Indian Chairman of our subsidiary and, as is fitting in this Centenary year, the Board has been further strengthened by the addition of four eminent Indian gentlemen who have accepted invitations to serve as directors.

This Year's Accounts

The Bank's capital and published reserve with the balance on profit and loss account now total £17,663,195 which figure includes the proceeds of the Rights Issue in March 1964.

The continuing growth in the business of the Bank and its wholly- owned subsidiaries, reflected in the increase of £185,400 in this year's net profit, is evident from the Consolidated Balance Sheet, the total of which at £600 millions is higher than that at the end of last year; this in spite of the loss of our branches in Indonesia and Iraq and compulsory closing in Cambodia.

"Current and Other Accounts" and "Fixed Deposits" now total £480 millions as compared with £463 millions at the end of 1963.

The upward trend in "Advances to Customers and Other Accounts" noticed in previous years has continued. As you will see from the Consolidated Balance Sheet this item is again a record at £235 millions, an increase of £22 millions on the previous year's figure.

Profits and Dividends

I am pleased to report that, after making the usual provisions, Consolidated Net Profit for the year is £1,254,778 an increase of £185,400 on that for 1963. This increase is largely attributable to further expansion of business reflected in the increase in Advances to which I have already referred.

With the balance of profit brought forward from last year of £574,024 the amount available for disposal is £1,828,802. Of this sum £100,000 has been transferred to Reserves for Contingencies and £450,000 to Reserve Funds which now stand at £9,700,000. This sum includes the share premium of £1,100,000 arising from the Rights Issue in March 1964.

The interim dividend of 7½% less income tax paid in September 1964 absorbed £353,718 and it is now proposed to pay a final dividend at the same rate, making 15% for the year. The balance then to be carried forward to the next year will be £571,365.

Capitalisation Issue

Stockholders will have received my letter of 3rd March notifying them that an Extraordinary General Meeting of the Stockholders will be held on 31st March 1965 to consider the recommendation of the Court of Directors that £770,000, being part of the sum standing to the credit of the Reserve Fund, be applied in paying up in full 770,000 new shares of £1 each; these shares to be issued to Stockholders whose names were on the Register at the close of business on 20th February 1965 in the proportion of one new share for each £10 Stock held. If the Stockholders assent to the capitalisation of £770,000, it is the intention of the Court of Directors to transfer a similar amount from Reserve for Contingencies Account to the Reserve Fund.

Overseas Survey

A year ago I introduced my review by deploring the extent to which the economic situation in the countries where The Chartered Bank Group operates is too often dominated by politics, and in 1964 nationalistic tendencies and changing political alignments imposed costly and unfair penalties on our business. It seemingly matters not to some countries that our branches have been operating in them for over one hundred years, through good times and bad, and have helped to open them up and build up their present wealth, or that we are still playing an important part in their overseas trade and local investment when, at the whim of a dictator or on some national pretext, our business and properties can be taken from us overnight. In Burma and Iraq it was under the guise of nationalisation, to which we apparently cannot object as long as fair and adequate compensation is given with reasonable promptness. We have yet to receive compensation from either government, and in Iraq, where steel-helmeted troops occupied our premises overnight, we have yet to receive back our sterling capital and reserves, which under international law should be paid immediately as a preliminary to talks on compensation for our business and properties. In Indonesia our business and local assets have been taken away from us after over one hundred years because of Britain's support of Malaysia and in Cambodia we were closed down because of strained diplomatic relations between that country and the United States and Great Britain.

We would like to see a greater awareness on the part of our government of the effects on British business of diplomatic moves, and perhaps a shouldering of some of the responsibility, and although often nothing can be done to counter expropriation and discrimination arising from ultra-nationalism, the accumulated loss of this country's overseas investments and the income from them must be reaching figures that make nonsense of further plans for investment in developing countries. Perhaps the time has come when there should be an Investment Guarantee Corporation as well as one for exports. The World Bank at least has come out in a most forthright manner against the stealing of the assets of one country by another and countries guilty of such acts cannot look to the World Bank for help until proper compensation has been paid.

It is sad to have to comment so forcibly on the evils of ultra-nationalism at a time when so many countries, and the happiness and standard of living of their peoples, depend upon internationalism. Too often too, those politicians who are most nationalistic in their own countries want, and think they are entitled, to play a prominent role in the international scene.

The coverage of this review is changing slightly for no comments are given on any countries unless we have officers with first-hand knowledge living in them.

India

This year has not been a happy one for India and at its end the government itself admitted the situation was still "extremely grim". Certainly the most important single event of the year was the death of Premier Nehru, who had achieved a position of unique distinction in India and was regarded with affection and respect throughout the world. While it was not to be expected that his successor, Premier Shastri, could attain such a commanding position upon taking office, it was unfortunate that almost at once he was faced with a food crisis more serious than has occurred in India since 1943.

Agriculture is of crucial importance to India, since any failure here could in the last resort undermine the nation's political and economic stability. Nevertheless food supplies failed to increase for the third year running and the resulting scarcity, in conjunction with a fifteen per cent rise in the price level, sparked off a serious outbreak of rioting and industrial discontent. The situation was exacerbated by the hoarding of stocks in anticipation of further price increases and the breakdown of the food distribution system, the latter being blamed largely on excessive government interference. Attempts to persuade States with food surpluses to assist those with shortages were only partly successful and one of the most disturbing features of the crisis was the reluctance of the various States to co-operate. The situation has now been alleviated by massive wheat shipments from the U S A and the prospects of good domestic crops in the near future. This near escape from famine conditions only served once again to highlight the alarming growth of population and the necessity for emphasis on agriculture rather than on industrial development. It is difficult to understand why, in the face of this situation which could baulk all endeavours for economic progress, government circles and officials for the most part enthuse over steel plants and merely tolerate suggestions for improving agriculture. I have been pointing out what I considered was this wrong emphasis for many years and although more is now being done for agriculture there is still a need for substantial reform, for clearly amongst the many changes needed is the abolition of a law which restricts holdings to well under economic units. More time too should be spent in education of the farmers and they should be granted greater security of tenure.

Industry, with all the attention devoted to it, did not have the favourable performance expected, perhaps because it had to contend with a proliferation of government regulations and severe tax burdens. Expansion was further hampered by the inflationary pressures generated by food scarcity and heavy governmental defence expenditure. Power supplies were often inadequate and stringent import controls at times left industrial sectors short of raw materials or equipment. Under government direction the banks applied a credit policy which, whilst it did not rigidly limit the availability of credit, made it very expensive. Foreign private capital continues to be essential for further growth but an adequate supply is not likely to be attracted so long as government regulation is so restrictive and the return so small.

One can only be sympathetic with hard-working and often dedicated officials who are trying to bring this vast economy through its difficulties, but doubt must remain after the experience of the last few years whether the official policies they have to conform to are along the right lines. If theirs is a losing battle, as it sometimes appears to be, there is no doubt that the socialistic trend, the growth of a bureaucracy that has to demand more and more State controls (central government bills totalled 106 in 1956 and 340 in the last Lok Sabha) and the increase in State trading, is mainly responsible. In this respect India is really at the cross roads, for it has either to go on as it is perpetuating a lifeless economy or it has to reduce taxation and controls and give the private sector freer rein. At the moment unreasonably high taxation is the greatest stumbling block in the path of economic growth, and will remain so until it is reduced to an extent that will restore confidence and promote the investment necessary for a rapid increase in production. Some minor tax concessions have been made but they made no serious impact and furthermore the government still has not come to grips with labour.

India which should have low labour costs has very high ones in relation to output, mainly because left wing trade unionists have never been officially confronted and arbitration bodies still give rulings without reference to the country's economic needs or the plight of its people generally. It is perhaps not so serious for manufacturing costs to be above world levels in exchange savers but it is a very different thing when it comes to exports and, as the State trading departments have found, barter with iron-curtain and other countries is really no answer to this.

India is far from devitalised and would respond immediately to the right tonic, which must include lower taxation. It can be contended that the penal taxation now exists largely perhaps because of wrong thinking that the comparatively few in the population able to pay taxes would have to be mulcted for the benefit of the millions on subsistence level. In fact, it is on that comparative few that India depends for the vitality of its economy, and the further contention that lower taxation means increased inflation overlooks the vast area of government expenditure and the economies that could be effected there. In any case it is doubtful if the present efforts to contain inflation are all that successful although, as I have mentioned earlier, the Reserve Bank has introduced drastic liquidity measures for the commercial banks. One effect of this has been a restriction of credit for legitimate business and it also contributes to the stagnation in the capital market which is causing so much concern.

Public apathy to new issues is making underwriting a very hazardous commitment and little improvement in this section can be expected so long as investments are still subject to capital gains tax, wealth tax and partial income tax. The recent concession by government of free tax certificates to investors taking up shares in certain types of companies does not tackle the fundamental problems of high taxation and lack of confidence and it is a sad commentary that no successful scheme has yet been found for bringing out and utilising the vast hoard of gold in the hands of the people and that gold is still being smuggled in and paid for by money that could be going into investment. One encouraging aspect is that over the year exports reached a record level and, after taking loans and grants into account, more than covered imports. Despite this, however, foreign exchange reserves remain small and the need to repay the principal and interest on past loans is now an added burden. As long as India remains heavily indebted to overseas sources this burden can only increase and makes the expansion of exports all the more vital. "Big planning" has always involved overseas aid coupled with larger deficit financing and the inevitable inflationary repercussions, and it is satisfactory that there are indications that the Fourth Five Year Plan, due to start in 1966, will be trimmed to a more realistic basis than its forerunners and with perhaps a more significant role assigned to private enterprise.

Though Mr. Shastri has successfully maintained India's position of neutrality vis-a-vis the rest of the world no further progress has been made towards the establishment of cordial relations with Pakistan and China. In fact, India can obtain little satisfaction from recent events on its north-east frontier, whilst Kashmir is now

not only an undiminished external problem but is becoming a more formidable internal one as well. This has happened too when unfortunately the country has reached a stage in its progress when there is a definite conflict of interest between defence and development. It is to be hoped that it will prove possible to limit defence expenditure and keep development spending on heavy industry within reasonable bounds in order to give the country a much needed period of retrenchment. Such action could see India making the slow but steady recovery we know to be possible.

Pakistan

Field Marshal Ayub Khan's re-election as President of Pakistan was not only a personal triumph but a vital common-sense decision which should ensure a continuation of the stability he has given to the country since 1958. His heavy majority won in free elections is declared confirmation that the nation recognises that his leadership has been a prime factor in the orderly progress that has been made during the last few years and has brought Pakistan an enhanced reputation in international affairs.

Perhaps the greatest benefit the President could now give his country would be good relations with India, for the economic gains from closer co-operation and the saving in reduced defence costs would free resources that could advantageously be deployed in further raising the standard of living of the people. To heal a quarrel however needs goodwill on all sides and, notwithstanding a more promising atmosphere towards the end of Mr. Nehru's life, the relations between the two countries have not greatly changed and are still strained.

The position is not without hope however for trading links remain open and recently Pakistan agreed to supply rice to India in exchange for coal, railway equipment and other goods in spite of its own shortage and what may be more important, internal events in Kashmir itself may finally force a solution on all concerned. Until Pakistan is able to trust India's intentions the massive build-up in arms there will continue to be condemned, and Britain and the United States will be condemned for their part in it and receive little goodwill for the substantial efforts they make to assist Pakistan. This lack of goodwill may underlie the deep animosity in some quarters to foreign business, banking, etc, which manifests itself in what seems to be harassment and discrimination, which can only nullify to some extent the objects of the generous treatment afforded to foreign private investment in participation with local concerns.

The successful conclusion of the second five year plan owes much to overseas investments and aid, mainly from the West, for without it the gap caused by rising imports and near static exports would have reduced foreign exchange reserves to a degree that must have restricted internal development. As it is the government has been stimulated to embark on a third five year plan with even more ambitious goals and with total expenditure doubled. During that period servicing foreign grants and loans will place an increasing burden on the country's foreign balances and the percentage of the annual exchange earnings required for the repayment of principal and interest has increased from four per cent in 1960/1 to ten per cent in 1963/4. This led the Governor of the Central Bank to warn that too great a dependence on foreign loans can lead a country to accept commitments beyond its capacity for repayment.

It is, however, in Pakistan's favour that last year the first benefits of the government's programme of land reclamation, flood control, drainage and fertiliser distribution were apparent in increased agricultural output. The yields of cotton and rice per acre started to rise, and to some extent the government schemes have left agriculturists much less at the mercy of calamitous droughts and floods. A record year is expected for the tea crop but the growing rice yield still leaves the output of foodgrains short of population requirements. Jute manufacture continues undiminished and, in spite of a series of strikes during the year, the industry remains strongly competitive. Two points to note in this general picture of expansion are a serious shortage of skilled workers and the unprecedented level of money expansion which has accompanied the economic growth. Whether the country can absorb such expansion year after year is open to doubt and the authorities are taking steps to prevent inflationary pressures undermining future development.

These higher yields in agriculture, with continued investment in industry, a booming private sector and steady prices can only augur well for Pakistan's future. The rate of growth of population is worrying and a balance will have to be struck and maintained between the east and the west wings, which may be very costly, but with free enterprise continuing to have its chance there is cause for optimism. Politics have in the past upset the best laid plans but the politicians have now been given time to show that they are not just coasting along on the President's popularity but are themselves prepared to work honestly in the country's interests, and we should see a more concerted all-out national effort.

Ceylon

Most of Ceylon's troubles are man-made and once again politics overshadowed trade and industry and little or no progress was made over the year towards stabilising the national economy. A continued left-wing swing bodes ill for the country's businessmen, and even more so for outsiders with investments and interests in Ceylon, and towards the end of Mrs. Bandaranaike's government there was little pretext that the further socialistic measures proposed had justification on economic grounds. Amongst the proposals was the control of managing agencies and all commercial and industrial undertakings. The independence of the foreign banks was also threatened by the scheme, first to nationalise them and then incorporate them in a new import/export banking corporation outside their control. In the end, it was the government threat to individual liberty and its measures to control the press that raised enough opposition to bring about the downfall of the government. The forthcoming elections are expected to be hard-fought and close but in Ceylon, with its proliferation of political parties, final alignments can mean more than votes.

No matter which party wins the election it will face a formidable task in getting the country onto its feet. From the outset it will lose control unless it is prepared to stand up to the left-wing and restive trade unions. Food subsidies should be cut in an effort to balance the budget, for in what must be one of the highest taxed countries in the world, there is no further scope for raising additional revenue from business and the businessman. All this too has to be done before opposition in the country again grows from the legacy of shortages, rising prices and an over-expanded bureaucracy.

Externally too the prospects are equally depressing for Ceylon's foreign exchange reserves are too near the point of exhaustion to give any leeway. The last government signalled the position very clearly when it took the drastic and perhaps unethical, even unwise, step of declaring a moratorium on the remittances of profits and dividends. Clearly some of Ceylon's creditors, perhaps rice suppliers like Burma and China, were pressing the country for overdue payments or were restricting credit.

This picture could brighten quickly and considerably if Ceylon should find itself with a government determined to eschew politics and work wholeheartedly for the restoration of the economy, for such a government would gain the confidence and goodwill of its people and of the outside world and Ceylon's friends would then give the help that cannot be justified when a country has set its course counter to its own interests.

Following the Prime Minister's visit to Delhi for talks on the vexed question of the future of residents in Ceylon of Indian origin, it was agreed that five-hundred-and-twenty-thousand of these would be taken back to India and that Ceylon would absorb three-hundred-thousand and grant them citizenship. This programme of repatriation is to be phased over a number of years and although a good start has been made the success of this scheme will depend very much on continued good faith and co-operation on both sides.

There will be widespread sympathy for Ceylon and for those who suffered in the cyclone which struck the north and the east of the island in December and severely damaged the port of Trincomalee.

Conclusion

This review covers an area which must figure large in all future plans for increased international trade and the recent crisis in sterling has not only shown the importance of that currency to world trade but has emphasised that Britain's own share of it must be maintained and if possible increased.

A greater awareness of this on the part of our government has seen a quick implementation of some of the recommendations of the Plowden Report and a tremendous export drive includes directive to the Diplomatic Service to concentrate on commercial work and helping the visiting businessman. With respect, I would say that in many ways the British overseas banks can be even more helpful for they have usually closer associations with and deeper roots in the countries where they operate. They have a specialised knowledge of local business, and of the credit-worthiness of local businessmen and firms, many of which are already customers.

Our interested ministries could, therefore, with advantage make more use of the vast branch networks at the disposal of the British overseas banks, and should in any case work closer with them in the area of their operations. Too often banks like ourselves are left out of and not even consulted about the financial side of trade arrangements, which is in marked contrast to what happens in other countries. Governments abroad realise fully the contribution their overseas commercial banks can make to invisible exports and national business is passed through them and national funds placed with them. In this respect perhaps it is time our Treasury dropped outmoded rules and prejudices and worked more along the lines of the United States.

Finally, I would like to stress another reason for our government fully supporting the British overseas banks in business and in all their difficulties. The friendship and respect existing over the years between our officers and businessmen and officials has helped to insulate sterling in those countries against precipitate action through loss of confidence in it arising from exaggerated utterances of politicians or the ill considered writing of economists. If there are branches of banks like ourselves in a country enquiries regarding sterling usually come to us and fears can be assuaged—but when we have been forced out of a country direct action by the authorities without consultation is likely to be taken to the detriment of our currency.

AROUND BOMBAY MARKETS

Indecisive Mood

Wednesday, Morning

DALAL STREET struggled hard last week to push its way up but could not make any significant headway. While technical considerations favoured recovery, neither were the bears anxious to cover their sales nor were bulls inclined to lend fresh support to the market in view of the disquieting news from the border areas. And political uncertainty was not all that the market had to contend with. Shri B R Bhagat had ruled out any modification in the dividend tax on the rather flimsy plea that it would encourage frittering away of corporate profits. The Prime Minister told the FICCI session that there was no alternative to heavy taxation. Soon came the Finance Minister's statement which cautioned against any hope of modification of his Budget proposals in respect of the corporate sector; T T K said that current tax revenues from the corporate sector would not be sacrificed for the purpose of giving tax concessions.

Political uncertainty and responsible official statements discounting prospects of the much-sought-after relief in corporate taxation could have easily given a big jolt to the market. But since it had already been completely shaken-up, the market absorbed the new shocks with amazing calmness. Though a few scrips like Indian Dyestuff and Standard Mills did strike new lows, the market as a whole managed to keep above the previous week's low point.

The Finance Minister Krishnamachari did not merely caution against any hope of modification of his Budget proposals but he also made some other observations which indicated that he did not care much for the stock market. While conceding that the stock market had a part to play in "this semi-capitalistic society of ours" he was quick to add that if it did not function, other institutional substitutes would have to be found. In the context of an economy of the size that existed in the country, in terms of money the amount of scrips available in the share market was negligible.

While informed opinion is inclined to share T T K's view that the stock market is not really so important as it is generally made out to be and that it is not an indicator which gives the real estimate of prosperity of the economy, there is a great deal to be said in favour of modifying the Budget proposals in a way which would give a psychological boost to the market without any significant loss to the exchequer. Suitable modifications of the dividend tax and the capital gains tax could go a long way in improving the investment climate in the country.

COTTON

A Big Change

A SIGNIFICANT change has come about in the situation obtaining in the cotton market. Excepting Bengal Deshi which has been keeping

remarkably firm on keen export buying, the prices of other cottons have continued to drift lower. Several varieties which once fetched fancy premiums are now available at or below the ceilings and some varieties where quality is not up to the mark are quoted more than 5 per cent below the ceilings — the level at which the Indian Cotton Mills' Federation stands committed, on its own accord of course, to lift all the cotton that might be offered to it during the season.

Farmers, traders and merchants who had been sitting tight on their stocks when prices were quoted well above the statutory ceilings — the price control notwithstanding — are now anxious to market their goods below the ceilings and are even critical of the authorities for not coming to their rescue. If cotton prices have declined below the ceilings it is not due to any firm action taken by the Government to enforce the price control order. The fall in prices is due partly to the Federation's scheme of controlled purchases of cotton by mills, but mainly to the acute financial stringency and increased flow of arrivals with the progress of the season. Crop estimates which had revised downward with every rise in prices are now being revised upward with the decline in prices. Even after the cotton crop had gone beyond the reach of the weather, it has been varyingly estimated between 60 lakh bales and 54 lakh bales and the latest estimates place the crop around 57½ / 58½ lakh bales. One really wonders whether the crop estimates are at all dependable.

Concern Unwarranted

Serious concern has been expressed by cotton growers and traders over the recent decline in cotton prices. It is quite natural for growers and also for traders to feel uneasy at any fall in prices because of the depreciation in the value of their stocks. But surely, one cannot expect the crop to be marketed at the ceiling rates which cotton growers have begun to regard as virtual floor prices. Unless it is argued that the ceiling prices compare unfavourably with the prevailing prices of other agricultural commodities, a decline of 10 to 15 per cent below the ceilings should be regarded as a normal phenomenon and it should in fact be welcomed even for the healthy functioning of the market.

The controversy regarding Cambodia cotton continues and with prices registering a further substantial decline, the controversy has assumed more serious proportions. The Federation's insistence that the cotton should be surveyed by the EICA sworn surveyors, that their verdict in regard to appropriate ceilings should be final and further that the offer to sell must be a firm one, has been characterised by traders and growers as an attempt to implement monopoly purchase through the back-door. But if the trade is really anxious to dispose of its cotton at 5 per cent below the ceilings which virtually amounts to selling at the ceilings since the trade is saved the burden of carrying stocks with it, there is no reason why it should not abide by the Federation's terms; the verdict of EICA sworn surveyors ought to be regarded as final. Presumably to pacify the discontented growers and traders, the Federation has sent its representatives to Saurashtra to purchase some quantity of Cambodia cotton the prices of which had declined sharply in recent weeks. It is also considered likely that the Federation may consider the question of relaxing the present limits on cotton stocks to be held by the mills.



OILSEEDS

Steadier Sentiment

OILSEEDS prices last week hardened still further mainly in the hope of an imminent announcement about the export policy for vegetable non-essential oils. That the Government will permit free export of vanaspati and also release anything between 20,000 and 35,000 tons of groundnut oil for export is taken almost for granted. Prospects of a limited quota of groundnut HPS are also believed to be fairly promising. While the Government is still marking time for a favourable opportunity for announcing the export policy, considerable purchases of groundnut oil are reported to have already been made in anticipation of an export quota. With the emergence of good buying, sellers have become reserved. Groundnut oil ready has been remarkably steady between Rs 21 and Rs 21.50 (per 10 kgs) for some time. Prices of other oils — mustard oil and linseed oil — have also firmed up recently. It is difficult to say how exports, when allowed, will fare because a great deal will depend on the incentives scheme and the tax credit for exporters.

CAPITAL VIEW

Foreign Relations in a Tangle

Romesh Thapar

THESE days there is a smell of death at the Ministry of External Affairs. It has a full time minister now—that is, when he is not involved in something else. Conferences or meetings of experts and department heads seldom take place. Visitors float in and float out, none the wiser about what India thinks or feels. Bureaucrats, accustomed in the old days to take orders from the top, to toe the Nehru line, satisfied that they were being pushed in some direction, sit in explosive silence as one sector or another of a policy carefully built up cracks, as it were, under the weight of indecision.

Among those who are still interested in foreign policy, the talk is general that we have managed with an extraordinary demonstration of humility and patience—and silence *(sic!)*—to confuse and bewilder our closest friends. Despite the polite noises made in public, both here and abroad, about India's role and mission, the opinion offered the other day in a private conversation by a hard-boiled, cynical foreign policy planner captures the real agony: "What's he (the Foreign Minister) waiting for? A foreign expert?" The preparation deadline of the Algiers Afro-Asian Conference approaches, and we are doodling over cashew-nuts and cups of coffee.

With the USA merrily testing her napalm bombs and gas warfare techniques against the Vietnamese, and the Soviet Union getting angrier and angrier at what appears to be a deliberate attempt to wreck the possibilities of a *detente* at a time when China is working overtime in the communist world to mobilise support for her no-compromise stand in international affairs, we have been content to remain more or less silent because we wishfully believe that China is being hurt in the process. This assessment is so puerile that even the western experts who in their own interest persuaded us to remain silent are amazed at our gullibility.

The lazy doodling at the higher echelons of the Ministry of External Affairs is not only helping to buttress the Maoist thesis that India is no longer the ally of Asia and Africa, but is placing a severe strain on our alliance with the Soviet Union—an alliance which in the past strengthened the independent role of our foreign policy. It is no exaggeration to state that the impression prevails in Moscow that just as Pakistan is moving away from her embarrassing commitments to SEATO and CENTO, India is permitting herself to wander, absent-mindedly maybe, into the western camp. The polite, propagandist talk in public can no longer hide this fact. And there are misunderstandings with the Arabs.

New Trends Not Understood

That this is happening at a time when there is more need than ever before for India to work closely together with the Soviet Union and the Arabs is inexplicable, unless, of course, we reach the conclusion that Prime Minister Lal Bahadur and Foreign Minister Swaran Singh are unable to understand the trends now taking shape in the world.

The nationalist-chauvinists who rule China have decided to intensify their so-called ideological confrontation with the Soviet Union. They have made clear that they would risk a widespread conflagration in South-East Asia in order to defeat the US interventioning physically rather than permit them a face-saving retreat *via* a Geneva-type conference. They have, by this fact, indicated that their present policy is dictated by the desire firmly to consolidate a Communist Vietnam as a stepping stone into regions further south where Malay fights Malay. Having blunted the influence of India, China moves to humble the rising influence of the Malay whose homelands cover Malaysia, Indonesia and even parts of the Philippines. Then, China dreams of being the only influence in Asia.

The adventurist Maoists have found themselves an useful ally for their operations against a stubbornly viable India. Ayub's Pakistan, according to information reaching New Delhi, plans to step up its border activities against India. Over the past few weeks, we have faced concerted attempts in the west and in the east to create a limited confrontation. Indeed, there are some students of Pakistani developments who believe that Mao may well encourage Ayub to push for military settlements at various points along the border very much in the style adopted by China from 1959 to 1962. Anyhow, it would do us no harm always to keep this in mind.

To counter these moves and to correct the growing impression in Asia and Africa that we are exploiting our frontiers with China in order to squeeze economic and military aid out of the West, and hence are impotent in the battle against foreign intervention and neo-colonialist activity in Asia and Africa, it is imperative that we lose no time in explaining to the governments and peoples of Asia and Africa our position with regard to immediate and perspective tasks. We

are certainly not equipped at the moment to do this. We have to thrash out the issues which have confused us—and they are not a few.

The reluctance in certain sections of the ruling party to order this clarification is undoubtedly due to the fear that the assessment might offend this or that power which is aiding us. This fear is baseless. We received aid and friendship from many diverse quarters in the past not because we were seen to be servile, but because we were clear as to our objectives and the aid-givers realised that our influence was not to be scoffed at. Today, it is true, we lack self-confidence—and this breeds servility. But it would not take long to revive the spirit of our people if this government of Lal Bahadur would only make up its mind to locate national interests and to defend them unflinchingly.

President Nasser's reaction to the meddling of West Germany in West Asia holds many lessons for New Delhi, lessons which, incidentally, we were teaching not so long ago to our friends in Asia and Africa. In a twisted kind of way, Ayub and Bhutto in Pakistan have proved that even commitments to SEATO and CENTO need not be an inhibiting factor within an international situation which is rapidly transforming. General de Gaulle's postures, too, have relevance. And there are other examples from Africa to refresh minds dulled by the confusions of the past few years.

To begin with, we have to learn to live with the border problems spawned by China and Pakistan. It is folly to chase solutions and compromises when both these neighbours are interested only in perpetuating tension which they believe will lead to a political crack-up in India and the further dismemberment of a subcontinent. It is even greater folly to test our friends in Asia and Africa on their reaction to these essentially local tensions. There is wide sympathy for India, but this cannot be expressed within the context of the ramified power alignments at the moment. We should have the maturity to appreciate this, to move in such a manner as to strengthen ourselves internally and to build our influence externally even as we live with these problems without imposing them on others.

The Vietnam crisis calls for immediate action by India. The unilateral escalation of the conflict by Washington which has been permitted over the past few weeks may well be stage-managed to open the way for a peace initiative, but it would be short-sighted for us to assume that the Maoists would permit a compromise which would allow the USA to remain entrenched in the area. A solution to be viable must take into consideration the possibility of establishing a wider grouping of States—a federation of North and South Vietnam, Cambodia and Laos—able to defend its sovereignty against the aggressive, impatient presence of a China which seeks to dominate Malay thinking to the south. In other words, the defence of sovereignty in Asia must become the responsibility of the Asians, not of the foreign intruder. This is the only way to confront the Maoist adventurers.

Balance of Power in Asia

India should take the lead in projecting a plan which not only brings the barbarous war in Vietnam to an end, but also consolidates those forces (even within the North Vietnam government) which seek a bigger, genuinely independent State (be it of the communist variety) on the borders of China. France has seen the wisdom of this approach. The Soviet Union, too, can be expected quietly to approve of such a development. It is for India to mobilise support for the plan in Asia and Africa, to rid it of cold war connotations. The Malay peoples to the South, now sought to be divided by the confrontation between Malaysia and Indonesia, would soon perceive how their interest was linked with such a plan.

A tremendous effort would have to be made by Asia and Africa to mobilise support to establish the viability of a multi-national State in the north and a Malay State in the south, but in so doing it would be possible to discipline the chauvinist elements in Peking and to open the way for stability in South East Asia. Enemies and friends would change character in the process. New dimensions would be added to political and economic activity in the region. A healthy balance of power in South-East Asia would pay dividends in South Asia, and help us free ourselves of dependence on interested foreign powers.

The trouble with our policy planners, if they exist, is that they fail to think in perspective. For example, over a period of years, we have been ambivalent about developing two crucial alliances as the anchors of our foreign policy—the Soviet alliance internationally and the Arab alliance within the Afro-Asian assembly of nations. Both alliances serve our national interest. Yet, we have permitted a gradual erosion of the earlier contacts. Today, both alliances are threatened because there is little faith in our capacity to sustain the policies of the Nehru Era. The internal crisis of confidence is reflected in our inability to take any really positive stand on any international issue. In this way, an opportunity is being given to certain dogmatic, but influential, elements in the Soviet Union and the Arab world to sever what few links remain.

The forthcoming conference in Algiers of Asian and African nations is one of those events which we could utilise to reassert our inspirational role. Arriving at the conference fully committed to a worked out policy of peace and stability in South-East Asia, we could argue forcefully for the recognition of the Soviet Union as a part-Asian power. Such a step would in the long run associate this part of the world with some of the crucial issues which tend to get lost in the agitpropism which China is apt to indulge in. It would also radicalise thinking in Afro-Asia along more purposeful lines, towards collective action in the interests of the area.

We continue to imagine that we are too weak and isolated to fight a sustained fight for policies which we believe reflect the interest of the region more accurately than those sponsored by a nation like China which plans spheres of influence for itself. Fortunately, we now have no antiquated notions about big power status. This is all to the good. It creates goodwill for us. But we have to learn zealously to push the concept we hold to be relevant in this new age—indeed, with the same zeal with which the Maoists push their's—and we do not have to be embarrassed because we have not exploded a nuclear device. In passing, there is no harm in reminding ourselves and others that Afro-Asia would not be the same thing without India!

It is with some such spirit, ready to be angry when the occasion demands, that we need to begin to untangle our foreign relations. If we delay, the tangle might become a knot, a knot that cannot be untied.

CURRENT STATISTICS

Export Estimates for Fourth Plan

(*Rs. Crores*)

Commodities	Unit of Quantity	Actuals				Estimates			
		1961-62		1963-64		1965-66		1970-71	
		Qty.	Val.	Qty.	Val.	Qty.	Val.	Qty.	Val.
1	2	3	4	5	6	7	8	9	10
Agriculture and allied products									
Oilseeds, nuts and kernels	Value	...	4.5	...	4.3	...	5.0	...	6.4
Groundnuts	000 tonnes	38	4.0	37	3.9	45.9	4.5	60	6.1
Vegetable oils (non-essential)	,, ,,	39	5.8	143	19.9	115.0	16.0	...	19.5
Castor oil	,, ,,	25	4.0	36	4.8	40.0	5.5	45	6.5
Groundnut oil	,, ,,	7	1.0	9	13.5	65.0	9.0	90	12.0
Others	,, ,,	7	0.8	12	1.6	10.0	1.5	9	1.0
Oilcakes	,, ,,	506	17.3	953	35.4	1,100.0	40.01	225	45.0
Tobacco unmanufactured	,, ,,	44	14.1	64	21.1	65.0	21.0	75	23.0
Spices	,, ,,	64.4	17.5	54.7	16.0	66.0	18.5	80	23.0
Pepper	,, ,,	21.7	8.1	18.9	5.9	22.0	6.5	26	7.5
Cardamoms	,, ,,	2.4	3.6	2.3	3.2	3.0	3.5	3	3.5
Ginger	,, ,,	7.6	1.1	4.9	1.4	8.0	2.5	11	3.0
Chillies	,, ,,	11.5	2.2	12.1	2.8	15.0	3.0	17	4.0
Others	,, ,,	21.2	2.5	16.5	2.7	18.0	3.0	23	5.0
Cotton	,, ,,	62.0	14.3	56.0	12.1	57.0	12.5	60	13.3
Jute	,, ,,	...	...	26.0	2.9	30.0	3.0	12	1.3
Sugar	,, ,,	373.0	15.3	528.0	27.3	500.0	20.0	750	25.0
Fruits and vegetables	Value	...	25.5	...	29.9	...	35.0	...	45.0
Cashew kernel	000 tonnes	42.0	18.2	51.0	21.4	56.0	23.0	65	27.0
Bananas	,, ,,	7.0	0.2	11.0	0.4	40.0	1.0	40	1.0
Pulses	,, ,,	7.0	0.6	19.0	1.5	24.0	2.0	50	4.3
Onions	,, ,,	114	2.9	103	2.9	160.0	4.0	200	5.0
Other fruits and vegetables	Value	...	3.6	...	3.9	...	5.0	...	7.7
Gums and resins	000 tonnes	12	2.0	22	3.0	30.0	4.0	40	3.8
Lac	,, ,,	21	4.6	21	4.6	25.0	5.0	25	4.0
Essential oils	Value	...	4.5	...	2.8	...	3.0	...	3.5
Lemongrass oil	000 tonnes	0.9	2.4	0.8	1.3	0.9	1.5	1.0	1.5
Sandalwood oil	,, ,,	0.1	1.9	0.1	1.2	1.0	0.01	0.1	1.0
Others	,, ,,	...	0.2	...	0.3	0.2	0.5	0.2	0.5
Meat and allied products	Value	...	0.4	...	0.4	...	0.1	...	1.0
Animal casings	,, ,,	...	0.8	...	1.2	...	1.5	...	2.0
Rice	000 tonnes	...	...	2.6	0.3	3.0	0.4	0.5	0.5
Raw Wool	,, ,,	14.5	8.4	9.9	6.1	12.0	7.5	11.0	6.1
Fish	,, ,,	15.7	3.9	18.4	5.7	30.0	8.5	55.0	20.0
Plantations									
Tea	mil. Kg.	207.0	122.3	209.0	123.0	225.0	130.0	275.0	160.0
Coffee	000 tonnes	29.7	9.0	23.3	8.3	32.0	9.0	45.0	15.0
Ores' minerals and scrap									
Iron ore	mil. tonnes	9.9	35.4	0.9	36.4	13.0	49.4	25.0	95.0
Manganese ore	000 ,,	995	10.7	959	8.3	1,000	10.0	1,200	12.9
Mica	mil. Kg.	28	9.7	30	9.2	34	10.0	34	10
Ores and minerals other than iron ore, manganese ore and mica	Value	...	4.7	...	4.3	...	5.0	...	3.0
Iron and steel scrap	000 tonnes	272	6.3	384	4.9	500	6.0	...	...
Textile fabrics and manufactures									
excluding coir and jute	Value	...	66.6	...	85.5	...	97.5	...	128.0
Textile fabrics									
Cotton fabrics mill	Meters	513	48.3	567	54.4	595	59.0	665	67.0
mill-made	,,	487	43.3	536	47.6	550	50.0	660	55.0
handloom	,,	26	5.0	31	6.9	45	9.0	65	12.0
Fabrics of artsilk and synthetic fibre and spunglass	,,	81	7.6	88	10.6	120	12.0	150	15.0

1	2	3	4	5	6	7	8	9	10
mill-made	Meters	72	5.8	78	7.9	105	9.0	125	11.0
handloom	,,	9	1.8	10	2.7	15	3.0	25	4
Natural Silk fabrics (handloom)	Value	...	1.2	...	2.2	...	3.0	...	4.6
Woollen fabrics	,,	...	0.2	...	1.5	...	2.0	...	3.0
Other textile manufactures									
Cotton yarn	mil. Kg.	9	4.9	14	6.7	15	7.0	21	10.0
Machine-made carpets	Value	...	...	...	...	...	...	...	5.0
Clothing	,,	...	0.7	...	4.5	...	7.0	...	13.0
ready-made garments	,,	...	0.5	...	3.8	...	6.0	...	10 to 11
knitted ware	,,	...	0.2	...	0.7	...	1.0	...	2
Miscellaneous textile manufactures	,,	...	3.7	...	5.6	...	7.5	...	10.5
Manufactures of coir and jute									
Coir yarn and manufactures	000 tonnes	74.6	11.2	76.2	11.6	85.0	13.0	100.0	16.0
Jute manufactures	lakh tonnes	8.0	144.8	9.1	157.5	9.8	165.0	11.0	175.0
Leather and leather manufactures	Value	...	36.7	...	40.5	...	43.5	...	50.0
Skins raw	,,	...	8.8	...	10.5	...	9.5	...	9.0
Footwear leather mill and canvas	mill pairs	4.6	2.4	6.4	3.6	10.5	6.0	15.0	9.0
Leather and leather manufactures excluding footwear	Value	...	25.5	...	26.4	...	28.0	...	32.0
Leather undressed	mil. Kg.	19.3	23.3	18.5	24.1	20.0	25.0	23.0	28.0
Leather Misc.	Value	...	1.2	...	2.3	...	3.0	...	4.0
Engineering goods	,,	...	7.6	...	13.5	...	19.0	...	50.0
Metal manufactures	,,	...	3.4	...	7.2	...	8.5	...	21.0
Machinery other than electric	,,	...	2.4	...	2.8	...	4.0	...	9.0
Machinery electric and instruments and appliances	,,	...	1.1	...	1.6	...	3.0	...	9.0
Transport equipment	,,	...	0.5	...	1.6	...	2.5	...	4.0
Other engineering goods	,,	...	0.2	...	0.3	...	1.0	...	7.0
Handicrafts	,,	...	19.3	...	30.7	...	32.5	...	41.0
Handmade carpets and druggests	Value	...	4.4	...	5.4	...	6.0	...	7.5
Artware-metal (brass and copper)	,,	...	1.5	...	1.2	...	2.2	...	3.0
Precious and semi-precious stones, pearls etc	,,	...	8.0	...	12.9	...	15.0	...	17.0
Zari goods	,,	...	0.7	...	4.3	...	1.5	...	2.0
Textile hand printed	,,	...	1.1	...	1.8	...	1.5	...	2.0
Woodware	,,	...	0.3	...	0.5	...	0.7	...	1.0
Woollen shawls, lohies, travellings and artware	,,	...	0.1	...	0.6	...	1.0	...	1.5
Other handicrafts	,,	...	3.2	...	3.5	...	4.6	...	7.0
Other manufactures									
Iron and steel	Value	...	4.7	...	1.9	...	...	...	...
Ferro-manganese and ferro-alloys	000 tonnes	210	5.6	22	1.7	75	5.0	0	6.3
Minerals, fuels, lubricants and related materials including coal and coke	Value	...	5.9	...	7.7	...	8.0	...	10.0
Chemical and allied products excluding essential oils	,,	...	3.3	...	3.7	...	5.0	...	15.0 to 20.
Plastic and plastic manufactures	,,	...	0.1	...	0.3	...	1.0	...	5.0
Cotton waste	000 tonnes	42	5.3	42	4.4	45	4.5	50	5.0
Tobacco manufactures	mil. Kg.	2	0.9	1	1.4	...	1.5	...	2.0
Rubber manufactures include rubber	Value	...	0.4	...	0.9	...	3.0	...	5.0
Paper, paperboard and manufactures	,,	...	0.8	...	0.7	...	1.0	...	2.0
Cement	000 tonnes	98	0.9	81	0.8	...	...	...	...
Glass and ceramics	Value	...	0.3	...	0.3	...	1.0	...	2.0
Wood, lumber and cork etc	,,	...	2.9	...	2.9	...	3.0	...	4.0
Miscellaneous items including re-exports	Value	...	33.4	...	40.4	...	44.2	...	55.0
Total	Value	...	679.7	...	794.2	...	870.0	...	1110.7

SOURCE: Annual Report of the Ministry of Commerce for 1964-65.



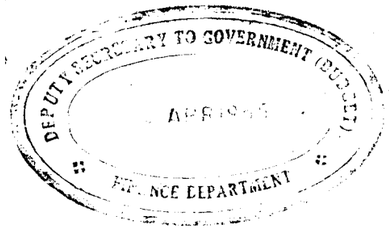
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Budget in Retrospect

THE criticism that the Budget marked a retreat from socialism pained him, the Finance Minister said in his reply to the general debate on the Budget in the Lok Sabha. But unless he had credited Members of Parliament with complete lack of perception, this criticism he should have anticipated when he framed the Budget. What is there in the Budget that links it to the socialist objectives of the Congress or the Plan? Its basic premise, almost explicitly stated, is that to give a new momentum to the economy it is more important to stimulate private saving and investment than to enlarge public saving and investment. Not explicitly stated, but no less discernible, is the assumption that in fiscal policy at any rate the objective of a more equitable distribution of income ought to receive no priority. Folowing from these, the changes in corporate taxation all aim at enlarging the resources of corporations and the substantial reduction in personal tax rates will put more income in the hands of those who constitute, income-wise, the top two or three per cent of the population.

These concessions, all "in the interests of higher production and greater efficiency", have been made, the Finance Minister said, "without sacrificing the claims of the Plan". This claim needs to be examined. The total public sector Plan outlay in 1965-66, taking the Centre and the States together, is Rs 2,225 crores. This marks a decline in the rate of increase of public outlay on the Plan, from about 17 per cent in 1964-65 to 12 per cent in 1965-66. And investment in the Central Government's commercial and industrial undertakings in 1965-66 is actually smaller, in absolute terms, than in the previous year!

The Economic Survey no doubt states that total public sector outlay in the Third Plan will be Rs 8,000 crores as against the original provision of Rs 7,500 crores. But in real terms what does this 7 per cent higher outlay mean when we consider the over 25 per cent increase in prices since the beginning of the Plan? In industry, for instance, by the time of the Mid-term Appraisal of the Plan in the latter half of 1963, the estimate of investment needed to carry through the public sector programme had been revised upwards by almost Rs 500 crores or about 28 per cent of the original estimate. Even in financial terms, public sector outlay has exceeded Plan provision mainly in agriculture and transport; elsewhere the Plan figures of outlay will be barely achieved. Is it so certain, then, that the distribution of real investment between the private sector and the public sector has conformed to the proportions envisaged in the Plan and has not been altered to the disadvantage of the latter? If it has been so altered, as there seems to be every reason to believe, should not its correction receive some attention in the Budget?

There have been, of course, shortfalls in private investment too, in some of the highest priority industries. But, on the other hand, in each Plan period, a very large proportion of the community's savings has been diverted into non-priority industries and into speculation in real estate and commodities in short supply. Every Plan has laid down which are the industries to be developed and to what extent. But the means which have been provided for ensuring that private investment flows into these industries in the required quantities — control of capital issues, provision of supplementary finance by Government-sponsored finance corporations, licensing of imports and allocation of scarce materials — have proved to be most inadequate. On paper the idea that a sophisticated scheme of fiscal incentives will work where these administrative devices have failed has its attractions. The Finance Minister, at any rate, appears captivated. But there are others with fairly acute knowledge of the functioning of the economic system who have maintained that neither administrative controls nor fiscal-monetary gimmicks will work without fundamental changes in the structure of the economy—in the motives and methods of functioning of the banking system, for instance.

In any case, the basic problem is certainly not one of making up short-

falls in private investment in priority industries by transferring public resources. It is one of shortage of resources for investment in Plan schemes, in both the public and private sectors, due mainly to the diversion of a large part of the economy's savings into private non-Plan expenditure and, since the Chinese aggression, into the defence build-up. The failure to regulate private investment and to channel savings into the Plan in adequate measure was reflected in the need to have two versions of the Third Plan — a physical plan and a financial plan. It can be seen once again in current exercises in the preparation of the Fourth Plan, in the desperate attempts to equate an aggregate of physical programmes to a certain financial figure when it is plain enough that it will cost much more.

Financial Devolution

IS the purse-string perhaps the strongest bond that binds the Central and State Governments together? In our brand of federalism, about one-quarter to one-half of the total revenues of each State is derived from the Centre, by way of shares in taxes centrally levied and collected and grants-in-aid. The revenue heads left entirely to the States are relatively inelastic and prohibition has closed one lucrative source. On the other hand, apart from Plan outlays, the States have to cope with other financial pressures such as growing debt charges and the demands of their employees for scales of pay commensurate with that of the Central Government. In the circumstances, pleas for larger shares are presented quinquennially before each Finance Commission.

The latest recipient of the pleas is the Fourth Finance Commission, now at work. It has heard, for instance, from the Madras Government that the States' share of Union Excise duties should be raised to 50 per cent (from the present 20 per cent) and that "population" should be the sole criterion governing its allocation; from the Maharashtra Government that "collection" should be the sole basis for the division of the income tax; and from the Rajasthan Government that the factor of "area" should also be considered for the reason that geographical size adds to the administrative as well as developmental responsibility of a State.

The arithmetic of devolution which, judging from its terms of reference, is the principal concern of the present Finance Commission, covers grants-in-aid also. Properly interpreted, this would involve principles extending beyond the simple rules of division. The accepted role of grants-in-aid is that of a final dole for meeting what has frequently been termed the "residual fiscal needs of the States". This is a devise for ironing out, to some extent, the wide disparities between the more and less advanced States; but it could also make a mockery of autonomy since it permits the Central Government to assume financial responsibilities that should rightly belong to the States. The last Finance Commission pointed out that "there is a general feeling that the contents of the autonomy of the States are being diluted not only by the prescription of detailed directives on subjects within the State list but also by unilateral financial decisions taken". In the five years since that pronouncement was recorded, the feeling appears to have grown. In a strongly-worded memorandum to the Fourth Finance Commission the Madras Government has gone to the extent of saying that planning itself "entails a measure of limitation on the freedom of the States because it visualises a pattern of utilisation of resources which cannot be deviated from without risking the failure of the Plan", and that "no further restrictions on States should be found necessary". The Memorandum further argues: "the promotion of a sense of independence and vigour in planning at the level of the State, with realistic regard to local conditions and circumstances is a desirable end in itself and from this standpoint too the present arrangements for canalising Central assistance for the Plan, call for a radical review".

The principle that Central assistance for State plans should be marginal in character is no doubt unexceptionable. But as facts pertaining to financial resources stand, a large quantum of Central assistance is unavoidable. The Madras suggestion that financial assistance should be for non-Plan expenditure, thus leaving the States' own resources free for Plan financing really does not solve the problem. Actually, it would deprive the Centre of the one important means of direction and co-ordination of developmental outlay that it now has. But the review and adjustment of Centre-State fiscal relations, now made every five years, should not only be far more frequent but also more extensive, to include plan formulation and implementation. The suggestion of the two previous Finance Commissions for extending the Commission's role and functions either by merging it with those of the Planning Commission or by endowing it with more powers is extremely pertinent now. The Central Government has chosen to ignore the problem — which is certainly no alternative to solving it.

The Ones That Get Away

IT took courage of a type for the Home Minister to talk of his anti-corruption campaign within a fortnight of the no-confidence motion debate in the Lok Sabha. The debate was precipitated by the Government's alleged failure to take suitable action against Bijoyananda Patnaik and Biren Mitra even though an enquiry by the Central Bureau of Investigation had established a *prima facie* case of corruption against them. Those who read records of the debate and reports of the CBI's findings and the views of the Cabinet sub-committee on them, leaked out through the enterprise of an Opposition Member, could not but agree that the substance of the Opposition's charge had been established. Not only did the defence of the Government by the Prime Minister and two Cabinet Ministers fail to carry conviction, but the disparaging remarks of the Education Minister on the CBI's report seemed to indicate that members of the Government are not above running down a Government agency to save the skins of their partymen.

And yet on Sunday last Nanda was seriously telling his listeners on the All-India Radio that "the (anti-corruption) measures adopted and *even more the climate generated* are acting, to an extent, as a deterrent on the activities of the wrong-doers" (emphasis added). True to form, the Home Minister talked of corruption among businessmen and among Government servants, described in details the steps taken to detect corruption among these two categories of persons and gave statistics of the number of businessmen and Government servants sent to jail or fined or dismissed or punished in other ways; but as far as he was concerned corruption among Ministers might never have existed.

Within days of the debate on the 'Orissa affair' the Deputy Home Minister was telling Parliament that the Government had found no substance in allegations of corruption against an ex-Deputy Minister in the Central Government. Just that and no details about who conducted the enquiry and whether those who had levelled the charges had been given any opportunity to present their case.

The pattern will repeat itself and Nanda's "war on corruption" will increasingly become a sad joke unless the Government musters political courage to lay down procedures which will ensure that charges against the men at the very top, the Ministers, will be enquired into with the same objectivity with which the Government claims those against Government servants and members of the public are at present. The Santhanam Committee on Corruption had laid down such a procedure, but Nanda didn't mention it at all in his broadcast though he had much to say about the "speedy action" taken by the Government on the Committee's other recommendations.

Weekly Notes

Dear Money and Export Finance

THE dear money policy, it appears, is beginning to impinge on export finance. Complaints are being voiced by exporters that costs of both pre-shipment and post-shipment credit have gone up. Further, even availability of pre-shipment credit is becoming restricted in view of the reluctance of banks to expand credit if that means paying penal rates to the Reserve Bank.

These points were brought out recently at the seminar on Engineering Goods Exports in Bombay. According to press reports, the Reserve Bank representative at the seminar referred to the rationale behind the current credit policy, *inter alia*, in terms of the scarcity value of capital in the economy. This is true, of course, but how relevant is it to the problem of export credit? Economic and efficient use of money would certainly call for its employment in export finance, given the scarcity value of foreign exchange!

The Chablani Working Group, which was not unaware of the overriding requirements of credit control—if anything, it was much too conscious of it—had pleaded for cheaper post-shipment credit facilities and for the initiation of steps to that end. But instead of accepting these suggestions, the authorities seem to have done the opposite. That they are seized of the problem is evident from the reference by the Governor of the Reserve Bank to it in a speech in Calcutta. His argument was that the monetary measures were designed to combat inflationary pressures and that correction of domestic inflation would help the export effort.

This is unexceptionable in principle, but two questions may be raised: first, how effective have the credit control measures been in correcting the price rise? and, second, even if they are successful, will not the process of correcting inflation take time to make its impact on domestic costs? Meanwhile, export costs keep rising because of inadequate credit and its higher cost. The problem of insulating export credit rates from domestic rates—incidentally, the U K is faced with a similar problem—does not brook any further delay.

Oily Fertilisers

THE much publicised Bechtel fertiliser deal was known, for quite some time, to have run into difficulties. Initiated partly as a substitute for an American Bokaro, partly as a demonstration of American interest in a basic industry, and partly as a massive diversification by established petroleum suppliers, it never really had much of a chance. What chances Bechtel had were not exactly improved by the kind of feasibility report which its high-power team submitted. Technical expertise in this country is limited and what is available of it is not fully utilised in New Delhi; but it did not need much expertise to uncover the intrinsic worth of the report.

True, the fertiliser industry is going through rapid technological changes, due mainly to the increasing use of naphtha in place of coal. Both Fertiliser Corporation and FACT have relatively little experience of naphtha-based designing and production but that experience and the pool of talent which they have built up is not so nominal as to be ignored. The chief attraction of the Bechtel proposal was its package supply of foreign exchange for all the five plants mooted. The terms of the deal, it now appears, are both stiff and restrictive; the idea obviously is to prevent Government from turning the screw after the deal is struck.

Bechtel wants at least 50 per cent equity participation and management control for a number of years. It estimated the total cost of five plants at Rs 200 crores, reduced it under pressure to Rs 175 crores, of which the foreign exchange component would be Rs 87 crores, which is on the high side even for almost exclusive American procurement. Bechtel undertakes to raise the entire foreign exchange provided it is guaranteed a recovery of the total investment within five years of commissioning of plant. For this purpose, it would, among other things, require the Government to maintain fertiliser prices at a sufficiently high level. Besides, and this is crucial, Bechtel demands that it must have the right to import one-half of the project's crude oil requirements and its oil associates, mainly ESSO, should have counterpart participation in new refineries. It is already upset over the loss of the Madras refinery to the Iranian—independent American consortium but would be mollified with a stake in Haldia. In short, Bechtel wants the door opened really wide, much wider than the Government apparently intended to or the foreign exchange position allows or will be justified in view of available domestic talent and competitive independent offers.

Some valuable time has already been lost. Nangal expansion has been awaiting a decision on Bechtel while FACT is confident of putting up at least one 2-lakh tonne plant, if not two. Imperial Chemicals and Gulf Oil of Texas are also in the field. The main raw material, naphtha, is surplus. Foreign exchange for the equipment is the chief hurdle, and the U S might tighten up on assistance to fertiliser plants when the Bechtel deal finally peters out. All said and done, nevertheless, crude oil and refineries can hardly be smuggled in under cover of fertilisers.

Tinkering with the Superstructure

THE Indian genius, it has often been remarked not unjustly, naturally inclines to sophistication and theoretical nicety. Reading the latest Annual Report of the Ministry of Education, one is truly impressed with the schemes of educational reform that cover its pages. Institutes of Education have been set up in the States to improve the quality of primary and middle school education with a new Department of Teachers' Education to

supervise their work. There are Sahitya Rachanalayas for training authors and publishers in the production of better books for children. There is an Education Evaluation Unit at the Centre which has persuaded the States to open similar units. Correspondence courses will soon be started for untrained secondary school teachers, while the possibility of introducing a scheme of productive labour by students in colleges and schools is being investigated by a committee. The multipurpose schools are to be "strengthened" and Central Schools have been opened which are to emerge as high quality schools. There is a "Crash Programme" for improving science teaching in the schools. In addition, there are, of course, the more well-known 'projects' like the National Discipline Scheme, the Physical Education Scheme, etc.

But the biggest of all is the National Council of Educational Research and Training set up in 1961 and now in its fourth year. The NCER undertakes training, research and extension through the National Institute of Education and the four Regional Colleges of Education established at Ajmer, Mysore, Bhopal and Bhubaneshwar. The National Institute of Education itself can boast of no less than eight separate wings dealing with psychological foundation; curriculum; methods and text books; science education; basic education; audio-visual education; fundamental education; and educational administration. It also has under it the Central Institute of Education.

Now we can really sit back and view this grand array with satisfaction. Does it matter if few of the basic issues in education have been settled? if we have no national policy, no well defined objectives or a basic philosophy of education? if the States can go ahead with chaotic schemes without agreement even about the number of years of schooling? if the question of the medium of instruction is still undecided? or if the impact of all these years of educational planning on our rural economy remains indeterminate?

All these can wait, apparently. In the meanwhile, the National Institute of Education will undertake research on "motivation for higher education", "development norms", "problems of adolescence", among other subjects, and no doubt publish very learned reports. But without having decided on the general pattern of and priorities in education at all levels, is this not tinkering with the superstructure?

The two crying needs of our schools are better teachers and facilities and better books. What one would like to know a little more about from the Education Ministry is what is being done to meet them and with what success precisely.

Raw Rubber Shortage

IT is not easy to understand official policy in regard to import of raw rubber unless attention is paid to the interest groups which actively try to influence it. Imports of natural rubber amounted to about 26,000 tonnes in 1963-64. In 1964-65 they were slashed to 13,000 tonnes. But in 1965-66, it is reported, the Government has decided to restore the cut and allow imports of about 25,000 tonnes. The major interests which are affected by imports of raw rubber are the Rubber Board, representing the rubber plantations, the manufacturers of rubber products and the sole manufacturer of synthetic rubber, the company called Synthetics and Chemicals.

Manufacturers of rubber products are naturally keen to secure the maximum imports so that they can be assured of enough raw material. The opposition of Synthetics and Chemicals to imports is also not difficult to understand. As against its installed capacity of 30,000 tonnes, the company's production in 1963 was less than 9,000 tonnes. Production increased last year but was still no higher than 50 per cent of capacity. And even with such below-capacity production the company has had to carry embarrassingly large stock. Rubber manufacturers fight shy of the company's products because, first, its prices are higher than those of natural rubber and, second, adjustments and alterations have often to be made in plant and equipment to use synthetic rubber in place of natural rubber.

It is the attitude of the Rubber Board, however, which has been difficult to understand. The Board has looked upon both imports of raw rubber as well as any increase in synthetic rubber production as in some way threatening the rubber plantations. At one of its meetings last year the Board passed a resolution calling on the Government to stop the present system of granting licences for import of raw rubber direct to manufacturers and instead to channel all imports through the Board which would allocate supplies to consumers and also suggest to the Government the quantum of imports necessary. At the same meeting, the Board also passed another resolution opposing the issue of licences for new synthetic rubber plants or for expansion of the existing plant on the ground that production of natural rubber would be adversely affected and the Board's efforts to develop the plantation industry would be "defeated".

To anyone who knows the facts about the supply of and demand for raw rubber the Rubber Board's fears will appear rather comical. From as far back as 1961 at least Indian natural rubber has never been able to meet the country's demand and the gap between supply and demand has steadily widened, necessitating ever-larger imports. The dependence on imports is likely to grow further in future. By the end of the Fourth Plan, according to official estimates, demand for rubber will be about 2.25 lakh tonnes whereas production of natural rubber is unlikely to exceed 72,000 tonnes. Unless production of synthetic rubber is stepped up, the balance will have to be met through imports.

Unfortunately, the performance of the country's sole synthetic rubber producer has been hardly satisfactory so far. Even in the best year, the company has had to operate at half-capacity — and that with the assistance of the Government's policy of allotting specified quantities of synthetic rubber to the various manufacturers and of linking offtake of synthetic rubber by them with the processing of their import applications for raw materials and spare parts. These props will obviously have to be continued until steps have been taken to bring down the high costs of production.

It is known that the Government has completed preliminary assessment of the prospects of setting up a second synthetic rubber plant. Final decision on the project is expected to be taken after the details of the petro-chemical complex are finalised. In view of the difficulties of Synthetics and Chemicals, much interest will naturally centre on the estimates of costs of production of the second plant.

Murky Light on Defence

THE five-year plan for defence drawn up in 1963 will cost Rs 5,000 crores, including normal maintenance. It aims mainly at an army strength of 825,000 and 45 air force squadrons. The Defence Ministry's annual report for 1964-65 gives, for the first time, some outlines of the plan, and the programme of improved training and production of standard armaments. Non-technical ranks in the Army have reached full strength; recruitment to the technical branches is slow but should pick up as 'captive' graduates complete their studies. The air force remains short of both equipment and training facilities, operational squadrons continue to be burdened with training flights and there is a considerable backlog of repairs. Measures are in hand to make the army younger and to democratise the officer-corps; the period of active service for Jawans has been cut down and the quota for grant of officers' commissions to JCO's, NCO's, etc, has been raised from 24 to 42 per cent. Shortage of trained airmen has, at the same time, required extension of active service in the air force.

The report lists not with a little pride the new collaborations signed and new weapons and production processes developed indigenously or by modification of foreign designs. There is no mention, however, of the extent to which the infantry has been equipped with the Ishapore semi-automatic rifle and improved sub-machine guns and mortars, nor does one get any idea of the progress in the manufacture and supply of new mountain artillery. There are references to standardisation of arms, ammunition and transport vehicles, and the disposal of old trucks but one looks in vain for the significance, in both quantity and quality, of all these in relation to the requirements of the armed forces. True, ordnance factories and available foreign exchange are strained to the maximum but how much has this maximum strain succeeded in improving army (leave aside the air force) fire-power and mobility? The 825,000-strong army, by itself, is no more than a plan target, the fulfilment of which makes one wonder about the content of the target.

One presumes that, as in civilian matters, the defence programme has had the benefit of foreign collaboration and approval. The U S Military Supply Mission must have cleared it and might probably have applied the McNamara test of getting the maximum benefit for each dollar spent. The major part of the expenditure is, however, in rupees and no material has been provided to the Indian public to enable assessment of the effectiveness of the money spent.

The report opens with the statement that defence policy is part of a country's foreign policy. It also says that there is no precedent for the kind of war that India has to be prepared for on the northern border: no major wars have ever been fought in such terrain. India is, therefore, largely on its own in devising suitable equipment, training and organisation for a Himalayan war. On equipment and training, there is some information; about the organisation of battle formations, there is precious little. We have heard a lot about new mountain divisions but the division by itself is hardly a suitable formation for Himalayan fighting; it is too large, cumbersome and based upon compartmental grouping of various arms, each of which owes its 'loyalty' to the regiment (which is a purely administrative or historical unit) rather than the formation of which it is a part.

Vital gaps in information such as on this point underline once again the fact that if the Government's intention is to promote intelligent appreciation of the country's defence preparations, routine ministry and audit reports are not enough.

LETTERS TO EDITOR

Voluntary Ceiling on Profits

I HAVE read with interest your remarks on the Prime Minister's plea to business men for a voluntary restraint on profits ("Voluntary Ceiling on Profits', March 20). It was gratifying to find some publication challenging this position; but I feel that there is more to the story than you indicated. In my contact with many Indian intellectuals and in my reading of the remarks of Indian politicians, I get the distinct impression that there is some feeling that profit is synonymous with ill-gotten gain and is immoral. There appears to be little understanding of the concept of profit as a return to capital investment and as a reward for risk-bearing. It therefore follows that there is lacking an understanding of the very essence of economic development and growth. Without healthy profits there would be little or no surplus for reinvestment and growth; there would be less government revenue for public investment; and there would be economic stagnation.

It has constantly been a puzzle to me how on the one hand the private sector in India can be exhorted by government officials to fulfill its portion of the plan and on the other hand can be exhorted to aim for low profits which will be taxed at the world's highest corporate rates. Inasmuch as corporate saving plus corporate taxes represent one of the most significant portions of the aggregate resources for development purposes, one could logically expect government leadership to plead with business to operate as efficiently as possible, to take advantage of competitive opportunities, to produce the best quality goods in order to compete in world and domestic markets, and to make the best return possible on capital invested — in other words to help make the land flow with milk and honey.

Surely, if some enterprises develop undue market power, it is the role of government to encourage or even to provide in one form or another adequate competition. But business is a game in which there must be some evidence of winning as reflected in the income statement. An economy with perfect competition would not be a dynamic, growing one. Until it is generally understood and accepted that an investible surplus is the essence of growth, and the greater this surplus, other things being equal, the greater the growth, there will remain resentment of profit and success. Under these conditions, needless to say, growth will not be maximized.

R B PRICE

Poona,
March 27.

Credit Expansion

I WOULD like to make a few comments on your editorial "More on Viability" in the issue of February 27, 1965. You have noted correctly that though the expansion in bank credit during the current busy season has been at a slower rate than that during the last busy season, the rate was larger than that of the 1962-63 busy season. Taking the monthly averages of the weekly data, during the current busy season from October 1964 to February 1965, the volume of bank credit expanded by Rs 229.60 crores as against Rs 294.58 crores and Rs 125.39 crores during the same period of 1963-64 and 1962-63 respectively. In fact, the rate of expansion during the first four months of the present busy season has been much higher than that in any other busy season during the last seven years with the exception of the 1963-64 season, which, as you had noted, had been exceptional by all accounts.

If we exclude the last busy season, the average rate of expansion in bank credit has been 10.7 per cent per year during the busy seasons of 1958-59 to 1962-63, while during the present busy season, bank credit has expanded by 13.4 per cent. The average rate of expansion in bank credit during the six months of the busy seasons of the previous eight years (1956-57 to 1963-64) was Rs 198.98 crores, and this rate has already been exceeded during the present busy season, with only four months gone. Inspite of the abnormal increase in the volume of bank credit during the busy season of 1963-64, the average volume of bank credit (annual average of Friday figures) amounted to Rs 1568.10 crores, registering a rise by 9.5 per cent over the figure of 1962-63. But during the 11 months of the present financial year, the average volume of bank credit has already risen to Rs 1793.07 crores, which means an increase by 14.5 per cent over 1963-64.

Between April 1964 to February 1965 (monthly averages of weekly data) the economy has, it seems, absorbed Rs 98.96 crores of additional bank credit as against Rs 49.19 crores during the same period of 1961-62, a year, when prices were reasonably stable, and the rate of expansion in industrial production (7.3 per cent) was not very unsatisfactory, considering more recent performances. The average rate of expansion of bank credit during the 11 months (May to February) had been Rs 62.1 crores during the last seven years (1957-58 to 1963-64). It is, therefore, extremely doubtful whether the rate of expansion in bank credit that has already taken place during the first four months of the present busy season can be explained away satisfactorily on the basis of either the expansion in industrial production or the rise in agricultural output, neither of which has been much larger than the average rates achieved during the last six or seven years. If, inspite of this rate of expansion, you think that "credit demand in certain very important sectors is yet to pick up", it furnishes more reasons for a careful scrutiny of the present banking situation.

This does not, of course, mean that the measures taken by the authorities to deal with this abnormal expansion in bank credit are appropriate or adequate.

Calcutta,
March '19. S N SEN

CAPITAL VIEW

A Pattern in the Double-Talk

Romesh Thapar

SOME of us who have been pointing to the sad state of economic, political and administrative affairs in the country today, and who have been placing the blame on the heads of the men who hold the reins of power, might well have to revise our notions about what goes on. A series of events have taken place which suggest that the thesis about 'the prisoners of indecision', popularised by Vijayalakshmi Pandit, could well be wide off the mark. A sinister pattern of commitments seems to be emerging from the confusion, the drift, the temporising and the indecision.

This fact in the make-up of the Lal Bahadur Government has been sharply highlighted during recent weeks. The budget was the curtain-raiser. Despite Krishnamachari's introductory protestations about loyalty to the principles and perspectives of Congress policy, the fiscal measures announced by him did not in any way suggest a movement in the socialist direction or towards any programme designed to maximise the internal mobilisation of resources and to minimise our reliance on foreign props. On the contrary, in the course of explanations and elaborations, it has become even more certain that the Finance Minister is being permitted to clear the way for an essentially capitalist development of the country in close collaboration with foreign entrepreneurship.

None of the interested lobbies in the Capital hides this new orientation in G O I policy. But the men who control the ruling party, and who had given the Finance Minister the opportunity to take the first steps, are now busy covering his tracks. First, Prime Minister Lal Bahadur involved himself in a strange seminar organised by Jaya Prakash Narayan to tutor industrialists and businessmen on their social responsibilities. The tycoons, to stress their new-found independence, did not show up at the seminar; they sent their representatives and thereby defeated the attempt to commit them to inhibiting 'trusteeship' talk. Aware that TTK's pragmatism might spark controversy within the amorphous Congress, Lal Bahadur then proceeded to tongue-lash the tycoons at a meeting of the Federation of Indian Chambers of Commerce and Industry—FICCI for short, or variously referred to by the untutored in the Capital as 'ficci', 'fichi' and even 'fixci'!

Socialism's New Advocates

The performance of the Prime Minister at FICCI was seized upon by socialistic policy-makers as evidence that Lal Bahadur had 'firmed up' and would curb the free enterprise appetite of his moody and mercurial Finance Minister. But a large section of the political cadres of the party, compelled to face increasing public criticism, were not satisfied that the principles and perspectives forged by Jawaharlal Nehru were being defended. At this point, a surprisingly vocal Kamaraj has entered the national arena as the protagonist of a socialist society. Each day brings us a Kamarajian intervention which, if taken seriously, constitutes an implied attack on the policies being sponsored by the Lal Bahadur Government.

Naturally, the agit-prop needs of the party come first. But this does not mean that the wise men of the Congress lose sight of their own factional battles. For example, it is not without significance that over the last few days the almost forgotten demand for a radical land reform policy has suddenly discovered a most extraordinary supporter—Atulya Ghosh! This experienced political manipulator has been quick to grasp the implications of Kamaraj's radical talk for the crucial presidential contest in the party to be held later on in the year, a contest which will in turn influence the election of Congress candidates for the General Elections in 1966-67.

That all this talk of socialism and independence is so much hot air is clear from the tame pronouncements which emanate from the Ministry of External Affairs—so tame that U S citizens in the Capital are more incensed about the escalation of the dirty war in Vietnam than the spokesman of the GOI. Foreign Minister Swaran Singh has been carefully briefed that 'beggars can't be choosers'. This favourite slogan of the Finance Ministry is echoed by the Defence Minister, too, in Parliament during the debate on defence. The absence of a foreign policy, it is firmly believed, is in the interest of India. Hence the lack of concern when those who think otherwise launch the attack on apathy, incompetence and incoherence.

This 'style' explains the inexplicable procedures adopted in issuing passports to Abdullah and Afzal Beg as well as the facts that a small fortune in foreign exchange (Rs 35,000) was handed over by a surprisingly generous Reserve Bank to men interested only in smearing the GOI abroad and that the Home Ministry pretended not to know what the Prime Minister's office was doing and the Prime Minister's office pretended not to know what the Ministry of External Affairs was up to. This 'style' also explains why it took Lal Bahadur so long to deny the aircraft-carrier story and why he is still silent on the charge, widely publicised in the West, that an official Indian request was made for a number of U S-manned bomber squadrons after the fall of Sela in November, 1962; all manner of rumours are permitted, even sponsored, in order to fuddle clear thinking on the international issues now crystallising.

False Statements

Every now and then, a patently false statement is made, irrespective of its impact on our friends, because we wish to create more confusion over our commitments. For example, Swaran Singh informs Parliament that there is no need for India to take the initiative to call a meeting of the non-aligned nations to consider the grave Vietnam situation because these nations have already issued a joint appeal. It is implied, quite skilfully, that such an initiative by India would be misunderstood. The truth is that Swaran Singh knows that the non-aligned powers would like him to take steps to call a conference of foreign ministers which would prepare for a meeting of Heads of State. Indeed, only a novice could fail to react to the quiet suggestions along these lines made during the last week. But there are advantages in playing the innocent.

This doublt-talk is sinister because it is becoming a style, a norm. Whether it is the destruction of the Dasturco consultancy, ascribed to a Soviet refusal to accept Indian supervision when the real purpose is to highlight the precedent so established with a socialist country and so open the way for Anglo-American consortiums, or the easier facilities offered to private foreign capital, a measure now attempted to be justified on the plea that earlier collaborations dominated by established Indian firms resulted in the growth of monopoly and concentration, the over-riding consideration is to somehow blunt the criticism of those who see the retreat from established policies and principles behind the double-talk. If a revolt mounts within the Cabinet on the scandalous treatment given to Dasturco or opposition builds to the suspect project report on fertiliser production by a U S Corporation, various stratagems are ordered to achieve the same objectives by other devious means.

Dasturco Story

The Dasturco story is most pertinent. A decision by the Cabinet recently forced a review of the Steel Ministry's handling of this aspect of the Bokaro negotiations. It was not stated publicly that the USSR had disassociated itself from the canard spread by the Steel Ministry and the Finance Ministry that Dasturco's services were not required by the collaborators and that the collaborators did not want to work with a private firm. A bureaucrat was asked to examine how Dasturco could be turned into a public sector concern. This supposedly Socialist thrust *(sic)* publicised because it will silence the critics even as the destruction of Dasturco proceeds on a more sophisticated level. A slow enquiry, long-drawn out negotiations, and the GOI's refusal to pay the lakhs of rupees already owing to the consultancy, is expected to exhaust Dasturco to such an extent that it will be compelled to wind up its operations.

Call it what you will, but there is certainly method in all this apparent confusion. The bureaucracy knows that the apparent confusion provides it with the opportunity to gather unto itself more power, more patronage, and more of that influence which results from the appearance of indispensability. Apart from the fact that members of the ICS (including the super-annuated) now monopolise every senior job that falls vacant, including the positions of technocrats in the Planning Commission, other bureaucrats over the past few days have assumed the right to judge which scientific projects will be taken up in our major laboratories (the Finance Minister even refused to permit the Director-General of the Council of Scientific and Industrial Research to be present at the meetings!) and strictly anonymous deputy secretaries are permitted to meddle and juggle with taxes on press advertisements, to kill the small enterprise in the interests of the big, without reference to professional bodies or the Cabinet. This is only the beginning of the *Shastri yug!*

The independent, enlightened bureaucrat, the technician-administrator who still works to implement policies which will make India self-reliant, the policy planner who sets his sights on perspectives which will lift this country from its wretched physical and spiritual poverty, the scientist, the intellectual, the thinker, the writer, the teacher who searches for movements which will carry forward the many unfinished tasks of the Nehru Era are considered inflexible, prejudiced and dogmatic. There is a premium on political-economic conformity, on the ability to twist and turn within the vague boundaries of a meandering policy, and on being a loyal flunkey. But this need not be—that is, if the organs of public opinion start to assert themselves.

The Only Safeguard

The degree of double-talk in ministerial and bureaucratic quarters reflects as always the strength of public opinion which cannot be openly flouted. It is this public opinion which has to be more solidly mobilised within Government and outside. It is a job which was neglected during the stewardship of Jawaharlal Nehru because generally speaking the people and the political parties placed their trust in him. Now, it is being widely realised that it is no longer possible to function as in the past—or the gains of these years of freedom will be sacrificed.

Firm sanctions have to be created for the policies and programmes which will ensure the independent, sovereign future of this State, for without them we would be surrendering curselves to the pragmatic calculations of an opportunist ruling elite. The absence of such initiatives has entrenched the Government of Lal Bahadur even as there is a sharp slump in his political relevance. An odd fact, but a fact nevertheless.

FROM THE LONDON END

Pound under Pressure Again

THE battle to defend the pound which has been quiescent for some weeks has begun again. Everybody is waiting to see what reserves Britain can throw into the line. With devaluation rumours escalating last week, the pound came under severe pressure on the international market. A malicious rumour from Paris hinted at a 10 per cent devaluation. Among London commodity firms, the impression spread that this might become "devaluation week-end", and New York offices were cabled accordingly. The pressure against the pound, particularly in the crucial days before the Budget, has been mounting steadily and sterling weakened last week-end in both spot and forward markets. Indeed, the pound was quoted at $2.78 15/16ths—its lowest point since November 25 and below the recent support point of $2.79. The discount on forward sterling also widened. There is no doubt that the biggest problem is in the forward market.

Forward discounts continue to be wide. Foreign operators were prepared to borrow overnight pounds at no less than 13 per cent per annum in order to renew their open positions rather than buy pounds outright.

Foreign money has not come back to London, and the leads and lags in the pattern of commercial payments which developed last autumn continue. Traders are still tending to buy their foreign exchange earlier than usual, and foreign holders of sterling to hedge their positions by selling short, despite the high level of interest rates which now rules in the international money market. Earlier on in the week, the Bank of England had withdrawn its support for forward sterling that had been given regularly since November. As a result, the discount widened to the point where confidence in the pound was in danger of being further impaired, and support from the Bank of England had to be renewed.

An interesting feature of the present situation is the support tactics of the Bank of England have come under criticism. The Bank, of course, never discloses the latest facts and so no one is in a position to know whether, in fact, it is actually managing the currency efficiently. The Bank's tactics are organised to prevent speculators against the pound, ever-knowing that it may be losing in the battle. A revival of uneasiness regarding the ability of the U K authorities to go on maintaining the $2.80 parity was one of the prime causes of the pressure on sterling. The Bank of England has now to decide how to handle the foreign exchange market in the difficult weeks that lie ahead.

There had been general hope that recovery would take place in the spring when payments returned to normal and exports were at their seasonal peak. This, alas, has not happened so far. All the hopes held out at the end of January that the improvement of sterling and the renewed growth in exports would allow a reduction of the Bank Rate well before the Budget have gone.

It is understood that the Chancellor of the Exchequer is expecting the strain on the pound to continue between now and Budget day—April 6. However, Cabinet Ministers seem confident that there are ample resources to withstand the attack, despite the anxieties being expressed in the City.

Devaluation Ruled Out

There is no doubt at all that the present Government has made it quite clear that it has no intention of devaluing the pound. In a speech over the week-end, Harold Wilson said quite categorically that "a vigorous pound" was the overriding priority in every one of his Government's actions. It is unlikely, had there been any chance of devaluation, that the Prime Minister would have linked his Government's prestige so directly with the strength of the pound.

The pressure on the pound has been caused by a combination of technical weakness and an underlying lack of confidence. City bankers attribute the setback simply to a lack of confidence abroad in advance of the Budget. Fresh doubts have arisen as to whether the British Government will be able to hold the present rate of the pound sterling. The recurring attacks on sterling are caused by the crisis of confidence in the long-term future of the pound and the dollar in banking and business quarters on the Continent.

Although the Treasury assurance over the week-end which said, "this is the last of a long series of rumours against the pound and it is just as baseless as the previous rumours have proved", may do something to restore confidence, the market will continue to be in a suspicious mood until the Budget is announced. There is no doubt at all that the Budget will be regarded everywhere as a crucial test of the Government's determination to maintain the present exchange rate. Although foreign observers admit the disadvantages—including the political impracticability of massive deflation—they seem unable to suggest any alternative policy capable of restoring confidence fully.

Indeed, it is the persistent lack of confidence which has seriously weakened the pound. There is a general belief that the Government has not yet brought the demands on Britain's economic resources within the limit that can be supplied. Of the gold reserves of £844 million, some £357 million is on loan from the International Monetary Fund, and well over £200m is outstanding under the $3,000 million credit granted last November from Basle. Many also believe that the Government is not really in command of the situation. There is a general belief that the Cabinet is divided on this crucial point, with the Treasury and the Bank of England in favour of deflation, but the Department of Economic Affairs under the ebullient George Brown in favour of expansion.

Not that people question the desire of the Government to maintain the pound. For a country like Britain, devaluation is not a policy, it is a defeat.

All this pre-Budget activity in the foreign exchange market obviously makes much more complex the planning of the Budget. It is impossible for the present Budget to appear to pass measures which are irrelevant to Britain's balance of payments problems. This is what triggered off the really serious attack on the pound in November, and certainly sterling cannot stand a similar strain.

However, it appears unlikely that the Government will be politically foolish enough to embark on a massive deflationary programme to impress foreigners. Even European bankers and traders realise that a repetition of July 1961 would do nothing to solve Britain's problems. Britain has to repay her short-term debts and then achieve longer term growth that is free from balance of payments troubles. Any Government that accepts stagnation to keep pressure off the pound will be as unpopular abroad as one which can achieve growth only at a cost of periodic payments crises.

Sterling has been affected by the uncertainty about all currencies triggered off by General de Gaulle's call for an end to the gold exchange standard. Many overseas holders of sterling have been switching into gold. The uncertainty about the gold-dollar parity generated by the French demand for restoration of the gold standard has prompted the central banks of other countries besides France to strengthen the gold element in their reserves at the expense of the dollar element. Since the beginning of this year, out of a total outflow of some $900 mn French transactions account for about $400 mn.

President Johnson's steps to secure a rapid reduction in the U S payments deficit involving restrictions on overseas investment and loans, has reversed the flow of short-term capital. Dollars are now scarce and pounds are being sold to obtain them.

Some of the new strains on sterling are partly the result of the recent strengthening of the dollar and the consequent sudden increase in demand for dollars against sterling, but in the long run, since dollars and sterling are so closely linked, the United States, in its own interests, must help to support sterling. It is generally believed that the U S A would not be able to stand up to a sizable British devaluation; any doubt about Britain's ability to support the pound at its present parity would have repercussions on the dollar and would lead to the conversion of official dollar balances into gold. Thus the U S has an even stronger motive to support the pound in its present difficulties.

In these circumstances, it is unlikely that there will be any devaluation of the pound, although the pressure on it will continue till the Budget is presented.

The Disarmament Stalemate

(From a Correspondent)

THERE has been little progress on the disarmament front since 1963 when the "hot line" was installed, the test ban was signed and Russia and America pledged themselves not to put nuclear weapons into orbit. The Eighteen-Nation Disarmament Conference, which had been plodding along unspectacularly since March 1962, was adjourned indefinitely in September 1964. It is good news therefore that the British Foreign Minister, Michael Stewart has got Andrei Gromyko to agree in principle to its reconvening.

Proposals Not New

Evidently, Stewart also pressed Gromyko to suggest a date, but the latter wanted agreement on the agenda first. He has proposed a list of eleven partial disarmament measures for inclusion: a reduction of military budgets; removal of foreign troops from areas where they did not belong; the abolition of foreign bases; an agreement to prevent the spread of nuclear weapons; prohibition of the use of nuclear weapons; establishment of denuclearised (atom-free) zones; destruction and banning of bombing aircraft; prohibition of under-ground nuclear tests; a non-aggression pact between the NATO and Warsaw pact countries; measures for the prevention of surprise attacks; and reduction of military forces.

None of these proposals is new. Most of them have already been the subject of negotiations at Geneva. The reduction of military budgets is not likely in itself to lead to greater international security, though it will accompany measures such as a reduction of military forces, which might. To be really effective as an isolated measure, reductions would have to be drastic, and would require a much greater degree of verification than the Russians, on present indications, are willing to accept.

Removal of foreign troops from areas where they do not belong, and abolition of foreign bases are linked in the sense that the former necessarily includes the latter. Neither measure is likely to be acceptable to the Americans, because each involves an American military withdrawal from Europe, the dismantlement of NATO, and a drastic change in the military balance in Asia. As part of a comprehensive (that is, covering all nations) and general (covering all categories of arms) disarmament programme the withdrawal of troops and bases to home-soil finds a place in the American GCD plan, as it does in the Russian. But as a partial measure, the Americans are bound to reject it.

The prohibition of the use of nuclear weapons, and a non-aggression pact between NATO and the Warsaw pact countries are examples of the sort of paper pledges which have proved useless in the past. They imply a much greater faith in the efficacy of legal or treaty obligations than international realities justify.

Atom-Free Zones

The delineation of atom-free zones has for long been the theme of various proposals covering Latin America, Africa and Central Europe. The Rapacki Plan for disengagement in Central Europe, first propounded by Polish premier Rapacki, proposed the setting up of a neutralised and nuclear-disarmed zone, consisting of Poland, Czechoslovakia and the two Germanies, under joint East-West guarantee. More recently the Poles have canvassed a watered-down version of the Rapacki Plan, the Polk Plan, which envisages the 'freezing' of nuclear weapons in the zone at a fixed level, instead of eliminating them altogether. Britain has responded favourably, if cautiously, and has asked the Poles to tell them more about the arrangements for verification they envisage. The two likely stumbling blocks to the Plan's adoption are West German suspicion of anything that smacks of discrimination against them and Russian opposition to on-site verification in the Warsaw Pact area. In fact, the Polk proposal never reached the green-table at Geneva on account of Russian opposition.

The destruction and banning of bomber aircraft is referred to in disarmament jargon as the "bomber bonfire". It originated as an American proposal at Geneva for a limited bonfire of 480 American B-47s and 480 Russian TU-16s. The Russians counter-proposed the destruction of all bombers in a definite and short period of time. They later reassured the smaller powers that only the major powers would be affected. The Americans replied that a total bonfire would have to be part of a general and comprehensive programme; otherwise, it would upset the military balance. Apart from this, the impracticability of securing the assent of France and others to a destruction of their bomber forces, whether nuclear or conventional, is obvious.

Underground tests escaped the net

of the Moscow test-ban treaty because East and West could not agree on the number of on-site inspections each side would have to submit to, if called upon to do so. The difference finally resolved itself to seven inspections a year as the minimum the West demanded, and three a year as the maximum the Russians would permit, which presumably is where it still stands. Both figures are based on political rather than technical considerations. It was generally agreed that seven inspections would not have enabled the West to detect every single explosion with absolute certainty, nor would three a year have led it into danger. This being so, it was all the more a pity that the West did not feel able to abandon its insistence on seven inspections a year. Russia regards the secrecy of the location of her strategic nuclear forces, especially her missile sites, as a major source of strength; as such she fears inspection as "legalised espionage". In the process she often consciously exaggerates the risks of inspection to obstruct inspection or verification arrangements without which most arms control is useless, but in this case, where there was so much more to gain than to lose, perhaps the West should have bridged the final gap unilaterally. If all progress in arms control must await a change in Russia's attitude to verification, it threatens to be slow indeed, dangerously so.

Spread of Nuclear Weapons

If an underground test ban must be ruled out as impractical at present, so must effective joint measures against surprise attack, which entail even more physical inspection of one another's territory. This leaves us with measures to arrest the spread of nuclear weapons. These include the delineation of atom-free zones and constitute a field in which arms-control measures are relatively promising. First, they involve the forestalling rather than the unravelling of military developments, and secondly, America and Russia share a strong common interest in retaining their present nuclear preponderance, which the rise of China and France as nuclear powers threatens to erode away. Moreover, this is a field in which arms control measures have a very direct bearing on international security, making their adoption all the more urgent. The proliferation of independent nuclear forces, whether by export or independent manufacture, threatens to result in a very unstable world.

Unfortunately for the prospects of advance even in this field, the Soviet Union insists that West German participation in the projected multilateral force is incompatible with any agreement on the dissemination of nuclear weapons. The West argues that on the contrary, shared control of a NATO nuclear force reduces the number of authorities competent to make decisions of war and peace to one. Secondly, it forestalls and precludes an independent West German nuclear force, a prospect which alarms the West as much as the Russians. Perhaps the best hope is for each side to adopt for itself some sort of self-denying ordnance not to introduce nuclear weapons into any more areas or lands than possess them at present.

One is thus forced to conclude that Gromyko's 11-point plan is unlikely to take the world very much nearer disarmament. However, it is believed that the Russians are at present busy working on new disarmament proposals, which may explain why Gromyko did not want to commit himself to a date for re-starting the Geneva conference.



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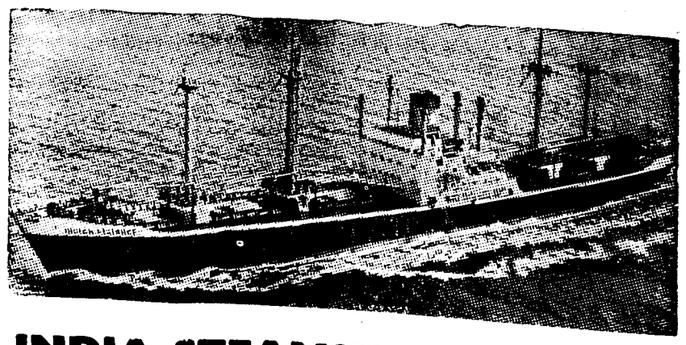
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Metropolitan City Councils in India

I M Hinduja

One of the serious problems of the big city is the decline in the proportion of the population which participates in the process of governing the city.

This problem has been variously solved in the west. One solution is to have more than one council for a city and another is to have a multi-tier structure which provides, in addition to the major city council, lower tiers of elected councils exercising functions in their respective areas.

In India neither solution has been adopted and as a result the democratic element in the government of the big cities is becoming increasingly notional.

A CITY government is constituted of representative and bureaucratic elements. Both are important from the point of view of efficient governance. An attempt is made here to examine the representative element and matters connected with it in the metropolitan cities of India having municipal corporations as the unit of local government. The representative element in these cities is found in the city council. The degree to which a municipality can be regarded as endowed with democratic local government depends on the composition and functions of the council, and the extent to which the executive organs are subject to popular control either of the council or of the electorate.

There are 23 municipal corporations in India. The composition of the Councils of these 23 Municipal Corporations shows very wide variations. The differences in regard to such matters as the size of councils, qualifications of candidates, the franchise, term of office of councillors, remuneration of councillors, etc, are interesting and significant.

Size of Councils

The size of metropolitan city councils which have the municipal corporation as the unit of local government ranges from 17 in Hubli-Dharwar to 131 in Bombay. Table 1 shows the size of the councils of different corporations. The size of the councils is a matter of great importance. It affects not only the effectiveness of the deliberative body but also the relations between the city council and the citizens. In Bombay, where a councillor represents about 25,000 voters, it must be far more difficult for elected representatives to keep in close touch with their constituents than in Chandorenagar where one councillor represents only 3,500 voters. Yet the Maharashtra Government has decided to reduce the strength of the Bombay municipal corporation from 131 to 120. This is most unfortunate considering the extension of suburbs and the increase in population of Bombay.

One of the serious problems of the great city is the steep reduction in the number of citizens who participate directly in the process of government. Unfortunately in India the size of the council does not vary in proportion to population. This problem has been variously solved in western countries. One method is to have more than one council for a city and another is to have a multi-tier structure, which provides, in addition to the major council, lower tiers of elected councils exercising minor functions in their own divisions. In Moscow one councillor sits on the City Soviet for every 3,000 electors. Thus the size of the Moscow City Soviet is elastic, varying in proportion to the number of electors. The proportion of persons participating in local government is very high in Moscow, for in addition to the 1,392 members of the City Soviet, there are about 1,000 so-called "activists" serving as co-opted members of the Standing Committees. Moscow also has a lower tier of 25 district Soviets, which provide about 3,000 elected district councillors. Thus Moscow seems to have solved the problem of popular participation by having large councils; in doing so it has transformed the City council from a council of city fathers into a mass meeting.

Multi-Tier Structure

The other method by which popular participation is achieved is the establishment of a multi-tier structure. There are 28 such councils in the Administrative County of London and due to this there is one representative for every 2,250 persons. This is definitely a higher rate of people's participation in the local affairs than obtains in our country where even in the case of Chandorenagar which has the largest popular participation, the proportion comes to one councillor for about 3,500 persons. A multi-tier structure possesses definite advantages for our metropolitan cities where population has been increasing rapidly every year due to industrial growth. In the "million cities" like Bombay, Calcutta and Delhi the city councils find great difficulty maintaining close contacts with citizens. The municipal corporation, the councillors, and officials, lack co-ordination and stand apart. In fact, due to expansion of the scope of municipal functions, the bureaucratic element tends to prevail more and more as the size of the city becomes large.

The introduction of a lower-tier of secondary councils is, therefore, an urgent need if we want democracy to work in our metropolitan cities, particularly the "million cities". This involves decentralisation of power in respect of purely local matters to the secondary tiers. These secondary tiers or ward councils will know much more about their own localities than the city councils and so should be able to carry out purely local functions in a more efficient and democratic manner. This will also increase popular participation in local affairs. We have introduced Panchayati Raj in our rural areas and thus decentralised power, but one fails to understand why such decentralisation has not been done in urban areas where the problems are more pressing and complex. Decentralisation is bound to be more successful in urban areas and especially in metropolitan areas because the electorate here is much more literate than in rural areas.

A first step in this direction has been taken by the Madras Municipal Corporation by having circle committees. This, however, falls very much short of a regular multi-tier system, as exists in England. In Madras the City Municipal Act was amended in 1961 to replace the old statutory functional committees with territorial circle committees and a central committee. A circle covers the area of an Assembly constituency and the divisional councillors (a division in Madras is the same as a ward) of the area constitute the circle committee. These changes have been effected from 1962 and results of their working are

yet to be assessed, but considering the vast population and complexity of problems, there is urgent need that our metropolitan councils should be constituted on federal principle so that they will be more efficient in tackling local problems.

Then in certain metropolitan municipal corporations we have aldermen and nominated members. For example, the Calcutta Municipal Corporation has 5 aldermen; Delhi, Agra, Lucknow, Indore, Varanasi and Allahabad have 6 each; and Kanpur 8. No doubt, this practice exists in England and has its advantages as well disadvantages. But it is necessary to ensure that the number of aldermen should be the minimum possible and the purpose should be to accommodate only really deserving persons. Often this power to appoint aldermen is misused by the ruling party.

There are a few Corporations, as can be seen from Table I, where councillors are nominated by the Government. This is another colonial heritage and the sooner we do away with the practice the better it will be for the growth of democratic institutions. In some corporations, e g, Gwalior and Indore, the Government nominates as many as 20 per cent of the total number of councillors. Many corporations also have provision for representation of special interests. If such privileges have to be maintained at all, they should be put on a more rational basis than at present.

In all corporations a person is eligible to contest election for councillorship only if (a) he is a major; (b) pays taxes under the provisions of the Corporation Acts; and (c) occupies any premises for certain specified months during the year preceding the elections.

Franchise Rules

In the case of franchise, there is no uniform practice followed by all the Municipal Corporations in India. For example, in four Municipal Corporations — those of Bombay, Poona, Sholapur and Ahmedabad — a person is eligible to vote if (a) he has attained the age of 21 years; (b) has the requisite residence qualifications; (c) has the taxation qualifications of owning an immovable property under the jurisdiction of the Corporation; and (d) has business qualification consisting of occupation of premises for business. But elections to the Calcutta corporation are not held on the basis of adult franchise. Only those have the right to vote who (a) are liable to pay any tax to the Corporation; (b) have been occupying premises for at least six consecutive months during the year preceding the elections; (c) owns a hut in a *bustee;* and (d) has passed the Matriculation or any equivalent examination of any University in India or holds a diploma of a technical or vocational institution recognised by the State Government.

The educational qualification is a peculiar one considering that even for elections to Parliament and State Legislative Assemblies there are no educational requirements for franchise. If no educational qualification is considered necessary for understanding and dealing with national problems then why should it be considered necessary for understanding and dealing with local problems?

Tenure and Remuneration

The tenure of councillors in the 23 metropolitan cities vary from corporation to corporation. Table 2 shows variations in this respect. For example, in Agra it is 5 years; in Delhi, Ahmedabad, Poona and Sholapur, it is 4 years. Recently the term of the Bombay municipal corporation has been raised to 5 years. But in Madras it is only 3 years. There are those who argue that 3 or 4 years are inadequate to bring to successful completion even a limited number of schemes or efforts

Table 2: Tenure of Councils

Name of Corporation	*Tenure (Years)*
Ahmedabad	4
Agra	5
Allahabad	5
Bangalore	3
Bombay	5
Calcutta	4
Chandorenagar	4
Calicut	5
Delhi	4
Gwalior	4
Hyderabad	4
Hubli-Dharwar	2
Indore	4
Jabalpur	5
Kanpur	5
Lucknow	5
Madras	3
Nagpur	5
Patna	4
Poona	4
Sholapur	4
Trivandram	3
Varnasi	5

Source: "Directory of All India Municipal Corporations", published by the All India Institute of Local Self-Government, Bombay.

Table 1: Composition of Councils

Name of Corporation	Number of Councils				
	Directly Elected	Indirectly Elected	Nominated by Govt Or Ex-Officio Members	Representing Special Interest	Total
Ahmedabad	70	—	—	—	70
Agra	54	6	—	—	60
Allahabad	54	6	—	—	60
Bangalore	—	—	—	—	—
Bombay	131	—	—	—	131
Calcutta	80	—	1	—	81
Chandorenagar	22	—	—	—	22
Calicut	45	—	—	—	45
Delhi	80	6	—	—	86
Gwalior	40	—	10	—	50
Hyderabad	94	—	—	—	94
Hubli-Dharwar	17	—	—	—	17
Indore	40	—	10	—	50
Jabalpur	30	6	—	—	43
Kanpur	72	8	—	7	80
Lucknow	63	7	—	—	70
Madras	100	—	—	—	100
Nagpur	42	6	—	—	57
Patna	40	—	3	9	46
Poona	65	—	—	3	65
Sholapur	60	—	—	—	60
Trivandram	40	—	—	—	40
Varanasi	54	6	—	—	60

initiated for certain definite purposes. Hence a longer term of, say, five years is suggested.

The remuneration of councillors of metropolitan cities also varies. There are certain corporations which pay fixed honoraria plus some allowance for attending meetings; there are others which do not pay any honoraria but only allowance for attending meetings. In this matter obviously it is difficult to achieve uniformity since resources of the corporations vary as does the cost of living. But one principle which should guide all the corporations in this respect is that the honoraria and allowances should be sufficient to ensure that councillors do not have to pay too heavy a price for devoting their time and energy to civic affairs.

OFFICIAL PAPER

A Debtor Nation

India's Foreign Liabilities and Assets 1961 — Survey Report; Reserve Bank of India, Bombay, 1964; vii+105, Rs 3.50.

AT the close of 1961, India was a net debtor to the outside world for an amount of Rs 1,800 crores (in round figures), that is, just a fraction over Rs 40 a head of the population. If net short-term liabilities are excluded from this estimate, this latter figure would drop to a little over Rs 30 a head. Even considering the extreme and widespread poverty of the country, by itself this is not an alarming figure. In the context of the economic history of India of the last hundred years also it does not stand out at all disproportionately. Ever since foreign investments began to be made in India in the last century—almost overwhelmingly by the British—we have been a net debtor nation except for a brief period after the last war. As far back as 1887 the following statement appeared in an address which the Bombay Presidency Association presented to Queen Victoria: "India has become the chief customer of British manufacture and it affords a safe investment for the employment of nearly £500 million of British capital in the development of Indian agriculture and trade". Since then various attempts have been made by scholars at different times to estimate the amount and nature of foreign investments in India, in particular long-term investments.

Per Capita Foreign Investment

As some of the basic data were not available for the pre-1939 years, these estimates had often to rest on somewhat imperfect basis. Further, for foreign investments in the ordinary shares of joint stock companies in India the study under review has adopted a basis of valuation which evaluates such investments at a higher figure than in most of the earlier non-official estimates. Making allowance for these facts, the broad conclusion emerges that, quite apart from the changes in the price level since the pre-war years, on a per capita basis total foreign investment in the country at the end of 1961, which year marked the end of the Second Plan, was perhaps just about as large as at the close of inter-war years—even after we had repaid a good part of our sterling public debt in the early 'thirties. This is a sobering thought.

What are, therefore, the developments of major significance in this sphere in the last decade and a half? Of the many very interesting findings of this Survey Report, which is a veritable mine of information on the question of the country's assets and liabilities on short as well as long terms account in mid-1948 and at the close of 1955 and 1961, for reasons of space we can only select a few which are more outstanding than the others. Perhaps the foremost of these findings is the almost sea change that has taken place in the net assets position of the country between 1948 and 1961.

Change in Net Assets Position

For the first time in a hundred years India was a net creditor on official as also non-official account to the tune of Rs 1,504 crores in 1948. In 1961 it was a net debtor for Rs 1,798 crores. During these thirteen crucial years, the net long-term liabilities of India increased by Rs 1,846 crores, and net short-term assets deteriorated by Rs 1,456 crores. In 1948, the official sector had net short-term assets of Rs 1,153 crores—the famed sterling balances of the Second World War—accumulated ruthlessly at heavy cost to the Indian economy not only in terms of the physical shortages due to supplies having had to be made to the Allied Governments but also of the low, controlled prices for such contractual supplies. Thirteen years later the official sector had a net liability of Rs 317 crores—a movement of the order of Rs 1,470 crores net. Add to this, the eighteen hundred odd crores of increased liability on net long-term account, almost three quarters of which was on official account, and we get the total change of Rs 3,302 crores between these two dates, mid-1948 and end-1961. The average annual change is Rs 254 crores over-all, Rs 142 crores on net long-term account, and Rs 112 crores on net short-term account.

Role of Foodgrain Imports

The more substantial portion of these changes took place during the period of the Second Plan. A comparison of the net position of India's assets and liabilities as at the end of 1961 with the position as at the end of 1955 reveals that during these six years there was a net change of Rs 2,324 crores. This is compounded of a deterioration from a net creditor position of Rs 527 crores to that of a net debtor of Rs 1,797 crores. About a third of this change is on short-term account where an increase of liabilities and a decrease of assets had a net effect of Rs 760 crores which was largely on official account. These represented the utilisation of balances accumulated earlier, and a contraction of fresh liabilities—largely for the import of commodities under PL 480 and PL 665. On the long-term account the increase of liabilities of Rs 1,303 crores was a major factor in the turn of the balance by Rs 1,564 crores net. Of this latter amount the official sector accounted for as much as three quarters, representing official borrowings from foreign governments and institutions. The long-term liability of the non-official sector went up by no more

than Rs 305 crores in these six years. As compared with the net total growth of liability of Rs 254 crores a year during 1948-1961, for the six years period 1955-1961, the corresponding total is Rs 387 crores a year. Almost exactly two-thirds of it, namely Rs 260 crores, were on long-term account, and the balance on short-term.

When a substantial part of the total change in liabilities during this six year period is on account of short-term obligations contracted for the import of foodgrains, etc, from USA, obligations which are represented to a large extent in deposit form with the State Bank of India, it is difficult to understand the following statement on page 20 of the Survey Report: "the counterpart of the change from creditor to debtor was, as mentioned earlier, the sizable capital formation in various fields, railways, irrigation and power—which constitute the infra-structure of development—as well as in manufacturing industry".

Foreign Private Investment

It has already been stated that the bulk of the movement of long-term capital to India during last decade has been on Government account. During the thirteen years, 1948-1961, foreign investment in business enterprises in the private sector increased by no more than Rs 416 crores. It is most significant that of the total increase of Rs 416 crores, direct investments, i e, foreign investments involving control of units in which such investments took place, increased by Rs 317 crores (including reinvested earnings). Expressed as a proportion of the total foreign business investments in India, direct investments accounted for 83 per cent of these investments in 1948, improving to 87 per cent in 1955 and falling to 79 per cent in 1961. The fall was largely because of an increase in the flow of creditor capital from official sources during the Second Plan period. Investments in controlled companies, mostly subsidies, have accounted for the bulk of such direct foreign investments.

As much as two-fifths of the gross inflow of foreign investments from private sources is represented by retained profits which perhaps benefit the balance of payment only in a negative manner, i e, by preventing any pressure for remittance of funds. But a substantial part of the benefits accruing from such retained profits of Rs 173 crores was off-set by the repatriation or private capital amounting to Rs 133 crores. It would have been of interest if the Reserve Bank Survey had been able to indicate the likely magnitude of the original value of such repatriated capital.

Over the thirteen years, 1948-1961, the net inflow of foreign investments in business enterprises in the private sector averaged only Rs 28 crores a year. The Survey has recognised this in its statement—"the growth in foreign investments of business enterprises in India over the thirteen and a half years has been modest".

Collaboration with Indian Capital

As in the case of the movements in the over-all balance, the six years 1955-1961 witnessed a somewhat larger trickle of foreign private investments than the earlier period. The average for this period is Rs 39 crores a year. This figure is 40 per cent larger than the average during 1948-1961. But inflows of this order fall short of the level of investments necessary to make any sizeable impact on the economy. After recognising that foreign investments so far have been modest, the Survey Report attempts to point to an extenuating circumstance. It is stated thus on page 18 that collaboration between foreign and Indian industrial entrepreneurship is a notable feature of such investments in business enterprises after 1958. To say this in support of collaboration arrangements in the year 1964 is, to put it mildly, somewhat astounding after all that has been said and written about the manner in which a very large number of such collaboration arrangements have been negotiated at excessive prices. Michael Kidron's article on "Behaviour of Foreign Capital" in July 1964 Special Number of this paper contained a few striking revelations on this subject. A body of informed opinion has been growing up for quite some time now which would want a deeper probe into these arrangements in particular, and foreign equity participation in Indian business in general, in order to protect the broader interests of the country.

There are many other interesting as also significant types of information that the Survey has collected. Thus, the main industries to which foreign capital has been attracted are petroleum, metal and metal products, chemicals, transport equipment and machines, etc, which have high profitability and growth potential, and are vital for the industrialisation of the country. The major traditional industries are dependent on Indian capital and entrepreneurship. Among the countries from which capital for industrial projects has mainly come are still the U K and the U S A which together contribute 57 per cent of the total inflow. It has been a significant finding of the Survey that at least till 1961 the highly industrialised Common Market countries of Europe contributed very little.

Evaluation of Role of Foreign Capital

Foreign capital is needed, fundamentally, as a source of supply of scarce foreign exchange as well as of know-how and technical personnel in the early stages of industrialisation. But it raises at least four major issues: the cost of such capital, both for servicing and repayment; its influence on the international competitive position of the country—whether it is able to develop new export commodities or provide effective substitutes for commodities normally imported; its influence on internal resource mobilisation in general; and the contribution it can make towards advancement of industrial research in general and the building up a growing body of highly qualified technical personnel of national origin. These are not criteria which can, or even should, be applied to every single transaction. They are necessary for an evaluation of the total impact of foreign borrowings over a period of reasonable length for the effects to be noticeable. But even then perhaps much of the foreign capital that has gone into our industries cannot be said to satisfy these criteria.

A major shift in foreign borrowings is perhaps soon to be witnessed. Apart from a more substantial flow in the Fourth Plan period, its terms and the nature of links with domestic capital and entrepreneurship will be different from what it has been so far. It is to be hoped that the lacunae that the developments in this field so far have disclosed will be less in evidence. But that needs, it must be stressed, an alert as also extremely knowledgeable and incorruptible civil service to protect the country's interests by keeping a vigilant eye on the domestic as also foreign entrepreneur.

DRUG PRICES AND PATENTS—I

Drug Prices: Is There a Case for Enquiry?

Arvind Nair

[This article is a rejoinder to our editorial "Drug Prices: Case for Enquiry" in the issue of January 16, 1965. Arvind Nair is Information Officer of the Pharmaceutical and Allied Manufacturers' and Distributors' Association and he presents the drug industry's point of view.

Much of his article is devoted to refuting criticism of the patents system. His arguments on this subject are answered in the article which follows his by S S Sokhey, the wellknown microbiologist, who, as director of the Haffkine Institute, Bombay, for 20 years contributed much to medical and pharmaceutical research in India. Sokhey examines, on the basis of the experience of India as well as other countries and with considerable factual data, the impact of patents on drug prices and on the development of the Indian drug industry.

On the question of an enquiry into drug prices, Arvind Nair says in the last paragraph of his article that such an enquiry, "provided it is impartial and the body conducting it is formed of persons who understand the medical, scientific and business problems of the industry and who will take an independent, objective and long-range view, may do some good in that it will dispel much of the misunderstanding and many of the misconceptions about drug prices". But later on in the same paragraph he opposes an enquiry with the argument that "critics of the industry are sure to make capital out of an enquiry, if one is conducted, as did happen in the case of the Kefauver Inquiry, to tarnish its image and shatter the foreign investors' confidence in the growth potential of the Indian industry". It is not at all clear how an enquiry which will help to remove misunderstanding and popular misconceptions about the drug industry will, at the same time, tarnish its image and undermine the confidence of the foreign investor.

Further, while Arvind Nair begins with the entirely valid statement that to determine whether drug prices are reasonable or not prices must be compared to costs of production, we find not one such comparison in his article. Is it because such comparison will invariably show the industry in unfavourable light? Or, is it that the facts are not available even to one in the confidence of drug firms? In either case, the need for an enquiry of the type we had suggested is emphasised since it will get at the real facts about drug prices and costs.

Finally, since Arvind Nair relies so much on excerpts from reports of the Development Council for Drugs and Pharmaceuticals, it is necessary to state that, though appointed by the Government of India, the Council is in effect a body representing principally the interests of the drug industry. It is definitely not the "impartial" body capable of taking "an independent, objective" view whose impressions can be taken as conclusive evidence for or against an enquiry into drug prices.

—Ed]

THE case for an enquiry into drug prices must surely be based on stronger grounds than those adduced in your editorial. To establish a case for inquiry, it must be shown that drug prices are too high in an absolute or relative sense—high either in relation to the cost of production or high when compared to the prices of other commodities. One looks in vain for a substantiation of this point in your editorial which is fundamental to the case for an inquiry.

The peg on which the case for enquiry is hung seems to be the alleged large differential between the prices charged for librium, a tranquiliser, by the patentee in India and the price at which somebody imported it from Italy. This is cited as evidence of monopolistic exploitation by the patentee. Apart from the question whether isolated fragments can be taken as reflecting the whole picture, there is surely more than meets the eye in the librium case. One wonders how librium could be legally imported into the country from an unauthorised source by a party other than the patentee. But the more important point is that there are no less than 18 different variations of librium, of widely differing qualities, being marketed in Italy and most of them are sold at the same price (some are actually more expensive) as the original product developed by Hoffmann La Roche of U S A. How could Italy export the drug at ridiculously low prices which bear no relation whatsoever to the price charged to the domestic consumer?

Development Council's View

Obviously the assumption is that patents are responsible for drug prices being what they are. This assumption would have some basis in fact had you shown that prices of non-patented drugs are lower as compared with those of patented drugs or that they are on a par with prices of non-patented drugs abroad or that they bear a reasonable relation to them considering the conditions of manufacture in the country. It may be pertinent, in this connection, to quote the Technical Sub-Committee of the Development Council for Drugs and Pharmaceuticals, Government of India, which, after a thorough study of the cost of finished drugs in India, concluded:

> "Despite the fact that the cost of basic drug is usually higher in India than in other developed countries, the cost of finished preparations is, in most cases, much less than the domestic price of similar products in foreign countries. The difference between the consumer prices and the ex-factory cost of the finished preparations is much less in this country than in most of the more developed countries."

Does this mean that drug manufacturers are making excessive profit or that prices are high in relation to cost of production? The following factors responsible for the high cost of production were considered by the Sub-Committee before arriving at the aforesaid conclusion:

(1) Prices of imported raw materials and intermediates are higher in India than in foreign countries due to the heavy incidence of customs duty.

(2) Prices of indigenously available raw materials are 150 to 200 per cent more than the prices prevailing in foreign countries.

(3) The quality of indigenous raw materials is, in many cases, inferior, resulting in higher processing and production cost.

(4) Solvent losses are high due to high temperatures.

(5) Excise duties and the procedures insisted upon by the excise authorities in handling stores, which involve special insurance premium, bank commission, etc, inflate cost by an amount almost equal to the total value of the landed cost of the raw material.

(6) Not only is the cost of imported equipment 35 to 40 per cent higher than in foreign countries, due to all these charges involved, but the cost of indigenously fabricated equipment is even higher in many cases.

(7) The scale of production in Indian factories is much smaller than in Europe or U S with the result that process loss, factory, general and sales overheads, etc, are high.

You point out that, but for patents, we could import drugs from Italy or the East European countries "for a fraction of the prices" we now pay. Apart from the important question whether it is in the larger interest of the country to import drugs from abroad, rather than to manufacture them here, even if the cost of manufacture is high, (and it admittedly is; this is what is being done now at the Government's insistence and rightly), it may be asked whether Italy is in a position to supply our needs. That country is unable to meet its own needs and is itself a large net importer of drugs.

Italian prices are not cheap, as opponents of patents would have us believe. The Kefauver Committee's own price data for a number of major antibiotics, antidiabetic drugs and tranquilisers showed that prices in Italy were significantly higher than those in other European countries with patents. This is clear from the Table.

It is possible that prices of certain drugs are lower in Italy. If that is so, it is not very surprising, because an industry like the Italian pharmaceutical industry which does little or no research and lives by piracy and imitation of the products of other peoples' research efforts, does not have to underwrite the cost of research, which cost the U S pharmaceutical industry alone $300 million last year. Moreover, what is cheap is not always the best, especially in the pharmaceutical field, for quality is the most important ingredient of a drug. One cannot surely equate a generic-named Italian drug, which scarcely identifies its maker, with the product of a world famous patent-holding manufacturer, who stakes his entire reputation and that of the product on the brand name it bears.

Perhaps you are referring to the Kefauver enquiry when you say that investigations in countries like the U S and the U K have established that "prices for drugs manufactured by a patent holding monopoly bears little or no relation to their cost of production". The fact, however, is that the Kefauver investigation signally failed to establish this point which was one of its principal objectives. And, arising from this, its proposal to limit drug patents and to provide for compulsory licensing at fixed maximum royalties, the need for which the inquiry was supposed to have demonstrated, was rejected by the U S Congress and drug patents continue to remain intact in that country. Even Italy, which had so long refused to recognise drug patents, is now reintroducing patents protection for drugs. Japan has unequivocally acknowledged the role patents have played in quickening its industrial development since the second World War.

Patents and Prices

As regards the relation of patents to prices, it may be noted here that, based on a comprehensive analysis of the Kefauver Committee's price data, which attempted to show by invalid comparison of the prices of old, unpatented drugs with the prices of new patented drugs, that patents make for high prices, patent expert George Frost, demonstrated in his evidence before the Committee that "factors other than patents far outweigh whatever influence patents have on prices and that the long run influence of patents on prices is far less than the influence of other facts affecting prices. It follows that there is no demonstration that patents, on the whole, significantly increase prices". (Kefauver Hearings Part 4, pp 2294-2315).

This view has been corroborated by no less a body than the U N Economic and Social Council in its report on the role of patents in the transfer of technology to underdeveloped countries. Here is what is the report, based on a survey of the patent system and its contribution to economic development in 48 countries, has had to say on the relation of patents to prices:

> "The effect of higher prices specifically due to patent protection is almost impossible to disentangle from higher prices due to such factories as exclusive knowhow, trade secrets, restrictive practices or the dominant market position of the supplier, all of which are intrinsically unrelated to the patent system. Since patents are thus only one of the factors which may bring about higher prices, the question arises whether measures directly affecting price levels or general anti-trust legislation are not an economically more effective and administratively more feasible technique of coping with the problem than legislation devoted specifically to the patent system"

None will dispute your contention that only two factors, namely, competition and pressure from Government, could compel price reduction. But the point is whether patents stimulate or discourage competition. That disclosure of invention facilitated by patent stimulates competition by other inventors and companies who naturally desire to go one better and to produce something more effective is not disputed. It is true that a patent insulates the inventors from the hazards of immediate imitation. But it does not protect bim from competition from products and processes either not patented or already patented or which may be discovered and patented in future. This is particularly so in the drugs field where new drugs are continually coming forward. This dynamic character of product competition was demonstrated before the Kefauver Committee by pointing out that in the oral treatment of diabetes there were four different product-leaders in the period 1951-1960.

You refer to the damage done by patents to the development of the

Table: A Comparison of Drug Prices

(Wholesale prices to druggist; in dollars)

Product	Gt Britain	W Germany	France	Italy
Chlorpromazine	0.77	0.97	0.51	1.22
Tolbutamide	1.87	1.85	2.04	2.35
Chloromycetin	2.67	—	—	3.90
Chlortetracycline	4.56	4.31	3.26	5.86
Tetracycline	4.58	4.31	—	5.86

Source: Part 4, Kefauver Hearings, pp 2,150-2,151.

Indian phamaceutical industry but leave one wondering what precisely the damage is. The following quotation from a survey of the development of the drugs and pharmaceutical industry by B Shah, Drugs Development Officer, Government of India, will give an idea of the progress of the industry. After giving figures of the growth of pharmaceutical production since 1948 to 1962, Shah says:

> "The above figures represent only one side of the phenomenal growth of the pharmaceutical industry. Together with these one has also to consider the increased number of products now being manufactured from basic stages. Several in this category include those which were formerly being produced from late intermediates that were imported into India, or merely packaged here from bulk imports. Import of finished products has now stopped with the exception of a very few preparations. New processing units have been established and old ones expanded. Quite a few units designed to undertake the basic manufacture of drugs have also commenced production. Many of these basic manufacturing units are monuments of progress in the field of chemical technology carrying out highly intricate and hazardous chemical reactions with automatic process control.
>
> "Factories established by foreign firms or those working with foreign collaboration have undertaken to manufacture new products according to the latest methods and techniques of production developed abroad after many years of investigation and research. The entry of these firms has conferred advantages on the Indian economy in that the benefits of advanced research and technology achieved in foreign countries have been made available to us at a relatively small expenditure of foreign currency than would have been necessary if the finished drugs were to be imported".
>
> "Indian Pharmaceutical Industry" published by the Development Council (Drugs and Pharmaceuticals), Government of India.

Have, then, patents really hindered the progress of the industry? If, as critics of patents would have us believe, patents are the real stumbling block how is it that not all drugs, and their number is indeed large, patents on which have expired, are manufactured in the country? Many of these drugs are still in use and are produced in the country by the original patent-holder only. Are we merely looking for an excuse to cover up our failings and shortcoming?

No Need for Enquiry

Phenomenal, though the progress of the industry has been, it could have been even faster. But this has nothing to do with patents. If a more liberal policy had been followed in respect of allowing imports of essential raw materials not available in the country and the latest machinery and equipment, if arrangements were made to ensure adequate supplies of raw materials, if expansion of capacity had been allowed more liberally, while taking steps to ensure raw materials, the progress of the industry would certainly have been much faster. There is under-utilisation of capacity to the extent of about 25 per cent due to shortage of raw materials alone. The under-utilisation of capacity not only results in production being less than what it would have been but also makes the limited output carry the entire burden of overheads. The higher production and productivity would have surely enabled prices to be brought down. These are some of the factors responsible for drug prices being what they are. They also point to the lines along which the price question should be tackled.

An enquiry into drug prices, provided it is impartial and the body conducting it is formed of persons who understand the medical, scientific and business problems of the industry and who will take an independent, objective and long-range view, may do some good in that it will dispel much of the misunderstanding and many of the misconceptions about drug prices. It is noteworthy, in this connection, that it is for this reason the British Pharmaceutical Industry has expressed its readines to have an enquiry conducted as demanded by the Trades Union Congress. The T U C had demanded inquiries into many industries but the Pharmaceutical Industry is the first to accept an enquiry. The Indian pharmaceutical industry is still in its infancy, though it is vigorous and kicking, and all efforts need to be concentrated on promoting its growth by encouraging domestic and foreign investment in the industry. Critics of the industry are sure to make capital out of an enquiry, if one is conducted, as did happen in the case of Kefauver Inquiry, to tarnish its image and to shatter the foreign investors' confidence in the growth potential of the Indian industry. Confidence is a sensitive plant of slow growth. Let us not destroy what we have so carefully cultivated.

Why Drug Industry Must be Controlled

"THE ethical (or 'prescription') drug industry has a number of features which tend to make it unique. For one thing there is its critical bearing on public health and welfare... It is this underlying consideration which is responsible for the fact that most nations (including the majority of the highly developed nations) have traditionally followed a policy of refusing to grant product patents on pharmaceuticals. It is this same consideration which is responsible for the existence of price control on drugs in countries which do not impose such controls on the general run of products.

"A second unique characteristic is the difference between buyer and orderer... Once the physician has written his prescription (usually in terms of a brand name), the consumer is limited to the product prescribed under that brand name... The consumer is 'captive' to a degree not present in any other industry.

"The drug industry is also unusual in the extent to which the demand for its products is inelastic... The fact that demand is inelastic means that one of the checks which might serve as a possible constraint upon corporate price policies is absent in ethical drugs.

"The case that measures are needed to stimulate price competition in this field rests primarily upon the assumption that drug prices are unreasonable. The extraordinary margins and profits are made possible by a tight control of the market. The control of the market in turn stems principally from three sources of what in economic literature is referred to as "monopoly power". These are the monopoly grant inherent in patents, the exceptionally large expenditures by the major companies on advertising and sales promotion, and the success of the large companies in persuading physicians to write their prescriptions in terms of trade names rather than generic names. Any effort to bring price competition into the ethical drug industry must come to grips with these three sources of monopoly power."

—*From the Kefauver Committee Report on "Administered Prices in the Drug Industry".*

The Harm Done by Patents

S S Sokhey

When he writes in his article, "one wonders how Librium could be legally *imported into the country from an unauthorised source by a party other than the patentee" (emphasis added), Arvind Nair not only gives his whole case away but unwittingly draws attention to the real damage caused by the pernicious patents system. He is referring to the matter brought to light in the last session of the Lok Sabha and drawn attention to in an editorial in* The Economic Weekly *of January 16, 1965— that a Swiss firm which holds the patent for librium, a tranquiliser, was importing the drug into India at Rs 5,500 per kg, while an Italian firm was supplying it at Rs 300 per kg.*

Arvind Nair is right when he says that the import of the drug into India by a firm and from a firm other than the patentee, regardless of the price differential, is illegal. Thus he himself brings out the fact that the patent law in force in India at present gives protection both for the process and the product and drugs can be bought only from the patentees or their licensees and at prices fixed by them.

It is precisely the monopoly right thus conferred on the patentees and their licensees in India which is holding up the development of the drug industry and standing in the way of the supply of life-saving drugs to the public at low prices.

UNDER the patents monopoly the patentee extracts as high a price as he can get away with—usually almost 20 times the total cost of production. Patent protection for process as well as product for obvious reasons establishes an absolute monopoly, debars further invention and cuts out competition and keeps prices high. Particularly, protection for products effectively bars the development of new processes and thus thwarts supplies from sources other than the patentee. This is borne out by price information on 12 drugs gathered by American embassies from 17 countries (1958). It was found that in 11 countries which granted patents on drug products, the prices were 118.2 per cent to 355.0 per cent higher than in the six countries which did not.

To give a few examples: Rhone Poulene of France sells prochloperazine (Compazine) 50 tablets of 25 mg each for $3.03 in U S A (through Smith Kline and France), for $1.61 in Belgium, but for $0.80 in France. American Home Products sells promazine (Sparin) at $3.00 in U S A, at $3.15 in Canada and at $1.32 in Italy. The American Home Products sells Miltown for $3.28 in U S A, for $1.77 in Italy and for only $1.38 in Germany. Ciba of Switzerland sells Serpasil for $4.50 in U S A but for $1.05 in Germany and $0.83 in France.

Prices Highest in the World

In our country, which grants both process and product protection, the prices of the drugs have been found to be the highest. The Senator Kefauver Committee (1961) states:

> "India which does grant patents on drugs provides an interesting case example. The prices in India for the broad-spectrum antibiotics, Aureomycin and Achromycin, are among the highest in the world. As a matter of fact, in drugs generally, India ranks among the highest priced nations of the world—a case of an inverse relationship between per capita income and the level of drug prices."

The patentees, who are entirely foreign firms, have mercilessly exploited a protected market for over half a century and had shown no inclination to use their patent rights to start industry in India until they saw danger to their interests a few years ago. As recently as 1954, the Pharmaceutical Enquiry Committee of the Government of India made it clear that no essential drugs were being manufactured in the country and the drug industry in India "may be considered to be non-existent". Another report in 1956 showed the state of affairs was no better. It said, "Almost all the essential drugs, the availability of which determines the effectiveness of medical attention in the treatment of the most serious and common diseases in India are not being produced in the country, but imported from outside in 'bulk' form or in the form of completed penultimates from which essential drugs can be produced by methods of simple and easy technological processes."

The Government took up this matter in 1956 and began exploring the possibilities of setting up public sector plants to make India completely independent of foreign imports of drugs. This brought home to the foreign patentees the risk they were running and they hurriedly used their monopoly rights to take out licences and half-heartedly put up some plants themselves or with Indian collaboration. These plants, however, still do not carry out all the stages of manufacture, but mostly use imported penultimate compounds to make finished products by easy technical methods. Besides tying down our domestic technological developments, they have made our balance of payment's position worse.

According to *The Economic Weekly* (December 19, 1964), a Reserve Bank of India study has revealed that since 1956, foreign firms have invested only Rs 5 crores and have already taken out of the country Rs 4.64 crores in foreign exchange in the shape of dividends, royalties and service charges. The main burden of the liability has yet to come, because most of the collaboration agreements were concluded after 1959 and what is equally bad, the value of shares held by foreign firms has already risen from Rs 3.37 crores to Rs 14.87 crores.

Huge Profits

When the foreign patentees start their own plants, they naturally charge any price they like for their products, even when they collaborate with Indian firms or they give licences to them to manufacture, they still retain control of the price level. Because of the under-developed nature of the private chemical industry, odd firms who take up manufacture of drugs go to the patentee for their know-how and are dependent on them entirely for carrying out manufacture. The patentees use all the pressure at their command to see that the licensees sell the drugs at the high prices determined by them which may be even higher than the prices at which they sell in their own country.

We are thus still largely dependent on foreign firms in one way or another and have for long obtained our supplies of finished products and penultimate compounds largely from United States. Our prices of drugs are affected by the U S A prices and the working of the United States drug industry.

The American drug industry makes huge profits. Its rate of profit is more than double that of other United States manufacturing industries, including oil, steel, automobiles and chemicals, and range from 58.6 per cent to 78.4 per cent. The high American prices of drugs keep the life saving drugs out of the reach of most of our people and even the public hospitals cannot use them freely. This situation has been under the consideration of the Government of India for considerable time. Besides considering effective long term measures, the Government fixed prices in 1962 to prevent them from rising still further under scarcity conditions.

Enquiry in UK

This problem of high prices of drugs has begun to worry even the developed countries. Something like the case of librium was brought to light in the House of Commons some time ago. An M P had drawn the attention of the Health Minister to the excessively high price being charged by chemists for tetracycline—an antibiotic very much in demand. An enquiry elicited the information that 16 capsules of tetracycline 250 mg each were sold from chemists' shops (1962) at 28 shillings (Rs 18.20) and Government was paying this high price for all tetracycline prescribed by general practitioners under the free National Health Service, while the Government itself was importing the same 16 capsules at 8 shillings (Rs 5.20) from a country that did not grant drug patents for use in its public hospitals. The drug at that low price could not be sold from the chemists' shops because of the monopoly conferred on the patentee. The patentee objected to even the Government importing tetracycline for its own use from a source other than the patentee and filed a suit; ultimately the case went to the Privy Council which, I learn from a responsible source, abrogated the tetracycline patent on the ground that the patent was being abused to charge high prices.

Recently the Labour Government in Britain has made it known that it is going to conduct an enquiry into the prices of drugs. Canada also has been considering the question of abrogating drug patents to bring down drug prices, I am told. The United States also took up this question some years ago. The Senate under its resolution No 53, 87th Congress had an enquiry conducted by a Senate Committee under the chairmanship of the late Senator Kefauver and its report on "Administered Prices in the Drug Industry" was printed under the Orders of the Senate as Senate Report No 448 on June 27, 1961.

Kefauver Committee Report

It is the only official exhaustive enquiry ever held into the working of drug industry. The official standing of the Committee empowered it to call for and obtain detailed financial statements from 22 leading American drug companies covering their receipts and expenditure for 1958. It held numerous public hearings for about two years. At these hearings, leading drug manufacturers had their full say and a number of directors of research of drug firms and professors of pharmacology gave evidence.

The report is a veritable gold mine of precisely determined facts which throws a flood of light on the practices of the drug industry and the role the patents play. It is of incalculable value to all interested in the drug industry and provides pertinent facts to answer spokesmen of the foreign drug monopolies in India.

The Kefauver enquiry was a painstaking, sober, attempt to unearth facts relating to the drug Indistry. Its report alongwith the previous three reports on administered prices in three other industries—steel, automobiles and bread—prepared by the sub-committee under Senator Kefauver throw light on the practices of these pivotal industries in which the sales are concentrated in the hands of a few large companies. The report on the drug industry is particularly important because of the importance of the industry for health and life itself.

The detailed financial statements of the 22 leading American firms submitted to the Kefauver Committee showed that in 1958 of their total earning of $ 2.3 billion, only 32.1 per cent went to the cost of production, while industry's gross margin came to 67.9 per cent. "Fully three quarters of the margin (or more than half of the industry's receipts) was either used to promote the sales of its products or went into profits. Indeed promotion and profits before taxes in the drug operations of the 22 firms exceeded the combined cost of production, research and administration and all other expenses". Profits before taxes amounted to 25.8 per cent and advertising and selling expenses to 24.8 per cent while only 6.3 per cent went to research. Research expense obviously varies from year to year, but is never very large. It is, however, blatantly cited as the principal justification for the high drug prices and not the fantastic amounts spent on advertising and profits

Cost of Production and Price

Kefauver Committee paid special attention to the production and sale of antibiotics, corticosteroids, oral antidiabetics and tranquilizers, which constitute in money value the largest portion of the total sale of drugs in the United States.

From the information supplied by the companies as to the total cost of production and the quantity of the drugs produced, the Committee prepared comprehensive tables which showed unit cost of production and the sale price. I take a couple of examples. In the case of tetracyclin, a wide spectrum antibiotic much in demand, the Committee computed the cost of production of 16 capsules of 250 mg each at 46 cents. These 16 capsules as well as 16 capsules of the other wide spectrum antibiotics, Aureomycin, Chloromycetin and Terramycin were sold to the chemists at a uniform price of $ 5.10 with suggested price of $8.50 to the consumer, i e, at more than 17 times the cost of production.

The committee noted the fact that in 1959 the same firms sold 16 capsules to chemists in India at $ 6.52 and to chemists in Argentina which controls drug prices at $1.19, i e, at 134 per cent and 23 per cent respectively of the United States prices. The representative of the American Cyanamid admitted at the hearing that they made a profit even at the sale price of $1.19

As regards corticosteroids, I give the example of predinisolone, synthesized, patented and sold under the brand name of Medicortelone by Schering Corporation who licensed Upjohn Company to make it for them. They charge the Corporation $1.19 for 100 tablets of 5 mg each. Schering's cost after bottling came to $1.57 per bottle of 100 tablets. They sold it to

wholesalers at $14.32 who retail it to the druggists at $ 17.00 with a suggested price to the consumer of $29.83 per bottle, i e, 18 times the cost of production. Oral antidiabetics and tranquilizers also tell the same tale.

It is to be noted that the entire American drug industry, including these 22 firms, spent in 1958 as much as $ 750 million on advertising and sales promotion. They lavishly printed circulars and brochures, advertisements in medical journals and employed about 20,000 super-salesmen, each costing about $ 15,000 a year for visits to physicians. This wasteful expenditure compares ludicrously with $200 million which the U S A spent on all its medical schools in 1957.

It is perfectly obvious the fantastically large expenditure of advertising and the huge profits affect the prices of drugs. If these expenditures were made smaller, the drugs could be sold at about half the present prices.

Patents Stifle Research

Patents particularly product patents, though they may not be the sole factors, are the main factor which keeps prices high. Worse still, they stifle research. Patents are now taken by big enterprises largely to pre-empt a field of research and prevent others from entering it. This was the conclusion reached by a British Cabinet Committee during World War II, when Government itself had to take up manufacture on a large scale. The patents system, the committee thought, prevents research and recommended that to meet this evil, patents should be abrogated or held only by Government. The British Council of Medical Research insisted that this should be done at least in the case of patents for drugs.

The same conclusion was arrived at by the 20-year old Pharmaceuticals and Drugs Research Committee of our Council of Scientific and Industrial Research on which are represented important agencies engaged in research on, and the manufacture of, drugs both in the public and private sectors. For several years, it drew the attention of Government to the fact that patents not only prevented manufacture but interfered with research and passed resolutions asking Government to abrogate drug patents.

The most pernicious feature of the sale of drugs produced under patents is that the prices are kept pegged at a high level for years. For instance, the price of antibiotics Aureomycin, Chloromycetin, Terramycin and tetracyclin, which are produced under patents, was kept unaltered at $5.10 for 16 capsules of 250 mg each between 1951 and 1960. The only reduction of 10 per cent in prices was made in 1961. During the same period, the bulk prices of unpatented antibiotics, penicillin and streptomycin, fell by about 90 per cent—from 25 cents to 2.1 cents per mega unit and from 32 cents to 3.6 cents per gramme respectively; this in spite of the world-wide inflationary trends to which Arvind Nair draws attention.

Drug Production in India

The interests of the people of India do demand that all the modern life saving drugs should be manufactured in the country and made available to the people at the lowest possible price, even without an element of profit. This could be effectively done in large state plants. The know-how required for setting up such plants is not any longer the exclusive property of a few western firms but is now widespread and can be had from several sources without having to pay royalties.

In fact in 1956, a proposal was submitted to the Government of India to put up a fully integrated drug industry to make India completely independent of imports consisting of (1) a plant to make 33,000 tons of intermediate chemicals and solvents for making all the drugs and dyes, (2) a plant to produce about 3,500 tons of about 65 essential drugs needed, (3) a plant to make 300 tons of antibiotics. This proposal was made on very favourable terms. If accepted in its original form, the plants would have been set up by the end of 1960. Somehow or the other, the scheme did not go through in its full form. The intermediate chemicals plant was taken out of the integrated plan and turned over to private industry but the plant has not been built up to this day. Intermediate chemicals continue to be imported and those manufactured in the country are made in small plants. The capacity of the plant for synthetic drugs was reduced to 800 tons and the rest of the drugs passed on to small private firms with unhappy results. Take for example, Vitamin-C (Ascorbic acid). If the original proposal of the big plant had gone through, we would have been able to supply a bottle of 100 tablets of 500 mg each at less than Rs 3, but now the price of imported drug or the drug made in India for a bottle of 100 tablets of 500 mg each varies from Rs 13.50 to Rs 21.10.

This retrograde step must have been taken on the advice of the Development Council for Drugs and Pharmaceuticals. So I am not taken in by the Council's wisdom.

Patents Must Go

A lot can still be done for the drug industry in India. The facts I have given above make it absolutely clear that one step we must take, and that too immediately, and which has been called for a long time both in the interest of the state and private industry, is to make inventions in drugs non-patentable both as regards process and product in future and to abrogate old patents which have still more than three years to run after the Bill is passed. For this action, an opportunity now exists, as a new Bill on Patents is going to be introduced in the present session of Lok Sabha. The mere abrogation of product patents, however would not serve the purpose. The process patent must go as well. We can and we must build our drug industry to begin with on the basis of known processes. We can have them for the asking and thus come up to the world level of drug technology. Then we shall be in a position to begin to contribute to the world fund of knowledge by our researches. In the meantime, until we put up our own plants, we shall be free to import our drugs from the cheapest sources.

But I want to stress that abrogation of drug patents would not in any way discourage research workers in India from making new discoveries. Ketauver Committee brings out the fact that the "mere existence of patent protection is not a guarantee of invention nor is its absence much of a barrier". The Committee was surprised to find that "drugs discovered in foreign countries without product patents outnumber those discovered in countries with such protection in the order of 10 to 1". Thus a large number of the most important drugs and the most widely used in the world were discovered either in public laboratories or in countries which have never awarded patents on pharmaceutical products.

State Finances and the Fourth Plan

D C Vohra

When the Central Government is so concerned with curbing inflationary pressures, the States have made no attempt whatsoever in their Budgets for 1965-66 to cover even their revenue deficits.

This fact cannot but have its impact on the Fourth Plan.

The Planning Commission may be compelled to revise downwards its estimates of revenue surpluses at current tax rates and, correspondingly, raise its estimate of the 'resources gap'.

This, in turn, will naturally affect the size of the Fourth Plan.

In this context a major responsibility rests on the Finance Commission now nearing the end of its labours. It will have to evolve a system of financial assistance from the Centre to the States which will meet the genuine needs of the States while requiring the States to make reasonable efforts to raise revenues.

IN what is obviously an attempt to secure enhanced devolutions from the Centre, the States have vied with one another in leaving large deficits uncovered in their budgets for 1965-66. While it may be conceded that States have certain genuine difficulties in imposing new taxation for meeting their deficits, it would be wrong to condone their complacency at a time when the country is about to embark on a crucial phase of its economic planning. When the Central Government is concerned with raising larger internal resources for financing huge investments in the Fourth Plan, the States have not made reasonable efforts even to eliminate or reduce their revenue deficits. If this attitude continues, it may seriously jeopardize the stability and growth of the economy.

Rise in Deficits

The State Governments' tendency to seek the easy way out by relying on the Centre's doles, despite the buoyancy of their own revenues, is clearly brought out by a comparison of the budget estimates for 1964-65 with those for 1965-66. In the current year the States' total revenue receipts have shown an increase of 21 per cent, from Rs 1,553 crores in 1964-65 to Rs 1,878 crores (Table 1). But expenditure has increased by 26.5 per cent from Rs 1,548 crores in 1964-65 to Rs 1,959 crores. Accordingly, whereas last year revenue receipts at the existing level of taxation more or less matched revenue expenditure and there was a marginal surplus of Rs 5 crores, receipts in the current year are estimated to fall short of expenditure by Rs 80.13 crores. Added to the revenue deficit is the deficit on capital account and other miscellaneous expenditure aggregating Rs 36.76 crores, bringing the total deficit of the States to Rs 116.89 crores.

Within this consolidated picture for all States, the performance of individual States varies considerably. On revenue account, only three States, namely, Assam, Bihar and Punjab have shown surpluses of Rs 0.38 crores, Rs 5.71 crores and Rs 2.32 crores, respectively, and in the other States, deficits range between Rs 0.73 crores in Madhya Pradesh and Rs 17.83 crores in West Bengal. On capital account, surpluses occur in the budgets of Jammu and Kashmir (Rs 1.33 crores), Kerala (Rs 1.38 crores), Rajasthan (Rs 4.34 crores) and West Bengal (Rs 10.78 crores); the rest of the States show deficits varying from Rs 1.60 crores in the case of Andhra Pradesh to Rs 26.34 crores in Maharashtra. The overall position of all the States is one of deficit which ranges between Rs 0.82 crores in the case of Kerala to Rs 35.69 crores for Maharashtra.

In certain States the deficits are actually larger than what the budget figures reveal — a lot of window-dressing has been resorted to. For instance, in Bihar though the overall deficit has been kept down to Rs 4.29 crores, the Finance Minister stated in his budget speech that it excluded certain inevitable expenditures such as those on revised pay scales and that provisions under certain heads were inadequate. The real deficit, he estimated, might be around Rs 9.18 crores.

Apart from Madhya Pradesh and Rajasthan which have proposed mild doses of taxation to the tune of Rs 1.71 crores and Rs 1.55 crores, none of the States has proposed any new taxation, though some States have promised to bring forth tax proposals during the year. The Uttar Pradesh Finance Minister, for instance, stated his intention to submit in due course tax proposals calculated to yield Rs 7.5 crores.

'Memoranda' to the Finance Commission

The Finance Ministers of some of the States used their budget speeches to appeal to the Finance Commission for a better deal for their respective States. The Madras Finance Minister, for example, desired that the Commission should evolve a formula under which financial assistance would become available for covering additional expenditure which the States are obliged to incur on upward revision of dearness allowance consequent on similar increase sanctioned by the Central Government. The dominant theme of the speech of the Maharashtra Finance Minister, too, was the need for the Centre to take a more liberal attitude towards a State like his which had done its utmost to mobilise resources by fresh taxation and open market loans and had tightened up fiscal administration. Similarly, the West Bengal Finance Minister pointed out that his State which occupied third place in 1957-58 in respect of per capita share in Central taxes had been reduced to ninth place in 1962-63. The budgets of these States were virtually additional memoranda to the Finance Commission.

The performance of some of the States in the matter of raising additional taxation has been depressing in earlier years of the Third Plan also (Table 2). Bihar shows the poorest performance as it is estimated that it will achieve only about 40 per cent of the target of additional taxation. In fact, Bihar has the distinction of taking no steps to raise additional resources by way of taxation during the last five years, with the exception of 1962-63 when additional tax of Rs 1 crore was imposed. It was against the background of this deplorable performance that the Bihar Finance Minister declared in his Budget speech that "the execution of the development plan is a problem of life and death for us and is the final purpose of all our efforts"! Next to Bihar are Uttar Pradesh and Madhya Pradesh which are expected to raise additional taxation only to the extent of two-thirds of their tagets for the Third Plan. Amongst others, Jammu and Kashmir, Andhra, Mysore, Assam and Rajasthan are expected to achieve their respective targets to the extent of 71, 87, 89, and 94 per cent.

Seven States have exceeded their targets of additional taxation for the Third Plan. Maharashtra shows the best performance, having exceeded the target by about 50 per cent — addi-

tional taxation during the Plan being about Rs 77.47 crores as against the target of Rs 52 crores. Gujarat and Orissa are expected to exceed their targets by about 40 per cent. Then follow Punjab, Kerala, Madras and West Bengal which are expected to exceed their targets by 21, 18, 17, and 1 per cent, respectively. The picture of additional taxation as it emerges is that the measures taken by the States during 1961-65 will yield about Rs 572.42 crores which is below the third Plan target of Rs 610 crores by Rs 37.58 crores. It will be seen from Table 2 that Madhya Pradesh and Rajasthan are the only States which have distributed additional taxation over the five years. Most of the other States concentrated their efforts in 1962-63 and 1963-64.

Central Assistance

What is as much cause for concern as the tax performance of the States is the sharp rise in the States' expenditure as a result of which even to cover their revenue deficits the States have to look to the Centre. The total resources transferred from the Centre to the States during the First Plan, it will be seen from Table 3, totalled Rs 1,413 crores, representing 42 per cent of the total expenditure of Rs 3,352 crores by States. This proportion increased to 49 per cent during the Second Plan period, as the amount transferred aggregated Rs 2,868 crores as against total expenditure of Rs 5,843 crores. In the current Plan the annual transfers from the Centre have risen from Rs 847 crores in 1961-62 to Rs 1,037 crores in the budget estimates for 1965-66. It has been estimated by the Planing Commission that the Centre would provide Rs 5,478 crores, or 54 per cent of the States' total expenditure of Rs 10,205 crores in the Third Plan period.

Of the total devolutions, loans from the Centre to the States which showed an increase of 75 per cent from Rs 799 crores in the First Plan to Rs 1,411 crores in the Second Plan are expected to be doubled in the Third Plan period to reach the figure of Rs 2,985 crores. In the Third Plan, loans account for about 55 per cent of the total transfers from the Centre to the States. Loans are followed by States' share of divisible taxes and duties and grants met from revenue which have increased about four-fold and five-fold, respectively, since the First Plan and today account for 22 per cent and 20 per cent of total devolutions.

In respect of Plan expenditure, the dependence of States on the Centre is almost complete, though in the Third Plan the percentage shows a little decline as compared with the Second Plan. Out of the States' total Plan expenditure of Rs 1,427 crores in the First Plan, the Centre provided Rs 982 crores or 69 per cent; this percentage is expected to reach 93 in the Third Plan as the Centre will provide as much as Rs 3,649 crores out of the States' total Plan outlay of nearly Rs 3,922 crores. In the Second Plan, the percentage of Central assistance was 97, the share of the Centre bring Rs 1,931 crores out of a total expenditure of Rs 1,981 crores. As data on the share of the Centre in Plan outlays in individual States is not yet available, only the total figure for all the States has been given in Table 1. It will be seen that the proposed Plan outlays range from Rs 23.30 crores in Jammu and Kashmir to Rs 141.00 crores in Uttar Pradesh; the other two States with big Plan outlays are Maharashtra and Andhra Pradesh which have fixed their figures at Rs 137.60 crores and Rs 100.33 crores, respectively.

Impact on Fourth Plan

The string of deficit State budgets has naturally had its impact on the preparation of the Fourth Plan. The calculations of the planners in regard to the internal resources for the Fourth Plan have been upset and consequently meetings of the sub-committees of the National Development Council have had to be postponed. The Planning Commission has expressed its concern at the inability of the States to effect economy and keep down non-essential expenditure. It has sought to impress upon the States the need to restrict expenditure on tax collection and general administration, etc, to 5 per cent per annum and non-Plan expenditure on revenue account to 3.5 per cent per annum. The Commission has suggested that representations from States to the Finance Commission should be based on this restricted level of expenditure so that resources for the Fourth Plan would not be unduly curtailed.

But all this notwithstanding it becomes clear that the increased expenditure of the States on revenue accounts is at variance with the assumptions of the planners and would cut into resources available for the Fourth Plan. The Fourth Plan memorandum, it will be remembered, had put the revenue gap to be met through increased taxation, better collection and pricing adjustments at nearly Rs 3,000 crores. On the basis of the 1965-66 State budgets as well as the Central Budget, however, the resources gap is now expected to be around Rs 4,500 crores. In fact, even at the time of earlier discussions, whereas the planners assumed the balance available from current revenues of the States at 1964-65 rates at Rs 870 crores, the States had maintained that this balance would be no more than Rs 335 crores. The Planning Commission was then of the view that the States were deliberately inflating their revenue expenditure, but in view of the 1965-66 State Budgets the Planning Commission's estimate seems to have been rather optimistic.

Table 1: States' Budgets, 1965-66

(Rs Crores)

	Revenue Receipts	Revenue Expenditure	Net Position on Revenue Account	Net Position Outside Revenue Account	Overall Position	Plan Outlay as Fixed by States
Andhra Pradesh	154.53	161.23	—6.70	—1.60	—8.30	100.33
Assam	70.78	70.40	+0.38	—4.63	—3.25	30.90
Bihar	119.34	113.63	+5.71	—10.00	—4.29	77.58
Gujarat	106.63	110.31	—3.68	—1.99	—5.67	58.45
Jammu and Kashmir	30.17	35.94	—5.77	+1.33	—4.44	23.30
Kerala	85.50	87.70	—2.20	+1.38	—0.82	41.60
Madhya Pradesh	120.46	121.19	—0.73	—4.21	—5.94	64.65
Madras	163.63	170.60	—6.97	—	—6.97	78.55
Maharashtra	215.47	224.82	—9.35	—26.34	—35.69	137.60
Mysore	121.52	125.43	—3.91	—	—3.91	56.16
Orissa	81.35	91.38	—10.03	—	—10.03	63.38
Punjab	129.65	127.33	+2.32	—5.82	—3.50	62.00
Rajasthan	79.68	86.14	—6.46	+4.34	—2.12	46.90
Uttar Pradesh	247.74	262.65	—14.91	—	—14.91	141.00
West Bengal	152.00	169.83	—17.83	+10.78	—7.05	75.28
Total	**1,878.45**	**1,958.58**	**—80.13**	**—36.76**	**—116.89**	**1,057.68***

* As some of the States have fixed Plan outlays at levels higher than those approved by the Planning Commission, the aggregate figure is higher than States' total approved outlay of Rs 1,027 crores in 1965-66.

This setback is likely to delay the finalisation of the Fourth Plan because, unless the resources sub-committee of the N D C meets and settles on the resources targets and allocations to different sectors, the other sub-committees would not be able to finalise their schemes. Presumably, a detailed review of the resources position by the resources sub-committee will be followed by some generalised recommendations to the States. Some vague suggestions about raising resources in the States are already in circulation. For instances, it has been suggested that the States might be asked to levy a surcharge on land revenue, ranging from 50 to 150 per cent to narrow the gap in resources. But the possibility of any really effective steps by the States is generally discounted. The States, it is felt, will not take the political risk of antagonising the peasantry.

Light Burden on Rural Sector

It was ten years ago that the Taxation Enquiry Committee recommended the introduction of the agricultural income tax but the response from the States has been most disappointing. The vast scope that exists for taxing agriculture is evident from the fact that of the total tax revenues of the country of Rs 2,400 crores in 1964-65, revenue from the rural sector was only Rs 700 crores. In other words, 80 per cent of the population of the country contributed only 29 per cent of total revenues. The rise in agricultural prices has raised incomes in the rural areas and this is, indeed, the opportune time to seek an upward adjustment in and rationalisation of rural taxation.

There has been almost no change in land tax for a long time and in most of the States land revenue settlements are as old as 30 to 40 years. Over these years, it is common knowledge, there has been a radical change in incomes from agriculture — per acre yields have risen and agricultural production has been boosted. But the land revenue and agricultural income tax taken together constitute hardly two per cent of the total value of agricultural production. Of the total tax revenue of the States during 1964-65 amounting to Rs 695.96 crores, land revenue accounted for Rs 118.55 crores and the agricultural income tax for Rs 10.76 crores. If an element of progression is introduced in the land revenue system the yield from this source can be multiplied since it is relatively difficult to evade. As regards agricultural income tax, only in Assam, Kerala and Madras is it reckoned as a source of income, though it is levied in nine States at present.

Finance Commission's Responsibility

The whole problem of State finances clearly needs careful review. While the States should have some freedom in allocating their own resources, so far as the Central assistance is concerned, there must be an assurance that a major portion of it is related to capital expenditure on projects which are part of the plan. The consequences of frittering away Central assistance on non-essential expenditure can be seen in the burgeoning debt servicing burden on the States against which few income-yielding assets have been created. Interest charges payable by the States have risen from Rs 84 crores in 1961-62 to Rs 219 crores in 1964-65!

As a postscript it may be added that the Rajamannar Commission which is now nearing the end of its labours should devise a system of financial devolutions that meets the genuine needs of the States but also insists on reasonable efforts by them. In particular, the Commission should take into account collection of arrears of taxes, additional taxation measures during the last five years and efforts to economise expenditure. The revenue gap and the budgetary needs to be met by financial devolution from the Centre should accordingly be based not entirely on the States' own estimates of revenue and expenditure for the coming years but on these esimates as adjudged by the Finance Commission on the basis of criteria of efficiency and responsibility. The Commission might measure budgetary gaps with reference to some sort of "optimum" taking into account the States' efforts in raising resources.

Table 2: Additional Taxation by States in Third Plan

(Rs Crores)

	Target	1961-62 Accounts	1962-63 Accounts	1963-64 (R E)	1964-65 (B E)	1965-66 (B E)	Total (Estimated)	Surplus+ or Shortfall (—)
Andhra Pradesh	53.00	—	5.00	6.00	—	—	46.50	—6.50
Assam	16.00	0.15	1.58	1.60	0.86	—	14.19	—1.81
Bihar	50.00	—	1.00	—	—	—	20.32	—29.68
Gujarat	29.00	0.80	2.23	2.90	0.08	—	40.53	+11.53
Jammu and Kashmir	8.00	—	1.10	1.00	0.75	—	5.71	—2.29
Kerala	23.00	2.13	—	5.50	—	—	27.22	+4.22
Madhya Pradesh	48.00	3.00	5.00	1.90	1.45	1.71	31.16	—16.84
Madras	45.00	—	7.14	—	1.00	—	52.52	+7.52
Maharashtra	52.00	1.00	5.71	0.90	—	—	77.47	+25.47
Mysore	42.00	1.70	4.00	—	—	—	36.48	—5.52
Orissa	23.00	0.69	1.57	0.70	—	—	32.01	+9.01
Punjab	40.00	1.31	3.80	5.30	—	—	48.33	+8.33
Rajasthan	32.00	1.35	0.15	4.50	0.58	1.55	29.98	—2.02
Uttar Pradesh	109.00	5.21	0.13	0.30	—	7.50*	69.50	—39.50
West Bengal	40.00	—	—	6.50	1.90	—	40.50	+0.50
Total	**610.00**	**17.33**	**38.41**	**37.00**	**6.62**	**10.76**	**572.42**	**—37.58**

* To be proposed during the current financial year.

Table 3: Devolutions from the Centre to the States

(Rs Crores)

	First Plan	Second Plan	Third Plan (Estimated)
States' Total Expenditure	3,352	5,843	10,205
Devolution from Centre:	1,413	2,868	5,478
(i) Shares of Divisible Taxes and duties	327	711	1,191
(ii) Grants (Statutory and Others) met from Revenue	248	668	1,148
(iii) Grants from Central Road Fund	16	19	17
(iv) Grants met from Capital	24	59	137
(v) Loans	799	1,411	2,985
States' Total Plan Outlay	1,427	1,981	3,922
Devolution from Centre for Plan Outlay	982	1,931	3,649

Indo-Pak Borders

THE fighting on the borders between India and East Pakistan in the Cooch-Behar district and elsewhere has served to remind us once again of the unsettled problem of India's relations with Pakistan. The problem is never really forgotten for long; almost every other month there is an incident along either the cease-fire line in Jammu-Kashmir or the borders between India and the two parts of Pakistan. Then there are the outbursts against India from Pakistan's politicians and Ayub Khan, which take place with a certain regularity and without any specific provocation from the Indian side. (Whatever India's other faults in her relations with Pakistan, her ruling politicians do refrain from similar cold war propaganda).

Providence, of course, could not possibly have been more unkind to the possibility of sustained happy relations between the two countries. One doubts if any other two religions have kept up a mutual animosity for as many centuries as have Hinduism and Islam. (Incidentally, this historical conflict also moulded certain persons into some of the world's greatest humanist philosophers; one thinks here of names like Kabir, Nanak and Akbar.) Then, when the Partition did come, there were the nettles of Hyderabad and Kashmir: Hyderabad got settled somehow; but Kashmir has continued to sting the sides of both countries. As if this was not enough, the principle of partition according to the majority community has left along the border, particularly in the East, a number of little islands of one country inside the other.

One such enclave is Dahagram. It is a little (Muslim-majority) Pakistan about 150 yards inside the Indian territory. The Muslims here naturally need to communicate with Pakistan mainland, just as the Hindus of a little Indian enclave inside Pakistan need to communicate with the Indian mainland. The rules, regulations and procedures for this movement of men—and to some extent materials—have not yet been settled between the two countries. The present trouble in Dahagram started when the West Bengal Government took some steps to prevent what Swaran Singh described as "smuggling and the illegal movement of Pakistani nationals". These steps were promptly condemned by the Pakistan press and radio as an economic blockade of Dahagram. Then the two sides started shooting about midnight of March 13. This led to the Hindus from Dahagram fleeing into India and the Muslims into Pakistan; large numbers of residents soon turned into evacuees.

When the trouble in Dahagram started, there was ready speculation in each country about the other country's hidden motives. According to Bhutto of Pakistan, India had started border trouble in order to "side-track world opinion from Kashmir" where there was a "good deal of trouble... and the people were trying to liberate themselves". On the Indian side there were suggestions in the Parliament and the press that the renewal of border fighting was in some way connected with Ayub Khan's recent visit to China. Though everything is connected with everything else in life—particularly perhaps in the Indo-Pakistan relations—one does not need to look beyond the character of the mutual borders to appreciate the causes of recurrent fighting.

Kashmir, of course, is itself a large disputed area between the two countries; but along their other borders too there are small disputed or undemarcated areas. There has recently been trouble in Kanjorkot along the Sind-Kutch border; and Kanjorkot is a disputed area. Then the recent fighting in Assam has been in Lathitilla-Dumabari, where the border has not been demarcated yet. So, disputed areas, undemarcated borders, and enclaves are the three categories of trouble spots. The Nehru-Noon agreement of 1958 had envisaged that the Pakistan enclaves in Cooch Behar (such as Dahagram) should be exchanged for certain Indian enclaves inside East Pakistan. A part of that agreement also laid down that Berubari—which at present wholly belongs to India—should be divided between the two countries. A stay order passed by the Indian Supreme Court regarding the division of Berubari has delayed the execution of that agreement. Now it is alleged that Pakistan has been recently trying to intrude into Southern Berubari.

Each of the recent border skirmishes, then, has been in an area where there are some physical reasons for disagreement. Of course, even with the presence of such reasons there need never be any fighting if the relations between the two countries were really cordial. Unfortunately that is not so. The heroic attempts of J P, culminating in the goodwill delegation he led to West Pakistan last year, have borne but little fruit. Similarly, the Shastri-Ayub meeting of three hours in Karachi on October 12 last year—though it resulted in a fairly hopeful joint statement—failed to ring in a detente between the two countries.

Be that as it may, for us there is no rational policy other than that of injecting as much goodwill as possible into our relations with Pakistan. No doubt it is a difficult policy: there are the flirtation of Pakistan with China and the rather grotesque misrepresentations by Pakistani spokesmen of our dispute with China. Nevertheless, we have to ignore Pakistan's lapses and be extraordinarily tolerant towards her. There are at least 50 million Muslims in India; the logical conclusion of prolonged hostility between India and Pakistan would be that these Muslims must all go to Pakistan, and all the Hindus in Pakistan must come to India. While Pakistan, given the principle on which it was created, can happily contemplate the later eventuality (and does not seem to be trying to bring it about) no sane Indian can feel happy about the former. There are some Hindus who would like that eventuality to occur sooner or later; but for us to give in to their persuasion would be as tragic as it was for Germany to listen to her Jew-haters. Moreover, since we need to devote so much of our strength to promoting our economic development, our aim ought to be to keep the friendliest possible relations with our neighbours and thus minimize expensive distractions.

There is the basic problem of Kashmir which no doubt defies any easy solution; however, our minimum aim in relations with Pakistan should be to settle permanently as many other mutual problems as possible—after the fashion of the settlement of the Indus Waters dispute: then, contrary to the commonly held view, the solution of the Kashmir problem itself is likely to become easier. Swaran Singh pointed out in the Rajya Sabha, "a major part of the Indo-Pakistani border has been settled through talks and actual demarcation has taken place". This gives us hope for the talks between the two countries on the 4-point plan for Dahagram, which began on 31st March. It will be in our interest to try to persuade Pakistan to broaden the scope of these talks and settle all the trouble spots along the borders once for all. Any generosity we display in such talks is bound to pay high dividends over the long run.

— S K Nath

FROM THE CHAIR

The Syndicate Bank Limited

Statement by the Chairman, Dr T M A Pai

THE following is the Statement by the Chairman, Dr T M A Pai, circulated to the shareholders of The Syndicate Bank Limited, Manipal, with the Directors' Report and Accounts for the year ended December 31, 1964:

It gives me great pleasure to present to you the Profit & Loss Account of the Bank for the year ended 31st December, 1964 and the Balance Sheet as on that date. The Bank's progress during the year has been good. The Syndicate which was founded in the year 1925 has now stepped into its 40th year. Looking back on the years that have passed, we can be proud of our achievements not only from the standards of building up of our deposits and resources, but also from the point of view of the services that we have been able to render to the common man. As a Bank with deposits exceeding Rs 50 crores, the Syndicate is now one among the very big banking institutions of the country. I have no doubt that the great momentum and the dynamism that this institution has had the good fortune to have, will ensure a still faster growth in future years and the Syndicate can look forward to play its due role in the economic growth of our country. Our deposits have crossed the Rs 50 crores mark and have improved from Rs 45.49 crores in 1963 to Rs 51.46 crores as on 31st December, 1964. Advances have improved from Rs 27.83 crores in 1963 to Rs 33.48 crores as on 31st December, 1964. Our Reserves including Share Premium Account and other Reserves now stand at Rs 85 lakhs and are almost equal to our Paid-up Capital of Rs 87 lakhs. The net profits of the year amounted to Rs 48.50 lakhs against last year's Rs 39.92 lakhs. Thus from all respects the bank's working results are satisfactory. Our advances now constitute 63% of capital, reserves and deposits. The cash and bank balances and investments in Government and other securities amounted to Rs 22.99 crores as compared to Rs 21.43 crores for the year 1963. The bills for collection and acceptances portfolio of the bank have almost doubled from Rs 5.60 crores in 1963 to Rs 10.82 crores as on the 31st December, 1964. We have decided to maintain the last year's rate of dividends both for Preference as well as Equity Shares.

Agricultural Finance Department

In my Statement last year, I indicated to you that we were considering the question of agricultural finance so as to help owner-cultivators to increase their agricultural production. We opened up a new Department known as the Agricultural Finance Department in April 1964 and have done considerable field work in the matter and evolved new schemes for financing farmers. Under qualified technical staff, several experiments in the South Kanara District have been conducted in order to get first-hand data about the costs of cultivation, the application of fertilizers and the problems of financing agriculturists, both for short term as well as medium and long term requirements. The experiments that were conducted have been very successful and valuable statistics have been collected. The Bank's scheme of finance for the farmer for production of foodcrops was introduced in the South Kanara District as a pilot scheme and has received enthusiastic support from progressive farmers of the District. South Kanara was selected by us initially, as we have a net work of 46 branches in the Dist. and farmers in these areas are also personally known to the staff of our branches. At present short term loans are granted even without security to owner-cultivators for seasonal needs and minor improvements of the farm with repayments spread over to suit the farmer's convenience and repaying capacity from increased production. We have other schemes of medium and long term loans for land improvement, purchase of bullocks, agricultural machinery and dairy and poultry development. While these schemes have been initially extended to the South Kanara Dist. only, we are financing under another scheme, the purchase and installation of pumpsets for agricultural purposes at all places where we have our branches. The effective rate of interest on all these schemes of agricultural finance has been kept low at 7% p.a. A system of pre-advance inspection for the purpose of processing the proposals and also post advance inspections to ensure the proper utilisation of the finance granted by personnel specially trained for this work has also been evolved as part of the financing scheme. I am also happy to inform you that the Central Government have, after a study of the bank's programmes, written to the State Governments in the States of Mysore, Madras and Maharashtra to give help in all possible ways to the Syndicate Bank and any other commercial banks which may come forward to undertake similar activities and make available such technical advice as may be required. We are very thankful to the Central and State Governments for their assistance and we propose to avail of every facility we can get from whatever source.

It is imperative that banks of the country take keen interest in the financing of the agriculturist. Agriculture has suffered in this country for want of credit more than any other field of economic activity. It is a sad state of affairs that our country, so richly endowed by nature, should depend heavily upon imports from foreign countries for its food supply even after seventeen years of independence. While the country has made great progress in every other field of activity like industrial growth, public works etc, what we have done in the field of agricultural production has been indeed inadequate, particularly in view of the fast increasing population. It should be certainly possible to increase production more quickly in this field than any other field, and what could be achieved in the increase of agricultural production by scientific methods of cultivation, application of fertilizers and better irrigation is not properly appreciated. Increase in agricultural production is the key-note to the solution of a number of our problems including the present acute food problem, and banks of the country must have a revolutionary approach to this problem and give every possible financial assistance to the farmer. While one bank by itself can do little considering the vastness of problems before us, if all commercial banks give special attention to making available agricultural finance, at least progressive cultivators could be encourag-

ed to take up new schemes and increase production by extending to new areas, adopting better and more scientific methods of cultivation and using fertilizers. We propose to extend schemes of agricultural finance to certain other Districts in the States where we operate and intend to continue giving priority to tackling the problems of agricultural finance in the coming years also.

Taking Over of Smaller Branches

The bank took over five smaller banks during the course of the year, namely, 1. The Oriental Union Bank Ltd., Kaduthuruthy, 2. The Kotagiri Bank Ltd., Kotagiri, 3. Sri Ranga Raja Bank Ltd., Mettupalayam, 4. The Kothamangalam Namboodiri Bank Ltd., Quilandy and 5. The South Travancore Bank Ltd., Nayyoor. We have opened six branches as a result of taking over these banks, four of which did not have any office of scheduled banks.

With the merger of these banks, the Syndicate Bank has taken over altogether 20 small banking institutions during the last twelve years. We are deeply grateful to the Reserve Bank of India for the encouragement and guidance given to us in the taking over of these banks as well as other matters. Consequent on taking these over, the Syndicate has been able to provide better banking facilities to the customers of these smaller banking institutions and develop banking facilities at these places. The staff of all these institutions have been taken over on better scales of pay and emoluments of the Syndicate Bank. Every effort has also been made to train up these staff members so that the quality service provided by the Syndicate Bank might be maintained. Even in the case of banks taken over under Sec. 45 of the Banking Companies' Act, we have been able to make good collections on items of advances under collection and pay 100% of their deposits to all depositors. The last instalment due to the depositors of the Peoples Bank Ltd has been recently distributed. We have also been able to distribute the capital and surpluses in the case of two other banks. Steps to realise the money under litigation in the case of the Catholic Bank have been taken, and if litigation ends early, we shall be able to distribute the surplus to the shareholders of that Bank.

New Branches

In 1946, we opened 14 new branches bringing the total number of our branches to 203. The Bank has opened 2 branches in Delhi, one in New Delhi and the other in Old Delhi. One more branch of the bank has been opened at Bombay at Broach Street where we have five branches now. We are shortly opening a branch in Calcutta also. One of the branches opened in Delhi is a Ladies' Branch which is the first All-Women's Bank in Delhi. During the course of the year, we also opened branches for the first time in the Nilgiris District and the Kanyakumari District in the Madras State. I may state that out of the fourteen branches opened in the course of the year, at nine places the Syndicate is the only Scheduled Bank, and we have thus continued our traditions of giving preference to unbanked areas in our branch expansion programme. Our Branches in unbanked areas have been doing excellent work in spreading banking habits in new areas and a large number of them have been able to establish themselves and reach new heights.

All Women's Branches

With the opening of the All-Women's Branch at Delhi, the Syndicate have now 5 All-Women's Branches at Bangalore-Seshadripuram, Trivandrum-Puthenchenthai, Madras-Thyagarayanagar, Hyderabad-Chikkadpalli and Delhi-Karol Bagh. I am very happy that these branches have been able to develop very satisfactorily and the young ladies employed at these branches have earned the appreciation of the banking public by very satisfactory service, besides encouraging the opening of accounts by women and spreading the banking habit among them. At several of our other branches also savings bank counters are looked after by our lady staff and special facilities are provided for women to deal with the bank. I would like to make it clear that these All-Women's Branches handle not only the accounts of women, but of all customers. They are known as All-Women's Branches only because the entire staff of the branch consists of ladies.

Office Premises

The Head Office of the Bank was shifted from Udipi to Manipal last year. Our new building at Manipal was inaugurated on 19th April, 1964 by the Hon'ble Sri C. Subramaniam, Minister for Food & Agriculture. With the shifting of the Head Office to Manipal, all the Departments are now integrated in one building, and it has been possible for us to provide the staff with ideal conditions of working amidst the picturesque surroundings of Manipal. The Bank's building programme to provide better premises for its branch offices has also made very satisfactory progress. We have put up a very fine five storied building at Bangalore-Gandhinagar which is being inaugurated in April this year. Similarly, the Bank has also completed its new buildings at Cochin, Bellary and Hospet, and it has now taken up building construction for its offices at various other places like Thirthahalli, Guntur, Moodbidri, Cannanore, Bantwal, Aantapur and Chickmagalur. It is our desire to see that adequate space and every convenience is provided for the customers of the Bank and our staff at all our offices. Besides putting up our own buildings wherever convenient, we have been able to get suitable premises and to have buildings constructed to suit the bank's needs at several other places.

Modernisation Programmes

With the great increase in the quantum of work on account of the growth of the institution and in view of the large increase in its clientele, the Bank finds it necessary to switch on at a few offices to more modern mechanical systems of accounting. We propose to introduce the IBM at the Head Office at Manipal and we are also considering introducing modern mechanical methods of accounting at one of our branches this year. Our Organisation & Methods Division at the Head Office is continuing its efforts to find out better methods and it is our keen desire to see that our methods of working are improved with the growth of business so that efficiency may be maintained at high levels.

Foreign Exchange

The Foreign Exchange Department has had another very successful year. The Bank now transacts foreign exchange business from seven centres and we have established a good net work of correspondents all over the world. Several of the Directors and Officers of foreign correspondent Banks paid us a visit at Manipal during the year. Notable among these were the Deputy Chief General Manager Mr H W Norris and Mr R J Angus, Asst Manager (Overseas Branch) of the Westminister Bank, London and Mr V K Sondhi, Manager of the Bank of America.

Industrial Finance Department

With our increasing participation in industrial advances, both the number of units (small and large) financed by us in different fields of production as well as the quantum have risen. The Bank has continued to encourage advances to small industries and enterprising entrepreneurs in keeping with its policy of assisting the common man.

Staff Training

The Staff Training College at the Head Office has been able to improve its standards and to train up more than 700 young men and women so far in the clerical as well as officer's cadre. We have also continued to make use of the facilities given by the Staff Training College of the Reserve Bank of India, Administrative Staff College of India, the Small Industries Extension Training Institutes and other organisations so as to provide training for our officers not only in banking techniques, but also in management and administration to make them fit for the responsibilities a banker has to take up today.

Sri T A Pai

Our Managing Director, Sri T A Pai availed himself of an opportunity this year of going abroad, and paid visits to various countries both in the East and the West, establishing close connections with foreign correspondents. I am happy that during the course of his visits he made a special study of the organisations and the methods of working in foreign banks and we are effecting improvements in our own systems in the light of his studies and observations. I also had opportunity of going to the Continent and the United States of America this year and was very happy to find the great amount of goodwill and friendship that the people of these countries have towards our country as a growing democracy with great traditions. My contacts with several banking institutions overseas were very pleasant and useful.

Sri T A Pai was requested to take over the Chairmanship of the Food Corporation of India with effect from the 1st January, 1965. In view of the vital needs of the country and our conviction that he would be able to make a valuable contribution for the success of the Corporation by being its first Chairman, our Board decided to spare his services to the Food Corporation for a period of one year from the 1st January, 1965. His appointment as the first Chairman of the Corporation, when the problems facing the Corporation are of such great magnitude, is no small tribute to his dynamism, zeal, power of organisation and ability to solve problems and I am sure that with these qualities, he would be able to organise the Corporation and set it up on sure foundations. No doubt, the difficulties are many and the problems are baffling. I would request every person in this country to cooperate in this period of crisis and see that the Government and the Food Corporation are able to solve the problems of scarcity of food and high prices. The directors very much desire that Sri T A Pai comes back to the Syndicate as the Managing Director after the expiry of his term of appointment for one year in the Food Corporation. It is indeed an honour to the Syndicate that its Managing Director should have been called upon to be the first Chairman of such a great Corporation. We are fortunate that Sri T A Pai continues to be with us as the Vice-Chairman of the Bank, and the benefit of his all-round experience will be available to the Bank even during the current year. He has made a very great personal sacrifice by declining all remuneration from the Food Corporation as well as from the Bank.

I am also thankful to our friends who have showered on me their good wishes and greetings on the occasion of my having been awarded the "Padmashree" by the President of India. I greatly appreciate and value these good wishes and pray that it may be given to me to continue my work for public good, whether in banking, education or other fields.

Sri K K Pai, Chief Officer

The Directors have appointed Sri K K Pai, B Com, Deputy Chief Officer of this Bank as its Chief Officer, in the place of Sri T A Pai who resigned from the bank to take up appointment as Chairman of the Food Corporation of India. Sri K K Pai has had the benefit of a good collegiate career and wide experience not only in banking, but also in the social and educational fields and public administration. I am sure the bank will progress this year under his leadership. We are very keen that while the bank should grow even faster than in the past, it should not be at the sacrifice of efficiency, and that the Syndicate should continue to improve its services to the common man as effectively as it has been doing so far.

General

This year has been one full of significant events both at home and abroad. The country has lost Pandit Jawaharlal Nehru who had symbolised the country's hopes and aspirations and had guided our destinies since independence. With his passing away, a progressive era in the country's history has come to a close. We are fortunate in having as his successor another great son of India who has devoted his life for the cause of the country, Sri Lal Bahadur Shastri. Though politically the change over has been smooth and our new leaders have taken up their responsiblities enthusiastically, I am sorry the economic conditions have continued to deteriorate and the price level has been going up steeply, causing great suffering to the poor and middle classes. The cost of living index which was 137 in September, 1963 had increased to 159 in September, 1964 and in fact the real costs are higher because many of the essential commodities are not available at controlled or fair prices. It is necessary to take quickly drastic measures to restore the economic equilibrium, and stability in the price level and the cost of living, as otherwise with the spiralling price level and inflation and consequent suffering, the public confidence in the ability of the Government to meet the situation is bound to be lost. Any inducements which banks can offer by way of higher rates of interest on deposits can have little meaning to depositors unless stability in the price level can be assured over a period of time. If the value of the Rupee in terms of real goods continues to go down steeply, the savings of people are likely to seek other avenues of investment and investments in real goods and properties leading to further increase in prices rather than be kept in bank deposits or invested in Government loans or certificates.

There have been important events for the banking system by way of increase in the Bank rate twice during the period of 5 months from September, 1964 and by way of controls im-

posed by the Reserve Bank of India, firstly on deposit rates and secondly a ceiling on advances interest rates for all foreign banks and Indian scheduled banks with Demand & Time Liabilities in excess of Rs 50 crores. In September 1964, the Bank rate was put up by ½% from 4½% to 5% and again now on the 17th February 1965, the bank rate has been stepped upto 6%, an unprecedented level in India. The increase by 1½% in such a short time has been indeed startling and may have far-reaching effects on the country's economy and banking system. In September last year the Reserve Bank issued a directive to Banks regarding the maximum rates of interest to be allowed on short term deposits upto 90 days and on the 17th February, 1965 another directive has been issued, revising upwards not only the maximum rates of interest to be allowed on short term deposits upto 90 days, but also fixing the minimum rates of interest that may be offered by banks for long term deposits of above 90 days upto 2 years. For the first time, the central Bank of the country has fixed the rates of interest on deposits and the maximum rate for advances. Banks have been having their own agreement so far in respect of the maximum rates of interest to be allowed on deposits, but in order to bring up these rates to attractive levels to make long term savings worthwhile, as against short term deposits of less than 90 days, the minimum rate for deposits of over 90 days has been stepped up by 1% over existing levels under the directive. The new control measures of the Reserve Bank indicate that the banking system of the country must be prepared for greater amount of control all-round. As far as the rate of interest on advances is concerned, the Reserve Bank had fixed a ceiling of 9% for advances in respect of Indian scheduled banks having Demand & Time Liabilities of above Rs 50 crores and all foreign banks under their directive of the 25th September 1964, which has been now amended on the 17th February, 1965 to make the ceiling rate 10% for such banks. The liquidity ratio to be maintained by banks under the Banking Companies Act has gone up from 23% to 28% in 1964. New formula has been adopted for lending by the Reserve Bank of India to Scheduled Banks based on the liquidity ratio of the concerned banks. The minimum net liquidity ratio of scheduled banks for borrowings at the bank rate from the Reserve Bank on Government Securities has also been raised under the new formula of the 17th February, 1965 to 30% from the former 28%. This therefore puts up the cost of borrowing for scheduled banks from the Reserve Bank, even beyond the 1% increase consequent on the increase in bank rate to 6%. A bank with a liquidity ratio of 28% would have to pay 7% on borrowings from the Reserve Bank against 5% before 17th February, 1965. With the ceiling raised to 10% and the curbs on advances that will be necessary for commercial advances, funds will be more costly and difficult to get in future. The new directives reflect the continuing concern of the Reserve Bank over price situation and have the objectives of curbing of bank credit and development of deposits of banks by attracting fresh money to the banking system by higher deposit interest rates. It is however too early to say what the effect of these measures would be on the country's economy. As far as some of the old directives issued by the Reserve Bank of India are concerned, I feel that it is high time some of them particularly in connection with the advances on food-grains are reconsidered. The impression that bank advances have encouraged piling of food stocks or speculation in these commodities is, in my opinion, not borne by actual facts. Advances on food-grains (including paddy and rice, wheat, grams and other grains) have been going down steeply from year to year as can be seen from the fact that bank advances on foodgrains which were Rs 28.23 crores in October, 1962 declined to Rs 22.37 crores in October, 1963 and Rs 13.24 crores in October, 1964. Unless Banks can provide the finance to the merchant class to hold stocks to meet seasonal needs, the wide fluctuations in the prices of commodities from season to season cannot be avoided. In view of the fact that the Food Corporation has come into existence and banks in the country are interested in financing the food trade, I should think that the Reserve Bank directives in the matter of advances on foodgrains could be removed so that banks may be enabled to participate in the trade and help stable prices.

Lastly, I would like to convey my special thanks to all our valued customers for their continued patronage, to the Bank's Directors and shareholders for their enthusiastic support and to Sri T A Pai who as the Bank's Managing Director upto the end of 1964 spared no pains in building up this institution from year to year. I am also deeply appreciative of the services of our staff members and particularly of Sri K K Pai, Chief Officer. I am sure, with the continued enthusiasm and dedication of the members of the staff, the Bank will reach new heights during the year, and its 40th year will be one which will bring greater success and more avenues for service to it, so that the Syndicate might continue to be an institution working for public good and the economic prosperity of the Country.

Guest, Keen, Williams

WITH the final dividend raised by one per cent to seven per cent Guest, Keen, Williams is paying a total of 13 per cent for 1964 compared to 12 per cent paid a year before. But in view of the bonus shares issued last year the total distribution will cost the company nearly Rs 20 lakhs more than the amount disbursed a year ago. In spite of this it has been possible to transfer an almost equally higher amount to general reserve.

The preliminary profit figures for the 53-week period ended January 2, last, show advance in pre-tax profits of the order of 47 per cent from Rs 2.15 crores to Rs 3.16 crores. Out of this, Rs 6.66 lakhs have been taken away by debenture issue expenses on which account there was no expenditure last year. The smart rise in profits has invited a higher tax charge of Rs 165 lakhs against only Rs 136.59 lakhs, which also included Rs 26.34 lakhs being the tax on last year's bonus share issue. A sum of Rs 7 lakhs, against Rs 6.77 lakhs, is credited to taxation equalisation reserve but then Rs 13.64 lakhs have been withdrawn from excess tax provisions for previous years and additional taxation reserve from which the previous year's write-backs amounted to only Rs 2.12 lakhs. After these adjustments, the surplus is nearly a half crore more at Rs 124.06 lakhs against Rs 74.15 lakhs previously.

Allocation to debenture sinking fund is Rs 5 lakhs against Rs 5.05 lakhs but development rebate reserve claims Rs 13.75 lakhs against Rs 2.17 lakhs, which was the net appropriation after setting off Rs 4.77 lakhs being the development rebate reserve written back in respect of plant and machinery sold last year. The interim dividend already disbursed at 60 P absorbed Rs 37.93 lakhs (Rs 25.20 lakhs) and the proposed final should take away Rs 44.25 lakhs (Rs 37.93 lakhs).

United Bank of India Limited

Dr Dutt's views on Development Bank

Link Between Bank Rate and Deposits Rates Advocated
Budget Proposals Welcomed

THE following are excerpts from the speech delivered by Dr S B Dutt, Chairman United Bank of India Ltd, at the Annual General Meeting of the Shareholders of the Bank held on 29-3-65 at Calcutta.

Gentlemen,

It gives me great pleasure to welcome you all to this 15th Annual General Meeting of the Bank. The Directors' Report, Balance Sheet and Profit & Loss Account have been with you for quite some time and I am sure you have studied them with interest.

Since we last met the country has suffered a great loss in the death of Prime Minister Jawaharlal Nehru. Not only India but the world at large has deeply been feeling the void caused by his demise. The best and most lasting memorial that his grateful countrymen can erect to perpetuate his memory will be by ceaseless and rational endeavours to achieve the goal he had set for an integrated and economically prosperous India at peace, and on terms of friendly co-operation with the nations of the world.

Bank's Progress

It is satisfactory to note that the interim target for deposits for the year 1964 set by the Chairman in his statement to you last year at Rs 85 crores has been exceeded by over Rs 3 crores. We are confident that with the continued support from all quarters that we have been receiving, the target of Rs 100 crores of deposits set for the two-year period ending 1965 will also be fulfilled well before the year is out.

Operating Costs

Despite the growth of working fund exceeding Rs 97 crores achieved in 1964, the year has been one of strain, due to a sharp rise in operating costs. The establishment cost of the Bank has gone up by Rs 45 lakhs to Rs 2.36 crores, representing a rise of 23.5 per cent over the year. At the same time interest paid on deposits by the Bank during recent years has been rising steadily. There have been further upward revisions during the later part of last year and early this year.

New Head Office Building

I am happy to report that satisfactory progress has been made with the preliminary arrangements in connection with the construction of a multi-storeyed building on Old Court House Street at the site acquired last year. Demolition of the existing structure on the site was started during the year and the work is progressing satisfactorily. It is proposed to lay the foundation stone within the next few months and to start construction during the year.

Staff Training

In order to cope with the expanding business with the complexities that are developing every day, it becomes incumbent on the Bank to provide suitable training to its managerial and clerical staff at all levels. With this end in view, a Staff Training Centre has been established by the Bank at Calcutta last year. The Centre is making satisfactory progress.

Economic Situation

The economic situation prevailing in the country has for the past few years been characterised by the twin factors of sluggishness and rising price-level. The rate of growth of industrial production has slowed down and the situation as regards agricultural production is, if anything, less happy. The capital market is practically stagnant. Both the existing and the new enterprises are finding it difficult to raise resources from the capital market. The underwriters are heavily committed to the extent of straining their resources.

Whatever may be limitations of the stock exchanges and their importance in indicating the economy's mood in general, I believe that they have a very important place in the country's economy, more so when the rate of capital formation plays such a crucial role in achieving economic development. I would therefore urge on all concerned to take measures to reactivise the stock exchanges in the country.

Development Banks

I would like to make a few observations on the functioning of development banking in general in the country. As is well known, before taking a decision to assist an industrial project, development banks evaluate its potentialities from all possible aspects. It so happens that in a number of cases unforeseen difficulties of various kinds crop up in the implementation of such a project. It must be accepted that these unreckoned-with difficulties arise due to factors beyond the control of entrepreneurs, technicians or financiers. When such a situation develops, there is a feeling that the development banks get hesitant, particularly so when further financial help is required to overcome the unanticipated difficulties.

Such obstacles are perhaps inherent in the process of industrialisation which we have undertaken. It would therefore be unfortunate if development banks took a gloomy view of the entire project when faced with such unforeseen difficulties and hesitated to extend further assistance vitally required to overcome them successfully. While the attitude of development banks is understandable to a certain extent, it would appear to strike at the very root of the objectives of a development bank which should be to nurse a project and bring it to fruition at the earliest. It is hoped that such hesitation on the part of development banks will gradually wear out. One would further wish that this process were expedited. For until then — and in the context of the present dormant state of the capital market — new entrepreneurs with limited resources will be deterred from coming up with new ventures and the field will continue to remain with the established houses alone.

Term Loans

A word here about the role of commercial banks in providing term finance may not be out of place. We have always believed that the role of the commercial banks in extending long-term finance should be limited. For, besides the question of the short-term nature of their liabilities, the demand on the resources of commercial banks for meeting working capital requirements of industry and trade has been increasing at a faster rate than that of the growth of their resources.

Another significant development in industrial financing must be borne in mind. As I have already stated earlier, it has lately been noticed that for various reasons the gestation period of an industrial enterprise tends to be longer than that envisaged at the commencement on strict technological considerations. The original financial estimate thus gets upset and the enterprise is faced with the problem of finance to tide over the period, until eventually it is able to obtain adequate funds either from a development bank or through the capital market or both. It is at this stage that the role of commercial banks in providing temporary financial assistance becomes more important than that of providing term finance generally. It is, therefore, essential for the health of industrial financing that the role of commercial banks in normally extending term loans to industries be restricted.

Agricultural Finance—Role of Banks

Naturally, in view of the crisis on on the food front, thoughts have turned to the role of commercial banks in financing the agricultural sector. In this field besides financing the movements of agricultural commodities, banks also render assistance to plantation industries like tea, coffee, sugarcane, etc, but their assistance to the producers of foodgrains has remained limited. There are valid reasons for this. Primarily, agricultural activity has still not been able to shed its characteristics as a subsistence and unorganised activity, and coupled as it is with a high degree of dependence on weather, it remains a great financial risk. In addition, as a policy measure the co-operative credit structure is being evolved precisely for meeting the financial needs of this sector. In fact, financing of agricultural activity is believed, as it were, to be an exclusive field for the co-operative credit system.

It is not, therefore, that banks are unwilling to play their role, but the conditions to enable them to do so are non-existent. If like plantations, the entire agricultural sector could be placed on an organised and market-oriented basis, the pre-conditions for commercial banks' assistance would be created.

Monetary Policy

Among the more recent events, the one which interests and affects us greatly was the package announcement in February this year of a rise in the Bank Rate to 6%, increase in the liquidity ratio for the purpose of Reserve Bank's lending to commercial banks, a higher ceiling rate for loans and advances and prescription of interest rates for various categories of deposits. Not only has the availability of the resources from the Reserve Bank been restricted, but its cost has also been increased considerably.

The price situation which has been aggravated by a sharp rise in foodgrains prices is a resultant of a number of variables, important among which is the position of supply. It is admitted on all hands that inadequacy of supply, coupled with absence of rational pricing policy and proper distribution arrangement, caused the acute price situation in the natural course of events. Unlike other advanced countries, in the pattern of consumption discretionary spending is practically absent in the budget of the average person. Food still dominates the consumption pattern and therefore hardly allows for any adjustment. What appears, therefore, as an inflationary situation as reflected in the rising price level is not likely to have been generated by monetary developments. Under these circumstances, whether the monetary measures adopted are likely to help to any significant extent in controlling the price situation remains an open question.

Implications of High Rates of Interest

In the present situation a higher structure of interest rates will add to costs all round and will result in higher prices to that extent. It also affects the capital market adversely inasmuch as the expectations regarding return on capital also has gone up, to fulfil which the profitability of capital has to rise, perhaps more than proportionately. If in such a situation fresh capital has to be raised, the enterprise will have to ensure a higher dividend than that possible at present, — which seems uncertain — and the public response may not be any better than that currently experienced.

It may seem conceivable that economy in the use of capital resources could be induced by higher structure of interest rates. It may also be possible that such a structure of interest rates could lead to a more rational pattern of investment. However, in the context of a comprehensive system of control on the use of capital resources and a directed pattern of investment in accordance with the predetermined social and economic goals, the instrument of interest rates loses much of its allocative efficacy. It is therefore to be hoped that the Bank Rate may soon be revised downward from its present high level.

Deposit Rates

While these measures were adopted in the monetary spheres, an unusual step was taken in that minimum rates were specified in the matter of interest which the banks should offer for deposits of various periods, beginning with deposits for 91 days and over. Interest rate on Savings Bank Deposits was fixed at 4 per cent. It was only last September that the Reserve Bank had prescribed maximum rates of interest for various types of deposits not exceeding 90 days. The present measure is unprecedented inasmuch as (a) the rates prescribed cover both notice-money and term deposits, and (b) the term deposit rates prescribed are the minima.

Such a step will adversely affect bank-profitability. The need for strengthening the banking system by a greater plough-back of profit is today very important, particularly in view of the functional and geographical expansion of banking services. As a result of rising establishment costs, much of which are linked with the price level, the profitability of banks has already been adversely affected. The lower the profitability the lesser is the ability to plough back earnings. This development also limits the ability of banks to raise fresh capital funds.

The differential between the average rates of interest on advances and deposits is a very important factor to be borne in mind. This differential, low as it already was, has further been reduced by the impact of the present directive. It must be remembered that the structure of deposits has undergone a change during the past few years and that savings and time deposits are disproportionately high. Any upward revision of the rate of interest on such deposits is bound to have a much greater impact on the differential I have referred to than what would appear on the face of it.

Today, as the situation exists, the rate on one-year deposit is equivalent to the Bank Rate. It is rather a high level. I believe that there is a limit beyond which any increase in deposit rates will fail correspondingly to mobilise fresh deposits; on the other hand, it will cause a net adverse effect on banking operations. In other words, there is a range within which interest rates could be moved with some advantage. But when it exceeds the upper limit the advantage, if any, is negligible, while its impact on the costs of banking services becomes disproportionately high.

It is therefore that one feels the need for an early establishment of some orderly relationship between the Bank Rate and rates on bank deposits, so that it would not upset expectations and create uncertainty when lowering of the Bank rate causes a lowering of deposit rates. In the U K maximum deposit rate is 2 per cent below the Bank Rate. In India the rate on one-year deposits at least should bear a similar relationship and be kept at 1 per cent below the Bank Rate. Rates on deposits of other maturities could then be adjusted correspondingly.

Fiscal Policy

It gives me pleasure to say that the budget for 1965-66 presented to the Parliament is the first, in recent years, to have shown a small surplus. More than the amount of surplus, the significance lies in the fact that deficit financing, for the time being at least, has been avoided. At the same time disguised deficit financing, undertaken via subscription to Government loans by the Reserve Bank, will be restricted, if not eliminated altogether.

It is also significant that the contribution which indirect taxes have been making to the high level of costs and prices prevailing in the economy is recognised, and by reducing or repealing excise duties on a number of articles, it is sought to exert a downward pressure on prices. Similarly, the adverse impact of the very high level of personal taxes is also taken note of and steps have been taken to reduce the burden at all income levels. In the field of corporate taxes, recognition has been accorded to the role of tax reductions in increasing industrial investment, production and exports.

It may be that the budget as a whole has not come up to the expectations held by certain quarters. The principle of selectivity that has been adopted for providing incentives may appear to be unsatisfactory. However, one feels that perhaps it was not possible to do more than what has been done, particularly when action is required on several fronts simultaneously. On the part of business and industry, apart from the monetary value of the concessions and reductions, the budget should serve as a symbol of the Government's policies which will be geared towards achieving higher development all round. I earnestly hope that this recognition will be allowed to take its logical course in the form of further relaxations and modifications as and when time and circumstances permit.

Before I conclude my remarks this morning I would like to express my thanks to my colleagues on the Board for their co-operation; to the members of our Advisory Committees for their support; to the Managing Director, senior officers and all other staff members for their services which have resulted in a year of satisfactory progress. I also thank you all for coming to the meeting and giving me a patient hearing.

(NOTE : This does not purport to be a record of the proceedings of the Annual General Meeting).

Asian Cables Corporation Limited

Address of the Chairman Shri Girdharlal B Kotak

THE following is the Address of Shri Girdharlal B Kotak, Chairman, Asian Cables Corporation Limited, at the Fifth Annual General Meeting of the Shareholders of the Company held in Bombay on March 30, 1965 :

Friends:

Immediately after the conclusion of the last Annual General Meeting at which we met in April 1964, the country suddenly experienced a shock in the sudden and sad demise of our beloved late Prime Minister, Shri Jawaharlal Nehru. Our countrymen were never accustomed to the thought of being without Shri Nehru at the helm of our country's affairs. We felt so secure and safe with him, in our midst, that even when the Chinese horde suddenly rolled down the Himalayas, in surprising blitz-krieg advance on Assam, we never felt panicky.

The Country has shown remarkable sense of discipline and responsibility, immediately after Shri Nehru's sudden demise, in rallying round and electing Shri Lal Bahadur Shastri as our next Chief to guide the destinies of the Country, in such tumultous and troublesome times, as we have at present.

Although the Annual Report and the Statements of Accounts of the Company for the year ended 30th September 1964, try to show the final results of the working of the Company during the year under report, I maybe permitted to observe that they do not tell a complete story about the trials and tribulations an industry has to undergo during its working, especially at a time when the country's whole economy is working under every severe strain. Contrary to the expectations of the last year, the depression in the markets, which had shown itself consequent upon the large scale aggression on our frontiers, did not lift up completely. The sudden steep rise in the prices of raw materials and food stuffs due to inflationary pressures resulted in large scale unrest in the labour situation.

There was difficulty also on account of a further change-over from copper to aluminium in some more varieties of cables under the directive of the Central Government. Any such radical change adversely affects the efficiency and production. Now the third change-over, and let us hope the last of the changes from copper to aluminium in the small sizes of Rubber or PVC Insulated became effective on 1st January, 1965. With every change from copper to aluminium it is observed that while the reputed manufacturers abide by the change faithfully, still large stocks of cables with copper conductor are available in the market for a long time. With the normal customer's preference for cables with copper conductor, the production and sales of cables with aluminium conductor are slow.

Added to this is the tightness of the money market and the capacity of

the market to hold stocks and pay for the same on due dates. I am afraid the dearer money policy will have an adverse impact on production.

Unfortunately, there were two strikes during the year under report, one in January 1964 for 15 days and another at the end of our Financial Year in September. But for these strikes the result would have been different from what has been presented to you. During the first five months of the current year, we have been able to sell VIR and PVC cables worth Rs 52 lakhs as against 25 lakhs in the same period last year. We have on hand orders for about Rs 45 lakhs. We can therefore safely expect to sell over a crore worth of cables of Project I during the current year. At the same time I must confess that in the domestic markets so far as products Project I are concerned, there will always be much competition and very little margin; but I am quite confident about the products of Project II, which should handsomely supplement the meagre margins of Project I. We have already sold in advance power cables both PVC and PILC, the products of Project II, amounting to about a crore and thirty lakhs.

Project II—Power Cables

(a) One section for the manufacture of PVC Power Cables is ready and we hope to commission the Plant by the middle of April 1965. The first programme of manufacture will be Unarmoured PVC Cables. As soon as the operatives are trained, we shall go into manufacture of the armoured type Cables and also bigger sizes.

(b) The installation of all types of equipment for the Paper Insulated Power Cables upto 33 Kv is nearing completion. We expect that by June 1965, we shall be commencing trial runs on the manufacture of bigger types of cables.

(c) For both PVC and PILC Power Cable manufacture we have already got a team of 11 Indian Technicians, who were trained in our Collaborators' works in England. In addition our foreign collaborators will be sending their team of experts to assist the Company in starting up manufacture and training the operatives.

Magnet Wire

The main equipment for the Magnet Wire Plant consisting of the ovens have now been received and installed. This section will also be ready for commencement of trial production by July 1965 and production of marketable quality during August of this year.

Export

During the year under report we have started export of our cable products. We are working hard on it in order to earn the much needed foreign exchange for the country and, as far as one can see, larger turnover is expected during the current year. The great handicap to our export is the high cost of raw materials which goes into making the cable. For example Polyvinyl Chloride (PVC) costs to the foreign competitors Rs 2,200 per ton while the indigenous PVC costs Rs 7,300 per ton i e, 232 per cent higher to the Indian Cable manufacturer. I would urge on the Government that the raw materials required for export should be supplied to the manufacturers at the international prices; for this purpose, the indigenous manufacturers of raw materials may be given a subsidy wherever necessary. This will enable the manufacturer to cut down the cost of cables for export.

In order to regularly supply engineering industry with imported raw materials like copper, zinc, tin, lead, etc, I endorse a suggestion that there may be some Government agency—it may be the State Trading Corporation or a special bank for the purpose which may import such raw materials, stock them and supply to the industry according to their requirements. This will reduce the inventory carrying cost which comes to 6 tp 7 per cent; this is quite large as you will see from the increased amount of interest charges in the balance sheet. Such an arrangement will avoid shortages and surpluses in raw materials, both of which are not in the interest of the industry; and at the same time ensure a smooth flow of raw materials. It will greatly benefit the industry and the country.

You will see under column I of the table that production of VIR and PVC Cables is 172 million core yards within six months. Within 12 months the production may be expected to be about 400 million core yards. This is very much less than the plan production target of 600 million core yards. Even at this low production the market is full of stocks and the demand is not able to absorb even this below-the-target production. It would, obviously, appear that the planned targets were too optimistic. The Industrial Licences, unfortunately, have been issued on that basis and therefore, there is unused capacity in the industry for VIR and PVC Cables.

I have attempted here to give a picture of the cable industry in general and the working of our Company. I am fully conscious that the results have not been satisfactory; but I now feel that we have almost turned the corner and I hope that I may be able to give you more cheerful account at the next meeting.

Note: This does not purport to be a report of the proceedings of the Meeting.

Targets for Required Capacity and Production of Cables in the Third Five Year Plan

Particulars	VIR/PVC Cables *(in million core yards)*	Power Cables (PILC & PVC) *(Miles)*	Winding Wires *(Tons)*
(1) Capacity—Target for 1965-66	800	4,500	32,000
Licensed to November '64	1,123	5,746	28,529
(2) Production—Target for 1965-66	600	4,000	24,000
Actual half year April-September '64	172	1,408	4,600
(3) Estimated requirements 1970-71	1,531	15,625	55,000

Kamani Engineering Corporation Ltd

A Successful Year of Working

Chairman Shri R H Kamani Outlines Expansion Programme

STATEMENT of Shri R H Kamani, Chairman, Kamani Engineering Corporation Ltd at the 19th Annual General Meeting of the Shareholders held in Bombay on 30th March 1965.

I take great pleasure in welcoming you all here today to this 19th Annual General Meeting of the Company.

The past year has been a very critical one for the country. We lost our beloved Prime Minister Jawaharlal Nehru. Tributes to his memory from all over the world bore an eloquent testimony to his greatness. Shri Nehru was one of the principal architects of our Independence on whom fell the glorious task of piloting the nation through the formative years on the morrow of independence. The void created by his death will not be easy to fill. All of us must, therefore, exert ourselves to the utmost to extend and enrich the efforts for the improvement in the standard of living of the people. We can take some comfort from the orderly transition to the post-Nehru era which many had feared would be extremely difficult. We offer our heartiest congratulations to Prime Minister Lal Bahadur Shastri and his colleagues and wish them all success.

Agriculture and Industrialisation

The year was marked by a severe food crisis the like of which had never been seen before. We have just perhaps turned the corner of the critical situation. While on this topic of food problem, it is important to understand that any significant increase in agricultural productivity is now very much dependent on industrialization. The complementary character of industrialization to agricultural development needs to be fully realized. Rural electrification can play a very useful role in facilitating the use of modern technology by our agriculturists. By promoting the spread of electrification our company is not only assisting the efforts for industrialization but is also supporting in a very substantial manner the efforts of improving agricultural productivity and raising the standard of living of the people.

Rising Prices

Rising prices have become a source of constant worry to the nation. Commerce and industry are immediately affected by rising prices, which induce costs to go up generating friction between employers and workers, lowering productivity, affecting industries' competitive capacity and weakening export efforts. Our company has had to pay Rs 2,34,000/ more as a result of increased cost of living during the year under review. The Planning Commission and Government have often spoken of the need to keep prices under check. In practice, however, this objective has not been achieved. It is to be hoped that the Government will now give a more serious thought to this aspect of the economic problem. In our company we are doing everything possible to keep prices down, despite the rising costs of raw materials and labour. Between 1954 and 1964 the basic cost of steel alone went up by Rs 287 per tonne from Rs 433 to Rs 720. Yet the selling price of a tower increased only by Rs 100 during the same period. This was possible only by the success in our constant efforts to reduce costs through improved designs and better mode of working.

Working of the Company

The company did well during the year under review. The company earned a gross profit of Rs 35.04 lakhs during the year ended 30 September, 1964 against Rs 32.24 lakhs in the previous year.

The dividend was maintained at the preceding year's level at 12 per cent.

Allocations include Rs 2.27 lakhs for the Managing Agents' remuneration as against Rs 3.04 lakhs in the previous year, and Rs 7.49 lakhs for depreciation as against Rs 6.55 lakhs. The estimated tax liability will be Rs 16.60 lakhs against the provision of Rs 21.50 lakhs made in the previous year.

The development rebate absorbs Rs 36,000 against Rs 37,000 in the preceding year. The net allocation to the General Reserve has been raised from Rs 5.15 lakhs to Rs 6.15 lakhs. The company can confidently look forward to the future since the extension of the electrification programme will naturally result in an increased demand for the supply of transmission line towers. Transmission of high voltage electricity over long distances is a very difficult task and can be handled only by companies having adequate technical skill and manpower. The creation of the zonal power grids and the national power grid will increase the demand for such long distance transmission of high voltage electricity. The experience gained by the company in the field during the prevoius decades places the company in a particularly favourable position to handle such difficult jobs which are vital for the nation's progress.

Steel Structures and Erection

The production of galvanized and painted steel structures during the year under review was 18,248 tonnes which is almost the same as that of the previous year. Production could not be increased further as the company continued to encounter difficulties in getting tested steel of required sections.

Sales of factory products and erection work undertaken during the year amounted to Rs 3,95,13,965.

Orders on hand for towers and structures at the end of the year were 45,422 tonnes and for erection of transmission line, the pending orders were 3,597 kilometres.

Railway Electrification

The Indian Railways have spent about Rs 110 crores on electrification of tracks during the last 40 years, but still the programme is reported to be 20% behind the target. Our company has been entrusted with the work of railway electrification for 370 kilometres in Group 18 of the scheme of railway electrification from Igatpuri to Nand-

gaon. During the period of the fourth Five Year Plan 3,348 route kilometres (6,975 track kilometres) of railway are proposed to be electrified. With the achievement to its credit our company can confidently look forward to playing a very substantial role in railway electrification during the next plan period as well.

Ropeway

The company has also secured an order, in collaboration with the well-known German firm of M/s Pohlig-Hecle Bleichert Vereinigter Maschinenfabriken Ag for the installation of a ropeway from Chasnalla to Burnpur for the Indian Iron & Steel Co Ltd for a distance of 60 kilometres. The ropeway will have a carrying capacity of 450 tonnes per hour and will be the heaviest ropeway in the world for the distance covered.

Road Rollers

Due to the very considerable increased interest and demand for "Tractamount" Road Rollers, a separate Department was constituted in June 1964 to look after planning, production, and sales of road rollers.

The number sold in the six-month period ending 30 June, 1964 was the highest for any previous half year.

I am pleased to announce that the production during the half year ending December 31, 1964, left the previous record figure far behind.

Plans are now in hand for considerable expansion of the Tractamount road roller department with an annual production of 300 road rollers as the target.

Expansion Project

The company has decided to raise its annual production capacity from 24,000 tonnes to 60,000 tonnes. The expansion project consists of modernisation and expansion of the existing plant at Kurla, Bombay, so as to raise its production capacity from 24,000 tonnes to 30,000 tonnes per annum, and the installation of a new plant at Jaipur in Rajasthan with a capacity of 30,000 tonnes per annum. The total capital expediture for implementing the expansion programme in Jaipur and Bombay is estimated at Rs 170 lakhs. Applications for raising long-term loans to the extent of Rs 98 lakhs including the foreign exchange requirement are being made to the financing institutions and the balance will be arranged from the company's internal resources. The company has already purchased about 50 acres of land at Jaipur West Railway Station and the development on this is now in progress. A new office has been opened in Jaipur to look after the work of expansion.

Testing Tower

The tower testing site at Bombay was dismantled under terms of an agreement signed with the Central Government on 17 June, 1964. The company has already received from the Government Rs 4.50 lakhs by way of compensation and expects to receive a further sum of Rs 1.50 lakhs on the completion of the construction of the new tower testing station at Jaipur.

Exports

The value of exports of engineering goods from the country had gone up from Rs 13.47 crores in 1963 to Rs 16.86 crores in 1964.

Our company has played a creditable part in promoting the export of the non-traditional goods from India. The company executed orders from the Philippines which included designing, testing, manufacturing and shipping, in the record time of seven months. The Nigerian Government order for the supply of 132 KV Transmission Line Towers was also executed for the most part. Earlier, the company had exported its products to Canada, New Zealand, Thailand, Taiwan, West Indies and Tanganyika. The company's growing maturity in the export field is shown by the fact that these orders were secured by the company in face of stiff competition from suppliers from other countries.

In the field of export, however, the company has suffered from several handicaps. Only a limited range of steel sections is rolled in India as compared to a much larger range produced in other countries. As the Indian tower designer has thus to limit his designs to the available sttel sections, he is compelled to make use of heavier sections, unnecessarily adding to the weight of the towers. As towers are repetitive structures required in large numbers, any undue increase in weight will inflate the cost and reduce the competitive appeal of Indian-made structures.

Agency Activities

The working of this department has shown a tendency towards reduction in turnover. However, the commission earned during the year is Rs 10,53,559, only about Rs 50,000 less than the commission earned last year.

As you are aware, the company in its general meeting held on 28 December 1964, decided, subject to the approval of the Central Government, to subscribe to 25.5% of the paid up share capital of Rs 60 lakhs in a company to be jointly floated by Andhra Pradesh Industrial Development Corporation Ltd for the manufacture of porcelain insulators. The proposed investment would enable the company to increase its agency activities by selling the insulators which are likely to have an ever-increasing demand in the country. This will be in addition to the advantages and profit the company will be able to earn as shareholders.

Research and Development

Continuous importance has been attached to research for evolving lighter towers and structures and lower production cost. One of the designs is the 450 ft high All India Radio supporting mast using box type sections. The company has also made its humble contribution to the defence preparedness of the country.

Personnel

The growth of every organization is vitally dependent on the human element. The company continues to have excellent relations with workers and members of the staff.

The relations with workers were subjected to some strain as a result of the events following the company's appeal to the Supreme Court from Part II of the Tribunal's award and the closure of the Heavy Shop for want of orders. After this temporary set back, the relations between management and labour have steadily returned to normalcy and in fact, production during the last four months has reached new heights.

I should like to express my sincere appreciation of the loyalty of our workers, members of the staff, officers, and executives.

Thank you.

AROUND BOMBAY MARKETS

Dalal Street at New Low

Wednesday, Morning

DALAL STREET had a very uneasy time last week and it was forced to beat a fresh retreat which took it well below the lowest level recorded in the previous year. Earlier in the week, sellers dominated the scene most of the time and stockbrokers reported considerable distress selling. The market was in real panic on Saturday, March 27, when it made the week's low. Losses were heavy and widespread, with both forward and cash scrips faring equally badly. To mention a few shares, Century which had been quoted around Rs 552 a few days earlier were sold down to Rs 526 on Saturday and during the same period Kohinoor moved down from Rs 315 to Rs 300, Standard from Rs 484 to Rs 414, Indian Dyestuff from Rs 207.50 to Rs 175, Tata Locomotive from Rs 255.50 to Rs 246, Voltas from Rs 249 to Rs 240, Indian Iron from Rs 24.60 to Rs 23.84, Tata Steel from Rs 143.25 to Rs 140, Gwalior Rayon from Rs 40 to Rs 36.20 and SLM — Maneklal from Rs 127 to Rs 117. With the fall exceeding 10 per cent within one settlement, Standard and Indian Dyestuff came under interim margin. National Rayon which have been under strong bull manipulation since long — one operator is reported to have accumulated about 1 lakh shares, including 60,000/65,000 shares of which he has taken delivery — were also marked down from Rs 400 to Rs 387 but they staged a quick recovery later. The strong bull manipulation in National Rayon has been an important topic of discussion in market circles and it has received the attention of the authorities. The Stock Exchange President has been authorised to impose an additional margin on National Rayon if he considers it necessary in order to safeguard the solvency of the market.

The stock market's performance could have been much worse if the Life Insurance Corporation had not accepted large parcels of certain important shares offered to it during the week. Market reports suggest a large amount of dis-investment by some big holders for one reason or another. Apart from frequent disturbing reports about firing by Pakistani troops on the borders, trading sentiment last week was greatly unsettled by the disappointment over the meagre concessions announced by the Finance Minister at the end of the four-day debate on the Budget in the Lok Sabha. It appears that even though Shri B R Bhagat and Shri Krishnamachari had cautioned against optimism about tax relief the stock market had continued to hope that scared by the slump in equity values T T K would probably give in and modify the tax proposals which were particularly significant from the market's point of view. Official explanations that the Budget proposals provided additional incentives for the growth of the corporate sector failed to cheer the market.

The stock market is not unaware of the various concessions that the Budget provides for the development of the corporate sector. It is also fully aware that by and large the corporate sector is doing better than before. If equity prices have continued to decline despite all this it is mainly because the average yield on equities is still unattractive in the context of the prevailing interest rate structure, let alone the far more remunerative use of funds in other fields of activity. While there is a great deal to be said in favour of modifying the dividend tax and the capital gains tax on bonus shares for providing the badly needed psychological boost to the investment market, it would be too much to think that fiscal concessions alone can revive confidence in the capital market.

Near the week-end equity prices staged an all-round small recovery from Saturday's lowest levels due mainly to heavy short covering. Technical considerations apart, trading sentiment near the week-end was helped by encouraging corporate news from Century Mills and Mahendra Electricals. Reports suggesting an early cease-fire on the Cooch-Behar-Rangpur border had also a steadying effect on the market. In view of precipitous fall in prices over the past few weeks, it is quite possible that the market might pause here for necessary technical adjustments. But prospects of any sustained recovery from the current levels do not appear very promising.

COTTON

Futile Controversy

THERE seems to be no end to the controversy that has been raging for quite some time between the Indian Cotton Mills' Federation and the cotton trade over the purchase of Cambodia cotton. The controversy has arisen mainly because of the Federation's insistence that the offer for sale at 5 per cent below the appropriate ceiling should be made on a firm basis. But why not? If the traders feel that they can secure a better price than what they are likely to get from the Federation why need they make any offer to the Federation at all. The traders are quite free to market their product elsewhere. Growers and traders should, in fact, thank the Federation that it is willing to stand by its commitment, made on its own accord without any legal sanction behind it, to purchase all the cotton offered to it during the season at 5 per cent below the ceiling. The more so, when growers and traders cannot be said to have co-operated well with the Federation in making available to the mills cotton at ceiling prices when cotton could be easily sold (and it was being sold at huge premiums) above the ceilings even though it meant contravention of the Price Control Order.

It is reported that the East India Cotton Association is seeking the intervention of the Textile Commissioner to settle the dispute. It will be interesting to see how the Textile Commissioner who had miserably failed to check the rise in prices far beyond the ceilings will intervene when normal market forces have produced a normal decline in prices. Surely, the entire crop cannot be expected to be marketed at the ceiling.

Surprisingly enough, growers have begun to regard ceiling prices as virtual floor prices. Maybe, ceiling prices of cotton do not compare favourably with the prevailing prices of other agricultural commodities. But that is an entirely different issue and it calls for a different approach. Discussions at the Cotton Advisory Board's meeting in Bombay on March 30 indicated that cotton trade, textile industry and cotton growers — all would like to have the existing ceilings and floors scrapped and have only support prices fixed instead. Cotton growers' representatives are reported to have made the further suggestion that if the proposal for fixing only support prices is not found acceptable then the ceiling prices should be raised by 15 per cent and the floor prices brought up to the level of the existing

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MANAGERS AND AGENTS

THE FYZABAD ELECTRIC LICENCE, 1933.
THE JAUNPUR ELECTRIC LICENCE, 1934.

ceilings. The Textile Commissioner is stated to have rejected the plea for doing away with the existing ceiling and floor prices. But no decision is known to have been taken on the growers' plea for an upward revision of the ceiling and floor prices.

Prices and Production

In the absence of any reliable studies of costs of production of various related agricultural crops, it is difficult to say whether or not the present ceiling prices of cotton are sufficiently remunerative to the growers and how these prices compared with the prices of other agricultural crops. But it is now common knowledge that Indian cottons are no longer cheaper than the comparable foreign cottons — they are in fact much costlier. And there is also not enough evidence to show that higher cotton prices have been of any great help in boosting cotton production over the years. The average yield of cotton in India has continued to be disappointingly low — the lowest in the world.

Although the recent decline in cotton prices should be generally welcomed if only for the smooth marketing of the crop within the prescribed ceilings, considerable anxiety has been expressed in various quarters and it has even been suggested that unless something is done to prevent the further decline in prices, cotton production will be adversely affected during the coming 1965-66 season. In order to encourage off-take, the Indian Cotton Mills' Federation has raised cotton stock-holding limits for Bombay and Ahmedabad mills from two months to three months and for mills in all other regions from four months to five months. And with a view to giving sufficient protection to ISC-67, Cambodia A and B varieties of cotton, the Textile Commissioner has raised the stipulation of 7½ per cent compulsory purchases of these varieties to 10 per cent by mills who had used Cambodia A and B cotton in the previous three cotton years.

The situation obtaining in Bengal Deshi is in sharp contrast to that in other cottons. Bengal Deshi prices continue to soar due to sustained strong overseas demand. Japan has continued to be a keen buyer of Indian Deshi and it has paid up to 28 d a lb for choice quality. Sales registered since the beginning of the season have exceeded 1.90 lakh bales.

OILSEEDS

Prices Harden Further

OILSEEDS prices last week showed a further hardening tendency due mainly to persistent talks that the Government would soon permit free export of vanaspati and allow a limited quota for groundnut oil. Trading sentiment was also aided by the spurt in the maturing contract in castorseed which shot up to Rs 215 (per 250 kgs) — the highest rate for many years. Castor March has risen from Rs 206 to Rs 215 within a fortnight mainly due to strong bull manipulation which has forced bears to cover their sales at rising prices. Bears have been obliged to cover their sales as they could not manage to tender goods even though the spot material has been available at or below the ruling prices of the hedge contract. Castor June firmed up from Rs 76.25 to Rs 78 mainly in sympathy with the March contract but later the quotation eased to around Rs 77 (per 100 grams). Linseed June improved further from Rs 86 to Rs 88.90 (per 100 grams) but later it receded to Rs 88 on profit-taking and modest bear pressure. While the distant contract ruled firm, the maturing March contract was depressed by nervous bull liquidation due to the pressure of deliveries. Linseed arrivals are steadily picking up with the result that linseed oil has been fluctuating between Rs 18 and Rs 17.25 (per 10 kgs) for several weeks. Movements in linseed and linseed oil are being guided mainly by the fluctuations in mustardseed and mustard oil prices. Mustard oil has been moving between Rs 22.50 and Rs 24.50 per (10 kgs) for some weeks; it had fetched a price of Rs 49 some months ago. Groundnut oil has been remarkably steady



between Rs 21.50 and Rs 21.80 for the past few weeks on sustained buying by vanaspati manufacturers.

The price trend in coming weeks is likely to be guided mainly by conjectures about the Government's export policy for vegetable non-essential oils. Prices are unlikely to register any appreciable decline so long as the uncertainty continues about the export policy. Prices are expected to record a marked rise if the Government decides to allow a substantial quantity of groundnut oil for export; a great deal will of course depend on the export incentives. If the Government desires oil prices to come down to more reasonable levels before permitting exports, it would be well-advised to announce that it has no intention to permit exports so long as the price of groundnut oil keeps above a particular level. Fortunately, the overall supply position of edible oils this season is fairly satisfactory and it may be possible to release some groundnut oil for export if speculative tendencies can be kept under check. About 10,400 tons of soyabean oil have already reached India and another 13,000 tons are expected before the end of April. The entire quantity of 28,300 tons of soyabean oil and 1,700 tons of cottonseed oil will reach the country before the end of May. Purchase authorisation for the remaining 45,000 tons of soyabean oil is expected to be issued shortly and this oil will reach the country in October and November which will ensure satisfactory supply of edible oils near the fag-end of the current season.

Export activity in groundnut extraction has continued to be restricted recently. Exporters seem reluctant to put through fresh business in the absence of details about the tax credit certificates which are to be given to exporters of various commodities. Exporters reported fair business in cottonseed cakes last week.

BUSINESS NOTES

Atul Products

THE 1964 results of Atul Products are good for more than one reason. According to the preliminary profit figures, sales and other receipts have shot up by Rs 1.78 crores, or nearly 37 per cent, to Rs 6.61 crores. Gross profit has advanced at a faster pace to show a rise of about 50 per cent to Rs 1.32 crores, reflecting increase in the ratio of profit margin to sales from 18.21 per cent to 19.90 per cent. If despite such a happy position the dividend rate is only maintained at 12 per cent, it is because the necessary provisions have taken away a much bigger chunk of profits leaving behind actually a lower net profit compared to the previous year's.

The provision for depreciation at Rs 75.39 lakhs is more than double the last year's provision of Rs 34.25 lakhs and that for development rebate at Rs 20 lakhs is nearly three times the amount of Rs 6.90 lakhs set aside a year ago. Thus, virtually three-fourths of the gross profit has been syphoned off by these two provisions. Consequently, the tax charge is halved to Rs 8.50 lakhs, but even then the remaining profit is lower than last year's. Accordingly, the directors have withdrawn from reserves Rs 11 lakhs, Rs 8 lakhs more than in the last year. With the addition of Rs 0.37 lakh, being income-tax refund, as against Rs 3.54 lakhs being excess provision of income-tax for previous year written back, the total for disposal comes to Rs 39.05 lakhs compared to Rs 36.32 lakhs. Of this, the proposed unchanged dividend should absorb Rs 38.90 lakhs against Rs 36.74 lakhs. The increase in the total disbursement has resulted because of a higher payment now due on the partly-paid shares which have become entitled to a full year's proportionate dividend instead of only three months last year.

Larsen and Toubro

TO acquaint its shareholders with the expansion in its manufacturing facilities and the increase in its range of products, Larsen and Toubro invited some time ago some of its shareholders to its Powai estate, wherein are also situated the workshops of its subsidiaries, Alu Capsules and India Crown Cork Company and of its associate, Audco India. The company's chairman, H Holck-Larsen, told the shareholders that since their last visit in February 1962, an additional sum of Rs 1.12 crores had been invested by the company in its own workshops at Powai alone and that the estate produced engineering goods of the value of over Rs 5 crores per year.

Across the road from its present Powai estate, at a 36-acre site called "Powai East", the company will commence the building of additional manufacturing facilities for its own use and for that of its associate company, Tractor Engineers, which has been formed on a 50 : 50 partnership basis with Caterpillar Overseas S A, and in technical collaboration with the Caterpillar Tractor Company of U S A. Caterpillar is a leading manufacturer of earthmoving machinery with total sales last year of more than one billion dollars. Tractor Engineers, which has obtained a Cooley loan from the A I D, is manufacturing undercarriage parts for crawler tractors.

Commenting on the likely effect of the new Budget proposals, Holck-Larsen said that it would not have any marked effect on the company. He said that all the plants were working to full capacity. Output and sales and also profits were likely to be higher in the current financial year. A total turnover for Larsen and Toubro, its subsidiary and associate companies, of about Rs 18 crores had been forecast for 1965-66. The new debenture issue of Rs 1.75 crores would take care of the company's requirements for finance for its expansion plans during the next two years or so. The company might come out with a new rights issue in the future, he said.

Henley Cables

LOOKING to the keen competition and other difficulties experienced by the cable industry, Henley Cables India has shown a distinct improvement in its results for the year ended October 1964. The company's sales turnover has risen by 20 per cent to around Rs 75 lakhs on which it has earned a profit of Rs 3.20 lakhs compared to a loss of Rs 3.46 lakhs incured a year ago, without charging depreciation. After providing Rs 6.50 lakhs for depreciation for 1962-63, a loss of Rs 14.36 lakhs is carried to the balance sheet as against a loss of Rs 11.07 lakhs carried a year ago. No provision has been made for depreciation for the year 1963-64 which is estimated at Rs 6.74 lakhs.

Bank of Baroda

R D Birla has been unanimously appointed chairman of the Bank of Baroda. He succeeds Tulsidas Kilachand, who resigned earlier this year.

R D Birla is the managing director of Birla Brothers and chairman of Century Spg & Mfg Co and Hind Cycles. He was a director of the Bank of Baroda for many years.

CURRENT STATISTICS

Distribution of Nitrogenous Fertilisers

1961-62 to 1963-64

(*Metric Tonnes*)

Distributed to	Ammonium Sulphate*			Urea*			Ammonium Sulphate Nitrate*			Calcium Ammonium Nitrate*			Chilean Natural Nitrate of Soda*			Ammonium Chloride		
	63-64	62-63	61-62	63-64	62-63	61-62	63-64	62-63	61-62	63-64	62-63	61-62	63-64	62-63	61-62	63-64	62-63	61-62
Andhra Pradesh	81,998	154,345	99,439	68,926	71,487	40,215	11,435	8,000	19,602	67,101	60,387	54,214	—	460	160	450	1,285	5,222
Assam	2,834	1,345	1,210	319	23	—	—	—	—	—	—	—	100	700	300	—	—	—
Bihar	46,432	65,317	57,951	9,448	6,516	5,155	1,581	2,544	1,508	7,842	3,996	1,877	—	—	—	—	—	117
Gujarat	22,568	35,345	23,150	12,340	6,859	6,530	4,461	10,731	3,645	5,918	3,080	2,341	300	400	300	1,562	2,475	—
Jammu & Kashmir	4,213	3,031	3,057	—	—	—	—	—	—	—	—	100	—	—	—	—	—	—
Kerala	23,801	22,634	21,413	7,017	10,055	4,766	940	95	1,013	7,275	3,660	8,328	800	1,400	772	—	—	—
Madhya Pradesh	21,212	49,698	29,721	5,399	5,964	1,857	—	—	1,198	968	17,994	1,488	—	—	—	—	—	—
Madras	62,455	114,423	67,366	65,261	40,748	26,284	5,781	7,698	4,010	7,895	22,578	27,519	2,265	4,500	670	—	—	108
Maharashtra	116,407	88,432	92,240	26,000	6,964	16,443	8,135	14,107	8,631	15,594	4,146	11,261	1,500	3,000	3,085	247	—	—
Mysore	31,417	59,470	39,277	23,758	13,042	12,533	4,835	921	4,339	23,025	18,373	8,992	500	200	—	—	—	—
Orissa	6,343	11,986	23,244	—	89	228	100	341	1,724	4,210	5,186	5,884	—	—	—	—	—	—
Punjab	15,990	26,586	20,138	—	—	—	—	—	—	197,334	100,683	54,792	—	—	—	—	—	—
Rajasthan	7,870	8,615	7,193	1,653	928	1,617	456	663	920	15,114	6,486	4,548	200	400	200	7,888	2,602	2,904
Uttar Pradesh	168,550	132,198	80,021	17,112	7,998	14,133	7,705	6,535	7,269	131,808	40,675	24,790	500	1,400	—	1,068	90	—
West Bengal	57,852	39,369	58,654	5,870	4,730	4,862	1,775	350	2,804	1,179	330	876	—	—	—	—	—	—
Delhi	679	1,485	820	50	—	21	—	—	—	—	45	—	—	—	—	—	—	—
Goa	950	2,025	—	500	10	—	—	—	—	2,842	678	340	—	100	—	—	—	—
Himachal Pradesh	500	769	780	186	—	49	—	—	—	71	—	—	—	—	—	—	—	—
Manipur	170	—	63	—	—	—	—	—	—	100	50	30	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	—	200	—	92	120	120	—	—	—	—	—	—
Pondicherry	2,756	2,488	980	774	205	355	—	—	—	—	—	—	—	—	—	—	—	—
Andamans	—	—	12	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Laccadives	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Coffee Board	13,195	16,385	22,998	1,265	7,836	5,783	2,441	2,891	8,513	5,531	6,258	9,028	—	—	2,672	—	—	—
U P A S I	29,497	21,303	27,425	—	10	3,744	—	118	8,439	—	—	2,788	—	—	—	—	—	—
Rubber Board	3,653	8,023	5,079	297	86	50	1,044	—	—	—	—	—	—	—	—	—	—	—
Tea (N E India)	67,858	69,386	57,879	—	—	1,126	—	—	14,602	—	—	—	—	—	244	—	—	—
Industrial Users	6,000	942	3,874	1,257	1,080	217	—	—	—	—	—	—	—	—	—	—	—	—
Sikkim	—	—	—	—	—	—	50	—	—	—	—	—	—	—	—	—	—	—
Nepal	143	657	471	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Miscellaneous	—	—	—	13	—	—	—	—	—	—	—	—	—	—	—	2,196	202	—
Total	795,343	936,257	744,455	247,445	184,630	145,968	50,739	54,994	88,417	493,965	294,725	219,316	6,165	12,560	8,403	13,411	6,654	8,351

* The figures shown are the actual despatches by the Central Fertiliser Pool during the respective years, irrespective of the year of allocation and are based on the financial year (April-March).

Source: "Fertiliser Statistics, 1963-64", The Fertiliser Association of India, New Delhi.

Gold Reserves of Central Banks and Governments

(In millions of dollars)

Country	End of Period			
	1957	1962	1963	1964[1]
Estimated total world[2]	**38,765**	**41,465**	**42,315**	—
International Monetary Fund	1,180	2,194	2,312	2,430
United States	22,857	16,057	15,596	15,566
Estimated rest of world	**14,730**	**23,215**	**24,405**	—
Argentina	126	61	78	—
Australia	126	190	208	224
Austria	103	454	536	592
Belgium	915	1,365	1,371	1,434
Brazil	324	225	150	—
Burma	—	42	42	—
Canada	1,100	708	817	1,007
Chile	40	43	43	43
Colombia	62	57	62	—
Cuba	136	—	—	—
Dominican Republic	11	3	3	—
Ecuador	22	19	19	11
El Salvador	31	18	18	—
Finland	35	61	61	64
France	581	2,587	3,175	3,632
Federal Republic of Germany	2,542	3,679	3,843	4,149
Greece	13	77	77	—
Guatemala	27	24	23	—
India	247	247	247	247
Indonesia	39	44	—	—
Iran	138	129	142	141
Iraq	20	98	98	—
Italy	452	2,243	2,343	2,104
Japan	93	289	289	—
Lebanon	91	172	172	—
Mexico	180	95	139	—
Netherlands	744	1,581	1,601	1,621
New Zealand	33	1	1	1
Norway	45	30	31	31
Pakistan	49	53	53	53
Peru	28	47	57	67
Philippines	6	41	28	—
Portugal	461	471	497	—
Saudi Arabia	—	78	78	—
South Africa	217	499	630	592
Spain	101	446	573	576
Sweden	219	181	182	182
Switzerland	1,706	2,667	2,820	2,532
Syria	24	19	19	—
Thailand	112	104	104	104
Turkey	144	140	115	—
U A R (Egypt)	188	174	174	174
United Kingdom	1,554	2,582	2,484	—
Uruguay	180	180	171	—
Venezuela	719	401	401	401
Yugoslavia	14	4	14	—
Bank for International Settlements[3]	24	—50	—279	—
EPU-EF[4]	254	56	47	—

[1] At the end of November.

[2] Includes reported or estimated gold holdings of international and regional organisations, central banks and governments of countries listed in this table and also of a number not shown separately here, and gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold; excludes holdings of the U.S.S.R., other Eastern European countries, and China Mainland.

The figures included for the Bank for International Settlements are the Bank's gold assets net of gold deposit liabilities. This procedure avoids the overstatement of total world gold reserves since most of the gold deposited with the BIS is included in the gold reserves of individual countries.

[3] Net gold assets of BIS, ie, gold in bars and coins and other gold assets minus gold deposit liabilities.

[4] European Payments Union through 1958 and European Fund thereafter.

Source: **Federal Reserve Bulletin,** Board of Governors of the Federal Reserve System, Washington.

Tourists in India, 1963

Number, Nationality, and Average Stay

Nationality	Number of Tourists	Tourist Days	Average Stay (Days)
North America	*41,149*	*6,00,145*	*14.6*
Canada	2,231	38,769	17.4
U S A	38,918	5,61,376	14.4
South America	*1,511*	*19,396*	*12.8*
Mexico	566	7,107	12.5
Western Europe	*42,121*	*10,09,521*	*24.0*
Austria	637	14,069	22.1
Belgium	540	10.062	18.6
Denmark	570	10,521	18.4
France	4,272	98,060	22.9
Germany	5,641	1,58,320	28.1
Italy	1,758	37,592	21.4
Netherlands	1,255	25,484	20.3
Sweden	1,054	20,424	19.4
Switzerland	1,987	44,585	22.4
U K	23,204	5,63,232	24.3
Eastern Europe	*4,951*	*94,618*	*19.2*
U S S R	3,223	46,208	14.3
Africa	*14,441*	*14,05,708*	*97.3*
Kenya	8,188	8,39,778	102.6
Rhodesia-Nyasaland	791	81,736	103.3
South Africa	1,283	1,18,618	92.5
Tanganyika	1,719	1,77,577	103.3
Uganda	1,129	1,05,086	93.1
West Asia	*4,690*	*2,20,162*	*46.9*
Aden	895	63,707	71.2
Bahrein	734	40,223	54.8
Iran	883	39,684	44.9
East Asia	*27,062*	*13,09,386*	*48.4*
Afghanistan	1,236	62,325	50.4
Burma	505	21,142	41.9
Ceylon	10,736	4,43,746	41.3
Indonesia	573	7,921	13.8
Japan	4,706	86,250	18.3
Malaysia	7,001	6,44,614	92.1
Philippines	550	6,070	11.0
Thailand	632	17,257	27.3
Australia	*4,896*	*70,360*	*14.4*
Australia	4,118	53,983	13.1
Newzealand	647	9,343	14.4
GRAND TOTAL	*1,40,821*	*47,29,296*	*33.6*

Source: "Tourist Statistics, 1963," Department of Tourism Ministry of Transport, Government of India.

Index Number of Wholesale Prices

Group & SubGroup	Week Ending			
	6-3-65	27-2-65	6-2-65	7-3-64
Food Articles	*157.0*	*159.4*	*162.4*	*141.8*
Cereals	140.1	142.5	142.5	124.2
Pulses	170.5	176.8	177.4	134.3
Fruits & Vegetables	160.2	160.2	164.8	158.2
Milk &Ghee	149.7	150.6	160.6	129.4
Edible Oils	192.8	196.2	203.5	158.1
Fish, Eggs & Meat	181.2	182.0	185.5	155.5
Sugar & Gur	161.8	165.8	168.6	176.1
Others	175.0	176.2	175.9	176.0
Liquor & Tobacco	*138.8*	*138.8*	*138.8*	*117.9*
Tobacco	137.0	137.0	137.0	114.9
Fuel, Power, Light and Lubricants	*146.3*	*146.4*	*146.1*	*140.4*
Industrial Raw Materials	*166.7*	*169.9*	*168.1*	*144.1*
Fibres	147.6	148.5	147.6	135.4
Oil seeds	203.0	210.2	205.8	161.2
Minerals	129.3	129.3	129.3	91.5
Others	137.4	137.3	138.9	131.7
Manufactures	*140.5*	*140.6*	*140.7*	*132.6*
Intermediate Products	*155.7*	*156.0*	*156.8*	*143.3*
Finished Products	*138.0*	*138.1*	*138.0*	*130.9*
Textiles	136.4	136.4	136.3	128.6
Cotton	138.7	138.7	138.7	136.5
Jute	124.5	124.6	123.6	99.4
Woollen	170.3	170.3	170.3	162.4
Silk & Rayon	143.5	143.2	144.4	143.3
Metal Products	176.2	169.5	169.5	165.3
Chemicals	125.4	124.5	124.2	120.3
Oil Cakes	203.4	212.7	213.8	174.2
Machinery & Transport equipment	128.4	128.4	128.4	125.5
Others	128.1	129.0	129.0	127.2
All Commodities	*153.0*	*154.8*	*156.0*	*138.9*

Bata

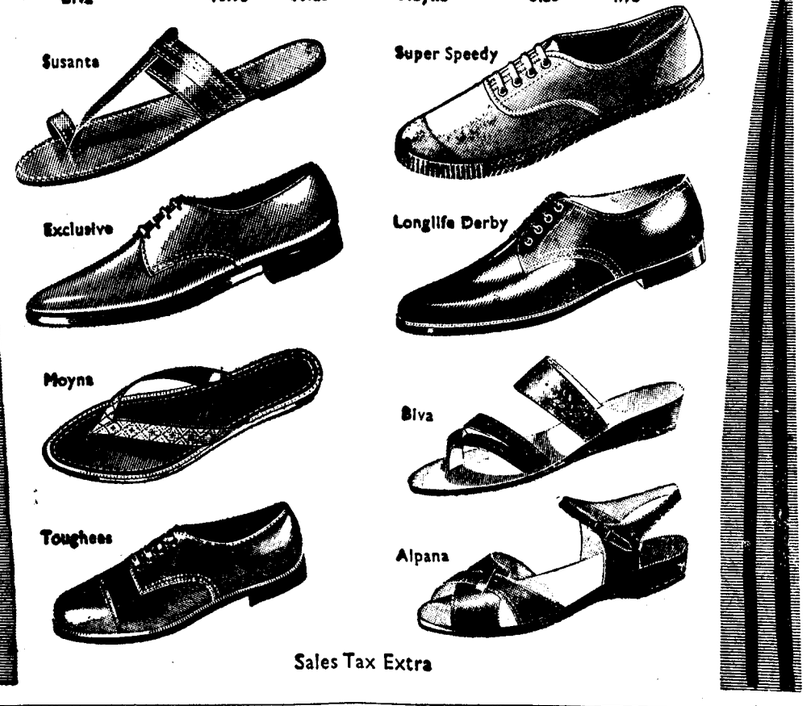
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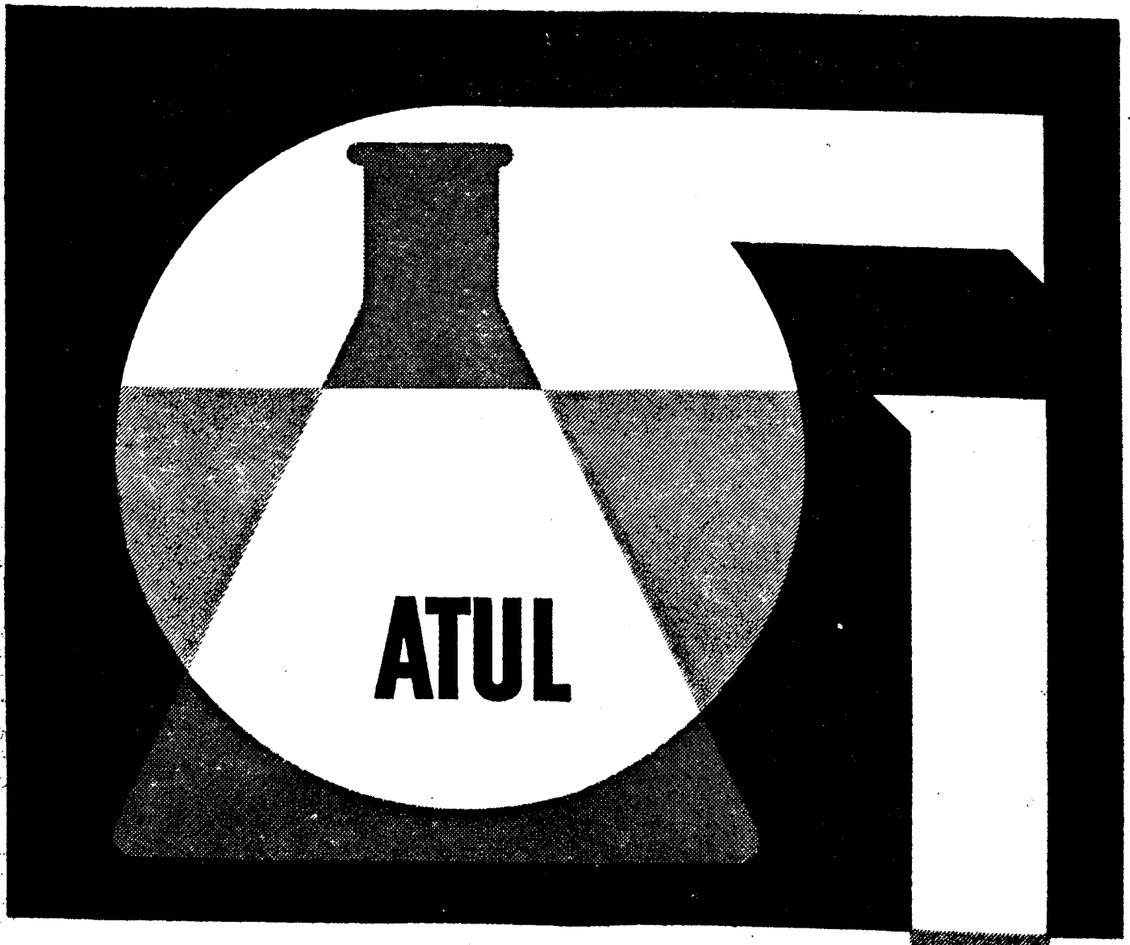
NAME	OLD PRICE	NEW PRICE	NAME	OLD PRICE	NEW PRICE
Exclusive	30.95	28.95	Toughees	13.95	12.95
Longlife Derby	17.95	16.95	Super Speedy	5.75	5.35
Alpana	13.95	12.95	Susanta	8.95	8.25
Biva	10.95	10.25	Moyna	5.25	4.95



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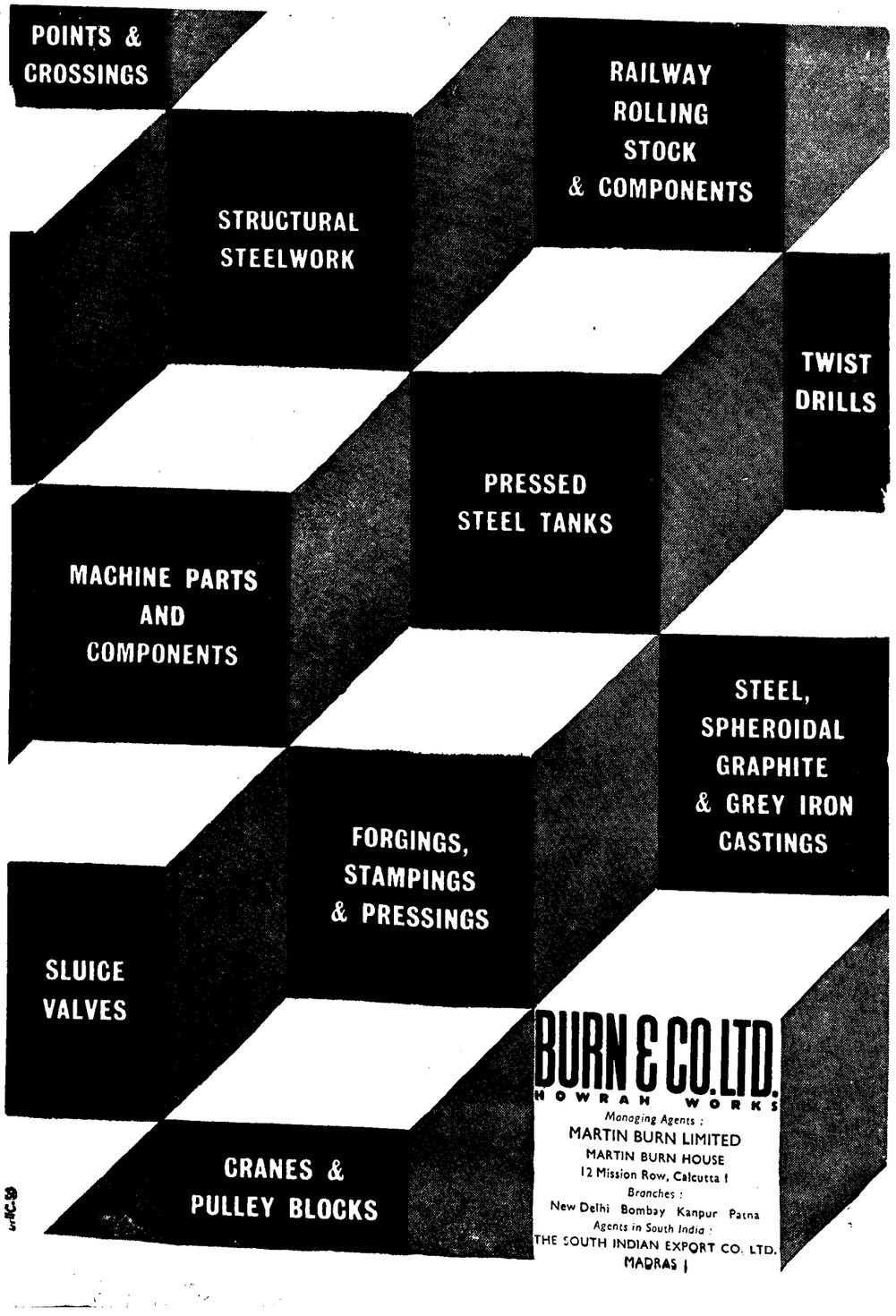
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SOVIET ECONOMIC RESEARCH

HOW HAS THE WORKING CLASS FARED?

VOLUME XVII NO. 15 APRIL 10, 1965 SEVENTY-FIVE PAISE



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False Hope in Vietnam

IT is perhaps a measure of the universal despair over the tragic war in Vietnam that the U S President's speech at the Johns Hopkins University on Wednesday has been seized on as marking a decisive turn towards peace. If the situation in Vietnam were less hopeless or the plight of the people there less agonising there would be possibly greater willingness to examine it more critically.

All hope has been pinned on two points in President Johnson's statement. The first is the expression of America's willingness to engage in "unconditional discussions" and the second the proposal for a 1,000-million dollar American aid programme for South-East Asia after peace is achieved, a programme in which North Vietnam is invited to join. The idea of a kind of Asian Marshall Plan has occurred before in Johnson's statements, but the offer to start negotiations unconditionally is new. Hitherto the U S had explicitly insisted that negotiations could be started only when North Vietnam "is prepared to leave its neighbours alone" or when the Viet Cong "stop shooting". These expressions were used by the U S Secretary of State at a press conference earlier this month. Other American spokesmen have used tougher language: General Maxwell Taylor, the American Ambassador in South Vietnam, recently talked of the U S air attacks against North Vietnam stopping only "at the point where the enemy gives in".

Set against these statements, President Johnson's offer does appear to indicate a hopeful turn in U S policy. It is also possible to read into it implicit acceptance of the neutral nations' appeal which called on the parties involved in the Vietnam war to start negotiations "without posing any preconditions". This phraseological coincidence may, however, prove meaningless, for let it not be overlooked that while he talked of unconditional negotiations, Johnson also reaffirmed that the air attacks against North Vietnam were "a necessary part of the surest road to peace". These attacks started as specific reprisals against military targets in response to Viet Cong attacks against U S personnel, but were soon turned into a general air offensive to destroy North Vietnam's military capacity. And now, as the targets have changed from military installations to the country's transport system and American pilots have been ordered to seek out "targets of opportunity" and attack "at will", the attacks seem to have become part of a campaign of terror—in which some of the most barbaric methods of warfare have been used—to bring North Vietnam to its knees. As long as these attacks continue, therefore, it is meaningless for Johnson to talk of being ready to negotiate. And of a cessation of the attacks, there was no indication in his statement.

Even more important, the U S shows no signs of recognising that the war in South Vietnam is basically a civil war. American aid to the ruling cliques and North Vietnamese aid to the National Liberation Front have been superimposed on this basic situation. It is a measure of the relative strength of the forces in the civil war that in spite of open and large-scale U S intervention over years, the N L F today controls two-thirds of South Vietnam. This basic fact must find adequate recognition in any agreement to end the war in South Vietnam and in the subsequent political set-up there. The United States, on the other hand, has always refused to recognise the very existence of the N L F. In this aspect of U S policy, again, one sees no signs of change in Johnson's statement. While he was prepared to concede that "some" South Vietnamese were participating in the attack on their Government, he maintained that "the main reality" was that North Vietnam had attacked South Vietnam.

In sum, as long as the U S objective remains that of forcing North Vietnam by military terror to accept peace on American terms and the U S refuses to recognise that the basic cause of the present situation in South Vietnam is not "aggression" from the North, but the disaffection of the South Vietnamese with the successive ruling cliques, whom American military aid has barely managed to prop up, and the support that the N L F has among the people, nothing can be expected from Johnson's offer to negotiate "unconditionally". Talks begun on these premises will lead nowhere.

Labour's Budget

MAUDLING'S budget last year was considered well conceived in all respects but one; while the prospects of inflation called for a budget surplus of some £350 million, electoral considerations prevented the imposition of new taxes and the revenue surplus aimed at was only £88 million. In presenting an election budget with an inadequate surplus Maudling was only following the precedents set by Butler in 1955 and Macmillan in 1959. As then, the error proved costly: the balance of payments had a deficit of £745 million in 1964. Britain's unmortgaged exchange reserves are no more than £300 million, and the Pound can no longer be defended without foreign support.

So after the October election, Callaghan, the new Chancellor of the Exchequer, inherited a situation in which there was no alternative to deflation. There were the additional handicaps that holders of sterling were not so charitable to him as to his Conservative predecessors, and that there was the prospect of an early election. The difficult circumstances persist today; for in spite of the restrictive measures of October, the inflationary pressures in the British economy continue, sterling is still under pressure, and the Labour majority is still slender.

Whether because he has been assured that there will be no early election or because he keeps to Wilson's promise of an "honest" Government, Callaghan has budgeted for a surplus of £380 million, roughly equal to the inflationary gap expected over the next year. He has made big increases in taxes on mass consumer goods—cigarettes, alcoholic drinks and motor vehicles—which are expected to raise the cost of living index by 1.2 points. The deflationary impact of the budget will be less than the revenue surplus, for the capital budget deficit of £848 million will be financed out of borrowings and will cause some net increases in total demand; nevertheless the budget meets the economy's requirements much better than last year's. The Chancellor's refusal to specify the rate of corporation tax to be levied from next year might also increase company saving and restrain dividend distribution.

The corporation tax—a flat rate tax on company profits—is not very revolutionary; its main effect will be that while all profits will be liable to corporation tax, distributed profits will also be liable to income tax in the hands of the receivers and so will be taxed at a higher rate. This will probably stimulate company retention of profits and investment, but it is uncertain how much.

There are a number of innovations, most of them to plug loopholes in the taxation of high-income groups. Capital gains realised within a year are to be taxed as income while longer-term capital gains are to pay a tax of 30 per cent. Entertainment expenses of businesses are to be completely disallowed for tax purposes unless they are incurred on foreign buyers. The "spilling over" of overseas tax paid by British companies (i e, their deduction from the tax liability at nome) will be gradually abolished. However, the deduction of mortgage interest from taxable income, which makes it cheaper to buy a house on a mortgage loan than to rent it, is to continue.

There are changes in the taxation of income from abroad and in the system of exchange control which, it is hoped, will improve the balance of payments by £100 million. Buying of villas on the Mediterranean, which has been very popular in recent years, will be limited to the amount of the sale proceeds of similar property being sold. Investment outside the Sterling Area is to be limited to quick-yielding projects.

Some of the measures are likely to prove difficult to administer: the capital gains tax, for example, is so general that its collection can hardly be as comprehensive as is intended. The budget also leaves many problems unsolved. For instance, the Government is obviously perplexed about how to tax dividends on inter-company holdings without encouraging concentration. However, much thinking has gone into the framing of this budget, and it should make a substantial contribution to the solution of Britain's major economic problems.

Wasteful Collaboration

GATHERING suspicions that many of our foreign collaboration agreements have not only been of no advantage to us but have actually thwarted the growth of technical know-how in the country have received powerful confirmation from no less an authoritative source than the Council of Scientific and Industrial Research.

The rationale of the import of technical know-how into a developing country rests on the lack of such skill in the country or on the superior quality of the foreign skill. How many of the hundred or so collaboration agreements that are approved by the Government every year fulfil these conditions? Very few, feels the CSIR, which has enumerated many instances where the Technical Development Wing and the Licensing and Foreign Agreements Committees have by-passed available Indian talent and know-how and favoured the foreign expert. Further, the same technical know-how has been permitted to be imported repeatedly or from various countries simultaneously.

The private Indian entrepreneur plumps for foreign collaboration because he doesn't want to take chances with Indian know-how. There is, besides, the great advantage of being able to sport a well-known foreign brand name. Finally, a collaboration agreement makes things a great deal smoother, from grant of various official sanctions to availability of finance. But surely the Technical Development Wing and the Licensing and Foreign Agreements Committees cannot be guided by the same considerations as the private industrialist?

As the CSIR rightly points out, as long as the Development Wing and the Licensing and Foreign Agreements Committees do not have on them technical personnel capable of assessing and evaluating each collaboration proposal, haphazard and wasteful decisions would continue to be made. It is not denied, of course, that much needs to be done to link Indian technology with industry. The National Council for Research Development has admitted that a large number of our all-too-few patents and inventions have proved to be unsuitable for commercial use. The reasons for this have to be probed—one major reason may be the absence of facilities for design of plant and machinery to translate the results of laboratory research into commercial projects. We have also yet to draw on the technical staff in the various research agencies to provide consultancy services to industry, both in the public and private sector.

Granting all this, a rational policy for approving import of foreign know-how and technology with suitable provisions for a technological-economic evaluation of each proposal and for duplication in India of imported know-how and design of equipment as part of collaboration agreements to avoid repeated imports of the same kind, should be laid down without further delay.

Weekly Notes

Rationalising Export Subsidy

SO, it appears, the much-publicised differences between the Finance and Commerce Ministers will not hold up the tax credit scheme for exports after all. The Commerce Minister has announced the appointment of a committee of officials headed by the Commerce Secretary to work out the details of the scheme. Of course, there never was any suggestion of differences on export credits *per se*. It is the existing import entitlement scheme which is the bone of contention. The tax credits had been dragged into the controversy because it had to be decided to what extent they would replace import entitlements.

Import entitlements no less than tax credits are subsidies to exporters. Tax credits are a more overt measure but nobody need lose sleep over that. In his Budget speech the Finance Minister was quite frank about "the case for subsidising nascent exports". In any case subsidising exports has become so common that even GATT has stopped bothering except for making perfunctory disapproving noises.

Since the two schemes have the same purpose, the question why it is necessary to have both is indeed a relevant one. The Finance Ministry has for quite some time maintained that import entitlements have in practice proved rather expensive in terms of both foreign exchange and tax leakage. In any case, if we have to subsidise exports why not have an arrangement under which the extent of subsidy is known? Insofar as it is at all possible to regulate the amount of subsidy to exports according to the difference between domestic costs and international prices, it should be possible to do so under the tax credits scheme. Import entitlements, by contrast, leave the extent of subsidy indeterminate.

Import entitlements are attractive because they make available either necessary imports for the exporters' own use or imported articles which can be sold at a premium. Now, to the extent that the first category of imports are considered genuinely essential, they should be dissociated from exports and allowed in the normal course. Then the second, money-spinner, type of imports can be stopped altogether.

How much foreign exchange this will save it is difficult to say; very little the Commerce Ministry may claim. But at least the subsidy on exports would have been rationalised.

Poor Defence of Managing Agency

R K Hazari writes:

MILLOWNERS seem to be long on yarn and short on memory. Ten years back when a Bill, which ultimately became the Companies Act 1956, proposed about ninety sections to deal with managing agents, millowners and kinsmen gave one the impression that the existence of the corporate sector was at stake. Now in their memoranda to the Managing Agency Abolition Enquiry Committee, the Indian Cotton Mills' Federation and Bombay Millowners' Association have asserted that the managing agency is the sheet anchor of private enterprise and that the Companies Act has expurgated "the evils which had crept into it (the system) by efflux of time"!

The old vocabulary has not been forgotten; it has received a fresh coat of paint. The task ahead calls for the participation of all available entrepreneurial talent in greater measure than ever before. Only managing agents can mobilise savings for private investment, failing which public investment would lead to inflation. The rehabilitation of cotton mills would receive a setback and foreign collaborators would pack their bags and cause a foreign exchange crisis if the managing agency system is abolished. Banking, insurance and financial institutions find the system acceptable. The benefits of group management and common services are obvious. The ICMF goes a step further to say that "most of the managing agency houses are based on a system of sharing of responsibilities by families and this has a distinct advantage over management by professional men who cannot have the same degree of personal attachment to the fortunes of the companies managed by them." Encouragement to the system, it believes, would actually raise the clothing standards of the population!

It is a tribute to the efficiency and strength of the system that, in its dark hour, the defenders do not know what they are arguing for or about. After more than a century of its existence, the system still claims to rely upon family attachments for its proficiency and future industrial growth and its defenders unashamedly confess that they have failed to produce competent managerial cadres. And what is this talk of personal or family involvement and prestige when it has been established that increasingly the larger part of promoters' finance is coming from companies and not individuals. In 1962-63, the managing agents (and/or their associates?) of cotton mills advanced Rs 3 crores to managed companies but guaranteed loans worth Rs 48 crores to them. The question of guarantees by managing agents, among other things, was dealt with in my article "The Managing Agency System" in the Annual Number of February 1964. By way of a postscript, it may be added that a well known managing agency firm in Bombay recently refused to honour its guarantee and the creditor banks were left holding a few scraps of paper. That this default occurred more or less at the same time as the Enquiry Committee was set up is a coincidence, but it shows the way the managing agency system is going.

Fighting for a Lost Cause

THE memoranda of the ICMF and MOA are devoid of any documented facts on the relative efficiency of various types of managements. Apologies which serve for facts prove that, in this industry, at any rate, the managing agency system remains strong as ever, with the managing agents eloquently claiming the credit for the expansion of the share capital of managed companies. The Bombay millowners derive great consolation from the small size of their corporate groups as compared with American giants and, therefore, conclude that there is no danger of concentration of economic power. It should be a source of still greater consolation to them that the total assets of General Motors probably exceed those of the Government of India and that India, fortunately for them, has no anti-trust laws on the American lines which would mangle up the managing agency system straightaway. As for foreign collaborators packing their bags, where is this species in the cotton mill industry, except in a few managing agency firms in which also their share has been declining steadily since 1947?

Managing agents are fighting for a lost cause—for nothing. Their elimina-

tion as managing agents will not deprive them either of family control, exercised through pyramid holding of voting power, or of group management which exists elsewhere and even in India to a limited extent without the intervention of an archaic, irrational and expensive system of family management. The common overheads and services available within groups will continue to be on tap and their costs will, as at present, be debited to managed companies. The case for abolition of the managing agency system does not rest upon its much-repeated abuses (many of which could be found under all forms of corporate management) or its tendency to concentrate economic power (which can exist independently of it) but upon its inability to professionalise management and to delegate managerial powers and responsibilities. The remuneration of managing agents is high, not in absolute terms, but in relation to the managerial, financial and technical services (or the lack of them) which they provide.

Backward Classes

ONE does not ordinarily expect spectacular results from Government agencies and in any case to take to task the Department of Social Security would be less than fair since it was set up less than a year ago. The objective of creating this new department was to co-ordinate and integrate the various schemes of social welfare and social security till then distributed under various ministries. The quarrel is not with the performance of the Department but with the manner of presentation of its Annual Report.

Apart from a bland recital of a few figures of so many rupees spent, the report is severely non-committal. Even on a pressing social problem like the uplift of backward classes, all the larger issues and the glaring inadequacies are scrupulously ignored. Where do the backward classes stand with regard to employment, educational attainments, income levels, and social status? One looks in vain in the Report for information on these points.

The backward classes which constituted some 21 per cent of our population in 1961, lived almost entirely in the rural areas, on less than Rs 15 a month. Their educational attainments, after years of liberal concessions, scholarships and reservation of seats, were still very poor. While the literacy rate for the entire population was 22.4 per cent in 1961, it was just 9.95 per cent for the scheduled castes and 8.84 per cent for the scheduled tribes. Their employment in non-rural occupations had made little headway. Only 40 per cent of the reserved vacancies in jobs listed by the Employment Exchanges were filled. In the Government, out of 17.75 per cent seats reserved for them as many as 16 per cent were filled, but the sad truth is that 78.6 per cent of the vacancies filled were for sweepers and 20 per cent were class IV jobs and the share of the backward classes in class I jobs was a mere 1 per cent. In the technical and professional jobs 30 to 40 per cent of the vacancies reserved for the backward classes go unfilled due to non-availability of suitable personnel.

It is time that it is recognised that the backwardness of certain sections of the people cannot be overcome by legal action or "concessions" and reservations. More than anything else, the lack of enthusiasm shown by the backward classes themselves for measures intended to benefit them must be investigated. The backward classes, sociologists have argued, suffer from and perpetuate their "culture of inferiority" — practising untouchability among themselves (the Government has found it necessary in some places, at the insistence of the rural untouchables, to provide separate wells for the various sub-castes among them) and reluctant to utilise scholarship facilities for technical education, preferring instead general, liberal education.

But on all these complex issues the Annual Report of the Department of Social Security has nothing to say.

A Corporation Is Elected

A Correspondent writes:

PRE-ELECTION Calcutta looked calmer than usual and many took the mood as a bad omen. They said Kerala looked just the same before the recent election. This was the first Corporation election under adult franchise and so candidates tried to get people interested in a better future. But the voters have learned things the hard way—they are short of water, victims of adulterated food, sufferers in continuous epidemics. Craters gape at you on the face of streets while the public dustbins turn your stomach. During the monsoon one can actually get drenched inside the Corporation Building due to waterlogging on its terrace! The only time you hear and see the city fathers is when they claw and flay one another in noisy meetings and, of course, at election time.

There were three kinds of voters who started to stand in queues on Monday, March 29. The first kind were the legitimate voters, the second the 'false-voters', and the third the paid voters. A hundred seats were at stake. There was the Congress, the United Citizens' Committee (comprising seven Leftist parties, including the two wings of the CPI), the Progressive Peoples' Bloc (consisting of the SSP and the Forward Bloc), and the perennial Independents. According to official figures, only 60 per cent of the voters turned up (how many 'false-voters' made up that figure no one knows). The Congress lost its absolute majority and got 49 seats (the figure is a joke in itself), the UCC 35, the PCB 6 and the Independents 10. To add pep to the whole thing, the voters elected six detenus.

Great rejoicing there was in the city when voters learned of the defeat of some of the old bible-bangers. And the six detenus became the symbol of protest. It would be hard to hold meetings with elected candidates under continuous detention. And the less meetings our Corporation has the better.

Atulya Ghosh, who is Chairman of the Congress Municipal Association in addition to his other posts, has assured the public that the Congress would get the seats it needs for an absolute majority—one of the Independent members had already pledged to join the Congress bloc, he claimed. The new Corporation consists of 100 elected Councillors, five Aldermen (to be elected by the elected Councillors) and one ex-officio member, the Chairman of the Calcutta Improvement Trust. Atulya Babu hopes to get yet another supporter from the Independent bloc, and with 51 Councillors he is dreaming of bagging all the five Aldermen!

In spite of adult franchise and the Congress defeat, the Corporation Councillors are going to get paid as ever for conducting and adjourning endless meetings. The election farce was well played and the people enjoyed it while it lasted. But it is all over and the election queues have given place to the more permanent fish queues.

Bankers Differ

IF chairmen of companies were to adhere strictly to purpose, their addresses at annual general meetings would be no more than bald statements about the financial position of the companies. But they have firmly established the tradition of informing shareholders of other relevant—sometimes rather remotely relevant—matters such as the political and economic state of the nation and factors affecting industry, particularly Government policy. For this reason, these speeches are not infrequently of interest to a wider audience than just the shareholders. For instance, the speeches of bank chairmen could be a valuable indication to monetary authorities of the psychology prevailing in banking circles though, of course, it is impossible to know if this has much influence in the shaping of monetary policy.

The past year, with the dramatic and unprecedented developments in Reserve Bank policy, has provided the chairmen of banks with ample material for their annual addresses. But, as in all public utterances, the question arises as to the influences shaping the reactions voiced. It seems possible that the size and standing of a bank has some relation to the freedom and flamboyance of its chairman's address.

The Chairman of the United Bank of India (deposits Rs 85 crores), for instance, is sharply critical of the rise in the Bank Rate and hopes it will soon be revised downwards. On the other hand, the Chairman of the Indian Overseas Bank (deposits Rs 47 crores) considers this a "necessary corrective to a highly inflationary situation that threatened to get out of hand". The differences in the views on the altered deposits rate structure is concomitantly sharp. Even in previous years the United Bank Chairman has questioned the usefulness of hiking deposit rates and argued against the concept of interest elasticity of savings with a degree of sophistication somewhat unusual in this genre of analysis. In this year's address this point is repeated as also the argument that what is most important is the differential between deposits and advances rates. The new deposits rates, by raising establishment costs, have further cut this differential while they will fail to mobilise fresh deposits. The Overseas Bank Chairman's views are exactly the reverse; "The new pattern of deposit rates not only ensures a more appropriate spread between interest paid on short and long term deposits but is distinctly savings biased".

There are interesting differences, too, in the attitudes to credit operations. The Chairman of the Syndicate Bank (deposits Rs 51 crores) devotes a good portion of his speech to his bank's interest in providing finance for agriculture. The United Bank Chairman also touches on the role of banks in agricultural finance, his verdict being that this is "an exclusive field for the co-operative credit system". This conforms to the fact that agriculture now accounts for less than 1 per cent of total scheduled bank advances.

Rift in ICFTU

SPEAKING to newsmen in New Delhi on Saturday last, the Secretary General of the International Confederation of Free Trade Unions, Omer Becu, was at some pains to deny that there was any danger of a break-up of the ICFTU on account of internal differences involving its American affiliate and principal financier, the Federation of Labour-Congress of Industrial Organisations. But the signs of a split have been only too visible during the past one month or so. Even Becu's speech on the first day of the seventh conference of the ICFTU's Asian Regional Organisation created the same impression. Though he did not mention any names, Becu was obviously referring to George Meany, President of AFL-CIO, when he condemned the activities of "certain members" who, he thought, were subverting the ICFTU. Most of the criticism of the ICFTU, he claimed, was based on "untruths, half truths and a superficial view of its activities".

The ICFTU was set up in 1949 as a rival to the communist-organised World Federation of Trade Unions. It is financed from the International Solidarity Fund established in 1957, supposedly out of members' voluntary contributions, but in fact mainly out of the bounty of AFL-CIO. After 1960 particularly, AFL-CIO has poured large funds into the coffers of the ICFTU to enable it to expand its activities in the newly-independent countries of Africa.

The piper must play the tune called by the one who pays and Meany has been dragging the ICFTU over the coals because he believes that its activities in Africa have not been "effective". Specifically, he wants the ICFTU to take into its fold State-sponsored trade unions in certain African countries. The ICFTU Secretary General, on the other hand, is taking the apparently high-minded view that ICFTU would be betraying the principles of trade unionism if it accepted Government-sponsored unions.

Apart from issues of high policy, it has been rumoured that personal differences have played their part in bringing about the split. In any case, the AFL-CIO has left no one in doubt that it means business; last year it reduced its contribution to the ICFTU by about a million rupees and a total stoppage of the American dole would mean the loss of some five million rupees annually to the ICFTU which can be expected to bring it very near to disaster.

Is This Evil Necessary?

IT was to be expected that trade and industry would be upset at the Maharashtra Government's decision to enforce the octroi bill passed by the State Assembly in July 1964. The disappointment is heightened by the fact that earlier there was reason to hope that the scheme might be dropped. It had been officially stated that a bill to amend the Bombay Motor Tax Act and do away with the octroi duty was being drafted. In September 1964 the Minister for Urban Development, Rafiq Zakaria, had declared that the Government was considering accepting the recommendations of a committee to abolish the octroi duty and adding part of it to the sales tax. But finally the duty came into force from April 1, the event dramatised by the long hold up of trucks at check post along the major trade arteries of Greater Bombay.

A fact which does not seem to have been appreciated is that the octroi duty is not a new imposition. In fact, it replaces the so-called town duty which has been levied in Bombay since 1888. Of course, the octroi duty covers a larger number of items and the rates are also higher—the town duty was levied on 36 items whereas as many as 60 items will be subject to octroi.

Principal among the criticisms of the octroi duty has been that it is an antiquated levy. This is true, of course, but it needs to be mentioned that it exists in all States except five. And in Maharashtra itself the local bodies of all important cities levy octroi.

The defects of octroi as a tax are certainly not unknown to the State Government nor are the problems of granting refund of duty on goods re-exported which in this case would be truly formidable, Bombay having such a large *entrepot* trade. The experience of other municipalities and corporations levying octroi has also shown that this is one of the most expensive taxes to collect. In addition to all these, there are two objections against the octroi specifically in Bombay. First, it will make it relatively attractive

to locate godowns and industries within the municipal limits of Bombay which would defeat the efforts to disperse industry. Second, the under-utilisation of transport in Maharashtra which the Economic Development Council of the erstwhile Bombay State had found to exist in serious proportions would be aggravated. The hold-up of transport vehicles which was dramatically captured in newspaper photographs on the first day will become a regular feature.

Against all these criticisms the State Government can have only one answer—that the Bombay Corporation badly needs the money and there is no other source. But is there really no other source? What about taxation of urban property? It can hardly be disputed that the Bombay Corporation ought to get a far larger share of the gains which accrue in private hands as a result of the continuing upward spiral in real estate prices. Here the problem is one of devising effective tax measures to mop up the unearned increases in property values. This problem affects to a lesser or greater degree the local bodies of all towns. One suggestion which may be considered is that the rates of the discriminatory wealth tax on urban property introduced in this year's Union Budget may be raised and the additional proceeds made over to the local bodies.

West German Elections

THE approach of elections has led to some interesting developments in West Germany. Under German law, political parties get a subsidy for elections from the state budget, the idea being to reduce disparities in the financial resources of parties and lessen their dependence on vested interests. Thus the Social Democratic Party got DM 13 million last July. However, this was just what it did not want. It wanted its members to feel that they had a stake in the party and thought that the feeling might be weakened if it came to depend on outside funds. So it decided to spend the entire amount in a field where it felt the Christian Democratic Government was not doing enough, and offered 10,000 of the larger schools a Christmas present of books for civic education. Some efforts were made to avoid the suspicion that this was a propaganda move and the books offered were mostly school books and books of modern history.

The response to the offer was very warm. All but two schools accepted the offer, and asked for more books than could be given out of the state subsidy. The party, however, fulfilled all demands by drawing out of its own funds. Some books were out of print, so it had 90,000 new copies printed.

Another remarkable event is the signing of an agreement on election manners among the three major parties—the Christian Democrats, the Free Democrats and the Social Democrats. It is almost impossible for a middle-aged West German to have an electorally unobjectionable past. Work in the Nazi machine is an obvious disqualification, emigration during the War is considered a despicable escape from sharing the sufferings of the country, and having worked for Allied governments is treason. Hence personal attacks on most election candidates are easy to make and are frequently resorted to. The new agreement bans such attacks. It also prohibits appeal to national prejudices and racial hatred, places restrictions on advertisement and lays down ceilings on election expenses.

It is quite possible that the agreement will be ineffective. There is no institutional arrangement to supervise the working of the agreement, nor any sanctions against its breach. The forms of advertisement that are restricted are not very important in the campaign, and the ceilings on expenditure are comfortably high and do not apply to the local branches of parties. Nevertheless, the idea behind the agreement is capable of much development, and credit must be given to the West Germans for it.

LETTERS TO THE EDITOR

India's Invisible Men

I READ with interest the review in your issue of March 13 of the book "India's Ex-untouchables" by H R Isaacs. It seems to me—and I am sure this view is shared by many—that the problem of untouchability as such hardly exists at present in India. It is all a question of the haves and the have-nots.

I am surprised at the reviewer's comment that on the question of untouchability "the Indian Press has been stunningly silent". The fact is that there is at present no problem and all that needs to be done has been done and more.

Once the standard of living goes up, not only of those who are supposed to be from the "untouchable" castes, but also of the poorer sections of the other castes, the problem of 'untouchability' will be a thing of the past. The emphasis, however, is not on helping only those born in the "untouchable" castes, but on pushing forward to better standards all the have-nots, regardless of caste.

Isaacs has quoted the instance of a young man who had to indicate his caste as 'scheduled caste' on some forms. This is quite ununderstandable since in the Government (and presumably elsewhere) nobody has to state his caste under the present law. He need write only "Hindu", if he is a Hindu; he has to indicate that he belongs to the "scheduled caste" only when he wants to get an advantage reserved for persons belonging to the scheduled castes. If a person is poor and applies for a "scholarship", he can just declare himself as poor. In fact, several cases have come to notice where persons not belonging to the scheduled castes have declared themselves as belonging to a scheduled caste, to get from the Government certain pecuniary and other advantages.

It is the perpetuation of propaganda on behalf of "untouchables" in this country that serves as a constant reminder to those born in the "untouchable" castes that they are "untouchables". The sooner the propaganda is stopped, the better it will be for all concerned, and for the country.

Ranchi, B G BALAKRISHNAN
March 31.

Advertising and the Press

MAY I tell you how shocked I was to read your editorial "Thoughtless Move" (March 27), as I have never yet come across such an expression of naked self-interest in journalism, to the total exclusion of the merits of the case. It is astonishing to read it in a paper which commands the intellectual respect of your weekly.

Deliberately ignoring the various public issues raised by the Income-tax (Third Amendment) Rules, disdaining to go into such principles or criteria as may be followed in allowing legitimate advertising for genuine marketing needs, both in India and for exports, in different types of industry, and conveniently putting aside the controversy over whether advertising is a desirable influence on the press, an area of some public suspicion, this leading article of a thoughtful paper only thinks fit to consider the money which it gets from advertising.

It is almost laughable for advertisers to read in a serious paper on economic affairs that "advertisers generally follow the principle 'to him who hath shall be given'". Do you seriously think advertisers "generally" consider they dispense "dan" or pursue 'egalite' among the press with no thought of economic returns? Even a less than complete study will show that most advertising money is spent on papers which offer the widest circulation for the appropriate market for various products. The question of too much or too little is quite another one, and the Daniel who can come to precise rule-making judgments on this has yet to be born either in or outside a Finance Ministry or the press.

New Delhi A D MODDIE
April 2.

[It is perfectly legitimate to discuss the place of advertising in the economics of the press without bringing in any of the issues raised by A D Moddie in the second paragraph of his letter.

There was no suggestion in the editorial in question that advertisers dispense "dan". What was said, and this was said clearly enough, was that while the bigger circulation newspapers carry more advertising, the smaller newspapers derive proportionately more of their revenue from advertising.

— Ed]

CAPITAL VIEW

A State of Disarray

Romesh Thapar

WE seem to be running the affairs of this country like a bunch of teenagers. Granted that we are now so surrounded by aid-givers and foreign-advisers that we are fast losing the capacity to think out our policies and programmes. Granted that we feel inhibited about taking the positions we would because of the sorry complications in which we find ourselves. But, and this needs to be rubbed in, we do not have to present ourselves in the state of disarray which we have exhibited during the past week. This applies equally to the business of Abdullah's passport and the extradition proceedings connected with Sucha Singh in Nepal.

P M Ordered Passport Endorsements

Take Abdullah first. The fumbling explanations of the Foreign Minister were obviously designed to fob off critics determined to get at the truth about passport endorsements and foreign exchange permits. The truth never emerged, because the critics were too busy enjoying the embarrassment of the Foreign Minister. No one mentioned the fact that the Ministry of External Affairs had given orders to the Passport office — which, incidentally is under its direct control — to endorse the passports of Abdullah and party *only* for Saudi Arabia and the United Kingdom, that the endorsements for other countries came as a surprise even to the bureaucrats concerned with the case.

Apparently, the Prime Minister ordered the endorsements under the advice of the pro-Abdullah lobby in the Capital — and, what's more, he forgot to inform his Foreign Minister. This also explains the failure of the Ministry of External Affairs to brief its ambassadors in the Arab countries, and the visible shock when Abdullah and party started agit-propping in Cairo. What is inexplicable — at least, to those who still respect Swaran Singh's 'quiet diplomacy' — is the total silence of the Foreign Minister after Abdullah had revealed his intentions. When we did move, the damage had been done.

Armed with offers of free hospitality, husbanding the Rs 35,000 given to him by the suddenly generous Reserve Bank of India, Abdullah moved on to London and Paris. Anyone studying even the scrappy reports appearing in our newspapers could have detected a new opportunist note in the speeches of this ambitious man. He was leaning heavily on Pakistani organisers in Europe and his attitudes were becoming markedly anti-Indian. Quite clearly, the Ministry of External Affairs received no warning notes from its men in London and Paris — and was content to doze.

Abdullah's arrival in Algiers also failed to stir our lotus-eaters. In these circumstances, it was only natural that we had to learn from Peking Radio that Abdullah had met Chou En-lai and was planning a visit to China. The developments which followed are recent news, but few have bothered to analyse the sloppy behaviour of the Government of India. There is satisfaction that Abdullah has been asked to return by the end of the month or forfeit his right to return. Yet, it is a moot point whether it was necessary to push matters to a point where legalistic wrangles about passports and citizenship rights start and confuse the basic issue — Abdullah's activity against the territorial integrity of India.

Indian Unity, the Real Target

Our territorial integrity is seriously threatened. The catchy, superficial slogan of self-determination, so easily mouthed by every western neo-colonialist and communist adventurer, has been popularised for many months by an active lobby in the Capital which works for 'civilised' solutions to the problems of Kashmir and Nagaland. Now, these lobbyists have found new allies; Peking wishes to play host to both Abdullah and Phizo — and, perhaps, other self-determinists from the Himalayan Kingdoms may not be far behind.

If we merely enjoy the amusing spectacle of an authoritarian China chattering about self-determination and do nothing to counter this nonsense, we will again find ourselves forced on to the defence — even at Algiers, where only recently a special envoy sent by our foreign office, C S Jha, was more concerned about his trip to Europe than in the crucial ramifications of the Conference. Self-determination, in Maoist hands, can become the weapon with which to crack the unity of India, the unity which it is China's strategic aim somehow to destroy.

The government of Lal Bahadur is too obsessed with the notion that only territory is sought to be seized by our unfriendly neighbours. True a territory grab is on — but unless we are clear that the ultimate objective is to weaken the central power in India, to create dissension and discord, we will not be able effectively to break the conspiracy now jointly sponsored by China and Pakistan. The strengthening of the Centre's control over the affairs of the States, particu-

larly in the sphere of internal security and the crucial problem of building an adequate technical and administrative cadre through a more rigorous standardisation of education, is the only basis for building a socialist, democratic and secular society. To permit parochial ambitions to weaken the Centre is to invite disaster.

Rivalries in the Police

Over the last few weeks, we have not only witnessed extraordinary confusion over the implications for national unity of our language policies — including the hasty implementation of regional languages without a proper consideration of what should be done to strengthen inter-State communication during the transition — but we have been shocked by the rivalries of State police forces over the hunt for Kairon's assassins. Home Minister Nanda can no longer permit these petty rivalries to vitiate the business of maintaining law and order. He must move to re-establish firm control over these police forces which are being exploited by politicians and the like.

The hunt for Kairon's assassins has many lessons for us. It is common knowledge that there was utter lack of coordination among the four territories over which the hunt was launched — and only a very lucky break helped bring order to the chaos. Some 4,000 'bad characters' between Amritsar and Delhi were beaten up in an attempt to get information on the killings. All that emerged was a mass of evidence concerning a ramified network of crime in Delhi. This 'research' offended the Delhi police! The capture of one of the four suspects, who had apparently, become deranged and had talked, and the final location of the missing car and driver involved, made it possible to detail what happened and to surmise who was implicated. But the rivalries within the police set-up continued unabated.

The press reports of the alleged chase of Sucha Singh into Nepal, the highly dramatic account of the chase given to newspapermen by the senior police officer leading the chase, and the speedy disclosure by another source that this account was exaggerated, even false, together with the mess over the extradition proceedings in Nepal, have given a jolt to even normally placid citizens. There is much speculation as to what can be done to discipline these separate and divided police forces. It would be folly for Prime Minister Lal Bahadur and Home Minister Nanda not to seize this opportunity to re-open the question of a centrally-controlled police force.

If constitutional provisions prevent such a development, and the Congress Party chieftains in the States are too strong to be challenged, then the Centre must initiate moves to build auxiliary forces directly under its control and capable of being mobilised to assert the will of the Centre. The need for such a force is felt every time there is a crisis, whether communal or linguistic, but we do not seem to learn from our experience. With child-like simplicity, we place our faith in old imperialist gimmicks like emergency and defence regulations — and use them crudely only against political enemies.

When will Prime Minister Lal Bahadur realise that the whispering campaigns and the signature campaigns within the ruling party, the campaigns which he wants to squash, are a reflection of his reluctance to lead? Tinkering with issues is becoming a habit. We scratch at this or that problem, but never come to grips with it. We cannot continue for long in a state of disarray without seriously damaging the prospects of economic and political advance.

News Item: The Congress President has now been allotted an 'official residence' next to the AICC office on Jantar Mantar Road, through the energetic efforts of Housing Minister Khanna!

LETTER FROM SOUTH

New Postures in Andhra

THE Budget session of the Andhra Assembly, recently concluded, has revealed certain shifts in alignments and certain new postures of the different parties, which could work out to a significant trend in the near future.

With a sizeable chunk of the opposition in jail, including some of the more redoubtable debators like Sundarayya and Nagi Reddy, the Government had perhaps hoped for an easy time. But it was sorely disappointed and was compelled to stage a public retreat. This was on the issue of the allotment of houses in Sanjeeva Reddy Nagar—one of the Housing Board's middle-income group efforts in a suburb of Hyderabad.

No sooner had the Assembly session started than it was pointed out by the CPI spokesmen that six houses in this Nagar had been irregularly allotted at a time when the Housing Minister, Alapati Venkatramaiah, was in direct control of allotments through a committee of officials. Worse than the irregularity were the names of those who had gained by it. Among them were the wife of the Chief Minister, the wife of the Union Steel Minister and the son-in-law of the Housing Minister. Not satisfied with irregularity in allotment — most of the benefactors were not even in the middle income group—, the houses themselves began to be constructed in a lavish, right royal style. The estimated cost of construction of these favoured buildings came to Rs 80,000 when the ceiling on such costs had been fixed at Rs 30,000. These six villas stood out like an oasis in the general desert of ugly three-room tenements which make up the rest of Sanjeeva Reddy Nagar.

The Government was on the defensive throughout the session but on the concluding day the Chief Minister announced that the allottees were surrendering the houses. The opposition demand that these houses should be auctioned and the sum spent on the lowest income-group housing was not pressed. The demand for the resignation of the Housing Minister was not accepted. It was clear, however, that the Chief Minister was not over anxious to defend his colleague.

The significance of the surrender goes far beyond a matter of six houses. It revealed a cohesive tactic of attack by the opposition which was persisted in. It is evident that with still better planning this tactic can win better results. The point is to seize upon two or three issues only every session and doggedly pursue it. All too often the opposition, like the Indian mind, lacks stamina and is lured by the prospect of chaos. The issue also revealed that when a stir is created, the opposition is sufficiently well entrenched in the people outside the Assembly and the Congress is not particularly united under a strong man, some small concessions can be won which heighten the sense of confidence in being able to get ahead.

Another Minister who presented an extremely sorry spectacle was Balarami Reddy, the Food Minister. Sanjeeva Reddy is indebted to him for having given up his Assembly seat some years ago so that the Union Steel Minister could himself have an easy passage. He has thoroughly bungled his work. In this surplus State's capital on Telugu New Year's Day rice was not available. In West Godavari District, which is one of the richest in the State, signs of scarcity have already begun to appear. The situation can become extremely serious in the lean months, which commence from June. The big producers and the wholesale dealers' syndicates are trying to hold and corner the stock, not only with a view to profit but also to make a mockery of the Food Corporation. In this operation this whole combine of reaction is being actively helped by the entire Ministry, particularly the Food Minister.

Sympathy Among Congressmen

The barrage of opposition criticism found quite a few echoes in the Congress. Two prominent Congress MLAs called for the resignation of Balarami Reddy while the Chief Minister sat sphinx-like through the proceedings and refused to come to the aid of his colleague. This refusal to help was an indication of the desire of Brahmananda Reddy to project an image of independence from Sanjeeva Reddy. It was also motivated by the aim of bringing Thimma Reddy, the APCC President, into the Ministry. This latter gentleman is one of Andhra's conscious and cold-blooded reactionaries —the others often enough know not what they do. That the Food Minister was not sacked was in no small measure due to the frequent presence in Andhra of the Union Steel Minister, who still has to feel secure at the Centre. The pressure for his removal, however, is sure to mount and may become irresistible if the food situation deteriorates further.

As it is, the failure of the Congress as a whole to come to the rescue of the Food Minister tends to show that a degree of uneasiness has begun to project itself into its otherwise placid situation. The tensions of the 1967 elections have begun to operate. While Andhra is nowhere near the instability of a great number of other States, dissensions within the Congress have begun to increase. The trend is towards instability in the ruling party. Whether the opposition, particularly the two Communist Parties, will be able to make use of this and to strike harder cannot be foretold as of now. There are signs of hope, however. The two CPs are presenting an united front in the two byelections in Guntur and Warangal and their representatives have begun speaking from the same platform in several places on the issue of detenus and the imposition of President's Rule in Kerala. Efforts are going on to set up a Sangram Samiti in Andhra as well. So far the Communist-led AITUC has not been split and as the leading trade union force in the State has taken the lead in the matter. There is every chance of the SSP-led unions and the organisations of the bank, insurance and Road Transport Corporation employees coming into the action committee. If this effort at bringing about some massive and spectacular working class action is backed by some form of peasant action, like satyagraha or occupation of waste land, the present torpid atmosphere of Andhra can be radically changed.

Bid to Draw Centre's Attention

There is a section in the Congress leadership which, though not progressive in any coherent sense, would not take too unkindly to this change in tempo. This section feels that the comparative calm in this State, as compared to the more surcharged situation in Tamilnad, hampers its efforts to get more projects and funds from the Centre. If Andhra could also become something of a problem State the Planning Commission might be kinder! The militant anti-Centre speech made by Brahmananda Reddy while welcoming Lal Bahadur Shastri was a straw in the wind. Another indication was the open indictment of the Planning Commission and of T T Krishnamachari by A C Subba Reddy, the State's Power Minister. His complaint was that the Nagarjunasagar Project should have been taken over by the Centre long ago. In addition, the Centre had tagged on the Lower Sileru Project to Soviet aid, after making sure that this aid had already been exhausted in the current Plan period. There was also anger that the road-rail bridge across the Godavari was being deliberately held up by the Union Finance Minister. The opposition had raised all these problems both in the Assembly and through a memorandum presented to the Prime Minister. The Ministry, if anything, was even more vociferous. This attitude cannot be interpreted simply as an attempt to pass the buck or to divert mass attention in the State from urgent issues of poverty and distress. These factors do play an important part but not perhaps the most crucial one. Essentially, it is a desire for growth and for ending of regional imbalance.

The skilfully prepared Andhra Fourth Plan memorandum makes an unassailable case when it pleads that the most important reason why the gap between the Andhra per capita income and the all-India per capita income has widened over three Plans, is the refusal to locate Central sector projects in the State in anything like due proportion. The theory of comparative costs has been used to the detriment of Andhra. The remedy proposed by the State Government is paltry but the energy in fighting against this injustice displayed by the people as a whole could become the precursor to establishing the Andhra identity — paradoxically aiding the process of India's national emergence.

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The Entente Becomes More Cordial

HAROLD Wilson's meeting with de Gaulle was an undeniable success and has brought to an end the two-year old estrangement between France and England, sparked off by the Conservative Government's failure to get into the Common Market.

From all reports the General and Wilson got on extremely well together, and the initial good impression that they made on each other when they met briefly at Sir Winston Churchill's funeral certainly survived the two-day meeting in Paris. The General went out of his way to be courteous to Wilson who received a most cordial reception, both from members of the Government and the Press.

The object, from Wilson's point of view, was to build a bridge between the two countries, and he had the wit to realise that little progress would be made if he concentrated on the central long-term problems of Britain's economic and political relationship with France and with the Continent of Europe. At the moment, there are many basic points on which differences between the two countries are too great to be bridged in a short two-day meeting. There are sharp differences on the attitude to America, the role of NATO, international monetary problems and the war in Vietnam, to name some of the more important issues. Bearing this in mind, Wilson concentrated on a number of secondary issues on which agreement is possible, and these will form the bridge for further co-operation.

Perhaps the most important result of the Anglo-French discussions was to end, beyond all doubt, rumours that sterling might be devalued. On the eve of Britain's budget it was certainly important to speak frankly and publicly in a key European financial centre like Paris, on the determination of the Government not to devalue sterling, and on Britain's plans for strengthening the economy. At his Press Conference in Paris, Harold Wilson gave the most unqualified assurance yet made that Britain would not devalue the pound, either before the Budget or at any time in the near future. He said: "We have left the French Government in no doubt about our determination to strengthen and modernise Britain's economy and maintain the value of sterling". He went even further and said referring to devaluation rumours, "Those who listen to these rumours are wasting their time, and those who try to take account of them are wasting their money".

U K and the Gold Standard

One of the long-term problems on which the French take a view diametrically opposed to that of Britain and America is that of the international financial system. The General's recent statement suggesting a return to the gold standard is certainly not popular in Britain, but it is understood that preliminary discussions on this subject were fairly cordial and it has been agreed that Callaghan, the Chancellor of the Exchequer, should go to Paris for talks with the French Finance Minister on improving the international monetary system, and easing pressure on sterling. Apparently the British Prime Minister referred to the scheme he had himself advocated two years ago about the creation by the International Monetary Fund of gold-backed certificates designed specially as a source of credit for developing countries. It is likely that the earlier French composite reserve unit proposal, put forward at Tokyo by Monsieur Giscard d'Estaing, will be discussed again, together with Wilson's own scheme. If these discussions have any effect on de Gaulle's ideas on a return to the gold standard, they could have a salutary effect on the world liquidity position.

Another important result of the Paris talks is that prospects have now been opened up for a considerable increase in industrial co-operation between Britain and France, especially in the technologically advanced fields of aircraft production and electronics. When Healey visited Paris a few weeks ago, two aircraft projects—one for a simple strike trainer and the other for a variable geometry craft—were under negotiation. The list may now be extended to include such items as an early warning aircraft and a heavy lift helicopter. In the field of civil aviation, the Concord project might well be followed up with co-operation on a large air-bus; Sud Aviation already have advanced plans in this respect. The Aviation Minister, Roy Jenkins, is going to Paris to discuss with his French opposite number, the whole question of such co-operation. The aircraft industry is, of course, a particularly appropriate one to illustrate the fact that the European Common Market, as it stands to-day, excluding Britain, is not of a size sufficient to compete with the United States in many fields of modern industrial technology. The fact that Frank Cousins, the Minister of Technology, is also to visit France adds point to co-operation in other advanced technologies such as electronics. It may well be that in this field co-operation will not be restricted to France alone and that Germany and Italy may also be invited to co-operate.

Although, at the moment, Wilson, no more than de Gaulle, is anxious for immediate British membership of the Common Market, these new proposals for close co-operation on aircraft and other projects are an attempt, as Harold Wilson described them, "to tunnel under the tariff wall of the European Common Market and the European Free Trade Association". Indeed, one of the main topics of discussion between Wilson and de Gaulle was a review of the present economic division of Western Europe and the relations between the European Free Trade Association of which Britain is a member, and the Common Market to which France belongs. "I do not think", said Wilson, "that any of us wants to leave the present situation where it is on the economic side".

Britain also indicated that she wanted to be included in any discussion of political developments in Europe, which might be held by the Six. He also expressed Britain's opposition to any form of supranationality.

In the field of economic co-operation between E F T A and the Common Market, it appears from the communique that the French are prepared to go no further than the recognition that a "successful conclusion of the Geneva tariff negotiations would contribute to more fruitful relations between the E E C and the E F T A countries". At the moment, of course, the Common Market refuses to recognise the existence of E F T A as a group, and insists on dealing with each of the seven E F T A countries individually.

Truth by Resolutions

Ashok Rudra

India: Economic Freedom versus Imperialism by V I Pavlov; Peoples Publishing House; 247 pp; Rs 15.

ONE of the pre-requisites of reviewing a book is that it has to be read; and that is what makes it so difficult to review a book that is unreadable. If all the same I have laboured through this particular unreadable book and have even sat down to review it, that is because I choose to treat it not as a book written by just another research worker, but as a specimen of the type of research that is carried out in the Soviet Union on subjects of political economy. The particular problem treated in this book makes it all the more interesting from the above point of view. The book is an apologia for the Soviet international policy with respect to underdeveloped countries in general and India in particular, formulated and put into practice by Khrushchev and carried on by his successors. The book deals extensively with two concepts that underlie this policy, namely "the non-capitalist path" and "national democracy".

Typical of Soviet Research

One is, of course, familiar with the particulars of the policy and the broad lines of the understanding of the world situation, and the political economic conditions in the underdeveloped countries that underlies the policy. However, most of the time one comes across only statements of the understanding as part of official pronouncements of leading personalities and organisations in the Communist world. One hardly ever comes across any material purporting to be analysis of facts and figures that might have led to the understanding or that might establish the reasonableness of the policies based on the understanding. It is from this angle that I have scrutinised the book. Does it represent a part, however small, of the research on which, one may presume, the understanding of the world situation by the Soviet policy makers is based? It is not necessary to read much of the book to find out that it is not a piece of research at all; it is a rehash and a purely verbal paraphrase of the statements found in official resolutions and pronouncements.

I submit that this book is a typical example, not an exception. I do not think that there are a great many books on the subject which are very much better than the present example. Considering the conditions under which books are published and published books are translated in the Soviet Union, it is to be presumed that the Soviet academic world will not have any objection to my treating the book as a representative sample of their research products.

Conclusions Come First

It is neither the volume nor even the quality of the research which I find most disturbing but something much more fundamental, namely the relation between research and the conclusions embodied in the official resolutions and pronouncements. One might have expected that the resolutions and pronouncements are based on appreciation of the results of voluminous and painstaking empirical research that is carried out by a whole army of competent research workers. The situation, however, seems to be the reverse. Whatever research is carried out seems to have the purpose not of helping the formation of judgment by the policy makers; instead it takes from the policy makers ready-made formulas and seeks illustrative evidence. (It is to be remembered that the correct scientific procedure is not to seek corroboration for hypotheses but to seek their contradiction: for an incorrect hypothesis may be corroborated by an indefinitely large body of empirical data, whereas a correct hypothesis will not be contradicted by any data whatsoever.)

If this indeed be the case then what is the basis on which hypotheses are formulated in the first instance? If it is not empirical research that gives rise to the understanding of the policy makers, then what does? The answer one receives from those who know is, the collective experience and wisdom of the leaders of the Communist movement. In practice it means that periodical gatherings of such leaders take place in which resolutions are put to the vote and passed and the contents of the resolutions so passed acquire the status, in the eyes of those subscribing to this particular epistemology, of Truth. It is, however, only a tentative Truth, or an approximation to the Truth, for the same problems are periodically reposed in similar gatherings where the experience of acting according to the earlier understanding is used as a criterion for re-examination and revision and thus arrive at a second approximation to the Truth.

Reliance on 'Collective Experience'

This method of approaching the Truth may be illustrated by considering a hypothetical application to the problem of deciding what is the result of adding 2 and 2. An opinion poll would be taken among the delegates to a congress and if the average of what the delegates think 2 plus 2 should work out to 4½ then a resolution would be passed declaring 4½ to be sum of 2 and 2. If an arithmetic system wherein 2 plus 2 makes 4½ is found unsatisfactory to work with, another congress would be called to reconsider the problem and this time the collective wisdom may settle upon the figure of 3¾ and arithmetic books would be revised accordingly. The assumption underlying this approach is that only "2 plus 2 equals 4" would be found satisfactory in practice and that, therefore, resolutions of the successive congresses would ultimately converge on this Truth.

The arithmetic example is provided for the purpose of elucidation; but it makes the method appear more ridiculous than it really is when applied to a field like political economy. The axiomatic approach is obviously inapplicable to the latter which calls for purely empirical research, and the experience of political activists is far from being insignificant as data to be taken into account. My objection is not to the use of this so called collective experience but to its *exclusive* use. Political economy is not a subject that does not lend itself to the scientific method.

Karl Marx was himself a passionate political activist, but he did not find his and others' political experience sufficient for his understanding of capitalism. He found it necessary to spend a large part of his life in the

British Museum, studying history, philosophy and political economy, and analysing facts according to the strictest academic standards of rigour of scientific objectivity. The analytical tools he developed may appear crude by present day standards, but represented great advances over the tools used by his contemporaries.

Decline of Empirical Research

The poverty of present day Marxism results largely from the fact that this tradition of empirical research has not been kept up, so that from a method of analysis Marxism has been steadily declining into a body of dogmas. Of course, one can find a very good excuse for the relative sterility of latter day Marxism in the capitalist countries: empirical research calls for official patronage which was and still is denied to workers professing a Marxian orientation of outlook. If despite all this Marxian political economists proved to be more successful in explaining certain phenomenon than their "bourgeois" contemporaries, that is because the latter persisted in refusing to take into account certain variables and certain relations between variables for extra-academic reasons.

What excuse can be thought of, however, for the poor research output of the political economists in the Soviet Union? A country that has reached the highest standard of scientific work in both theoretical and applied fields, as exemplified by the first rate contributions to mathematics on the one hand and to space navigation on the other, is lacking in neither talent nor resources available for research. I believe that a Marxist explanation is possible for this poor performance of Marxism in that country, but that would take us further afield.

I shall now substantiate the broadly generalised criticism hitherto made by emphasising two aspects of the grossly unscientific character of the book under review. Firstly, we shall look at the type of information made use of in the book. Not only is there no putting together of fresh statistical material or any original statistical analysis of existing data, the author has not even taken the trouble to get to the primary sources of statistics or find out who the economists of any standing in this country are. The argument is presented not in terms of any analysis of facts but mainly in terms of statements by various supposed authorities, who are quite often such entities as "the Indian Economist Kishori Lal". The most quoted sources are journals like the *AICC Economic Review* and the *New Age*. References to other monthly, weekly and daily journals abound, and most of the statistical tables are also taken from articles published in these rather than from their original sources. It is not sufficient to condemn the particular author as a journalist rather than a research worker: it is to be remembered that academic authorities in the Soviet Union judged the book worthy of publication and also of international circulation through translations!

What Do These Words Mean?

The second aspect is the utter lack of concern for *meaning* with which a large number of undefined or badly defined categories are introduced and made use of. The treatment of the problem is descriptive, the language style chosen literary and most of the sentences have as subjects such categories as "imperialism", "monopolists", "national bourgeoisie", "patriotic forces", "masses", "main ruling class", etc. I know that some of my Marxist friends will throw up their arms at my illiteracy with respect to marxist literature and refer me to various authorities who have already defined these terms. But I submit, firstly, that even if such definitions exist somewhere or other, it is the duty of a research worker to restate them with specific reference to the context of his field of work. I also submit that many of the authoritative definitions are much too vague and ambiguous and are unsuited for analytical purposes without considerable refinement. Thus, even though the phenomenon of "imperialism" was indeed defined and explained by Lenin, what should one understand when one reads such a sentence as "It is known that... imperialism employing the services of the local feudal and comprador elements attempted to impose on these states an outwardly independent but essentially semi-colonial state." (p 19) Known by whom? How? Is this imperialism "the last stage of capitalism" as understood by Lenin? How does a *stage* impose anything on anything else? Is one talking about a certain category of capitalists? How is that category defined and who are its members? How can we identify the "feudal and comprador elements?" Again, what are we to make of expression "(India's) main ruling class — the national bourgeoisie" (p 16). Now what is a ruling class? What is a main ruling class? Do we have a definition of "national bourgeoisie" such that given a capitalist individual or group we can uniquely decide whether it belongs to the above category or not? One often gets the impression that one ascribes two characteristics to the national bourgeoisie, namely it is non-monopoly capitalist and it is "nationalist" or "patriotic". But what basis have we got to assume that the two necessarily go together? Is it not possible to have an Indian monopoly group that would be "national" in the sense of being in competition with international monopoly groups? On the other hand, are we not having a large number of small firms that are under "imperialist" control in the sense of collaborating with foreign monopoly firms?

Brittle Edifices

It is not merely from an itch for semantic purity that I have raised the above objections. I have got the suspicion that many of the ideological edifices that have been built by contemporary Marxist theoreticians would collapse like houses of cards once one introduces precise, unambiguous, rigorous, definitions. I submit that once such an effort is undertaken, such statements as "National democracy is a form of Government in which the unification of all the sound forces of a nation can be most successfully achieved" (p 236), "an indispensable requisite for the formation of a national democracy is the leadership of the working class in the patriotic bloc" (p 236) "the non-capitalist road of development is ensured by the strength of the working class and the masses of the people" (p 235) will turn out to be completely vaccuous depending as they do on such empty phrases as "sound forces" "leadership in the patriotic bloc" and "masses of people".

The Asian Tragedy

Prabhakar Ghate

The Last Confucian by Denis Warner; Penguin Special; 327 pp; 5s.
South-East Asia in Turmoil by Brian Crozier; Penguin Special; 205 pp; 3s 6d.

THE last Confucian of Denis Warner's title is Ngo Dinh Diem, South Vietnam's late President. A good Confucian is imbued with a sense of duty, loyalty and service, and so was Diem, it appears, at least in his early years. Too unimaginative to come off as a tragic figure, Diem did have his virtues, not the least of them being patriotism. In 1931 he resigned from his post of Minister of the Interior (in effect Prime Minister) to the Emperor Bao Dai, when it became clear that the French were unwilling to enlarge the authority of the Imperial Court, or to introduce reforms. In 1946 even Ho Chi Minh asked Diem to join his government.

French Legacy

When called to power again in 1954 Diem's first problem was the bizarre politico-religious sects, each with its own private army. The French exercised only nominal control over them, but in the vacuum created by the French departure they became even more firmly entrenched. Diem was under pressure to form a government of national union, but he rightly decided that he must demonstrate his superiority over the sects once and for all, or forever remain subservient to them.

But as Warner points out, the very quality of dogged tenacity that enabled Diem to survive the early years also proved to be his undoing. For it had, as the reverse side of the coin, an inability to compromise or to accept or even consider advice and a belief in his own infallibility and righteousness. He finally managed to antogonise everyone: the intellectuals, the small westernised elite (with Madame Nhu's morality laws) and the peasants. Of these the peasants were the most important, since their support was essential if the Viet Cong were to be defeated. The regime increasingly became a family clique pitted against the rest of the country.

But the decisive blow was dealt by a political-religious crisis which Diem (and the Nhus) could hardly have provoked more effectively had they set out to do so deliberately. For the last time Diem let the defects in his make-up control his policy. He was no doubt influenced by his earlier success in crushing the sects, but he failed to see that whereas the sects were essentially bands of adventurers, Buddhist sentiment and apprehensions of discrimination were deep and genuine. The author makes the interesting point that the very passivity and non-violence of the Buddhists was their strength. Had they resorted to violence Diem would have had an excuse to crush them, but when he cracked down upon them without provocation he discredited himself finally with the generals who overthrew him.

Basic Weaknesses

The paternalistic and authoritarian streak in Diem and his brother Nhu, the tendency to think in terms of control and organisation, partly accounted for the most fundamental defect in the regime's strategy against the Viet Cong. The regime used the same methods as its adversary and as a result the choice for the peasant became "who is it safer to belong to?" The author brings this out in a first vivid chapter which describes an armed raid into Viet Cong territory, life in Diem's "strategic hamlets", and the machinery of administration. The object of the raid had been to harass and break up a Viet Cong company. In this it was successful, but on balance the Viet Cong won the day. The government troops tortured alleged Viet Cong guerillas, some of them captured on baseless suspicion. The result was to force them, in self-defence, to join the Viet Cong the next time they encountered Government troops. In a "strategic hamlet" villagers were watched, dossiered, and needed permits to leave the hamlet. They were required to contribute their time and labour to unpaid and unproductive government work, and to attend indoctrination sessions. The official ideology was Personalism, a concoction of Confucianism, Buddhism, Catholicism and Hinduism. It stood for freedom, though in practice there was precious little of it. As for the administration, the provinces and even the districts were headed by army officers and the province chiefs had arbitrary powers of life and death over their subjects.

Warner's background as a war correspondent gives him a special insight into matters military. He describes how the Americans trained the wrong sort of army because they failed to understand, until 1959, the tactics and techniques of the Viet Cong. Diem to his credit did understand the Maoist formula of three-stage revolt: political subversion and military preparation, followed by guerilla warfare and mobile warfare. To answer the need for a grass-roots security organisation he formed the Self-Defence Corps, a home guard, units of which were set up in each village, but it remained ill-equipped and incompetent. The Americans would not aid it because they felt it would sooner or later get infiltrated by the communists. The Civil Guard was being trained by the Americans as a conventional police force, while Diem wanted a para-military force. When the second phase of the war started in 1959 the brunt of it fell on these groups. Today they are being properly trained but their usefulness is limited with the war now in the third phase.

Viet Cong Techniques

In a fascinating chapter Warner describes the first phase of Viet Cong operations, the preparation of political and military bases. The Viet Cong have been known to spend several years of patient political and social preparations before moving into the second phase. He uses, as a case study, a captured Viet Cong report titled "Experience in Turning XB Village in Kien Phong Province into a Combat Village". The hinge on which all their other efforts rested was the legitimate land hunger of the peasants and their exploitation under the present set-up. Gradually, after many reverses, the village was converted. The next step was to involve the villagers in the fighting and turn XB into a combat village. This attracted punitive reprisals by government troops, which led the villagers to further identify themselves with Viet Cong goals. The people learnt war through war.

The author devotes a chapter to Laos, but only a chapter, because he regards it as part of the battle for Vietnam. He appears to give it up for

lost from the U S point of view, largely because of a mismanaged American aid programme which lined the pockets of the Vientiane rich and antagonised just about everyone else, to the benefit of the Pathet Lao. The most the West can hope for, he suggests, is neutrality of the Austrian type in reverse, by which Laos will remain technically neutral but effectively within the Chinese sphere of influence. Men and materials still flow along the "Ho Chi Minh Trail" and north-eastern Thailand is as exposed to infiltration as ever. This is where Warner expects the next communist thrust in South-East Asia.

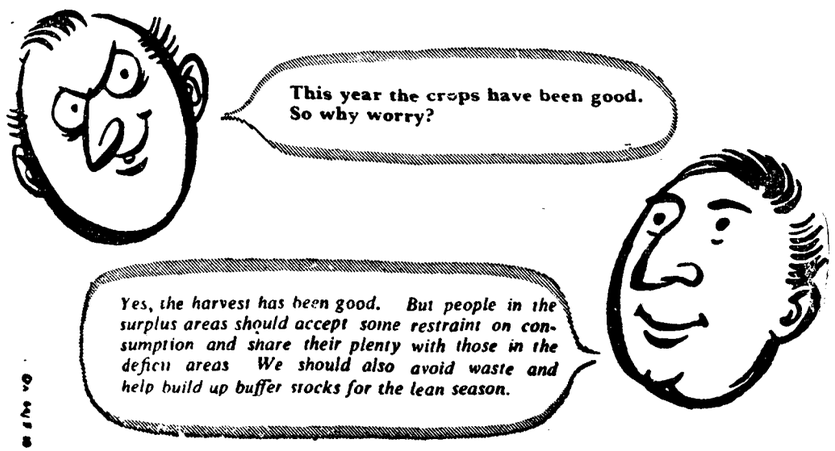
Warner discusses plans for the development of Thailand's long-neglected north-east, and is guardedly optimistic about meeting the communist challenge successfully there, largely by outdoing them in good works. (In some parts, it seems, the only medical aid the inhabitants have known has come from the communist underground). On the other hand, he points out that the communists have a head start, and in the racial and cultural affinities of the north-easterners with Laotians have ready-made separatist aspirations on which to work. Therefore he warns the West not to take Thailand's alignment for granted. The temptations to go neutralist like Cambodia are ever present if a posture of friendly neutrality towards China offers the only hope of avoiding subversion in the north-east.

A Broader View

Brian Crozier's book attempts something different. Instead of focussing on a particular country in depth, it takes a broader view of South-East Asia as a whole. It provides a pattern to what seems at first sight a haphazard and unrelated jumble of events, policies and personalities, and sets "issues" like Vietnam and Sukarnoism in their proper historical, ideological (and, therefore, world political) perspective. This is a useful task, but the result is a book likely to be of more interest to the student of international relations than to the general reader who is more interested in specific topical trouble spots. On these Crozier is forced to be brief in a small book, but he also tends to restrict himself to the 'political' level. For instance, in discussing South Vietnam Crozier spends most of his time establishing that the war is not a civil war but an insurrection directed by Hanoi. He describes the various front organisations in South Vietnam set up by the communists to that end. But these front organisations, as he implies himself, exist mostly on paper. Their influence on the course of the war must be slight. The outcome will be decided in the ricefields and up in the mountains, and this is where Crozier does not take us.

Nevertheless, Crozier's book is full of interesting comparisons. During the Second World War resistance movements sprung up in most of the countries under Japanese occupation. Broadly speaking, the communists did not lead the resistance groups; they were mostly hangers-on of nationalist or peasant movements. In Indo-China, however, at least at the outset, nationalism and communism merged into the strong stream of resistance to the French. When they separated the communists were the stronger of the two, and they carried the struggle to victory in the north. Whereas elsewhere in South-East Asia, Crozier believes, nationalism is an obstacle to the spread of communism, the North Vietnamese can use nationalism as an ally in their bid to complete the struggle they began in 1946.

Crozier's book contains useful suggestions for further reading.



Nationalism and Democracy in India

K R Narayanan

The strength and balance of a nationalist movement can be determined by the degree to which its economic and social aspects have been joined on to the political aspect. The moment a nationalist movement gets divorced from necessary social and economic reform it loses its vitality as well as its hold on the people and gives place, almost inexorably, to a more revolutionary movement. Kuomintang China is the classic example of such a development.

In India, as in most other countries of Asia and Africa, nationalism has thus to be understood in the sense of a constructive and liberating force. It is also a comprehensive concept transcending the boundaries of ordinary political usage in the West.

NATIONALISM is the background against which the drama of democratic development has been unfolding itself in India since Independence. Every aspect of development—social, economic, political and cultural—is informed by the spirit of nationalism, and moved by its emotional impetus. For a renaissant nation like India, awakening from centuries of political subjection and economic degradation, it is only natural that the nationalist spirit should be the presiding force in society.

Unlovely Forms

In the past nationalism has expressed itself in so many unlovely forms, both in Asia and Europe, that it is often regarded as a narrow and dangerous creed in the modern world. Colonial imperialism, Fascism, and the 'co-prosperity sphere' concept of the Japanese, were some of its most spectacular manifestations in recent history. Even the international creed of communism bears the imprint of the big-power nationalism of Soviet Russia and Peoples China. While these political ideologies are not merely expressions of nationalism, but something infinitely more complex and explosive, there is behind them a common irrational glorification of the nation, or the race, or of an ideology embodied in the concept of the nation. This kind of expansive and aggressive nationalism has played a black role in human history, and in our own atomic age it is, undoubtedly, a major anachronism. The touch of technology has made 'the whole world kind' in so real a sense that the other expression of nationalism, that of arrogant and brooding isolationism, has also become completely outmoded.

Nevertheless, nationalism seems to be a phase through which every nation has to go through, and it is not inevitable that it should always take a military or aggressive or isolationist form. On the contrary, it has often been a powerful defence against tyranny and oppression. Napoleon faced nationalism in this aspect in Europe, the British in their colonial empire, the Russians in Yugoslavia, Poland and Hungary, and the Chinese in Tibet. Indeed, many a battle of human liberty was fought under the nationalist banner, and even today over vast areas of the globe nationalism spells freedom and dignity for man. One must, therefore distinguish between the nationalism of a big industrial and military power projecting itself in the international arena, and of new underdeveloped nations struggling to become independent entities or establish their newly-won independence on firm foundations. Thus while the word conjures up many a fear and suspicion, it also summons from the depths aspirations of freedom, equality and prosperity for many millions of people.

In the Indian Context

In regard to India, and most other countries of Asia and Africa, nationalism has to be understood in the latter sense of a constructive and liberating force. It is also a comprehensive concept transcending the boundaries of ordinary political usage in the West. In origin it was, no doubt, a political movement born under the impact of foreign domination, with the central objective of attaining the political independence of India. At the same time it was not a purely political, but a renaissance, movement embracing almost every sphere of Indian life. One could describe Indian nationalism as a vast movement of a whole people towards national independence, national self-respect, national well-being and national enlightenment. Except for certain sporadic attempts at the apothesis of Mother India, the movement did not develop a mystique or myth of its own but remained mostly on a pragmatic plane, swept though it was by the winds of passionate ideas. In other words, nationalism in India was not the dream-child of a febrile collective-mind, but the manifestation of concrete forces and palpable psychological attitudes in society. This was largely due to the peaceful and rational approach of the leaders themselves who were constantly, even in the thick of the fray, examining and explaining the aims, methods and meaning of the movement. It is, therefore, easy to reduce Indian nationalism to its basic elements which are political, social, economic and cultural. When taken together these amount to an Indian Renaissance. One could even go further and say that it was as if the Renaissance and the Reformation have been taking place in India at the same period. There was the idea of the rebirth of the past glory of India, and also of the reformation of the existing social order. While the vision of the past greatness of India was conjured up, it was combined with the challenging of old ideas, beliefs, practices and institutions. Thus nationalism has been operating as a revolutionary force transforming, or more appropriately rough-hewing, the age-old Indian social order into a system more rational and modern. The rationality and the modernity were, in the main, the result of the impact of Western education and technology. A new spirit of reason, of enquiry, of scepticism and of criticism has been let loose in India for the first time since the spacious days of the Upanishads and of the Buddha. Though confined, in the beginning, to the educated upper and middle classes, this new spirit slowly percolated to the broad masses in thousand subtle ways and stung them with the desire for progress.

A Vehicle of Social Change

Therefore in India nationalism has not merely been an instrument of political change, but a vehicle of social and economic revolution. More than one stage of historical development is being pressed into one perfervid period of history. Struggle for

national independence, for political democracy, for economic freedom and social equality are all telescoped in a single period of change. The strength and inner balance of a nationalist movement could be determined by the degree to which these various aspects, particularly the economic and social aspects, have been joined on to the political aspect. In an underdeveloped country purely political nationalism is a hollow thing, and is replete with irrational potentialities. The moment a nationalist movement gets divorced from necessary social and economic reform it loses its vitality as well as hold on the people, and gives place, almost inexorably, to a more revolutionary kind of movement. Kuomintang China is the classic example of such a development. After independence from foreign domination has been achieved the main *raison d'etre* of a nationalist movement lies in its ability to engineer a socio-economic revolution. It may be that the purely political revolution can still fulfil a certain residual function in the way of preserving the independence of the country from outside pressures. The point, however, is that after independence this is at best a residual emotion which could, no doubt, be kept at a high pitch by propagandist ravings about foreign enemies, but, ultimately, must yield to social and economic considerations at home. The sanity and strength of Indian nationalism lies in the fact that even during the most fervid stage of its struggle against foreign rule it has developed within itself what might be called a socio-economic soul.

Struggle Against British

It was with the advent of Mahatma Gandhi as the exponent of large-scale mass action and of Pandit Nehru as the impassioned advocate of socialist ideas that the Indian National Congress acquired political dynamism as well as social and economic significance. The objective condition for the growth of social consciousness was inherent in the immense poverty of the people, and the many inequities of the social order in which they lived. In such a context it was natural that enlightened leadership should interpret the struggle against the British rule not only in terms of national freedom, but of economic, social and cultural betterment of the ordinary masses.

Since 1927 the idea of economic freedom became an increasingly important part of the thinking and programme of the Indian National Congress. "My outlook", wrote Pandit Nehru about this period, "was wider, and nationalism by itself seemed to me definitely a narrow and insufficient creed. Political freedom, independence were no doubt essential, but they were steps only in the right direction. Without social freedom and a socialist structure of society and the State, neither the country nor the individual could develop much". Nehru was very much ahead of the Indian National Congress at that time, but gradually the idea of social and economic freedom took possession of the movement until, as Nehru himself wrote: "The Congress represented not only the nationalist urge of India, which had grown with the growth of the new bourgeoisis, but also to a large extent proletarian urges for social change. In particular, it stood for revolutionary agrarian change". In this respect a resolution adopted by the All India Congress Committee in 1931, on Fundamental Rights and Economic policy, is of particular importance. It stated that "in order to end the exploitation of the masses, political freedom must include real economic freedom of the starving millions". In setting down the content of economic freedom the resolution enumerated a series of social and economic measures most of which, after independence, found a place in the Constitution and in the Five Year Plans.

Social and Economic Programmes

There was, thus, within the Congress, a good deal of thinking, discussions and programme-making in regard to the social and economic problems of the country long before the coming of independence. The climax of this process was the establishment in 1938 of the National Planning Committee of the Congress. It was, of course, a non-governmental body, without the supreme power of the State to back up its decisions, and the experience of this first attempt at planning brought home to the nationalist leaders the important lesson that no serious reform of the Indian social order could be undertaken in the absence of political independence. An examination of the work of the National Planning Committee would show the degree to which Indian nationalism nearly ten years before transfer of power, was permeated with the desire and the will for social and economic development of the country. There was a strong conservative element in the Congress who looked askance at this kind of Socialistic planning. It is a tribute to the progressive potentialities of the Congress and the brilliant Fabian strategy of Pandit Nehru that within a few years after independence the Congress Party and the country as a whole have been committed to an economic plan much more comprehensive and far-reaching, both in physical and social terms, than this first fragmentary and rather academic exercise in planning.

Acceptance of Planning

The composition and membership of this first planning body is worth noting. It consisted of widely differing, and sometimes, conflicting interests. Provincial Governments, industrialists, financiers, economists, scientists, trade unions and village industries, and even Princes were represented on the Committee. This heterogeneous body was, however, able to arrive at some common basis for planning, in very much the same way that India after Independence was able to find a common basis and a common set of objectives and methods for planning on a much larger scale. Pandit Nehru wrote about this early experiment: "Constituted as we were not only in our Committee but in the larger field of India, we could not then plan for Socialism as such. Yet it became clear to me that our plan, as it developed, inevitably led us towards establishing some of the fundamentals of the socialist structure. It was limiting the acquisitive factor in society, removing many of the barriers to growth, and releasing an enormous amount of talent and capacity. All this was attempted in the context of democratic freedom and with a large measure of co-operation of some at least of the groups who were normally opposed to Socialistic doctrine. That co-operation seemed to me worthwhile even if it involved toning down or weakening the plan in some respects". This passage expresses in a nutshell the broad strategy of Pandit Nehru, even after independence, in regard to the establishment of a democratic and socialist society in India. It was Nehru who popularised the ideas of planning and socialism within the nationalist movement. In doing so, he was merely bringing to the surface, boldly and clearly, what

was inherent in Indian nationalism and in the conditions of Indian society. He was in this respect ahead of the majority of his Congress colleagues, but his ideas, slowly and continually, flowed into the stream of nationalism until at last it became almost the main current. The Five Year Plan, with its objective of creating a Socialist pattern of society is the full-fledged post-independence expression of these earlier tendencies.

Britain's Historic Role

One cannot overlook the fact that the first practical foundations of this socio-economic revolutionary process were laid during the years of British rule. Indeed, the present restless desire for economic progress could have emerged only after the age-old rigidities of the Indian social order have been disturbed by the introduction of industrialisation and western education. The gates of modern scientific and technological knowledge were thrown open to the upper and middle classes and the seeds of industrial revolution sown in Indian society. The British contribution was neither deliberate nor planned, nor could it be described as having been adequate or impressive in comparison to the needs and resources of the country or the capacity of the administration to have undertaken had they set themselves to the task of raising living standards in India. Whatever industrialisation or economic development took place during the British period was primarily a by-product of their pursuit after military and commercial interests in India, but it was a by-product of immense and energising importance.

This historical role of England in India was recognised even by Karl Marx. It is worth quoting him on this point both to clinch the point of British contribution to Indian industrial revolution and the contribution now being made by free India: "All that the English bourgeoisie may be forced to do will neither emancipate nor materially mend the social condition of the mass of the people, depending not only on the development of the productive power, but of their appropriation by the people. But what they will not fail to do is lay down the material premises for both.... The Indians will not reap the fruits of the new elements of society scattered among them by the British bourgeoisie till in Great Britain itself the new ruling classes shall have been supplanted by the industrial proletariat, or till the Hindus themselves shall have gone strong enough to throw off the British yoke altogether. At all event, we may safely expect to see, at a more or less remote period, the regeneration of that great and interesting country". In assessing the British impact on India, Pandit Nehru expressed more or less the same view when he said that the British "represented a new historic force which was going to change the world and were thus unknown to themselves, the forerunners and representatives of change and revolution, and yet they deliberately tried to prevent change, except in so far as this was necessary to consolidate their position and help them in exploiting the country and its people to their own advantage".

Purposive Approach to Development

In the latter years of the British Raj, there was a much more purposive approach to economic development. Ultimately, the British left behind in India a system of railways, irrigation, and the various industries and above all, an educated middle class all of which constituted a foundation on which free India could build her future. But the fact remains that these did not go beyond laying the 'material premises' for the growth of production. What the nationalist movement, and later on the national government of India, have done was to gather up 'the new elements of society scattered among them by the British bourgeoisie', to organise the new productive powers and social forces released by the impact of the West, into a coherent, purposive and ambitious plan of national construction. This is a historic task that could have been done effectively only by a nationalist movement, and an independent Government. Gunnar Myrdal, in one of his books, has observed that a highly developed nationalist movement with a history of active struggle is an essential pre-requisite to the working out of a real economic plan in an under-developed country emerging from colonial status. He goes to the extent of saying that the ability to produce an economic plan of this sort is the hallmark of true nationhood for an under developed country. Viewed from this point of view, the Indian Five Year Plans could be interpreted as the finest expression of Indian nationalism. India is not doing this in a narrowly nationalistic or autarchic manner, but in fullblooded co-operation with other countries of the world. International co-operation, with all its political and financial implications, is one of the major assumptions on which the Indian Plans have been made.

While Indian nationalism derived its social and economic content from the objective conditions of Indian society, from the technological changes brought about by the contact with Britain, and from the consciously worked-out reform programme of the Indian National Congress, it was also to a certain extent the product of the particular character of the nationalist movement itself and of the unique method of struggle adopted by it. Had the nationalist movement remained an upper and middle class affair, social and economic ideas would not have invaded it so much, and after independence, nationalism would have, probably, degenerated into a conservative, if not a reactionary, force. Under Mahatma Gandhi, the masses, both urban and rural, were drawn into the national struggle and "political freedom took a new shape ... and acquired a new content". When the ordinary man became an active participant in the movement, it was inevitable that attention should be focussed on him and his problems. Thus national freedom came to be interpreted in plain bread-and-butter terms and from the stand point of social equality and economic opportunity. In a country so frightfully poor and illiterate as India, it was not only a matter of high morality but of superb political strategy to have interpreted national independence in this manner. This was the surest way of bringing into the thick of the struggle the ordinary masses without whom the politically conscious intelligentsia would have been but ineffectual angels beating their wings against the bars of the golden cage that was the British Raj.

The Social Democratic Twist

In identifying the Congress with the masses, and national freedom with the betterment of their condition, Gandhiji, in his own way, gave a social democratic twist to the nationalist movement. He did not talk the language of socialism as Pandit Nehru did, but set himself straightaway to the task of ameliorating poverty, disease and ignorance through self-help and self-discipline. He chalked out a programme of constructive action for Con-

gressmen which touched intimately the social and economic aspects of village life. Spinning, sanitation, clean housing, improved agriculture, removal of untouchability, emancipation of women, etc were some of the items that figured in the constructive programme. Despite the outmoded concept of village self-sufficiency and the semi-religious idea of simplicity and austerity, Gandhiji's constructive programme helped to sow in the peasant mind the desire and the will for a better life. One might say that the first tadpole wriggle of the modern kind of desire for progress was produced in village India, strangely enough, under the impact of the Gandhian programme. What he promised the masses were more clothes, more food, more housing, more sanitation, more freedom, and more equality than they possessed at the moment. This is clear from Gandhiji's own picture of an ideal Indian village. "An ideal Indian village", he wrote, "will be so constructed as to lend itself to perfect sanitation. It will have cottages with sufficient light and ventilation, and built of a material available within a radius of five miles of it. The cottages will have court-yards enabling households to plant vegetables for domestic use and to house their cattle. The village lanes and streets will be free from all avoidable dust. It will have wells according to its needs, and accessible to all. It will have houses for worship for all, and also a common meeting place, a village common for grazing its cattle, a co-operative dairy, primary and secondary schools in which industrial education will be the central fact, and it will have panchayats for settling disputes. It will produce its own grains, vegetables and fruits and its own khadi". From this, it is clear that Gandhiji visualised all round improvement of the economic and social condition of the masses, even though he did not think of it in modern materialistic terms. In fact India's ambitious Community Development Programme of today would not, in the near future, take the agrarian masses beyond the living standards envisaged by Gandhiji. Those who look upon his teachings as contrary to modern progress forget that in the context of Indian poverty what he was offering the masses was really progress and that, in fact, he aroused in them the desire for a better life and for the good things of life. Gandhiji did not, of course, approve of this desire growing into an enormous appetite, and his philosophy and programme had almost built into them both a spur and a bridle to this economic appetite. This was, in a peculiar way, a contribution to democracy.

The central problem of democracy in an underdeveloped country is how to persuade the people to go without some of the immediate necessities and delights of life until such time that long-term investment projects have begun to yield economic results. The problem is one of withholding from the people a goodly portion of the fruits of their labour so that it may be ploughed back into the process of development and of capital formation. Could this be done, democratically, in a country where living standards are sub-normal, where national independence has given rise to new demands and expectations, and where political democracy has bestowed on people freedom to agitate for the fulfilment of their aspirations to the point of changing the Government in power? It is in respect of this problem that the Gandhian philosophy of economic austerity and contentment could be of considerable service in preserving democracy. I do not say that Gandhi's philosophy should be used as a kind of non-violent opium of the people. But it certainly has the effect of taking the edge off the economic appetite and mollifying its revolutionary hunger. The actual impact of Gandhian ideas on the masses was one of opening up before them new vistas of social and economic well-being. To this extent Gandhi contributed to the social democratic content of Indian nationalism.

Impact of Non-Violence

It is possible to go a step further and argue that the method of non-violent struggle helped to emphasise the social and economic significance of nationalism. In one of his works Lenin advocated conflict as a method of political education of a backward people. If violent conflict arouses the consciousness of a people, non-violent conflict does it even more deeply, since it is a more prolonged process and is based on the utterly voluntary willingness of individuals to non-co-operate and make sacrifices. The long duration of the Indian struggle, its peacefulness and mass character helped to disseminate on a large scale the ideas inherent in nationalism, and made them gradually mature and gather strength until the whole movement, almost unknowingly, was pushed into an essentially revolutionary path.

From the very beginning Indian nationalism was also impregnated with the idea of political democracy. No one in India will deny the historical fact that it was the association with England that gave India the knowledge of and the desire for democratic institutions. Even though in her ancient villages India was familiar with some kind of local democracy, she had no conception of representative institutions of the modern type. Those institutions were, beyond doubt, imported from abroad and imposed from above. However, as a British writer has observed "The fact that Parliament is in origin a western institution is less significant than the fact that Parliament in India has become an Indian institution." The process of this transformation is the real story of political democracy in India. The impact of Britain created in India a bourgeoisie and an educated elite who provided the necessary context in which such a democratic transformation could take place. But the Indian soil had to be receptive to democracy and it was the nationalist movement that prepared the soil first, and also forced the hesitating pace of British constitution development directing it, irrevocably, towards the road to democracy.

Demand for Democracy

The demand of Indian nationalism was not merely for independence but for the establishment in India of a political system similar to the British Parliamentary system. In fact the earlier generations of educated Indians were enchanted by the Parliament at Westminister, and their faith in the British form of Government was profound, almost pathetic. Besides, the ideas of liberty and the rights of man expounded by the poets and philosophers of England crated a ferment in Indian middle-class society. In the early stages all that the Indian National Congress asked for was the extension of these British liberties and opportunities to the English educated Indians. Sir Surendra Nath Banerjee, one of the patriarchs of our nationalism, speaking to the Oxford Union in 1887, said "England is the home of representative institutions which have spread far and wide until the country has justly been called the august mother of free nations. The people of India are children of that mother, and they claim their birth-right, they claim to be admitted into the rights of British citizens and British fellow-subjects." Again, in 1906, we find the Calcutta session of the Indian National Congress asking for India the system of Government obtaining in the self-governing colonies. Later on the demand became for Dominion status, and at one time even Gandhiji would have been satisfied with it. The significant point in all this is that what India wanted from the very moment of the dawn of political consciousness was a parliamentary system of Government.

Constituent Assembly

When complete independence was declared as the goal of nationalism, this faith in democracy was re-affirmed even more emphatically. The Declaration of January 26, 1930—a day now hallowed as India's Republic Day—was a challenging assertion of not only the right of national self-determination, but also of the basic democratic right of a people to form or change their Government: "We believe that it is the right of the Indian people, as of any other people, to have freedom and enjoy the fruits of their toil and have necessities of life, so that they may have full opportunities of growth. We believe also that if any Government deprives a people of their rights and oppresses them the people will have a further right to alter it or to abolish it." This is, indeed, a revolutionary statement of India's democratic credo framed in such terms as to make it valid not only in the period of struggle against foreign rule, but after the attainment of independence.

The Congress carried this concept further in the 1930's when it demanded a Constituent Assembly for India. Pandit Nehru was the exponent of this idea in India. He thought of it as a sovereign body elected on the basis of universal adult suffrage. The Constituent Assembly, strictly speaking, is not a British idea or institution, but one borrowed from the revolutionary politics of America and the European Continent. This is characteristic of the Indian approach to democracy. While modelling the political system after that of Britain, ideas from other sources, be they Western or Indian, were freely incorporated into the concept of democracy.

The nationalist movement had rejected the very idea of Britain giving India a Constitution. Gandhiji argued that "the Constituent Assembly alone can provide a Constitution indigenous to the country and truly representing the people." In 1936, the Congress adopted a Resolution which said: "The Congress stands for a genuine democratic state in India where power has been transferred to the people as a whole and the Government is under their effective control. Such a State can only come into existence through a Constituent Assembly having the power to determine finally the Constitution of the country." Again, in 1939, the Congress re-affirmed that "a Constituent Assembly is the only democratic method of determining the Constitution of a free country and no one who believes in democracy and freedom can possibly take exception to it." This demand was granted only in 1946 when Britain had already decided to quit India. The significant fact is that the Constitution of independent India was ultimately made in the democratic manner contemplated by the nationalist movement.

"Legalised Terrorism"

While fighting for national freedom and foreign domination, India was, at the same time, fighting against an autocratic form of Government. Today, there is a tendency abroad to look upon British rule in India as if it was nothing but a tender and considerate system of democratic tutelage. In fact, the entire fabric of British administration, from the Viceroy down to the village headman, was shot through with authoritarianism. Therefore, almost naturally, the nationalist movement grew into a struggle for liberal freedoms and civil liberties, and freedom for the individual, freedom of speech, freedom of press and freedom of association, became some of the major aspirations of nationalism.

These rights and freedoms derived their original inspiration from Europe and, no doubt, the British were responsible for their dissemination in the Indian Empire. Despite the individualism of the Indian and the long tradition of intellectual and religious freedom behind him, these ideas were new to the politics of India. They were, however, absorbed by the educated middle-classes with such avidity that very soon they were to be restated and reasserted by the nationalist movement in opposition to the administration. It is part of the fundamental contradiction of the British Raj that it was compelled, in the interests of Empire, to control, and on occasions, to suppress most of the liberal ideas that the British themselves had the historic privilege of introducing in India. The Vernacular Press Act (1786), The Arms Act (1876), the Criminal Law Amendment Act (1908), the Indian Press Act (1910), the Defence of India Act (1915), and the Rowlatt Act (1915) were some of the major undemocratic legislations by which freedom was severely curtailed for political purposes. The Rowlatt Act, which instituted a system of summary political trials, deserves special mention, even though it enjoyed only a short span of life. It was provoked by this Act that Gandhiji launched his first Civil Disobedience movement, making the issue of civil liberties a rallying point for the nation. To these laws must be added the Emergency Ordinances of the Second World War period. Sir Samuel Hoare, the Secretary of State for India, admitted in the House of Commons that these ordinances covered "almost every activity of Indian life." Gandhiji called them legalised Government terrorism. Many of the best sons and daughters of India spent the best years of their lives in British jails under one or other of these laws.

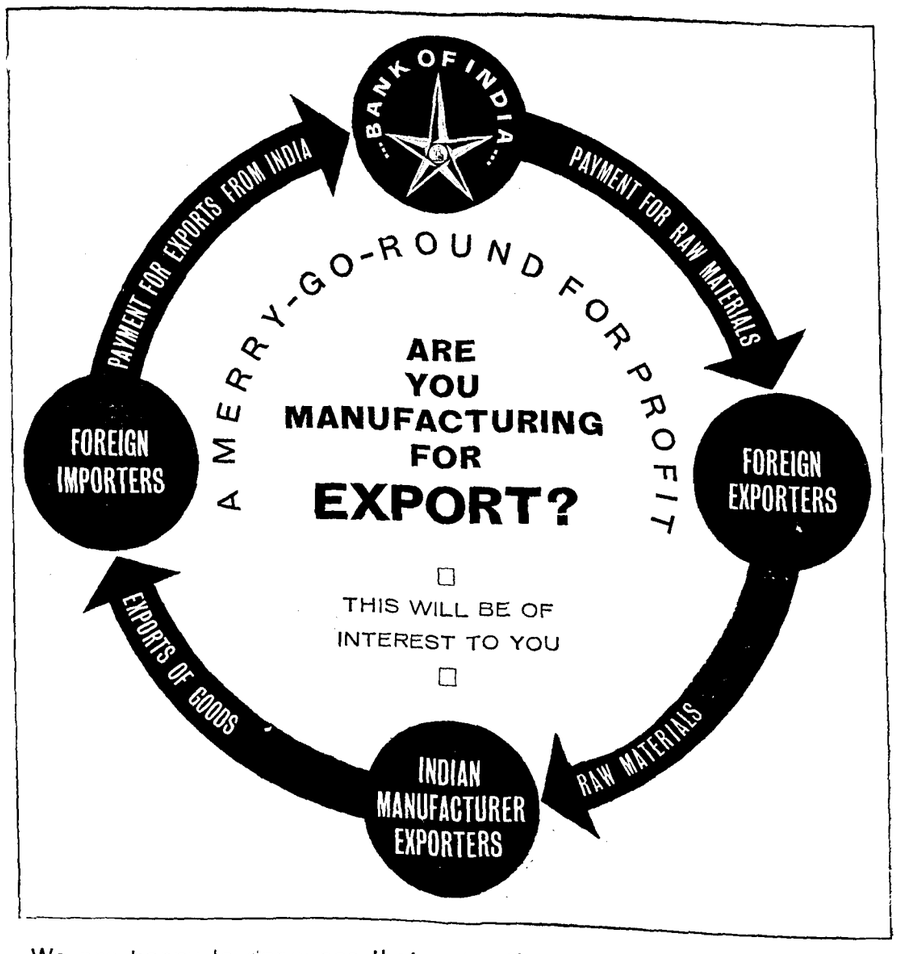
Battle for Individual Liberty

Within the larger struggle for national freedom there was, thus, in India a continuous battle for individual rights and civil liberties. This was reflected in the various resolutions and policy statements of the Indian National Congress. In 1918, the Congress proposed a Bill of Rights to be included in the new Constitution. One of the articles was to the effect "that no Indian subject of His Majesty's Government shall be liable to suffer in liberty, life, property, or in respect of free speech or writing or of the right of association, except under sentence of an ordinary Court of Justice, and as a result of lawful and open trial."

One of the great landmarks in the development of the idea of individual freedom in India was the Resolution on Fundamental Rights and Economic policy adopted by the All India Congress Committee in 1931. This Resolution, drafted largely by Pandit Nehru, enumerated with passion and clarity of thought, the following Fundamental Rights to be included in a Constitution of India:

"(1) Freedom of association and

combination; (2) Freedom of speech and of the press; (3) Freedom of commercial and free profession and practice of religion, subject to public order and morality; (4) protection of the culture, language and the scripts of the minorities; (5) Equal rights and obligations of all citizens without any bar on account of sex; (6) No disability to attach to any citizen by reason of his or her religion, caste or creed or sex in regard to public employment, office of power or honour, and in the exercise of any trade or calling; (7) Equal rights to all citizens in regard to public roads, wells, schools and other places of public resort; (8) Right to keep and bear arms in accordance with regulations and reservations made in that behalf; (9) No person shall be deprived of his liberty, nor shall his dwelling or property be entered, sequestrated or confiscated save in accordance with law." To these was ad-



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ded religious neutrality on the part of the State, and adult suffrage, and a number of economic and social rights. It is a vindication of the democratic content of Indian nationalism that most of these freedoms were, after independence, enshrined in the Constitution as Fundamental Rights of the citizen.

Democratic Struggle

Political democracy was present in Indian nationalism not only in terms of ideas and aims. It was also inherent in the method of struggle adopted by the nationalist movement. There were, of course, periods of violence and terrorism in the history of the Indian struggle. But these were sporadic and short-lived, and not accepted by the main body of the movement. Until the advent of Gandhiji political agitation was conducted largely through constitutional means, and was confined to public meetings, petitionings, and speech-makings. Under Gandhiji's leadership, the Congress became a mass organisation and the idea of freedom assumed a revolutionary aspect. But even when direct action was advocated constitutional politics were not altogether discarded. While as a matter of basic policy the Congress boycotted the elections and the legislatures, there were also periods when they fought the elections and entered the legislatures and, for a time, assumed office in the Provinces. Whenever the Congress resorted to constitutional politics, it was to wreck the Constitution and not work it. "It was," wrote Nehru referring to the Congress experience of Provincial Autonomy, "the old Constitutional conflict between an autocratic king and parliament which had so often taken place elsewhere, leading to revolutions and oppression of the king. Here the king was in addition a foreign authority supported by foreign military and economic powers and the special interest and lap-dog breed it had created in the country." Therefore, in attempting to wreck from the inside a foreign made Constitution unrepresentative of the people the nationalist party was really moving towards constitutional Government in the full sense of the term.

The most unique thing about Indian nationalism was the acceptance by it of the non-violent means of struggle. This played a significant role in the development of the democratic method in India. No doubt, non-violent, non-cooperation was an extra-constitutional technique, and in the hands of Gandhi it was an instrument for the capture of political power, although peacefully. Some of the weapons of direct action like the deliberate defiance of laws, courting of arrests, boycotting of the organs of the State, no-tax campaigns, and fasting for political ends are revolutionary both in conception and execution. The tendency to resort to them has continued even after independence to the detriment of democratic procedures. But there is one great factor that is common to constitutional and non-violent politics — both are peaceful methods. Persuasion and conversion of the other party through peaceful means is the essence of both techniques. Only that non-violence is a more profound approach based not merely on rational persuasion, but also on change-of-heart, on moral conversion. The aim is not to humiliate or destroy your opponent but to win him over. A cause can, therefore, succeed only when it is overwhelmingly right and is pursued with intensity of faith, and without hatred or ill will of the heart. As a result means became all important, the end being the inevitable product. Gandhiji held that ends do not justify the means, and that wrong means do not lead to right ends. Political democracy is nothing if it is not a method of doing things and, therefore, the great emphasis on means must be reckoned as a unique Gandhian contribution to democracy.

One may go a step further and argue that the whole work and philosophy of Gandhi provided for democracy in India a moral and spiritual basis in somewhat the same way as Christianity did for European democracy. The Gandhian movement prepared the Indian soil, socially, morally and psychologically for the growth of democracy. In fact, this preparation was afoot even before the advent of Gandhi, from the time of the Brahma Samaj and other reform movements. What Gandhi did was to cap and carry forward this Reformation of Indian society. For the ordinary man in India the non-violent struggle was an uplifting experience. It showed that an individual, however small, could resist even an Empire with what Gandhi called "soul-force". In other words, it endowed the individual with a sense of dignity, power and challenge. In the Indian context of "pathetic contentment", and fatalistic helplessness this was a stirring idea comparable to the concept of the sovereignity of the individual conscience that Martin Luther preached in Europe on the eve of the Reformation. Thus, the Congress under Gandhi aroused the consciousness of the Indian and made him aware of his own importance and potentialities. For the masses the nationalist movement was a prolonged and collossal process of education. The democratic value of this can hardly be exaggerated even though it has not been fully appreciated either in India or abroad.

Part of Renaissance Movement

In the preceding paras, I have tried to bring out clearly the ideas of social and political democracy with which Indian nationalism was instinct. But nationalism in India was some thing more than a political, social and economic movement. It was part of a larger Renaissance and Reformation movement. There was a great revival of religions, cultures, languages, arts, etc combined with the spread of scientific knowledge and modern social ideas. This revival, incidentally, threw up a good deal of religious fanaticism and obscurantism that sought to preserve, in the name of religion, many an anti-democratic practice and institution. But the dominant tendency in society was not that of revivalism, but of change. The forces of social change were harnessed to the nationalist movement and, after independence they are, being harnessed to the legislative State that has come into being in India, perhaps for the first time in her history. To a large extent the success of democracy in India would depend on the ability of the State to act as the vehicle of this oncoming social revolution.

Another element of considerable democratic significance present in Indian nationalism was its deep sense of internationalism. From the very beginning India had intimations of belonging to the world community, and participation and cooperation in world affairs was one of her earliest dreams. She not only fought for her own democratic right of independence, but ranged herself on the side of democracy in the world. The Indian National Congress took an uncompromising stand against Fascism and Nazism, and also supported nationalist movements in the colonial territories. The despatch of an Indian Medical Mission to China during the Sino-Japanese war, and of medical and food supplies

to Spain during the Civil War were clear demonstration of the international democratic sympathies of the nationalist movement. Pandit Nehru was the prime mover of these measures. On the outbreak of the War, he drafted a resolution for the Congress Working Committee which said: "In this crisis the sympathies of the Working Committee are entirely with the people who stand for democracy and freedom, and the Congress has separately condemned Fascist aggression in Europe, Africa and the Far East as well as the betrayal of democracy by British imperialism in Czechoslovakia and Spain". During the War, India asked for immediate independence in order that she may mobilise her entire resources on the side of the democracies.

Growth of Internationalism

Pandit Nehru was the passionate and far-sighted advocate of this progressive internationalism. Poet Tagore and Gandhiji also played a predominant role in widening the nationalist horizon and arousing in India a certain world-consciousness. Nehru was, however, the internationalist par excellence. He was sensitive to his fingertips to developments in the outside world, and he had also an enlightened appreciation of the national significance of internationalism. In his "Discovery of India", while discussing the reign of Akbar the Great, Nehru observed that "Akbar might have laid the foundations of social change if his eager, inquisitive mind had turned in that direction and sought to find out what was happening in other parts of the world". Instead, Akbar was preoccupied with glory and internal consolidation. This inwardness, this lack of lively awareness of developments in the wide world outside, for example, of science and technology and commerce, was one of the reasons for the decline and fall of the Moghul Empire and of India in general. Nehru, therefore, realised that internationalism had an internal significance and the far-flung yet essentially India-based, foreign policy he developed after independence bears testimony to this. "Having attained our freedom", Nehru said at the Lahore Congress, "I have no doubt that India will welcome all attempts at world co-operation and federation and will even agree to give up part of her independence to a larger group of which she is an equal member". Mahatma Gandhi stated this internationalism in his own inimitable way when he wrote: "My service of India includes the service of humanity. Isolated independence is not the goal of the world States. It is voluntary inter-dependence. The better mind of the world desires today not absolutely independent states, but a federation of friendly inter-dependent states. The consummation of that event may be far off. I want to make no grand claim for our country. But I see nothing grand or impossible about our readiness for universal independence. I desire the ability to be totally independent without asserting the independence". Indian nationalism was, therefore, no narrow and outworn creed, but a movement that had at its very heart the objectives of political and social democracy, and was constantly stretching its arms towards the ideal of world cooperation and 'voluntary inter-dependence' of nations.



How Has the Indian Working Class Fared?

Subratesh Ghosh

The labour policies of a state with socialist aspirations have reduced the pains of industrialisation for the Indian working class.

Money-earnings have risen and there has been also some improvement in real earnings. Employment in the organised sector has expanded, though the unemployment problem remains unsolved. Some progress has been achieved in the field of social security, but not much in the field of industrial housing.

On the whole, there has been a moderate improvement in the level of living of industrial workers.

There has been a decline in spontaneous forms of labour protest. Organised protest in the form of strikes has not shown any pronounced upward trend. There are indications of a growth of positive labour response in the form of tripartite decision-making and collective bargaining.

THE impact of industrialisation on the labour-force and workers' response to it have been interesting themes for study to which many brilliant minds had been attracted in the past. Marx, Veblen, the Weffs, Commons, Perlman and Schumpeter are some of the great names who tried to study these subjects, each from his own angle of vision. A recent contribution in this field has been made by Kerr, Dunlop, Harbison and Myers, who in their joint work "Industrialism and Industrial man", have tried to present a complete theoretical structure to answer vital questions about the impact of industrialisation on the labour-force and workers' response.

No attempt will be made here to survey these theoretical contributions or to assess their relative merits. We will seek to study the problem in the context of Indian industrialization on a factual basis.

The Context

The experiment in industrialisation that is being made in India has some novel features which distinguish it from earlier cases of industrialisation in several respects. She has adopted economic planning as the instrument for achieving the "take-off" that was accomplished in the capitalist democracies within the framework of more or less "free" market economies. On the other hand, unlike the planned economies of the Soviet type, the market mechanism has not been completely subordinated to planning. In resource allocation, the market mechanism in India definitely plays a role, which, although basically regulated and modified by economic planning and social controls, is, nevertheless, much more important than in U S S R.

The elite that is guiding the industrialisation process in India also differs much from the elites who dominated the industrialisation process in other countries like Britain, U S A, Japan or U S S R. In a mixed economy under planning with a regulated market mechanism and a growing public sector, it is natural that the elite dominating the industrialisation process would be a mixed group coming from leaders of the Government and the ruling party and administrators and technocrats in the Government's economic agencies and public enterprises. Besides, there are the private interests guiding the large controlling groups in the industrial sector, who play very significant, although not always visible, roles in determining the market forces, prices of essential producers' and consumers' goods and also are suspected to influence political forces and even, to some extent, the course of state policy. The industrialising elite in India is thus a mixture of the nationalist-cum-middle class elite with some revolutionary-intellectual traits and the rising industrial magnets. The influence of the socialist forces in the country which tended to grow considerably since the 'thirties lent certain revolutionary-intellectual tendencies to the middle class elite. Adoption of the socialist objective for the country and economic planning as the instrument for economic development, selection of sectoral and industrial priorities and also the growth of the public sector are indications of the existence of this element in the industrialising elite of the country. But side by side with this element, there is a strong middle class element represented by the public administrators, technocrats and the leaders of the controlling groups in the private sector who play significant roles in influencing the implementation of economic policies. This type of heterogeneity in the composition of the industrialising elite was not visible in any of the four countries mentioned above which represent the four typical cases of successful "take-off" uptil now.

As regards the pace of economic development and the priorities, Indian aspirations are similar to those of U S S R in her early days of planning. She has adopted rapid industrialisation with primary emphasis on the development of a heavy industry base as a major objective of her economic planning. Naturally this meant considerable pressure on the economy revealed in the form of inflationary price-rise of essential products, growing foreign exchange-crisis as well as shortages and controls of essential products.

Naturally these features have tended to have an impact on India's developing work-force which is substantially different from the impact felt in other countries in the course of industrialisation. The responses also, similarly, show some peculiar traits. India, for these reasons, is a very interesting case study in the impact of industrialisation on the workers.

Three Criteria

For an empirical study of the impact of industrialisation certain objective indicators have to be selected and studied carefully. For this purpose we propose to select three major indicators, viz, impact on the level of living, on employment and on labour organisations and industrial relations.

For studying the impact on the level of living, the best procedure should be to study the changes in real wages and expenditures of workers and the benefits of social security and industrial housing received by them from 1951. (The year 1951 has been selected as the beginning of intensive industrial development in India, since it was in March, 1951, that the First Five Year Plan in India was launched. No doubt there was some industrial growth in India before the commencement of planning, but its rate was slow and its basis narrow.

But a higher rate of growth of the modern organised sectors relatively to agriculture and the subsistence sectors actually commenced with the beginning of planning).

As regards changes in employment, we shall mainly concentrate on how employment in the organised economic sectors increased since 1951. To get a full view of the impact of industrialisation it would also be necessary to take into account the unemployment situation. Thus it would be necessary for us to consider whether the economic development in the country has been able to make any dent on the unemployment problem.

Impact on Trade Unions

As regards the impact of industrialisation on trade union development, a study of the growth of trade union membership since 1951 will be helpful. In this connection the changes in organisation and methods of trade unionism, if any, also should be taken into consideration.

For studying the impact of industrialisation on industrial relations, the basic trends in the institutional set-up —the impact on labour-management co-operation and bargaining—as well as changes in the severity of industrial disputes ought to be the relevant points. Since a study of the severity of industrial disputes is also essential for measuring the extent of workers' response (in the form of protest) to industrialisation, we shall postpone its consideration till we take up the study of labour response.

Changes in the real wages of factory workers since 1951 are indicated in Table 1. The increasing trend of consumer prices, particularly pronounced since 1956, clearly indicates the heavy impact of inflationary pressures on the cost of living of the workers. Because of this persistent pressure, improvements in money-earnings have been considerably eroded away. Thus the gains in real wages have been much less substantial than what is indicated by the increases in money-earnings of workers.

It is interesting to note in this connection that on base: 1939=100, the index of real wages for factory workers in 1953 stood at 99.9.1 (On 1951 base, the corresponding index for 1953 was 106.6). Thus the pre-War real wage-level was reached only in 1953. However, since then real wages have remained in general above the pre-war level, the indices for real wages on 1951 base being almost always higher than 106.6 which was approximately equal to the 1939 level (with the only exception of 1959). Thus, the Indian workers, in the early phase of take-off, have been able to enjoy a real wage level slightly higher than the pre-take-off level. This means that unlike industrialisation carried through purely capitalist ways (e g in U K or U S A), the Indian workers have been spared the pains of continuous decline in real earnings during the 'take-off' phase.

At the same time, however, it should be clearly noted that the improvement in real wages has not been a continuous process. Thus although from 1953 to 1955 real wages were continuously rising, during 1956-1959 they revealed a consistent downward tendency, the index in each year being lower than the previous years'. Since 1960, however, real wages have again started rising. Moreover, real wages have not kept pace with the rise in the index of industrial production, which has been continuous since 1951, unlike the fluctuating real wages index. The disparity would be evident from the fact that whereas during the period 1951-1960, real wages increased by 10 per cent, the production index rose by 77.8 per cent. In fact, real wages also lagged behind improvements in productivity. B N Datar has estimated that the productivity-index of workers belonging to 29 industries covered by the C M I increased by 53 per cent between 1947 and 1958; real earnings during the same period registered a much smaller increase, being just 27 per cent over 1947 in 1958.[2]

Table 1 : Indices of Wages, Consumer Prices, and Industrial Production
(Base : 1951=100)

Year	Real Wages of Factory Workers	Industrial Production	Index of Money Wages of Factory Workers	Index of Working Class Consumer Price
1951	100	100	100	100
1952	109	103.6	107	98
1953	107	105.6	108	101
1954	112	112.9	108	96
1955	124	122.4	113	91
1956	115	132.6	115	100
1957	114	137.3	121	106
1958	108	139.7	119	111
1959	106	160.1	122	115
1960	110	177.8	130	118
1061	115	190.8	138	120
1962	116[P]	205.5	—	—

Sources : Reserve Bank of India Bulletin, April, 1964 and "Indian Labour Statistics", 1960, 1964. P = Provisional

Change in Levels of Living

Coming to another indicator of changes in level of living, i e, housing conditions, we find a situation which is far from satisfactory. Housing conditions for industrial workers were never satisfactory in the country. Thus R K Mukherji reported that in 1940 about 91.24 per cent of the families in the working class areas of Bombay occupied one-room tenements with 26.86 square feet available per person; in Ahmedabad 73.82 per cent, in the coal field areas of Bihar 85 per cent, and in Kanpur industrial area 96 per cent of the working class families lived in one-room tenements.[3] In most of these one-room tenements more than 3 adults—sometimes 6 or 7 adults-shared a small room. Actually most of these tenements had not even the facilities of latrines or kitchens attached to them.

Recognising the importance of reasonable standards of housing for health and efficiency of workers, the Government of India decided to take steps for improving the situation after Independence. In 1949 a scheme of industrial housing was undertaken by the Government, under which about 1,500 houses were constructed during 1951-52. The Planning Commission estimated that at the time of the commencement of the First Plan about 4.5 lakhs out of 17.1 lakhs of workers residing in 37 major industrial centres (i e, about 26.3 per cent) needed accommodation very urgently. It was further realised that with the growth of population, the problem will become more serious. The Government, therefore, adopted in 1952 a more ambitious programme known as the Subsidised Industrial Housing Scheme for liberal grant of long-term loans and subsidies by the Government of India to the State Government and through them to other approved agencies, e g, housing boards, local bodies, industrial employers, registered cooperative societies, etc. By the end of the First Plan the number of tenements completed under the scheme was about 40,000. By the end of 1961 the figure rose to about 1,13,223 tenements.[4] Although this indicated some progress over the 1955-56 figure of about 40,000, this was far short of the number of sanctioned houses which was 1,46,737 till the end of 1961.

As regards social security benefits, some definite progress has been recorded. The Employees' State Insurance Scheme which was started in 1952 only in 2 centres benefiting about 1.5 lakhs workers, covered about 17 lakhs workers in 121 centres by the end of March 1961.[5] By March 1963, it further extended its activities to cover about 23.35 lakhs workers in 151 centres.[6] By March 31, 1963, it arranged for 3,589 beds in hospitals and provided medical benefits to 82.55 lakh beneficiaries through 421 dispensaries and 2,307 panel doctors. In the financial year 1962-63 it disbursed a sum of Rs 409.77 lakhs by way of cash benefits to the insured workers and spent Rs 2.74 lakhs for grant of other benefits.

The Employees' Provident Fund Act, 1952, which was originally applicable to 6 industries only covered 61 industries by the end of 1961.

There are, of course, still many shortcomings of the Indian social security system. But, nonetheless, in view of the facts mentioned above no one can deny the progress that has been achieved since 1951.

From the brief survey of the major indicators of changes in the level of living, we find that the impact of the initial stage of industrialisation on the level of living has been uneven. Although the real wages have slightly improved as compared with pre-war and pre-plan levels, housing conditions are still deplorable. Besides, the inflationary price rise associated with the rising tempo of industrialisation is making continuous inroads into the real wages. Thus although, unlike earlier cases of industrialisation, they did not suffer allround, the gains derived by industrial workers have not been substantial. In one respect, however, the workers' condition has improved considerably since the beginning of the take-off and that is in the field of social security. Indian industrial workers now are insured against almost all the major risks of industrial society, excepting unemployment. In this respect they are much more fortunate than the agricultural workers or the white collared employees of commercial establishments.

Table 2 : Index of Employment in Organised Sector
(Base : 1950-51=100)

1951-52	99.3
1952-53	102.0
1953-54	101.0
1954-55	103.5
1955-56	104.0
1956-57	111.2
1957-58	115.9
1958-59	114.9
1959-60	119.0
1960-61	121.0

Source : The Third Five Year Plan.

Changes in Employment

Changes in employment in the organised sectors since the beginning of planning is indicated in Taole 2. We find indications of almost continuous rise in employment in the organised sector, excepting in three years, viz, 1951-52, 1953-54 and 1958-59 when there were minor declines. However, there is little room for jubilation. In a developing economy, where large-scale public investments are being made for developmental purposes, increase in employment is natural. On the other hand, what is less expected is the rise in the volume of unemployment which increased from 5.3 million at the end of the First Plan to 9 million at the end of the Second Plan and is expected to rise to about 10 million by 1965-66 even on conservative estimates. Of course the population continued to increase throughout the period and is still increasing. But, even taking note of that, the fact remains that planned industrialisation of the country has failed to satisfactorily tackle one of her most formidable problems, viz, unemployment.

In this connection it is interesting to note that although employment increased in the organised sectors as a whole, the rate of increase has been uneven between the sectors. Table 3 indicates that although employment increased everywhere, the employment effect of development was more pronounced in the industrial sector than in the mines.

Economic development is not only greatly influenced by labour's response to industrialisation, but it is a major factor shaping the nature and course of the organised labour movement.[7] In India also, in the course of the decade of planned industrialisation there has been substantial progress of the trade union movement. The membership of the registered trade unions increased

Table 3 : Changes in Employment in Different Sectors

	Manufacturing Industries		Mines	
	Average Daily Employment *(thousands)*	Index	Average Daily Employment *(thousands)*	Index
1951	29,14	100	549	100
1952	30,21	104	559	102
1953	29,70	102	593	108
1954	30,36	104	568	104
1955	31,14	107	590	108
1956	34,01	117	628	115
1957	34,79	122	651	119
1958	34,12	123	649	118
1959	36,35	125	618	113
1960	37,73	129	652	119
1961	39,28 P	135	—	122
1962	41,22	141	—	—

Source: Reserve Bank of India Bulletin, April 1964 and "Indian Labour Statistics, 1964. P = provisional.

from about 18.8 lakhs in 1950-51 to about 40.13 lakhs in 1960-61. Thus in the course of ten years only trade union membership was more than doubled. However, this increase in membership has not been accompanied by qualitative improvement in all cases. Thus, the size of the individual union, indicated by its average membership, is not expanding. Whereas the average size was 781 members per union in 1951-52, this declined to 641 in 1953-54, 604 in 1958-59 and ultimately came down to 596 in 1960-61. The financial position also is not satisfactory. In 1951-52, the average income of a workers' union was Rs 2158, in 1953-54 that came down to Rs 1846 and then it registered some improvement in 1960-61, reaching the figure of Rs 2278. But in spite of this slight improvement, annual average income definitely remains at a pitiable level. There is, however, some sign of maturity in the labour movement reflected in the signing of the Code of Conduct for guiding inter-union relationship.

The organisational structure of trade unions as well as their methods have undergone some change in recent years. There is now a more general trend towards industrial workers grouping in the form of trade union federations, the number of federations having increased from 12 in 1947-48 to 64 in 1960-61; although industrial federations are no adequate substitutes for nation-wide industrial unions the federating tendency is welcome in a country full of "one-shop" unions operating at the factory level. Perhaps this federating tendency has been to some extent induced by growing concentration of industry as well as development of different forms of integration in the industries in the course of the industrial development. Another contributing factor has been the necessity of representing workers' interests in industrial committees, wage-boards, etc, sponsored by the Government as instruments for industrial rule-making.

Table 4 : Trend of Industrial Disputes in the Manufacturing Sector

Year	No of disputes	No of Man-days Lost	Severity Rate per 100,000 Workers	Index of Industrial Unrest (Base: 1951 = 100)
1951	1071	38,18928	424	100
1952	963	33,36961	310	73
1953	772	33,82608	383	90
1954	840	33,72630	400	94
1955	1166	56,97848	563	133
1956	1203	69,92040	597	141
1957	1630	64,29319	400	94
1958	1524	77,97585	418	97
1959	1531	56,33148	421	99
1960	1583	65,36517	533	126
1961	1357	49,18755	421	99
1962	1491	61,20576	—	—
1963 (P)	1394	29,01904	—	—

Source : "Indian Labour Statistics", 1960 and 1964.
P = Provisional.

Table 5 : Absenteeism in Organised Industries in India
(Percentage of Man-shifts Lost to Man-shifts Scheduled to be worked)

	1959	1960	1961	1962	1963
Cotton Mill Industry					
(a) Bombay	7.3	10.4	11.9	11.3	11.8
(b) Ahmedabad	6.6	7.3	7.3	8.3	8.0
(c) Sholapur	13.4	16.9	14.7	15.3	18.3
(d) Mysore	19.4	19.2	20.9	27.3	26.4
(e) Kanpur	10.7	14.2	15.1	27.4	15.3
Engineering Industry					
(a) Bombay	14.5	13.7	12.7	13.9	13.4
(b) West Bengal	12.3	11.5	13.3	13.2	12.9
(c) Mysore	11.4	9.3	10.6	15.0	12.4
Coal Mines (All-India)	13.1	13.3	13.5	12.9	12.6
Plantations					
Mysore	19.5	18.8	19.2	21.5	20.4

Source : Indian Labour Journal, Labour Bureau.

Industrial Relations

In the realm of techniques of trade unionism also some improvement has to be noted. Trade Union methods, which in the pre-war period were mainly limited to periodic strikes and demonstrations, have now assumed greater sophistication. Thus there has been some increase in mutual benefit expenditures and educational activities by trade unions. They also make wide use of the methods of external regulation available to them (viz, industrial adjudication, placing of data and arguments in support of the labour point of view before wage-boards and other agencies of similar nature, and also activities for influencing the course of labour legislations). No doubt, this widening of the horizon has been greatly conditioned by the objective situation and circumstances which in turn were greatly conditioned by the industrialisation process.

As regards the impact of economic development on industrial relations, there has been a definitely welcome trend towards a change-over from unilateral decision-making by management towards industrial rule-making through tri-partite decisions. This is reflected in the Code of Industrial Discipline and numerous decisions reached in Indian Labour Conference and industrial committees which have vitally shaped the country's labour relations and conditions of work. There are some indications of growth of collective bargaining, although its pace is still rather slow. Of the total number of disputes in 1961 27.9 per cent and 25 per cent in 1962 were solved through negotiations without Government intervention. This does not indicate that the collective bargaining process has played an important role. But it is interesting to note that out of 487 cases of Government intervention in 1961 and 620 cases in 1962, only 7 and 12 cases, respectively, had to be settled through adjudication, the rest having been settled through conciliation. This decline in importance of adjudication itself indicates the scope for greater development of collective bargaining.

No definite uni-directional trend is obtained with respect to industrial unrest. However, in general, the index for industrial unrest has remained

below the 1951 level since 1956 (excepting only 1960).

Because of the Government's assumption of leadership of the development process, the necessity was felt for the development of a framework of industrial relations which would tend to avoid major industrial strikes and dislocations and would ensure conscious participation of labour and management in the endeavour for economic progress. This was greatly responsible for the evolution of regular machinery for consultation, negotiation and participation at different levels. It has also created an elaborate state—sponsored machinery for the settlement of industrial disputes in which Government intervention has been given sufficient scope for operation.

Workers' Response

Workers' responses to industrialisation may assume several forms depending on the degree of workers' commitment and other factors. More important measurable indicators are rates of absenteeism and turnover representing spontaneous or unorganised responses and strikes, demonstrations, etc, representing organised forms of protest. Organised response, under certain conditions, may also take the form of participative activities in the regular industrial relations system, if and when developed.

Although no all-India figures of absenteeism for the manufacturing industries sector as a whole is available, some details on the basis of available data on individual industries and centres are given in Table 5. From the table it appears that in almost all the centres of cotton-mill industry absenteeism is generally increasing since 1959. For engineering industry the general trend is downward in Bombay and upward in Mysore. For Indian coal-mines as a whole as well as engineering industry in West Bengal, no unidirectional trend is available. However, if we compare the average rate of absenteeism for the five years 1959-63 with the same figures for 1951-55 a better picture about the changes in the rate of absenteeism would emerge. For 1951-55, the average rates of absenteeism were for cotton mills at Bombay 11.4, Ahmedabad 8.4, Sholapur 19.0, Kanpur 12.2: for the engineering industry the rate was 14.3 at Bombay and 11.1 at West Bengal. For the coal-mines the All-India average for the period was 13.5. As compared with these, the 1959-63 average for cotton mills at Bombay was 10.5, for Ahmedabad 7.5 and for Sholapur 15.7. For the engineering industry at Bombay the 1959-63 average was 13.6 and that for West Bengal was 12.6. For coal-mines the average rate of absenteeism per year for the same period was 13.1. Thus, in almost all the important centres of the cotton mill industry and the engineering industry and also in the coal mines for India as a whole, the rate of absenteeism in 1959-1963 was somewhat lower than in the five years 1951-55. Engineering industry in Bengal, however, experienced some increase in the rate of absenteeism.

As regards labour turnover, no All-India picture is available. In fact, statistics on turnover are not regularly published in any State except Maharashtra and Gujarat (formerly Bombay). Thus no judgment can be passed on any changes in trend in recent years. However, from the reports of recent Urban Surveys conducted in different cities it appears that the number of permanently settled workers is increasing in almost all the major industrial centres. This indicates decrease in one aspect of labour turnover, i e, incessant inflow between towns and villages.

From both these indications it may be inferred that unorganised or spontaneous labour protest reflected in unwarranted absenteeism or excessive turnover is to some extent decreasing in the country. If this observation (which needs verification on a wider scale) is true, this must have been largely due to progress in social security measures as well as to increase in money earnings experienced by workers.

Organised Protest

With respect to organised forms of protest, however, some sort of a mixed picture emerges. The general trend of industrial disputes in the industrial sector has not been unfavourable. On average during 1957-62, only 1.208 days per year was lost per worker.[8] On a longer span, the severity-rate of industrial disputes in the manufacturing sector (i e, the rate of man-days lost to man-days available for work) on average was 442.7 per 100,000 workers per year in between 1951 to 1961. These figures cannot be considered as high. The number of man-days lost in the first three years of the Third Plan is also less than the corresponding figure for the last three years of the Second Plan. The average number of man-days lost per year during 1961-63 was 46,47,078—a figure much lower than the annual average of 66,55,750 during 1958-1960. Besides, as revealed in Table 4, the index for industrial unrest since the beginning of the Second Plan has consistently remained below the 1951 level (excepting only one year, 1960).

Thus, in spite of growing pains, necessarily felt in a developing economy, organised workers' response has not taken the shape of a continuously rising protest line. This is something quite different from what happened in the European countries during the 'take-off' phase. Differences in the pressures for domestic accumulation of capital, the growth in international labour standards, the historical setting as well as the influence of a sympathetic national labour policy appear to have played the main role for this difference.

However, it also cannot be denied that inspite of deliberate attempts at creating a machinery of advanced industrial relations to channelise the organised labour responses, the organised workers have not shown as much enthusiasm or participative spirit as was necessary for their success. Limited appreciation of the significance of work committees, joint productivity councils or joint management councils is definitely illustrative of the difficulties in the way of the development of participative responses of workers within a transplanted industrial relations system in an underdeveloped country. Actually only 2,918 works committees were in operation and the number of joint management councils was about 60 in 1962, out of which several were not functioning well. This of course, need not mean that the experiments in the field of industrial relations in India have failed. Actually, the suspicious trends in industrial relations, as reflected in the growth of tri-partite decision-making, growing importance of collective bargaining and collective agreements and decline in the emphasis on compulsory adjudication are definitely silver linings. But the horizon is not yet fully clear.

Conclusions

The most important conclusions of this study can be summarised as follows:

(1) Industrialisation in India has had a definite impact on the industrial workforce of the country. Inflationary

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price-rise, shortages of essential products and living facilities as well as the hastening of the tempo of work have been the main adverse symptoms of this impact.

(2) However, on account of the labour policy of a State with socialist aspirations, the pains of industrialisation have been much softened for the workers. There have been improvements in money-earnings (partly due to the national legislations and awards of tribunals and partly because of pressures from organised labour), and also some improvements in real earnings. Employment in the organised sectors expanded no doubt; but unemployment problem still remains vitally unsolved. Some progress has been achieved in the field of social security, but not much in the field of industrial housing. On the whole, there has been moderate improvement in the level of living of industrial workers in India, although much more is expected.

(3) There appears to be some decline in spontaneous forms of labour protest. Organised protest in the form of strike did not have any pronounced upward trend on the whole. To some extent, indications of the growth of positive response channelised through the developing framework of industrial relations have been noted because of a few favourable trends associated with the growth of tri-partite decision-making and collective bargaining. But the problems in the way of the development of a full-fledged and sound industrial relations system are also many. Some indications in this respect have been noted in the form of lack of proper participation of workers in the consultative and associative machineries developing within the industrial relations framework.

Notes

1 "India, 1959—A Reference Annual", issued by the Ministry of Information and Broadcasting, Government of India, p 389.

2 B N Datar: "Wage Movements Since Independence", *The Economic Weekly*, Special Number, July, 1961.

3 R K Mukherji: "Indian Working Class", Bombay, 1948, pp 270-282.

4 "India, 1962—A Reference Annual", p 386.

5 *Ibid*, p 380.

6 *Indian Labour Journal*, September 1963, p 923.

7 This point has been elaborated in the present author's work, "Trade Unionism in Underdeveloped Countries", Calcutta 1960.

8 Estimated from "Indian Labour Statistics, 1964", pp 151-152.

National Council's Strategy for Fourth Plan

A Reply

I Z Bhatty

In spite of T N Srinivasan's attempt to mislead readers (The Economic Weekly, January 23, 1965), *the fact remains that the National Council's strategy for the Fourth Plan is concerned principally with a new approach to attaining a minimum level of consumption for all. Since the attainment of this objective for all consumer expenditure is not considered feasible within a relatively short time, the Strategy selects food (and particularly cereals), the most essential need of the less fortunate sections of the population, for the Fourth Plan.*

A mode of operation is then specified within the framework of a plan which provides the mechanism for achieving this end.

Immediate concentration on food does not imply that other consumption expenditures stay stationary. These too increase, but the normative minimum is expected to be reached in the subsequent plan or plans depending on the order of priority and on feasibility.

PERMIT me as one who had some part in the preparation of the National Council's Strategy for the Fourth Plan to answer T N Srinivasan's critique. To start with let me draw attention to two points, academically peripheral, but significant in the light they cast on the tone and quality of the critique. First, the critic has chosen to draw from a preliminary draft to make open comparisons. This draft was strictly confidential (marked so) and was given to the Deputy Chairman of the Planning Commission for a restricted discussion. Whether it was proper on the part of the critic to have used this preliminary and confidential draft for open discussion in *The Economic Weekly* I leave to the readers to judge. Second, the critic starts with the sentence: Under the "direct supervision and guidance" of its Director-General, the National Council has...etc. The phrase "direct supervision and guidance" meant to be quoted from the Strategy occurs neither in the confidential draft nor in the published version. That the author should cite words which do not exist except in his imagination is in keeping with the spirit of the critique.

Srinivasan states that the Council has prepared a "plan" by making "back of the envelope" changes in the "numbers" provided by the P P D in its Notes on Perspective Development — a document which he describes as a "do it yourself planning kit"! I am sure the reader must have been surprised to find that the critique itself is devoted in most part to issues other than "numbers", viz, to the scheme for employment, redistribution and rationing advocated by the Council as a means for providing the minimum level of cereal consumption to all. Of this there is nothing in the famous kit. How is it that the envelope proved bigger than the kit? Surely not because of the "prejudices, biases and tastes" of the Council.

Let me now turn to the main burden of the critique. The author is peeved that, while the PPD was referred to in the draft version in respect of industrial and mineral targets for 1970-71 this reference was omitted in the final version. The reason of course is simple. There was no need for it.

Allow me to emphasise that the Council is quite capable of determining its own objectives and consistent targets without the help of any "do it yourself planning kit". The targets in the Strategy are based on available

data including a number of demand studies made by the Council. In some cases, as for example steel, the results of the Council's demand study were reviewed in the light of more recent developments and the target modified accordingly. Srinivasan may not be aware but the Council has made demand studies for a number of commodities and has developed its own technical coefficients in agricultural, industrial, mineral, energy and transport fields. In fact, even the PPD has made use of NCAER norms for a large number of important industries using rolled steel input.

The confidential draft was meant for discussion in a restricted group with a view to press for a new approach towards the objective of minimum food for all in the Fourth Plan based on increasing production, redistribution through creating employment in rural works and rationing. As at that stage detailed work on the targets for sectors other than agriculture was not completed it was not found necessary to draw attention to these except in respect of some of the major industrial and mineral targets which were significantly different from those given by the PPD. Later, when the paper was ready for publication the other targets were also incorporated. This will be clearly evident from the following facts.

(1) Only five industrial targets are specifically mentioned in the draft. Of these four are changed in the final version. Most of the draft targets for transport and power are changed in the final version. The mineral targets are unchanged, but for the more important products they differ significantly from those of the PPD. Some of these targets, as in the case of petroleum, are conjectural whether given by the Council or PPD.

(2) Of the number of capacity targets in industries and mining mentioned in the final version, nearly 85 per cent are radically different and by different degrees from those of the PPD.* These include all the important industrial and mining targets. As an illustration some of these are given in the Table. Further, in several cases the anticipated base output (1965-66) is different, so that, the growth varies to a greater extent than is indicated by the targets.

(3) The Council has made a specific point regarding reducing the existing gaps between capacity and production. These gaps are much narrower in the Council's than in the PPD's targets, thus incorporating productivity—a crucial factor of development—into the strategy of the Plan.

In the light of the above facts it is very clear that the targets in the draft and the final version of the Strategy are *not* the same. Therefore, the question of confirming or, for that matter, disputing the consistency of the PPD targets simply does not arise.

In spite of the critic's attempt to mislead the reader the fact remains that the Council's Strategy for the Fourth Plan is concerned principally with a new approach to attaining a minimum level of consumption for all. Since the attainment of this objective for all consumer expenditure is not considered feasible within a relatively short time, the Strategy selects food (and particularly cereals), the most essential need of the less fortunate sections of the population, for the Fourth Plan. A mode of operation is then specified within the frame-work of a plan which provides the mechanism for achieving this end. Immediate concentration on food does not imply that other consumption expenditures stay stationary. These too increase, but the normative minimum is expected to be reached in the subsequent plan or plans depending on the order of essentiality and feasibility. There is no suggestion for a "cloth plan", "house plan", etc, for each successive quinquennia despite the attempt of the critic to make it appear so with unwarranted quotation marks.

Table : A Comparison of Some Important Capacity Targets of NCAER and PPD *

Industrial and Mineral Products	Unit of Production	Targets 1970-71 NCAER	Targets 1970-71 PPD	Difference of P P D Targets from NCAER Targets in Percentage	Percentage Increase in Capacity between 1965-66 and 1970-71 NCAER	Percentage Increase in Capacity between 1965-66 and 1970-71 PPD
1	2	3	4	5	6	7
(1) Steel ingots	mn tonnes	15.0	20.0	*33.33*	*68.5*	*117.4*
(2) Aluminium	th tonnes	240.0	280.0	*16.67*	*247.8*	*305.8*
(3) Pig iron	,,	4000.0	4000.0	—	*128.6*	*227.8*
(4) Fertilizers N_2	,,	2200.0	2000.0	*(—) 9.10*	*275*	*212*
(5) Diesel engines	th nos	130	140	*7.70*	*81*	*94*
(6) Cement	mn tonnes	20	26	*30.00*	*43*	*86*
(7) Refractories	th tonnes	2000	2400	*20.00*	*40*	*68*
(8) Steam generators	th kw	2900	2600	*(—)10.35*	*190*	*160*
(9) Control gears and Switch gears	mn Rs	500	600	*20.00*	*178*	*233*
(10) Diesel locomotives	Nos	300	350	*16.67*	*328*	*400*
(11) Electric locomotives	,,	150	200	*33.33*	*114*	*186*
(12) Merchant ships	th GRT	100	120	*20.00*	*67*	*100*
(13) Heavy equipment and metallurgical machinery	th tonnes	120	160	*33.33*	*50*	*100*
(14) Cotton textile machinery	mn Rs	440	500	*13.63*	*100*	*127*
(15) Cement machinery	,,	100	160	*60.00*	*23*	*100*
(16) Paper machinery	,,	160	250	*56.25*	*100*	*213*
(17) Construction machinery	mn Rs	75	90	*20.00*	*25*	*50*
(18) Steel castings and forgings	th tonnes	800	1200	*50.00*	*167*	*300*
(19) Steel structural fabrication	,,	1600	2200	*37.50*	*128*	*100*
(20) Motor cycles	th nos	100	150	*50.00*	*67*	*173*
(21) Electric lamps	mn nos	152	225	*48.02*	*95*	*73*
(22) Radio receivers	th nos	1800	2500	*38.88*	*157*	*257*
(23) Refrigerators	,,	60	120	*100.00*	*82*	*263*
(24) Air conditioners	,,	60	100	*66.67*	*20*	*100*
(25) Sugar	th tonnes	4200	5500	*30.95*	*31*	*54*
(26) Cotton fabrics	m meters	6500	7100	*9.23*	*16*	*27*
(27) Paper and paper board	th tonnes	1000	1500	*50.00*	*47*	*95*
(28) Iron ore (mining)	mn tonnes	60.0	66.0	*10.00*	*87.5*	*144.4*
(29) Coal (mining)	,,	125.0	140.0	*12.00*	*38.9*	*57.3*
(30) Coal washing	,,	41.0	54.5	*32.92*	*83.0*	*143.3*

* Notes on Perspective of development India, 1969-61 to 1975-76.

* Targets published by the Perspective Planning Division in "Notes on Perspective of Development: India, 1960-61 to 1970-71", printed in April 1964. This document is marked 'preliminary for discussion'. I am forced to quote from it because of the open comparison made by Srinivasan.

Another argument of the critic is that, if the Lorenz concentration coefficient for cereals can be reduced by a ninth within five years it should be possible to reduce the coefficient of all commodities (which incidentally is more than twice as large) by the same proportion in ten years. Obviously the problem is not one of simple arithmetic. In the Strategy the coefficient for cereals is reduced through a specific operation for redistribution involving creation of employment in rural areas in capital forming rural works for which payment is made through a local transfer of cereals (in kind) from the rich to the poor farmers. The urban counter-part of the scheme is rationing based on procurement and building up of Government stocks. Without a comparable scheme of operation for the redistribution of all consumption expenditure mere arithmetical comparisons are quite meaningless. Would the critic like to construct such a scheme? As for a detailed scheme for rural works let me inform the critic that the Council is already engaged in this project and a reference to this is made on page 42 of the Strategy.

The computation of the burden of the levy on the rich farmers was purposely made illustrative using a hypothetical village and an assumed number of mandays of employment. A similar computation for 1970-71 would have involved many more assumptions than just a constancy of the number of villages and would have made the attempt at precision rather spurious. The purpose of the illustrative computation was to relate a level of levy with a quantum of employment in rural works and also to show the order of burden imposed on rich farmers. This object is fully served by the illustration.

It appears from the last paragraph of Srinivasan's article that all that is necessary for a "bolder" programme for basic industries is to suppress "deleterious consequences of a wage-good price inflation" through rationing. Does the critic mean that rationing of some food items is considered the answer to all supply questions for all consumer goods? Is he suggesting that given a 5 per cent rate of growth in agriculture and a scheme for cereal rationing and redistribution almost any programme for basic industries can be implemented? After all, how bold is "bolder"? If serious criticism is meant and not frivolous polemics, let him state how much "bolder" the programme for basic industries could be were it possible to implement a scheme for distribution and rationing of cereals as suggested by the Council.

A Rejoinder

T N Srinivasan

IN his reply, I Z Bhatty has accused me of (a) violating laws of academic ethics (b) of deliberately misleading the reader in comparing NCAER targets with PPD targets and (c) implying through the use of quotation marks that some phrases came from the NCAER document while in fact, they did not. He has devoted only a few sentences to some of the issues raised in my paper. Let me turn to these first.

Bhatty seems to imply that I treat the problem of reduction in concentration of the distribution of consumption expenditure as a mere problem in arithmetic. I thought I had said the contrary in footnote 2 of my paper. The point I was trying to make was that if we look at the distribution of per capita expenditure on an itemwise basis, wide disparities are found in items like health, education, housing etc. If, as is planned, the State is to take a dominant role in the provision of some of these services, these disparities should become far less than they are now. The problem will then be one of raising the requisite volume of resources (not merely financial) to provide these services in the public sector in a not-too-distant future.

Let me now turn to the scheme for rural works. I did notice the reference mentioned by Bhatty to the project of NCAER on a detailed scheme. However I did not refer to it in my paper only because, till the day when such a scheme is put forth for discussion, the feasibility of the NCAER strategy of rural works will have to remain an open question. I am still at a loss to understand how a calculation based on a hypothetical village with the average yield, area and revenue pattern of Madras or U P or M P can illustrate the burden of the levy on rich farmers. Does Bhatty imply that these patterns could be duplicated on an average for the country as a whole? If so, such an assumption will lead to no more or less spuriously precise results for one year than for another. To my mind, what is more important is to show how the levy could be related to consumption rather than income. If, in spite of the levy, the rich farmers do not substantially reduce their consumption of cereals, marketed surplus will fall and urban rationing scheme of the council will be jeopardised. Bhatty has not answered this point.

Bhatty claims that in my view all that is necessary for a bolder programme of development is to suppress wage-goods-price inflation. On the contrary, I thought I made it clear in my last paragraph that the most important task is to identify the real bottlenecks to rapid development, once fears such as the popular association of inflation with any attempt at accelerating the rate of growth are prevented from turning into bottlenecks.

Now a few words about Bhatty's charge-sheet. I am really sorry that my use of quotation marks may have led some readers to think that I am quoting from the paper. Since I did not associate any page reference from the paper to these phrases, I thought such an inference was unlikely. I should perhaps have used italics instead of quotation marks for emphasis. By using the words "direct supervision and guidance" I am sorry I had unwittingly reduced the importance of the Director General's contribution to the paper to mere supervision. I should have said that the paper was *prepared* by the Director General. Regarding what I thought was a humorous reference to "Cloth Plan" etc, let the reader judge from the following quotation from page 17 of the NCAER paper:

> "If the effort to ensure minimum consumption of food is successful in the Fourth Plan, the second most important need (or perhaps two or three) will be given a high priority and fully met in the following plan. This then will be a staggered process of achieving the

minimum level in all consumption needs instead of a simultaneous process".

Let me turn to the question of academic ethics. First, if as I had assumed and as Bhatty implicitly concedes, the NCAER first draft was an academic document, it is indeed strange that it was marked confidential and given only to policy makers. It is hard to see how an academic document with no secret data in it could claim the protection of the Official Secrets Act. This is not to say that a paper could not be marked preliminary. Such a procedure is adopted simply to protect the tentative character of the paper and to prevent the use of *views* or *results* contained in it before they have been given their final shape after discussion. I *did not* quote the *views* or *the results* of the first draft that were changed later. I merely drew attention to an omission of reference to PPD from the chapter on Minerals, etc. I carefully checked the statement in my paper. It is concerned with a comparison of NCAER figures in their draft and final version. It did not bring in PPD figures as such. I still find that almost all the figures in the Minerals chapter remain the same in the two versions. Under these circumstances, I may be excused if I do not understand the deletion of the reference to PPD in the final version.

Let me clear up one point. The purpose of my drawing attention to the omission of reference to PPD was not to accuse NCAER of bad faith. I did not intend to suggest that NCAER is incapable of drawing up an alternative set of figures. On the contrary my point is that since NCAER with its vast resources is in a position to make such an independent study, the public will be interested in knowing how far its figures are different from quasi-official figures such as those of PPD and the basis for the NCAER figures. I am sorry to say that NCAER does not indicate the source or the basis of its computations.

Regarding Bhatty's figures comparing PPD targets with NCAER's let me say this. First, Bhatty need not hesitate to quote from the PPD Document. I am told when the PPD marked it "for discussion" it meant exactly that: the figures are for discussion and amendment if necessary. Second, as I said earlier, I was comparing the figures in the two versions of NCAER paper, and not their figures with those of PPD. Be that as it may, let me say just a word about Bhatty's comparison of targets for capacity. As he himself admits, the NCAER plans for a higher rate of utilisation of capacity than has been prevalent. It means that though capacity targets may differ by a wide margin, output targets will not differ by as much. However until one knows the causes for under-utilisation and the NCAER's scheme for eliminating these, the feasibility of the assumed rate will remain an open question.

AROUND BOMBAY MARKETS

Brisk Rally in Shares

Wednesday, Morning

DALAL STREET presented quite a different look last week. Equity prices staged an all-round impressive recovery from the panicky lows recorded on March 27, with a few counters recovering nearly all the ground lost in the past few weeks. Tata Steel which had been sold down to Rs 140 on March 27 were bid up to Rs 145.50 on April 6. During the same period Standard recovered from Rs 414 to Rs 447, Indian Dyestuff from Rs 175 to Rs 194, Century from Rs 526 to Rs 552, Tata Locomotive from Rs 246 to Rs 255.50, Tata Chemicals from Rs 17.56 to 18.56, Scindia from Rs 12.44 to 13.28, Hindustan Motors from Rs 15.84 to Rs 16.40 and South India Viscose from Rs 101.50 to Rs 116.

The rise was due both to hectic short covering and renewed bull support. The turn in market sentiment which forced bears to rush for a cover was caused primarily by the massive support to the market from the Life Insurance Corporation. Technical considerations and good corporate news only accelerated the pace of recovery. The L I C purchases were not confined to the high yielding cash shares but they also included many of the speculators' favourites like Tata Steel, Indian Iron, Tata Locomotive, Hindustan Motors, Voltas and Kohinoor. Many market men are inclined to the view that the LIC buying is a part of the official strategy to boost the morale of the market. But if the Government were really concerned about the market, the Finance Minister could have at least modified the dividend tax and the capital gains tax on bonus shares which do not yield any significant revenue to the Government but are acting as a big drag on the market.

The recent recovery in equity prices cannot be regarded as anything more than a technical correction of the preceding perpendicular fall in prices since the presentation of the Central Budget. How far this recovery might go and how long the corrective phase might last, it is difficult to say. With conditions in the money market continuing to be very tight, interest rates high and political situation quite disturbing, prospects of the current rally developing into an important upward move are generally discounted.

COTTON

Prices Harden

COTTON prices which had been drifting lower for quite some time have once again developed a hardening tendency. Within a week or so, spot prices have risen by Rs 20 to Rs 30 per candy and the August hedge contract which had been marked down to Rs 751.25 (per 3 quintals) was up again at Rs 763.75 on April 6 which is a new high ever since this contract made its appearance on February 20. Improvement in cotton is not merely a part of the recent general upsurge in commodity markets—foodgrains, pulses and oilseeds have firmed up considerably—but it reflects, in no small measure, a reassessment of the demand and supply position of the commodity. While the latest estimates place the 1964-65 crop around 56 lakh bales, mill consumption is on the increase—the average of both Indian and foreign cottons for the first five months of the season (September to January) comes to 5.66 lakh bales as against 5.10 lakh bales in the same period last season. Consumption of Indian cotton amounts to 24.14 lakhs bales against 22.83 lakh bales and that of foreign cotton 3.19 lakh bales against 2.67 lakh bales. If this trend continues during the rest of the season—there is no reason why it should not—consumption of indigenous cotton might well exceed the season's output.

Prices of Cambodia cotton which had been making news for the past few weeks have also firmed up considerably because of increased spinner demand presumably because of the recent increase in the compulsory purchase quota for this variety. If the present trend continues, it is unlikely that the growers and traders will need to approach the Indian Cotton Mills' Federation for disposing of their cotton at 5 per cent below the appropriate ceilings. This will put an end to the long-drawn-out controversy that had been raging between the Federation and the trade over the purchase of Cambodia cotton.

The renewed firmness in cotton prices supports the view expressed in these columns that the concern over the recent decline in prices had been unwarranted; normal market forces had produced a normal decline. If general market expectations of an increase of about Rs 50 per candy in the ceiling prices for the 1965-66 season materialise, the industry might find it increasingly difficult to secure its supplies within the prescribed ceilings.

Cotton imports since the beginning of the current season on September 1 to March 27 total 5,09,687 bales as against 3,94,694 bales in the same period last season. The break-up figures are: American cotton 2,50,270 bales (1,99,205 bales), Egyptian 1,18,569 (1,06,127), East African 52,372 (14,415), Sudan 43,912 (68,072), Syrian 2,039 (nil), Pakistani 35,248 (4) and others 6,477 (6,871). The export performance has been encouraging due to keen Japanese buying of Bengal Deshi at rising prices. Sales registered have already exceeded 2 lakh bales. Actual shipments up to March 27, however, total 1,26,135 bales against 1,44,683 bales in the same period last season. Of these, Japan accounted for 94,256 bales (1,04,988 bales), Continent took 13,855 (15,541), U S A 9,720 (11,058), Hong Kong 5,550 (7,841), U K 2,455 (4,433) and others 299 (812). While overseas demand for Indian Deshi has continued to be encouraging, the domestic crop of Bengal Deshi is reported to be much smaller than in the previous season. According to the latest trade estimates, the production of Bengal Deshi might not exceed 4 lakh bales against 5.67 lakh bales in the previous season. It is because of the tight statistical position that Bengal Deshi prices have continued to display remarkable strength all the time.

OILSEEDS

Prices Rise Further

NEW DELHI has still to decide when and how to relax the existing ban on the export of vegetable non-essential oils. Details regarding the tax credit certificates for exporters and other export incentives have yet to be finalised. But speculators have already pushed up prices in the firm belief that the Government will sooner or later relax export curbs in order to earn the badly needed foreign exchange. Groundnut oil ready last week was bid up to Rs 22.10 (per 10 kgs)—the highest price for many weeks. Mustardseed oil which had been marked down to Rs 22.50 a few weeks ago is up again around Rs 27.75 (per 10 kgs). Linseed oil has firmed up from Rs 17.25 to Rs 17.75 in a matter of days. Only castor oil has been neglected around Rs 16 (commercial quality). In the futures market, linseed June which were quoted around Rs 87.20 earlier in the week were bid up to Rs 91.20 (per 50 kgs) in unofficial dealings on April 6—official trading came to a standstill when the contract rose above Rs 90.50—the maximum permissible rate for the week. After an early setback from Rs 77 to Rs 75.10, castor June recovered to Rs 77.50. Improvement in futures was due both to heavy short covering and fresh bull support. Apart from optimism about an early announcement of export of groundnut oil and vanaspati, sentiment last week was aided by reports of some damage to the standing mustardseed crop due to untimely rains.

Hopes that edible oil prices will come down with the increased flow of arrivals of the mustardseed and linseed crops have been belied. Nor has the arrival of soyabean oil produced any impact on the market. Increased consumption of soyabean oil by the vanaspati industry in coming months should reduce the pressure on the demand for groundnut oil. But prices are unlikely to decline to any appreciable extent if the Government permits export of groundnut oil. Unless the Government is very careful in devising the export incentive scheme for groundnut oil, it will be difficult to check the rising trend in prices, improved supply notwithstanding.

Exporters did not report any important fresh business last week. Export sales in groundnut extractions have shrunk to modest proportions. Indian extractions are quoted about 20 to 25 shillings higher than the U K prices and the Communist countries have been keeping off the market as they have already made substantial purchases. Activity in cottonseed cake also has been restricted since recently. Record crop of castorseed in Brazil has seriously undermined the prospects of selling Indian castor oil outside the Communist countries.

BUSINESS NOTES

Cable Industry

THE Third Plan will end in March next year with many industrial targets unfulfilled in both public and private sectors. But while there is some definite information about the reasons for the shortfalls in the public sector—of course, it has to be pieced together from pronouncements by Ministers in Parliament and outside, administrative reports of the Ministries, annual reports of public sector enterprises, etc—such information for the private sector is sometimes very difficult to come by. Take the cable industry, for instance.

The Third Plan contained targets of capacity and output for VIR/PVC cables, power cables and winding wires. On the basis of these targets licences were issued to prospective manufacturers fairly early in the Plan. In fact, by November last year the licensed capacity for both VIR/PVC cables and power cables had exceeded the Plan targets by substantial margins. In winding wires also the licensed capacity had approached within striking distance of the target.

And yet what do we find with regard to actual production? Production in the first half of 1964-65 was 29 per cent of the Plan target for 1965-66 in VIR/PVC cables, 35 per cent in power cables and only 19 per cent in winding wires.

These interesting facts were revealed

by Girdharlal B Kotak, Chairman of Asian Cables Corporation, in his statement at the annual general meeting of the company held recently in Bombay. Kotak's statement also threw some light on why production in the industry had lagged behind both Plan targets as well as licensed capacity. In the case of VIR/PVC cables, he said, the demand had been over-estimated in the Plan. As a result, even at the low level of production, stocks in the market were very large. What one would like to know is why the Plan estimate of demand has proved to be so wide off the mark.

In the case of power cables and winding wires it is unlikely that shortage of demand is to blame. Here the principal reason appears to be shortage of raw materials like copper, zinc, tin, lead, etc. This problem is serious enough to persuade Kotak to endorse the suggestion to have a Government agency—the State Trading Corporation or "a special bank" through which these imports could be channelled. Of course, the basic problem is shortage of foreign exchange, but one would like to have more precise information on how much more foreign exchange would be needed to import sufficient materials to ensure fuller utilisation of established capacity. Comparison of this figure with that of foreign exchange now spent on import of cables will show whether the restrictive policy followed in regard to import of raw materials for the cable industry is indeed saving any foreign exchange for the country.

Kamani Engineering

ENGINEERING goods constitute a growing segment of world trade, but also one where competition is the keenest. Competition takes many forms besides price-cutting, one of them being the grant of credits to the buyer. In this respect, as indeed in most others, the developing countries are at a disadvantage. Desparately short of foreign exchange, these countries need everything they can earn from exports here and now. Indeed, taking a very short view, to grant export credits would be for them to defeat the very purpose of exports.

But should a country like India, for instance, always take such a short view? Or, should some immediate foreign exchange earnings be at times foregone if that helps to create a market for the country's products? Clearly, more attention needs to be paid to this problem than has been done so far.

Referring to his own line of exports, transmission line towers, R H Kamani, Chairman of Kamani Engineering Corporation, stated in his statement at the company's annual general meeting recently: "Developing countries which import transmission line towers from India are often found to be short of funds and need extension of credit facilities equivalent to those offered by others, importing countries may ultimately turn to other suppliers who would be in a position to offer those facilities." Kamani suggested that the Export Credit and Guarantee Corporation could play an important role in this field. But that will depend on a careful consideration of the implications of the grant of credits to foreign buyers at the Government level and a general policy decision with regard to such credits. Whatever the decision, the issue is an important one and deserves the Government's immediate attention.

The other factor responsible for hindering Kamani Engineering's export effort, according to the Chairman, was that only a limited range of steel sections was rolled in India and since manufacturers of transmission towers had to limit their designs to available steel sections, they were compelled to make use of heavier sections which in turn affected the marketability of the towers abroad.

Kamani's suggestion to overcome this problem was that a portion of the capacity of one of the steel plants should be earmarked for rolling sections in the sizes required for export orders. Alternatively, the standard manufacturers should be allowed to import these sections for use in export items.

Canara Bank

SATISFACTORY progress has been reported by Canara Bank in 1964, when at the year-end its deposits increased by well over 21 per cent from Rs 72.48 crores to Rs 88.24 crores and advances from Rs 42.27 crores to Rs 58.59 crores. The Bank's investments were up from Rs 20.63 crores to Rs 22.28 crores.

During the year, the Bank's total revenue expanded from Rs 3.46 crores to Rs 4.96 crores, of which interest and discount brought in Rs 3.94 crores and commission, exchange and brokerage Rs 78.77 lakhs against Rs 2.70 crores and Rs 55.88 lakhs respectively. On the expenditure side, interest paid on deposits and borrowings rose from Rs 1.49 crores to Rs 2.06 crores, and salaries, allowances and provident fund claimed Rs 1.75 crores against Rs 1.13 crores. After providing for taxation and making the usual and necessary provisions, the Bank's net profit amounted to Rs 34.66 lakhs against Rs 24.12 lakhs in the previous year. Of this, the directors have transferred Rs 13.55 lakhs to special reserve for payment of dividends on preference and equity shares. Dividends are unchanged at the previous levels of 5.56 per cent and 15 per cent, respectively. A sum of Rs 14.10 lakhs (Rs 6.25 lakhs) is earmarked for payment of bonus to staff. The remaining surplus of Rs 7 lakhs, together with another amount of Rs 1.5 lakhs transferred back from contingency account, is set aside for reserve fund to raise it to Rs 108.50 lakhs.

The Bank opened during 1964 new branches at Tiruvottiyur and St Thomas Mount (Madras) and Vishakapatnam. It also took over the assets and liabilities of the Pollachi Union Bank. It is intended to further increase the Bank's capital later in the year in order to improve the capital base in keeping with fast-growing deposits.

German Business Machines

AN exhibition of German business machines was inaugurated this week by Y A Fazalbhoy in Bombay. Organised by Blue Star Engineering Co, Bombay, and Bueromaschinen-Export GmbH, Berlin, a foreign trade organisation of the German Democratic Republic, this exhibition has for display and demonstration machines for accounting, invoicing, adding, calculating and other mathematical purposes.

Speaking to the guests the Chairman of Blue Star Engineering, M T Advani, emphasised the importance of modern mechanical means of accurate and speedy mathematical calculations and computations in the context of the rapid growth of industry and commerce.

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CURRENT STATISTICS

Panchayati Raj

Coverage of Panchayats, Panchayat Samitis and Zila Parishads

(As on March 31, 1964)

	State	No. of Panchayats	No. of Panchayat Samitis	No. of Zila Parishads	No. of Villages Covered by Panchayats	Rural Population Covered by Panchayats (*in lakhs*)	Percentage of Villages Covered by Panchayats	Percentage of rural population Covered by Panchayats
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Andhra Pradesh	15,268	378	20	27,084	297	**100**	**100**
2	Assam	2,570	120	16	17,717	83	**100**	**100**
3	Bihar	10,702	59*	2*	67,510	421	**99**	**99**
4	Gujarat	11,536	182	16	18,208	153	**100**	**100**
5	Jammu and Kasmhir	960	.....	.....	6,559	30	**100**	**100**
6	Kerala	922	.....	.....	1,574	144	**100**	**100**
7	Madhya Pradesh	21,301	.....	.....	70,414	277	**100**	**100**
8	Madras	12,563	374	21	13,983	247	**99**	**100**
9	Maharashtra	19,741	293	25	35,492	281	**99**	**99**
10	Mysore	7,450	172	20	26,377	183	**100**	**100**
11	Orissa	2,340	313	13	47,939	158	**94**	**96**
12	Punjab	13,452	226	18	21,269	162	**100**	**100**
13	Rajasthan	7,391	232	26	32,240	169	**100**	**100**
14	Uttar Pradesh	72,333	854	51	1,12,624	643	**100**	**100**
15	West Bengal	19,649	325**	14**	38,530	264	**100**	**100**
16	A and N Islands	30	.....	.....	107	0.45	**80**	**93**
17	Delhi	215	5***	.....	276	3	**100**	**100**
18	H Pradesh	637	6	5	10,438	13	**100**	**100**
19	Manipur	277	.....	.....	518	5	**31**	**63**
20	Tripura	248	.....	.....	NA	NA	*NA*	*NA*
21	Goa, Daman & Diu	159	.....	245	265	5	**100**	**100**
	All India	2,19,694	3,539	247	5,49,187	3,538	**99**	**99**

NA—Not Available.
* Panchayati Raj bodies were constituted in 2 districts viz Ranchi and Bhagalpur in October 1964.
** In West Bengal Anchal Panchayats and Zila Panchayats started functioning with effect from October 2, 1964.
*** Non-statutory panchayat samitis.
Note : Panchayati Raj Acts has been passed in Madhya Pradesh but the higher tiers have not yet been set up.

Community Development Programme

Allotment and Coverage of C D Blocks

(as on January 1, 1965)

		No. of Blocks into Which Delimited	Pre-Extension	No of Blocks Allotted				Population Covered by (7) (lakhs)	Villages Covered by (7) ('00 Nos.)	Area Covered by (7) ('00 sq km)
				Stage I	Stage II	Post Stage II	Total			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Andhra Pradesh	445*	.....	260	112	73	445	334	271	2753
2	Assam	160	8	78	47	27	160	118	257	1220
3	Bihar	575	...	265	273	37	575	452	677	1740
4	Gujarat	224	...	95	100¾	28¼	224	194	186	1870
5	Jammu and Kashmir	52	...	10	40	2	52	32	66	1233
6	Kerala	142	...	94	30	18	142	162	16	389
7	Madhya Pradesh	416	...	248	109	59	416	309	704	4435
8	Madras	375	...	90	223	62	375	303	141	1304
9	Maharashtra	425	...	255	118	52	425	328	359	3075
10	Mysore	268	...	154	84½	29½	268	217	264	1922
11	Nagaland	16	1	9	3	3	16	4	8	165
12	Orissa	307	...	151	133	23	307	174	465	1558
13	Punjab	228	...	93	94	41	228	192	213	1222
14	Rajasthan	232	...	106	88	38	232	189	322	3423
15	Uttar Pradesh	899	...	484½	350	63	897½**	690	1126	2943
16	West Bengal	341	...	255	56	30	341	301	385	871
17	U Territories	133	9	61	49	15	134	47	209	1569
	ALL INDIA	5240*	18	2709	1910¼	600¾	5238½	4046	5669	31692

* Since re-delimited into 321 Blocks.
** Only 1½ marginal Blocks remain to be taken up by Uttar Pradesh.
Source: Ministry of Community Development and Co-operation, Annual Report, 1964-65.

BANKING RETURNS

Reserve Bank	Apr 2	Mar 26	Mar 5	(Rs. crores) Apr 3, '64
1 Note circulation	2640.49	2606.86	2607.52	2502.95
2 Rupee coin	97.01	97.75	95.19	106.77
3 Deposits				
(a) Central Govt	62.54	90.91	104.91	52.18
(b) Other Govts	24.27	24.72	5.46	15.96
(c) Banks	98.84	98.76	88.77	79.67
(d) Others	170.50	155.87	148.73	290.71
4 Foreign securities	77.46	77.46	69.46	112.46
5 Balance abroad	14.69	8.25	11.93	13.17
6 Rupee securities	2367.69	2337.92	2336.38	2184.37
7 Investments	70.51	142.82	141.34	247.50
8 Loans and advances to Govts	81.87	73.97	77.45	92.79
9 Other loans and advances	314.10	306.38	296.36	207.39

Scheduled Banks	Mar 26	Mar 19	Feb 26	Mar 27 '64
1 Aggregate deposits (net)	2576.99	2561.67	2581.27	2285.10
Demand (net)	1231.05	1214.12	1226.60	1071.10
Time (net)	1345.94	1347.55	1354.67	1214.00
2 Cash in hand	67.21	70.04	66.60	58.18
3 Balance with Reserve Bank	94.55	92.82	98.61	89.42
4 (2)+(3) as % of (1)	6.28	6.36	6.40	6.46
5 Borrowings from Reserve Bank	152.86	153.90	90.75	84.16
(a) Against usance bills and/or promissory notes	53.06	50.91	10.07	47.59
(b) Others	99.80	103.00	80.69	36.58
6 Advances	1696.18	1691.55	1645.01	1520.15
(a) State Bank	419.58	420.39	413.82	344.00
(b) Others	1276.60	1271.16	1231.19	1176.15
7 Bills discounted				
(a) Inland	263.75	260.99	225.60	231.31
(b) Foreign	73.72	75.04	76.79	65.00
(c) Total	337.47	336.03	302.69	296.31
(i) State Bank	50.73	46.71	26.13	20.50
(ii) Others	286.74	289.32	276.56	275.81
8 (6)+(7) as % of (1)	78.92	79.15	75.44	79.49
9 Investments in Govt securities	719.60	718.25	731.09	639.69
10 (9) as % of (1)	27.92	28.04	28.32	27.99

Bombay Money Rates

	Mar 26	Mar 19	Feb 26	(Per cent per annum) Mar 27, '64
Call money from Banks	8.21	7.89	5.99	6.50
Deposits fourteen days	...	...	...	...
Three months	5.00	5.00	5.00	...
Six months	5.50	5.50	5.50	3.75

Index Number of Wholesale Prices

(Base : 1952-53=100)

Group & Sub-Group	20-3-65	13-3-65	Week Ending 20-2-65	21-3-64
Food Articles	*152.6*	*154.6*	*160.2*	*142.1*
Cereals	139.3	138.9	143.1	123.7
Pulses	154.0	157.7	175.0	133.5
Fruits and Vegetables	157.3	161.1	160.5	166.4
Milk and Ghee	146.9	154.5	153.1	133.3
Edible Oils	183.7	187.3	199.2	159.3
Fish Eggs and Meat	173.2	176.9	182.0	150.7
Sugar and Gur	152.6	151.5	166.1	172.7
Others	173.7	174.0	175.6	175.8
Tobacco	136.4	137.0	137.0	116.5
Liquor and Tobacco	*138.3*	*138.8*	*138.8*	*119.4*
Fuel, Power, Light and Lubricants	*146.5*	*146.4*	*146.6*	*140.4*
Industrial Raw Materials	*162.2*	*162.6*	*169.6*	*144.9*
Fibres	147.8	147.4	149.0	135.8
Oil seeds	191.2	192.6	208.9	162.8
Minerals	129.3	129.3	129.3	104.6
Others	137.0	137.0	137.5	131.3
Manufactures	*140.9*	*140.7*	*140.9*	*132.5*
Intermediate Products	*156.6*	*155.8*	*157.5*	*143.3*
Finished Products	*138.3*	*138.3*	*138.2*	*130.8*
Textiles	136.5	136.5	136.4	128.5
Cotton Manufactures	139.0	139.0	138.7	136.8
Jute Manufactures	125.6	125.2	124.7	98.4
Woollen "	170.3	170.3	170.3	162.4
Silk and Rayon Mfrs	140.3	140.3	142.9	143.3
Metal Products	176.2	176.2	169.5	165.3
Chemicals	124.7	124.8	124.8	120.0
Oil Cakes	205.9	205.9	215.7	171.9
Machinery and Transport Equipment	129.4	129.6	128.4	125.5
Others	128.4	128.4	129.0	139.2
All Commodities	*150.2*	*151.2*	*155.2*	*139.2*

Electricity Generation and Distribution

(Million kwh)

	Nov '64	Nov '63	Jan Nov '64	Jan Nov '63
Electricity Generated	2,364	2,047	25,913	22,445
Electricity Sold				
Domestic Consumption	167.7	160.6	1807.6	1651.9
Commercial	108.3	92.8	1131.5	971.5
Industrial	1325.0	1268.2	14,997.9	13,361.6
Public Lighting	24.1	21.5	259.9	223.7
Traction	29.6	59.1	571.3	668.1
Irrigation	114.9	83.2	1261.6	1052.8
Public Water Works	50.2	43.0	548.8	522.3
Total	1,819.7	1,728.4	20,579.1	18,462.0

Source : Central Water and Power Commission, Ministry of Irrigation and Power.

Rice Exports, Selected Countries and Estimated World Total, 1950-63

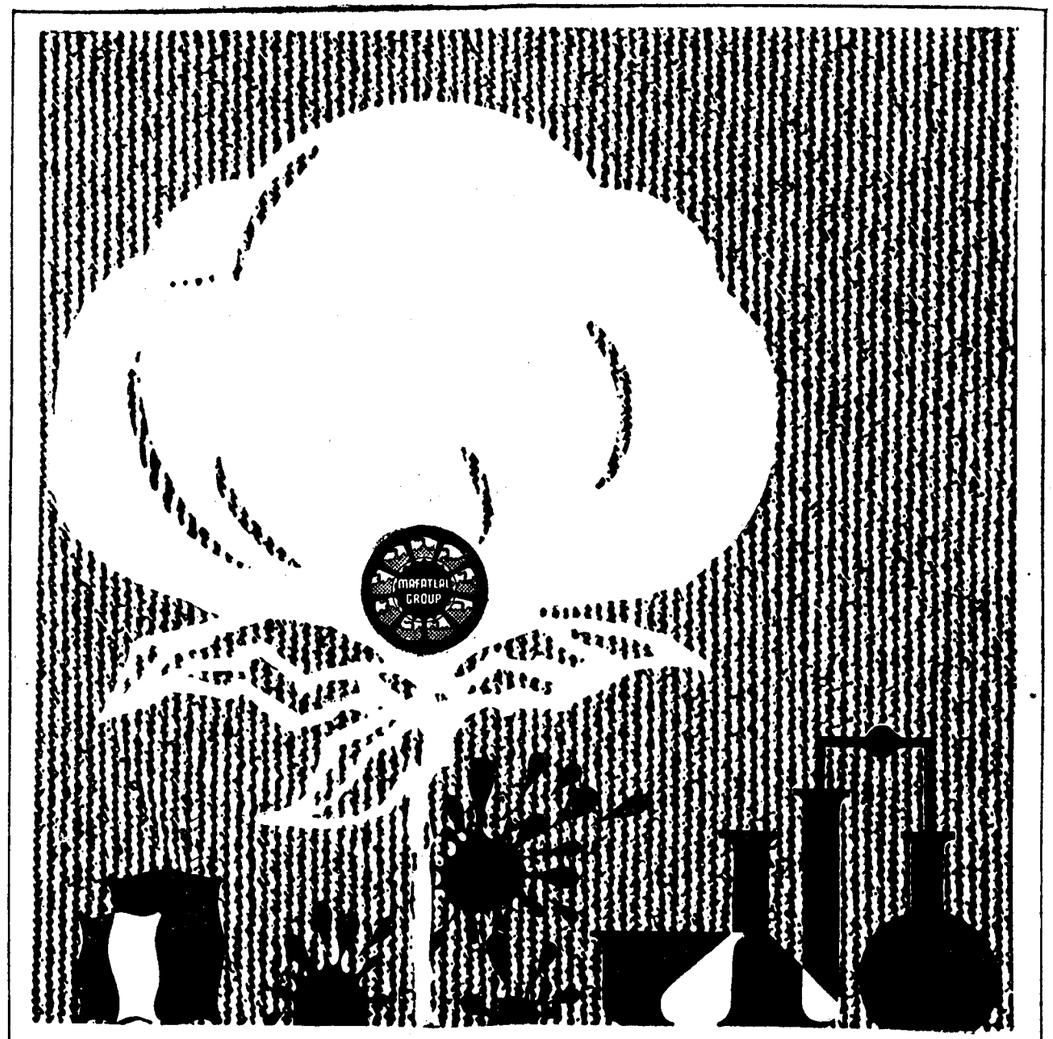
(Value f o b)

(million U S dollars)

Year	Burma	Thailand	Cambodia	Viet-Nam	China (Taiwan)	U A R	U S A	Italy	World Total
1950	132.4	180.3	.....	13.9*	2.9	22.4	81.9	35.5	525.0
1951	150.0	198.5	.....	41.2*	15.1	41.9	92.5	37.2	661.1
1952	193.1	216.3	.....	37.4*	15.2	2.4	153.5	48.9	787.1
1953	173.7	213.7	.....	36.2*	14.5	0.1	149.8	52.1	774.8
1954	196.1	145.7	.....	39.2*	7.3	7.7	100.4	34.8	657.3
1955	168.7	146.5	2.3	8.0	26.3	21.3	77.3	24.8	638.8
1956	178.1	138.8	5.8	.....	20.3	25.4	130.4	43.5	747.5
1957	165.2	175.9	17.4	20.0	21.8	33.6	121.5	19.0	692.3
1958	139.7	142.9	20.2	13.5	25.7	41.7	96.4	23.6	731.1
1959	152.8	123.1	20.0	23.2	22.6	5.6	99.9	20.3	732.0
1960	147.8	122.3	20.8	27.2	4.6	31.1	126.0	16.5	696.6
1961	146.8	173.0	22.4	14.7	9.4	25.9	104.9	25.9	655.9
1962	167.1	157.0	13.0	8.8	7.4	16.7	152.6	26.5	723.5
1963	169.9	165.3	37.6**	35.4	23.4	.....	176.9	22.1	830.0 **

* Combined total for Cambodia and Viet-Nam.
** January-November 1963.
*** Incomplete; excludes trade between China (Mainland) and U S S R.

Source: FAO Rice Report, 1964, FAO, UN.



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a little better than yesterday.
Always doing it. Textiles, jute,
dyes and chemicals. These are the
interests we have today. Tomorrow?
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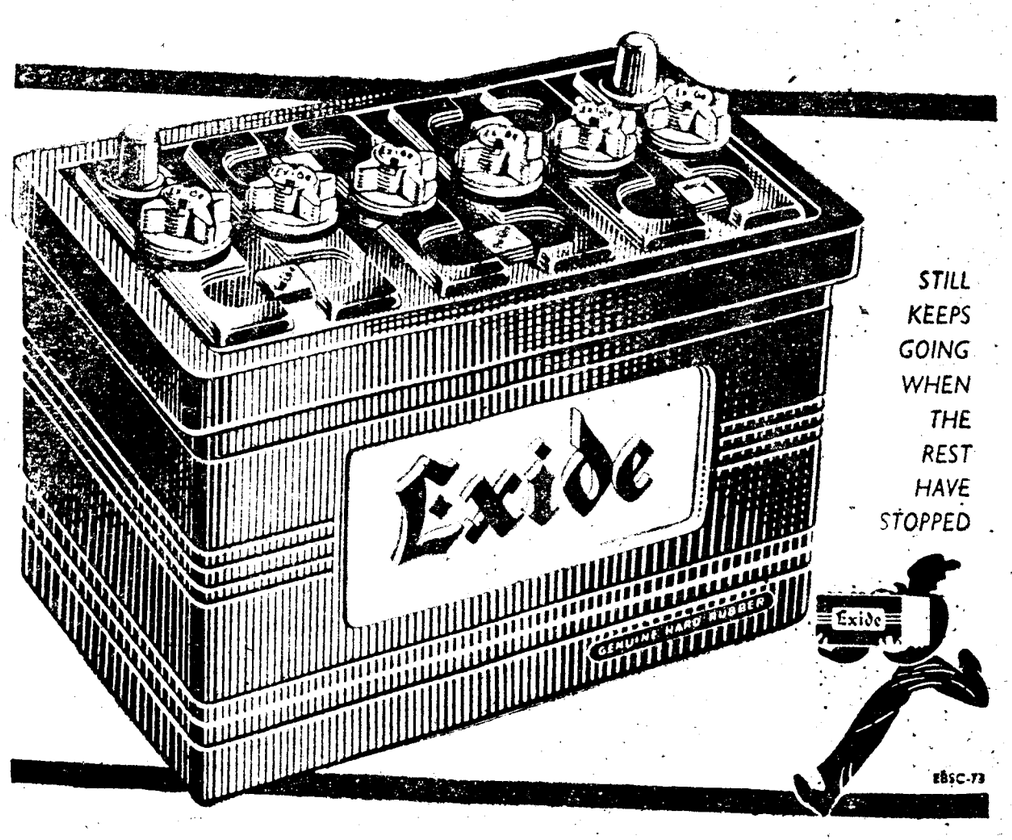
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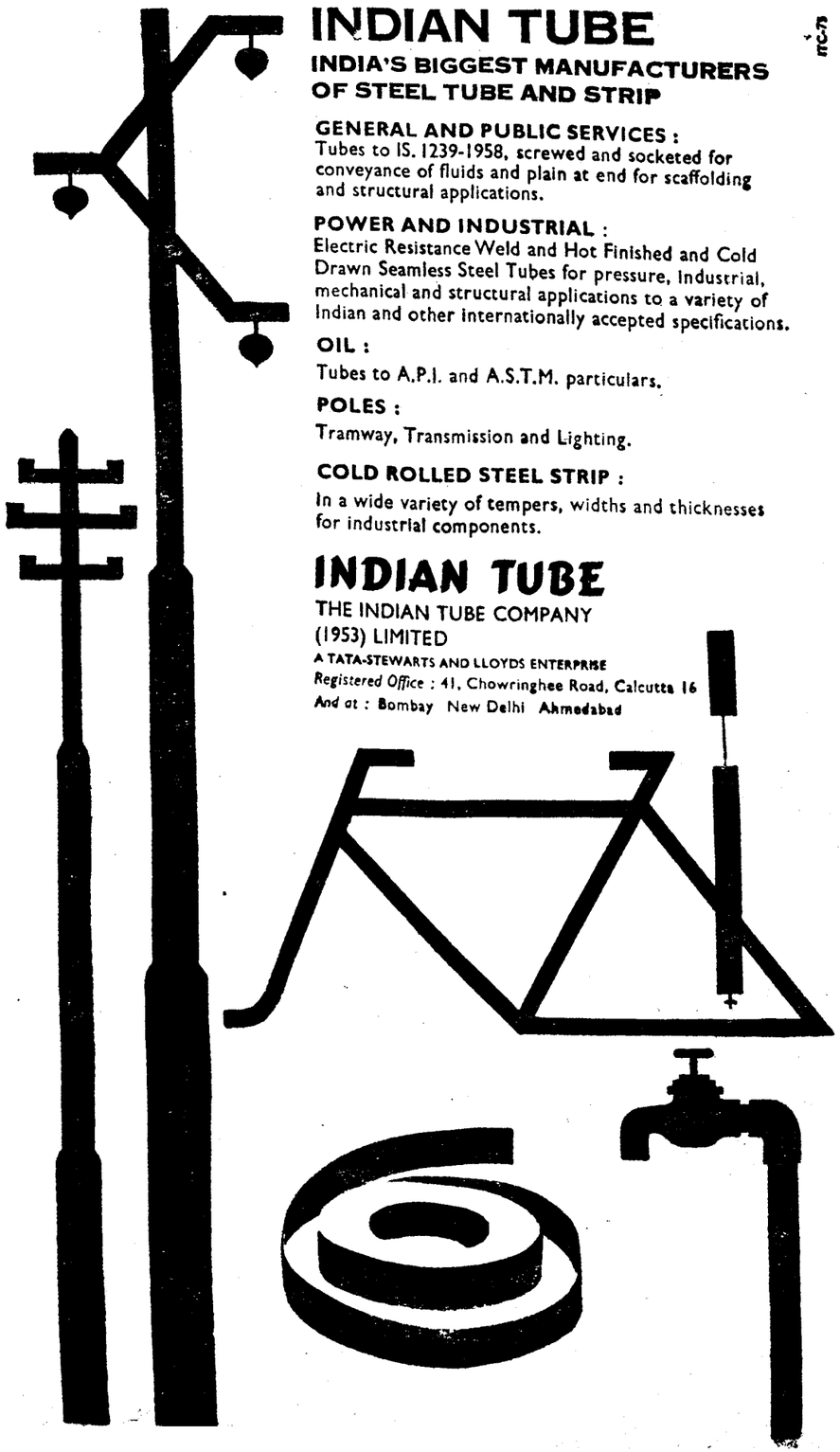
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Talks Again

IN Indo-Pak relations everything is connected to everything else. The intrusion of Pakistani forces into Indian territory in Cachar has been described, probably correctly, as a ruse to divert attention from the two posts set up by them in Kutch and Pakistan's generally provocative attitude all along the border in recent months can be linked in turn to President Ayub Khan's forthcoming visit to the United States where he will try to convince the Johnson Administration that American military assistance to India creates a serious threat to Pakistan. It is possible from here to go back step by step, taking in every manifestation of Indo-Pak antipathy including Pakistan's blossoming friendship with China, till we come to Kashmir which is what the Indo-Pak problem is basically.

Given this connected pattern it is really pointless to get worked up about border infringements and skirmishes or to expect any lasting improvement in Indo-Pak relations from their settlement. It is of very little importance whether the proposed talks on the Kutch-Sind border begin after Pakistan has removed her posts from Indian territory or before or even if they begin at all. Of course, formally India has conceded that this part of the border is not demarcated and Pakistan has claimed some 3,500 square miles of what is now Indian territory. So it is a border dispute, but only technically; basically, the trouble is not about the border at all. Magnanimity here is, therefore, wasted. Pakistan's friendship, let us face it, cannot be won with the present of a few square miles here or there. Of this Pakistan has not left anyone in doubt.

This is not, let it be understood, a plea for the 'tough-line' towards Pakistan. But we have been through the border incident-cease fire-talks cycle so many times that it is well to admit that they make little difference to Indo-Pak relations and that if we seriously seek improved relations with Pakistan we have to be prepared to tackle the problem of Kashmir which has been the dominant influence in shaping these relations so far.

But can the Government of India do anything about Kashmir? Basing itself on the formal accession of the State to India, it has always claimed Kashmir as a part of India and has been committed to keeping it such. This policy was developed under Pandit Nehru but the Shastri Government has identified itself with it completely. The formal process of Kashmir's integration with the rest of the country has been in fact accelerated recently. The Congress party has extended its operations to the State by taking into its fold the ruling faction of the National Conference and, even more recently, the titles of Sadar-i-Riyasat and Prime Minister have been replaced by those of Governor and Chief Minister as in the other States. These may be formal changes but they mean only one thing — that the Government will not countenance any change in the status of Kashmir. As for popular opinion in the country, if not in Kashmir itself, it will permit any change even less. Those who do not regard a reopening of the Kashmir question too high a price for the possibility of friendly relations with Pakistan are definitely in a minority.

But, while on the question of the status of Kashmir itself the Government's stand has been clear, it has not always appeared to realise that the implication of this is permanent unfriendly relations with Pakistan. The result is the recurring spectacle of injured innocence whenever there is a border 'incident' created by Pakistan. After much fire-breathing, this is inevitably followed in due course by futile talks and minor compromises which achieve nothing in the long-run. Talks between governments may at times be diplomatic ends in themselves, but surely not when they are repeated with monotonous regularity over fifteen years? Keeping to this pattern there are now to be talks on the Kutch-Sind border, first at the level of officials and later at a "higher level".

Here we go round the mulberry bush once again!

Where Vultures Fly

THE latest American move on Vietnam has shown their hand. Last year all agreed (including some Americans) that the cause of the United States was hopeless — victory could not, in the nature of the thing, be won, yet there was no graceful escape from disaster. Johnson was trapped between Goldwater and the cost of a hopeless war until the election cleared one out of the way. Once this was done, Johnson has set about trying to make the best of a disaster by expanding the military effort in order to be able to negotiate 'from strength'. First, he expanded the hardware and American manpower in the South (to the extent of sending in a marine invasion force), strengthened the command, and ran the American navy along the coast. This did nothing to stabilise the Saigon regime or cow the Viet Cong, but it was a prelude to the second stage. This consisted in seizing upon North Vietnam's aid to the Viet Cong (trivial in comparison to American aid to the Saigon regime) as the real secret of Viet Cong strength, and undertaking reprisals.

This cynical tactic diverted attention entirely from the war in the South and pinned it upon the scapegoat in the North. It is a tragic commentary upon the state of the world's conscience that it took, not the deliberate brutality from the air rained upon an almost defenceless North, but the use of gas to awaken sustained protest. It is not necessary to pursue the idiocies of the apologists of the use of gas ('a splendid technological breakthrough to the era of non-lethal warfare') in order to marvel that some people mind not that children may be shattered for more than ten years by shell-blast, but that they are suffocated by gas.

President Johnson's strategy was a shrewed gamble: to divert attention to the North and to punish the North so much that the Soviet Union would be forced to intervene to protect its ally and moderate the impetuous advance of the Viet Cong. The punishment came, as heavy as any inflicted by a great power upon a small and defenceless one, but the Soviet Union did not. With much prevarication, Russia complained sadly that China was preventing Russian arms aid to Hanoi going through China — a useful defence, but one suggesting how seriously the Russians wanted to help in the first place. As for China, it is to be believed that the petty wrangles of the Sino-Soviet dispute and the aim of keeping Russian influence out of South-east Asia were important enough to sacrifice North Vietnamese lives. Peking boasted, talked of its volunteers, and did nothing.

Since the first element worked but not the second, Johnson has been forced to make a third. He has, by his policy of pure brutality against the North, won a temporary initiative, but the basic problem remains: he cannot indefinitely hold the South, and he cannot indefinitely bomb the North, particularly now that MIGs and artillery in the North, both pathetic by the standards of their opponents, are beginning to pull a few American planes out of the sky. So, in his magnanimity, he has offered 'unconditional' talks, baited with a billion dollar loan to South-east Asia.

But what exactly does he think is possible by this face-saver? The South has voted for the Viet Cong, a genuine popular and indigenous nationalist movement in exactly the same sense as were the revolutionary leaders of Yugoslavia, China, Algeria and Cuba. They cannot be ruled out by some deal between other countries, nor, ultimately, can they be restrained from the victory which is rightfully theirs. The only sort of worthwhile negotiated agreement possible is the one that the Americans has so far shown no inclination to swallow—which concedes victory to the Viet Cong.

The struggle remains as it was: about victory, not a stagnant peace such as there is in Laos. The talks therefore can only be useful if they achieve this victory and the evacuation of American forces from Viet Nam—summed up in the demand for a referendum in the South, the results of which will be binding upon all participants and all foreign powers concerned. The right of national self-determination has been denied the Viet Namese so for — and the Geneva agreements rejected as a result. It is this right, its firm and binding affirmation, that alone can prevent any talks that ensue being merely a breathing space for both armies to polish their weapons or a camouflage to hide America's disastrous failure.

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Weekly Notes

Foreign Companies' Assets

IN 1962-63, foreign controlled rupee companies and branches of foreign companies made a gross fixed investment of Rs 37 crores and Rs 19 crores, respectively, against Rs 45 crores and Rs 13 crores, respectively, in 1961-62. The increased investment by branches was accompanied by a considerable improvement in profits before and after tax. Branches of American companies particularly improved their profitability in substantial measure. Not merely did the branches step up their fixed investment, but they also increased their inventory accumulation (mainly in finished goods) from Rs 3 crores in 1961-62 to Rs 18 crores in 1962-63 and also increased their receivables substantially. The total asset formation of Rs 48 crores in 1962-63 (Rs 18 crores only in the previous year) was financed largely from borrowing (Rs 38 crores) mainly the category "others" (Rs 29 crores) and also from banks (Rs 10 crores).

This sudden spurt of asset formation in branches is difficult to explain. All that one can see from the Reserve Bank study published in the March issue of the *Bulletin* is that U K trading branches were largely responsible for this spurt. U K branches added Rs 41 crores to their total assets, U S branches Rs 8 crores, while other branches shed Rs 1 crore. A high jump of this order in total assets and 'other borrowings' could have been performed by only one U K trading branch and that is Burmah Shell Storage and Distribution. It must have added substantially to its fixed investment inventory and receivables in 1962-63 and financed it largely from other borrowings. Since there is a reduction of Rs 11 crores in the trade dues of U K companies and a rise of Rs 29 crores in 'other borrowings' it would be justifiable to presume that Burmah Shell changed the classification of a large part of its payables and borrowed more from some associated company—not its holding company for that would come under 'liability to head office'. Something interesting must have happened at Burmah Shell in 1962-63.

Long Term Trade Plans

REPORTS have been appearing for some time about the eagerness of U S S R and Czechoslovakia to coordinate some of their production programmes with industrial development in India. This is a welcome development since these countries were rather cool to this idea three years back when the Poles and Hungarians first made proposals on these lines. At that time New Delhi also did not respond too favourably because it was believed that (a) the scheme might inhibit the production of certain items (b) it might reduce the earnings of free foreign exchange and (c) it would involve long term commitments which the government may not be able to underwrite. There was also a fear that this tie-up with communist countries may not be received too favourably by Western government.

Attitudes seem to have changed over the years. They had to, because India's trade with the Soviet bloc is expanding rapidly. This expansion involves the import of more machinery as well as more intermediate goods from the centrally planned economies, and the export of processed and more sophisticated goods, including tropicalized components. The import of steel mills and power stations and the export of traditional goods like iron-ore is upto a point, a simple affair. The diversification which is taking place now implies that the annual trade plans, which lay down either the values or quantities of goods to be exchanged for the next years, are no longer sufficient. The export of more finished goods to the communist bloc requires considerable advanced planning for capacity and materials. Similarly, at the other end, the wide variety of goods demanded by us has to be fitted into the development plans of individual countries.

The U S S R is now agreeable to setting aside capacity for the export of goods like special steels, pig iron, caustic soda, fertilizers, newsprint, non-ferrous metal, etc. The non-traditional goods required from India would consist largely of shoes, hides and skins, garments, hosiery, processed goods, radios, electric fans, and plastic cloth, etc. The volume of trade, both existing and potential, in these commodities is large enough to justify constant effort over a period of time to lay down targets and means for their implementation.

The problems of trade with East Europe are somewhat different. As smaller countries, they do not have the same capacity to provide goods or absorb them, nor is a large part of their export of machinery, etc, covered by credits for large specific projects. Some of them have been eager to enter into deals with India for planned division of labour and for export of finished goods to third countries. This exercise in international planning would be unique in many ways. It would also involve a considerable tightening up of Plan implementation in India.

A Second South Africa?

NOW that Ian Smith has called for general elections on May 7, a unilateral declaration of Rhodesian independence seems inevitable within the next six months (by when this season's

tobacco crop will have been safely disposed of). Smith's purpose in calling for elections is to increase his majority in parliament to the necessary two-thirds required by the 1961 constitution for constitutional amendment. Since constitutional amendment also requires British assent, which is bound to be withheld for the changes Smith has in mind, a unilateral declaration of independence must be the obvious sequel.

Smith, when he gets his majority, plans to reduce the number of elected Africans and replace them with chiefs. He also wants to increase the number of higher roll seats normally held by Europeans. Together with new security measures these changes will take Southern Rhodesia further in the direction of becoming a second South Africa. Smith's Rhodesian Front is believed to be already working on schemes which will keep the races apart.

Smith is widely expected to secure the necessary majority. The leaders of the nationalist African opposition are under restriction and European opinion is rallying to his banner so as to strengthen his hand as much as possible for the crisis which lies ahead. The white members of the moderate opposition Rhodesian Party are expected to be obliterated in the new parliament.

In view of this situation, Harold Wilson's government should make it quite clear that rebellion will be met with vigorous economic sanctions. Unfortunately the threat of sanctions may not deter Smith. Salisbury appears to be confident that it will be able to sell more of its important tobacco crop to non-Commonwealth countries, particularly France and Japan, in the event of a Commonwealth boycott. Secondly, Salisbury is actively discussing with Portugal and South Africa, ways and means of beating an economic ban. Thirdly, Smith knows that if Zambia participates in collective Commonwealth action, she is less likely to be able to withstand a breaking off of economic relations than is Rhodesia. But despite these difficulties, and given emergency measures to aid Zambia, there is good reason to belive that sanctions would badly dent the Rhodesian economy if they are enforced for long enough. The only alternatives are military intervention which Wilson's government might not survive at home, and abandoning Rhodesia to a white minority which seems determined to thwart the politicial, social, economic and cultural development of the African majority for as long as it can.

Agricultural Finance and Banks

SOME surprisingly contradictory views have been expressed by the chairmen of the leading banks in their statements to shareholders this year. There have been sharp differences, for instance, on the role of banks in agricultural finance. The chairman of the United Bank, S B Dutt, is convinced that the preconditions for bank financing of agriculture just do not exist at present. For one thing, 'agricultural activity has still not been able to shed its characteristics as a subsistence and unorganised activity" and, for another, its dependence on weather makes it "a great financial risk". Dutt would, therefore, wait till "the entire agricultural sector could be placed on an organised and market-oriented basis" before stepping into agricultural finance, ignoring that provision of agricultural credit is a precondition to such a transformation of agriculture.

The chairman of the Syndicate Bank, T M A Pai, however, sees things in a different light. His bank, though it has only just joined the class of big banks with deposits over Rs 50 crores, has been distinguished by its pioneering efforts in the field of agricultural finance. Of course, in quantitative terms agricultural finance is a negligible proportion of even the Syndicate Bank's advances, but during the last year it has taken certain steps which indicate that this bank at least is not going to wait till the opportunity to finance agriculture is presented to it on a platter. It is prepared to go out on the farms and partly adjust itself to existing conditions and partly change them.

It is true, as T M A Pai is realistic enough to admit, that "one bank by itself can do little" considering agriculture's vast need for finance. What one hopes is that the Syndicate Bank's role in agricultural finance may prove to be that of the Schumpeterian entrepreneur. If it can establish the possibility of profitable operation in this field it is bound to draw in others. The State Bank at least may be spurred to work harder and show better results in agricultural finance.

The PM's Approval

AN institution, even if it be one for private profit, is entitled to attention when it completes a long period of successful existence. If in the opinion of the Government the institution has served some public interest, official approbation may also be bestowed upon it. The Prime Minister himself may publicly applaud the institution's services to the country. All this is permissible and has been done before.

But in the process is it necessary for the Prime Minister to seem to extend his congratulatory approval, even though by a thoughtless word or act, from the institution concerned to individuals who have fallen foul of the laws of the land? Is it necessary, for instance, for him to get himself photographed with someone about whom the following facts are well known?

(i) that he is on bail after being arrested on a criminal plaint;

(ii) that he is charged by the Government with various malpractices before a semi-judicial body;

(iii) that a number of companies under his control are under investigation by statutory authorities; and

(iv) that only a few years ago he was removed from the Board of the very institution whose achievement is being lauded, as a result of a specific directive from an official authority which gave him every opportunity of clearing himself.

Whether the charges against the individual concerned are ultimately proved or not, should not the Prime Minister have considered carefully the consequences of his consorting with such a person for the morale of the Government officers and others who are charged with the investigation and prosecution of the charges against the individual concerned and for public confidence that the Government will apply the country's laws equally to all wrong-doers, however rich or influential some of them may be.

Second Thoughts on Coal

A correspondent writes :

LAST September the Ministry of Steel and Mines published a tentative Fourth Plan target of 47 million tons of coking coal, which was to yield 24 million tons of clean coal. The target has since appeared increasingly unrealistic. The NCDC, which is supposed to contribute 21 million tons, has said that 17 million tons is the utmost it can manage. The private sector's response has been hardly more

enthusiastic. This is what the Chairman of the Indian Mining Association had to say on the subject at the Association's annual meeting in March:

> "In regard to coking coals, the private sector is expected to raise its output from the current level of 14 million tonnes to nearly 28 million. This poses a formidable challenge, since a substantial portion of this sector's contribution must come from depillarising with stowing, and from vertical development in depth. It will require a fresh input of capital on an impressive scale. Again, as stowing must play a significant part, sufficiency of sand supplies will have to be ensured. The bulk of coking coal production moreover will have to be washed and if washing capacity, and the expansion in steel, do not keep pace with increased production of coking coals, the industry's investments might be rendered largely sterile".

Apart from the problems of material balances and investment, sizable reserves of coking coal lie in small mines whose amalgamation is necessary if they are to be exploited. The progress made so far in bringing about such vitally-needed amalgamation can be hardly said to have been encouraging.

The main lesson of the Third Plan is that in respect of coal, reliance on past input-output coefficients can lead to an average error of the order of 30 per cent in consumption forecasts. As against a target of 96 million tons of coal in 1965-66, the actual demand is likely to be no more than 73 million tons, a good part of the shortfall is due to a fall in the input of coal rather than shortfalls in the output of coal-consuming industries.

The big problem with coking coal is its ash content: inspite of all the scrubbing it undergoes, it retains over 16 per cent of ash, and the ash content has been going up in recent years. The use of such ash-laden coal in steelmaking is unknown elsewhere in the world, and our steel industry has been faced with a technical problem that it must solve on its own. There has been enough experimentation to suggest the directions in which its solution will be found: oil injection is used by the Tatas, while Bhilai has been varying the composition of fluxes to see which can take a larger proportion of non-coking coal. The effect of both these techniques will be to reduce coking coal requirements. Thus, the demand for coking coal is likely to be less than present forecasts. With some imagination and innovation — e g blast furnaces and steel plants in Goa and Neyveli relying on naphtha from refineries in Bombay and Madras along with some coking coal — it might be possible to reduce it still further.

Even if a large increase in coking coal consumption is expected, one wants to consider the question whether it should be met out of home production. Coal washing doubles the cost of coal; the process costs something and greatly reduces the weight of coal. At Rs 70 or so a ton, washed coal is more expensive than Australian coking coal. And even this price is probably too low to bring forth the required increase in supply; during the Third Plan the private sector has shown much reluctance to raise more coking coal. Much of the coal it has supplied has, moreover, come from pillars removed from existing mines and little from new deep mines which require fresh investment. A rise in the price of coking coal is being considered, and it would not be surprising if the rise were substantial in the next five years. Talk of importing coal must raise eyebrows in the present plight of our payments, but exporting more to Australia might well be a more economical way of getting coking coal than making it ourselves.

Incomes Policy for U K

WITH the formation of the Board for Prices and Incomes, headed by Aubrey Jones, the stage is now set for the introduction of an incomes and prices policy in Great Britain. The intention to formulate a kind of incomes policy was, it may be recalled, announced by the Conservatives in 1961. The announcement was followed by the setting up of two institutions, the National Economic Development Council and the National Incomes Commission. The final purpose was the creation of a machinery to keep a continuous watch on the general movement of prices and money incomes so that increase in prices may be controlled directly as well as by restraining rise in wages in relation to the growth of real national output.

The Labour Government issued in December last a "statement of intent" declaring the objectives of its incomes and prices policy. It called upon the employers' organisations and the trade unions to pledge themselves to pursue industrial efficiency, higher productivity and stable prices and to make sure that wages, prices and profits were kept in line with the growth of output. The necessity of such a policy is as much realised by labour leaders as by the Government and the employers. Speaking at a regional meeting of the Trade Unions' Congress last year, the secretary general of the Congress, George Woodcock, observed that it would not be possible to maintain economic growth without an incomes policy. He feared that if such a policy was not deliberately formulated it would be imposed on the country by economic circumstances. The alternative, he said, was to modify or even abandon the objectives of full employment and fast economic development.

It is not, therefore, surprising that an agreement on the guiding principles of a prices and incomes policy was reached last week between the Government, employers and the trade unions. According to the White Paper released in London, while the NEDC will keep under review the general movement of prices and of money incomes of all kinds, the NBPI will investigate particular cases. The latter's prices division will examine any particular increase in or failure to reduce prices referred to it by the Government while its incomes division will examine claims and settlements involving changes in wages, hours of work and working conditions. The Board will not have any statutory powers and the settlements would be arrived at by mutual consent. But the Government has already made it clear that if the "voluntary method" failed it would resort to "other methods".

The Labour Government is of the view that in the present circumstances the "norm" for the annual average increase in money incomes is 3 to 3.5 per cent as this is in line with the assumed annual rate of growth of output per head; but the figure may be re-examined by the Government in the light of NEDC's views. The implementation of the incomes and prices policy in Britain, apart from proving a precursor to such policies in other West European countries faced with similar economic problems, will as George Brown, Secretary of State for Economic Affairs, observed in the House of Commons last week, make "possible a more rapid rise in real, as opposed to money, incomes".

LETTER TO EDITOR

Export Finance

IN the note "Dear Money and Export Finance" in your issue of April 3, 1965 there is a reference to what I said at the Seminar on Engineering Goods Exports in Bombay. As the reference does not adequately represent what I stated, I should be greatly obliged if you would kindly publish this letter, so that the position may be correctly known to your readers.

What I said in effect was as follows:

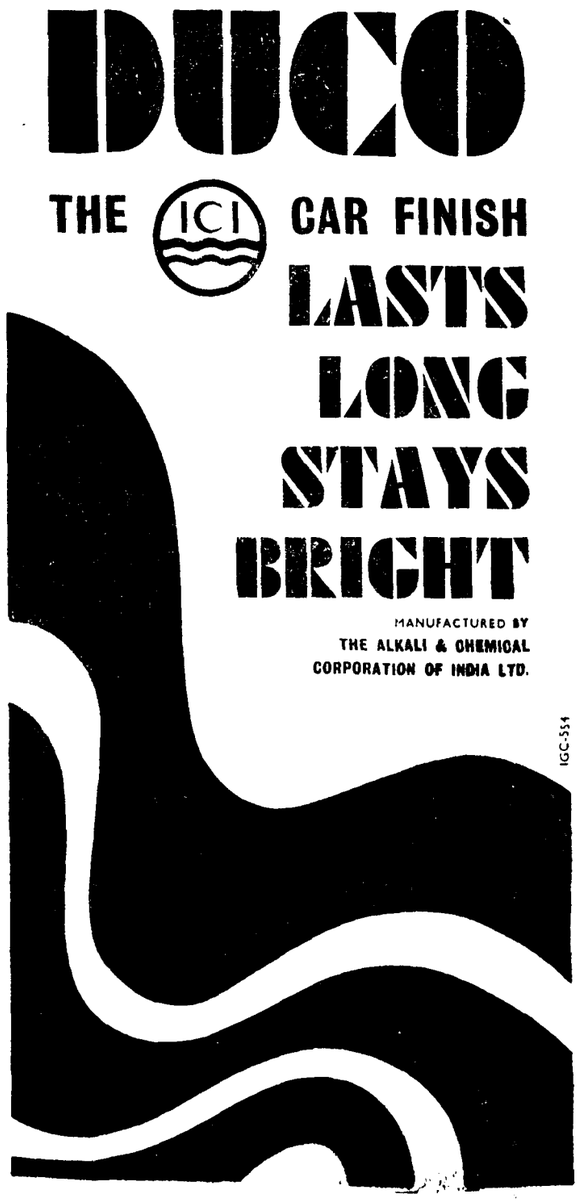
(1) As a general principle, one should remember that capital is a scarce resource in the economy. Trying to provide it at a cheap rate only encourages its use in an indiscriminate manner and leads to inflation, which in turn affects exports. The best assistance to exports that a central bank can give is to try and maintain a reasonable degree of stability in the economy. This I said was the primary responsibility of the Bank.

(2) I did not rule out cheaper credit facilities for exports and also central bank assistance for such purpose. In fact, I drew attention to the facilities which the Reserve Bank and the Industrial Development Bank have provided (a) through the Rupee Export Bills Scheme, and (b) through the medium-term export refinancing scheme. It is to be noted in particular that the latter scheme which provides concessional finance continues to do so at the same rate as before, although rates in other sectors have gone up. I thought that this was of particular interest to the engineering goods exporters. I also added that there were various technical aspects to the other suggestions in respect of pre-shipment finance and post-shipment finance where the export bills are drawn in other currencies which needed examination and that this was being done.

In view of this, the comment in your note "But instead of accepting these suggestions, the authorities seem to have done the opposite" does not appear to be correct.

The point made in the note that "economic and efficient use of money would certainly call for its employment in export finance" is certainly a very valid one. It is one which has to be constantly borne in mind not only by the Reserve Bank but all the credit providing institutions of whom the banks form a major sector. As I stated at the Seminar, the Reserve Bank has always urged the banks to regard exports as a priority sector in their credit operations in view of the importance of exports to the economy. One important way in which the banks could assist exporters is by making a distinction between the rates charged for loans to production for the home and production for the export market as is done in other countries. However, as was pointed out in the Chablani Committee's Report, under the 'Inter-Bank Agreement' no such distinction is made and the minimum lending rate is fixed at 2 per cent above the Bank rate irrespective of whether the finance is required for domestic needs or whether it is pre-shipment export finance. As I mentioned at the Seminar, apparently there has been no move so far in regard to this matter.

V G PENDHARKAR
Reserve Bank of India,
Bombay.
April 10.



CAPITAL VIEW

And Now, Pakistan . . .

Romesh Thapar

MAKE no mistake about it, the present border skirmishes cum attacks by Pakistan will take on the dimensions of a major confrontation unless we are able in a few precise moves to make clear to our detractors and their influential friends, particularly in the West, that the repercussions of such a confrontation will be deep and widespread. A certain co-ordination is noticeable in the attacks on our border posts in the east and in the west. Concentrations of Pakistani army formations are heavier than usual and the desire to engage in regular battles is more pronounced. The feeling is widespread in the highest quarters that this change in Pakistani tactics is the result of collusion with China's leaders who at this moment would rather that their new found ally exploited the disarray noticeable in India's political life.

Tell the People the Facts

Prime Minister Lal Bahadur and his colleagues at the Centre are for once making the effort to get two steps ahead of the developing situation. Not only have moves at UN level been initiated, but friendly nations are being briefed. There is, however, a reluctance to make people at home more aware of the threat because it is feared that this might provide communal groups with the kind of inflammable material upon which they flourish. This is a mistake, for only an informed public can isolate the 'Hindu' incendiaries who masquerade as defenders of the nation. Home Minister Nanda must link the external threat with the internal in such a way that our defensive strength is not frittered away in law and order problems.

The entire propaganda machine of the GOI should be geared to this task. As with China, so with Pakistan, the attempt is to weaken the unifying the elements in this country, to break their resolution and their confidence, to create those economic and political tensions which would make the ruling party hopelessly dependent on foreign support. India in such a state, it is believed, would not be able to retain its federal cohesion. In this respect, the national interests of China and Pakistan coincide to a critically dangerous degree.

Pakistan pretends to be obsessed by the fear of being crushed by 'the bully that is Bharat'. The reality is very different. Her military Junta, preening itself on U S equipment and training, has for long been confident that an armed collision between India and Pakistan would yield dividends. This confidence was further strengthened by India's poor showing in NEFA during 1962. The Pakistani argument, according to reliable informants, runs something like this: it is no longer true that India's army is superior to ours: we have shorter lines of supply, a stable and united population dedicated to the greater glory of Pakistan; our armed forces, thanks to US aid, are better equipped and we have had some ten years of training with equipment which India's forces are only beginning to get used to; and, now, we have them in a fix — strung out thinly behind the longest and most difficult border in the world, a border which over large stretches is not internationally recognised and which does not provide much scope for the quick and rapid deployment of forces.

Rethinking on Defence

This theorising cannot be easily dismissed. Our earlier reliance on massive Soviet assistance in the event of an attack has been much eroded by a short-sighted leadership; indeed, during the past year, as on the question of Soviet naval aid, we have acted as if we put little value on it. Defence Minister Chavan, in spite of his better judgment, has permitted the growth of sentiment in army circles which encourages the thought that India's salvation lies in a firmer military commitment to the West; with Pakistan on the rampage, he must be wondering why on earth he permitted himself the comforting thought that only China was the enemy, for the West is most unlikely in the present confrontation with Pakistan to assist India's interests.

Once again, we have been sharply reminded that India's defence cannot be assured by a fully worked-out commitment to one of the two major nuclear powers. Once again, we have learned that our only course is to build our internal strength to the maximum and through skilfull diplomacy to negotiate the critical military hardware which we cannot as yet manufacture. The extent of the disorganisation in our thinking is brought home by the fact that only a few days ago Parliament was listening to supposedly profound perorations about the need for full commitment to the West (even to South Vietnam!) and the GOI was fumbling over the question of contradicting the distorted and tendentious reports spread, with the connivance of U S officials and diplomats, about Jawaharlal Nehru's ambivalence on these matters.

Pakistan's Tactics

Pakistan is probing at several widely separate points. At the moment of writing, it looks as if the main blows are to be directed in the swampy and supposedly oil-rich Rann of Kutch which from our side is more difficult to get at. It is here that skirmishes have become attacks. In fact, militarily speaking, the only way of punishing Pakistan is to break the back of the attacking force even if it means a counter attack from the coast northward towards the Pakistani line of supply. This would, of course, lay the basis for a major operation. But, then, how else are we to put a stop to continuous skirmishing which develops into a serious violation of our border positions? Pakistan's military junta calculates that India will never push matters to the level of a major operation — or, at least, not until compelled to do so. Like China, she waits to catch us unawares.

The initiative, in other words, remains with Pakistan. It has been suggested that President Ayub is only preparing the background for his visit to Washington where he hopes to limit the supply of U S military aid to India. But this could only be a minor objective. For, whatever be the convictions of those who would have us commit to the West, the fact remains that Washington remains firmly opposed to any move which might offend Pakistani opinion — even in the matter of supplying rather out-dated aircraft which Pakistan already possesses in adequate number. The U S A, it is said, knows that Pakistan is quick to anger. As for India, the greater the neglect the more pliable her pre-

sent leadership becomes. Why worry? Therefore the fear that there is a more sinister plan in Pakistan's latest attempt to hot up the border.

It is being argued by many in the Capital that moves at U N level, and also among friendly nations, will sooner or later have to be followed up by retaliatory diplomatic action, *a la Nasser*, against those who would exploit our present predicament to blackmail us. Whether it is Pakistani skirmishing, or support to an Abdullah or a Phizo, or military involvement with an aggressive neighbour, or more indirect hostility, we shall have to adopt tougher attitudes. Our carefully civilised postures are apparently misunderstood. Moves are tolerated which increase our isolation. We fail to discern who are genuine friends and who are false. We have no reliable yardsticks. And, in the process, crucial national interests are being sacrificed.

These same circles, however, although incensed by the treatment India receives, fail to stress the paramount need for building a spirit of self-reliance. This spirit cannot grow spontaneously, as they seem to imagine. It has to be cultivated, canalised and directed into a carefully devised programme of mobilisation and development. A certain degree of what is called regimentation is a necessary part of such a programme, and there is no reason why we should weaken ourselves merely because we are unable to find the 'perfect' solution to our problems. The defence of our sovereignty, as also the democratic State structure which holds our people together, demands that we free ourselves to a large extent from the many inhibiting influences generated by our dependence on others.

Within a fortnight, Parliament will be preparing for the summer recess. Prime Minister Lal Bahadur will be in the throes of readying himself for a three-week tour of foreign capitals. Various ministers and deputy ministers will be organising visits abroad. The less fortunate of the ruling elite will be content with seminars and conferences at various hill-stations. It is to be hoped that a nucleus of effective leadership will be left behind to 'hold the fort'.

FROM THE LONDON END

The Budget and Overseas Investment

CALLAGHAN'S Budget was obviously framed with the foreign banker in view. The main object of the Budget was to try and convince foreign bankers of Britain's determination to tackle her balance of payments difficulties without devaluing the pound so that, impressed by the stern internal measures taken in the Budget to restrict home demand, there would be less opposition to the renewal of the $ 3,000 million loan in May. On the other hand, too stern a dose of deflation had to be avoided if the old "stop-go" policy so fervently attacked by Labour in opposition was not to be repeated. Generally speaking, the comments which have appeared in the press appear to endorse the view that this Budget has found a nice balance between the two objectives.

Again, as a socialist Chancellor, Callaghan had to give some impression that social justice was also one of the aims of the Budget. In order to compensate for increased taxes on beer, spirits and tobacco, the Chancellor has introduced the capital gains tax and the new restriction on all forms of business entertaining. These are quite obviously small sops in order to ensure the success of the incomes policy which will bear heavily on wages and salaries.

The general reactions overseas have been favourable and rumours on devaluation have been now finally scotched. In the event, the City is somewhat relieved as the corporation tax — the new tax on Company profits — is not going to be levelled at a penal rate; it is not going to exceed 40 per cent. The companies which will really suffer from the new corporation tax are those which earn a large part of their income abroad. Thus, companies will be allowed relief on foreign tax, only to the extent of their corporation tax liability. With the exception of overseas companies, the immediate effect on industry of the corporation tax should not be too adverse.

Departure from Tradition

Perhaps the most interesting feature of Callaghan's Budget is the direct attack it makes on overseas investment. This is a major departure from the traditional British attitude to foreign investment which has hitherto always been accorded specialised treatment and, in the days of colonial superprofits, brought in more than adequate returns.

The outflow of long-term capital from the U K accounted for half of last year's £745 million deficit on the balance of payments, and the decision to take direct action to improve this balance was certainly justified by the size of the present deficit. The present tax system puts a premium on overseas investment as it tends to favour those who invest abroad, and the Chancellor is now aiming "to change the direction" and "to channel home some of the accumulation of assets held in private and abroad". The various steps which the Budget proposes on top of the switch to a corporation tax to discourage companies investing abroad, will bear heavily on companies whose major interests are abroad, and will hit particularly overseas trading corporations—mainly rubber, tin and tea-planting companies who have hitherto paid no profits tax. Overseas trading corporations are companies registered in Britain which operate exclusively abroad. All O T Cs pay tax at the local rate in the countries in which they operate, and have so far been given relief for that reason in the U K. Under the new Budget, their special status will be abolished from April 1966, and the only relief that they can obtain will be if the taxation rates in the countries in which they are operating are higher than the proposed corporation tax rate of 40 per cent.

Since O T Cs will now have to pay dividends gross, many will have to cut their payments drastically. This may well mean that companies will be sold and British capital will be withdrawn from areas in which it is now established. For example, these new measures may make it of interest for British tea plantations, for example, to sell out to local entrepreneurs in India.

For some years now, it has become fairly obvious that Britain, like the United States, simply cannot afford to invest on the scale of the past ten years. Britain which has gold reserves which are half the size of Germany's, is certainly overstretching its resources when it tries to police a major part of the world, to run a world currency and invest on a considerable scale. While Britain's reserves altered very little between 1952 and 1964, private and Government investment overseas amounted to no less than £4,000 million over the same period. As a result, of course, Britain now possesses long-term assets whose value is nearly £11,000 million. This is a very large sum of money to be invested overseas. It is true that these investments bring in profits and dividends, but the fact remains that if money is going out at a quicker rate than income is coming in, this certainly does not help the present balance of payments difficulties. It is for this reason that the Government is readjusting the tax structure to make it worth while to invest at home. It is also imposing more rigid exchange control regulations to make sure that future investments are worth the price that is paid, and it is attempting to get a contribution to the gold reserves from any future sales of foreign assets. These are part of the measures which the Government is taking to preserve the existing parity of the pound. The table gives some information on Britain's stake abroad.

What effect the new restrictions on overseas investment will have on the flow of private capital to the developing world remains to be seen. Dealing with the direct measures taken to make overseas investment less attractive, the *Financial Times* says: "For example, a company thinking of operating in India will have to see a profit rate 70 per cent above that of the stay-at-home counterpart to make the game worth the candle. This is perhaps fair enough, but what if all that happens is that official aid from the U K has to fill the gap?" Indeed, in recent years much of the argument with regard to the development plans in the emergent world have referred to the fact that Governments of these countries have come to realise that since official Government aid to the developing world is not nearly large enough to cover their development needs, private capital has also an important role to play.

While it was a right decision to take direct action to improve the balance of payments, one of the major omissions in the Budget is that no attempt has been made to lessen Britain's overseas military expenditure. In 1959, Government spending abroad was £175 million; it is now over £300 million. Even the *Times* said: "Yet the Government itself is making no economies on its overseas spending...There is only one solution—a reduction of military commitments in Germany, the Middle East or the Far East. Without a reduction of commitments, no major spending cuts can be forthcoming." Thus, the present Budget leaves untouched military expenditure abroad, one of the root causes of the balance of payments problem.

No Help for Exports

Another omission in the Budget is that very little has been done directly, either to promote Britain's exports or to modernise British economy to meet the challenge of the day. Indeed, planning for economic expansion is singularly absent from the provisions of the Budget. No tax allowance, for example, is being granted to encourage the type of science-based automated industries on which the future of Britain depends. But perhaps the basic reason for this is that under the present system, where economic responsibilities have been divided between the Treasury and Brown's Ministry of Economic Affairs, we must regard the Budget as one half of the plan providing the basic structure for future developments of the economy which will be initiated by Brown.

Again, nothing very much has been done to assist the Regions, and the unequal economic advance in the various regions of Britain is one of the most crucial problems facing the country today. However, Regional Development is to get some encouragement through the new facilities for loans and borrowing.

There is no doubt at all that the Budget has been a great personal triumph for Callaghan, and by and large it has been a moderately successful Budget gearing its priorities to reduce home demand by £250 million so as to reassure the foreigner about the pound and impress overseas bankers, on whose credit Britain still depends, without at the same time imposing too great a degree of deflation at home. What is interesting, however, is that the one point on which both the Government and the Opposition seem to agree is that if the Budget has any dangers, they are deflationary. While it is true that the measures taken will still permit the British economy to keep on the move at home, it will also mean a slowing down in the rate of growth for the earlier part of the Government's long-term economic programme.

Table

Country	Net Asset *Value £m*	
	1958	1963
Sterling Area	1,357	1,985
U S A	540	666
Canada	258	326
Common Market	145	270
France	49	85
Italy	29	35
Germany	25	70
Latin America	105	180
Other European Countries Outside Common Market	66	124

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Introduction to Africa

Indira Nath

Which Way Africa by Basil Davidson; Penguin Books, London, 1964; 215 pp, 4s.

MOST people in the West still believe in the myth of colonial rule rescuing the African from savagery, civilising and educating him, giving him democratic institutions, and leaving him economically much better off than it found him It is refreshing, therefore to find a book about Africa written by a European who is without any illusions about the 'colonial heritage'. In contrast to the general self-congratulation of the colonial powers, the author sums up the position in most countries on achieving independence as one of "acute and worsening poverty"; he holds the colonial powers largely responsible for it. The destruction of the old ways of life, together with the introduction of the terrible system of migrant labour, redued the villages to starvation level by depriving them of their labour force; it also produced large insanitary slums in the continually expanding cities. Poverty, famine, disease, illiteracy, a general lowering of the standard of living were the true colonial heritage in Africa. As late as 1951, 51 per cent of the children in Nigeria's Northern Region (a relatively prosperous area) died before the age of six. In 1959, after 40 years of colonial rule, among the 24 million inhabitants of British East Africa there were only 2,000 who would qualify for a school certificate.

None of these appalling conditions could be ascribed to a lack of resources, for the colonial powers thoroughly exploited the continent's wealth, particularly its mineral wealth, while denying the African any share in the benefits. The author bears out this contention by quoting figures, gathered by U N in 1958, comparing the actual benefits with those which had been promised from the formation of the Federation of the two Rhodesias and Nyasaland. In 1945 gross mining profits were £ 5,500,000 and African wages were £ 1,400,000 (about 25 per cent of the profits); in 1956 gross profits amounted to £ 80,000,000 while African wages accounted for £6,400,000 (about 8 per cent of the profits). "Federation was evidently rather more beneficial to mining shareholders than to the African miners themselves."

In Africa, then, as in India in 1947, the challenges to be faced on achieving independence were social and economic. Poverty and disease were rampant and not enough food was grown. The author's view is that the colonial powers — in addition to exploiting the mineral resources of Africa — did further harm by enforcing on the African farmer cash crops such as wine, cotton and cocoa for export to the mother country in place of subsistence farming. In Algeria, for instance, the French increased the vineyard acreage from 4,000 acres in 1830 to 750,000 acres in 1953. The production of cereals there remained stationary after 1880 while population almost trebled, so that although in 1871 the average Algerian had 5 quintals of grain a year by 1940 he had only 2½. Similar instances can be found al over the continent: in Southern Rhodesia much good land went into tobacco farming.

Independence and After

Along with the neglect of food production for the African went the system of cheap African labour. In 1954 a Committee on African Wages in Kenya reported that "approximately one half of the urban workers in private industry, and approximately one quarter of those in the public services, are in receipt of wages insufficient to provide for their basic, essential needs of health, decency and working efficiency". In South Africa, miners received roughly 100s per month in 1951, compared with 63s per month in 1890. Given the fall in the purchasing power of the pound since 1890, "it is obvious that the real wages earned by these hundreds of thousands of men fell steeply during the period".

Besides the massive economic problems, there were other serious problems too. Since the colonial powers had generally worked on the principle of divide and rule, when it came to granting independence some federal system usually had to be devised to satisfy the ambitions of the various factions — usually divided on tribal lines — which had been carefully nurtured by the foreign ruler. In consequence, a country like Kenya with heavy unemployment and poor resources had to bear the cost of maintaining eight parliaments and governments along with all their inevitable paraphernalia. In Dahomey 60 per cent of the total budget receipts are spent on civil service salaries. The author comes down firmly on the side of a unitary constitution and cites Ghana as an example to be emulated. When Ghana achieved independence in 1957 her constitution permitted the formation of strong regional governments similar to India's state governments. The author feels that it is to Nkrumah's great credit that he crushed the power of the chiefs who wanted regional autonomy. There is no doubt in the author's mind that had Ghana been allowed to lapse into regionalism, as happened in the Congo, no meaningful economic and social progress could have occurred.

After mentioning some of the main ideas in modern African political thought, including nationalism, neocolonialism, neutralism and pan-Africanism, the author gives due prominence to the two most important of these, pan-Africanism and neutralism. Far from being a creation of Nkrumah the idea of pan-Africanism originated in America at the turn of the century. The first pan-African Congress was held in 1900; the sixth was held in 1945 in England, attended by many then unknown young Africans, including Kenyatta and Nkrumah. Yet the ideal of Pan-Africanism seemed to have been forgotten by the fifties. It was then revived by Nkrumah and greeted with scepticism by most other leaders. In 1963 the first African Unity Conference was held in Addis Ababa, attended by 32 independent nations who agreed to co-operate politically, economically and socially and to endeavour to secure greater African representation in the various United Nations bodies including the Security Council.

Davidson does not claim that the ideal of pan-Africanism, with its concept of continental integration, has been accepted all over Africa. Many African countries have formed themselves into "blocs" — the notable division being between the ex-French colonies and the ex-British colonies. Yet there is a growing awareness of the benefits of co-operation. One thing at least unites all the 32 countries, and that is determined opposition to South Africa and Portugal and their practice of *apartheid*. Most of them also follow non-alignment to a greater or lesser degree. The non-alignment was inspired by India. If India could, why not Africa? It is a tribute to India that so many African States have openly acknowledged their debt to the Indian example. Now it is India's turn; if so many 'un-committed' African countries can practise non-alignment with success, cannot also India? Or have our circumstances changed so fundamentally?

To many people, including Indians (if they think about Africa), the general swing to one-party states in Africa is alarming. The author is sympathetic to it, but his arguments remain unconvincing. He says that in each country there was a single political party demanding independence; since no opposition party existed, there was, therefore, no need for one after independence. Julius Nyerere has summed up the justification for one-party rule thus, "There is no remaining division between 'rulers' and 'ruled', no monopoly of political power by any sectional group, which could give rise to conflicting parties. A multi-party system would, at best, lead to the trivial manoeuvrings of 'opposing' groups whose time is spent in the inflation of artificial differences into some semblance of reality, 'for the sake of preserving democracy'". It may be that the only opposition now is merely a reactionary, secessionist minority in Africa and that *at present* all governments command the full support of all their people, but the denial of the right to form opposition parties can lead eventually only to some kind of totalitarianism. To say "... while Ghana has political prisoners today, she has yet to have her first political execution" hardly provides reasonable support for the author's view that the one-party State in Africa is a democratic institution.

This book is not for those who seek to know anything of the impact of communist powers on Africa. There is scant reference to communism as such and no mention of the involvement of communist powers in the affairs of any African country. It is a fact that no African country had a strong communist party before independence; but it does not follow that there is no communist interest now in the continent. By barely mentioning the communist powers, the author implies that only America and the ex-colonial powers are in any way interested in what happens in the continent which is certainly not the case.

What is there for Indians to learn from this book? In both India and Africa, there was a failure to realise that political independence was far from being an end in itself, resulting in the lack of a widely shared sense of mission regarding social and economic problems. Some kind of a political elite had emerged under colonial rule, but under the heady influence of freedom, far too many members of this elite — in Africa as in India — sought to take the white man's place and enjoy his privileges. One author wrote in 1963 of "the appalling mismanagement of our public affairs, the lack of sense of direction on the national level, the moral depravity of our society...". This could have been an Indian writing about India; in fact it is a Nigerian (Gabriel Faqbure) writing about Nigeria. Equally relevant is the eloquent comment of another Nigerian (Tai Solarin) about his country: "One thing is clear in the minds of the young elements in our country — Nigeria is not being effectively governed. Our government is a hydra-headed octopus that veers and backs, depending on the prevailing planetary and political winds, and that oscillates and flounders and hopes, whatever happens, for the best. It is not purposive; it is not disciplined."

Davidson wisely remains content with predicting very little for the future, the title of his book notwithstanding. He is certain that Africa will play an increasingly important role in world affairs — a conclusion that is unexceptionable. This is a well-written little book. Unfortunately its usefulness is somewhat reduced by the absence of a reading list.

The Psychiatry of War

Prabhakar Ghate

Psychiatric Aspects of the Prevention of Nuclear War Report No 57, Group for the Advancement of Psychiatry; New York; 94 pp.

IT is possible to classify, as Kenneth Waltz in his "Man, the State and War" did, the seminal thinkers on the problem of war into three main groups. There were those, like Thomas Hobbes, who regarded war as arising inevitably out of the nature of man. Others attributed war to the intrinsic nature of particular types of state, such as Karl Marx's capitalist-industrial state which had to expand overseas in search of markets, raw materials and investment opportunities, or, to take a more recent example, C Wright Mills' state dominated by the militaristic 'power elite'. A third group regarded war as an inexorable consequence of the nature of 'international society', a society which lacked a common authority with a monopoly of force superior to its constituent units. These diagnoses of the causes of war led to three corresponding sets of solutions. Until fairly recently a book by a psychiatrist would more likely than not have seen the solution to the problem of war as lying exclusively in the rectification of human nature.

The "Psychiatric Aspects of the Prevention of Nuclear War", one of a series of booklets published by the Group for the Advancement of Psychiatry and prepared by its Committee on Social Issues, does not fall into this error. It recognizes that the problem of war is multi-faceted. It regards conflict between groups as inevitable, while recognizing that conflict is not synonymous with war. If conflict is to be prevented from taking the shape of war, what is needed instead is a continuing process of non-violent resolution of conflict. This, the report points out, rejecting the uni-dimensional fallacy, will entail profound developments in diplomacy, law, politics, technology, and ideology, *as well as* the modification "of many entrenched complexities of human nature and behaviour at both individual and societal levels".

Having recognized the limitations imposed on psychiatry's contribution by the very nature of the subject and "the need to stay within the limits of psychiatry when seeking to apply its insights and methodologies to broad problem areas", the report goes on to staunchly defend the value of that contribution on these grounds: "the complex nature of these issues requires a pooling of knowledge, collaborative effort, and better communication at various levels between psychiatrists and other behavioural scientists, between behavioural and natural scientists...

One of the many advantages of such joint endeavours is that they tend to counteract one-sidedness, blind spots, and bias in any participating group or individual". To this end the report seeks to make available to colleagues in various disciplines the results obtained by subjecting a mass of material derived from other sources (the Committee has not conducted its own research, except bibliographical) "to the processes of psychiatric 'filtration', assimilation, integration and deliberation." It hopes thereby to stimulate further research into the emotional, irrational, and individual human factors involved in specific issues of peace-keeping.

In discussing the relationship of war and human nature the report takes the view that war is not rooted in human nature. It has never been simply a collective expression of individual hostility and aggressiveness, merely the sum total of countless individual aggressions. On the contrary, war is a social institution, and like all social institutions it must potentially be capable of change and eradication. Cannibalism, slavery and ritual human-sacrifice must have all seemed deeply rooted in human nature when they were prevalent.

The report admits that war has traditionally provided an outlet for the release of destructive (and cohesive) impulses. In this sense it has found sustenance in them. But progressive changes in the character of warfare have rendered it an increasingly unsatisfactory outlet. The distance between the individual soldier and his enemy has increased, making war more and more impersonal and mechanical. The best soldier is no longer a hero, but an automaton.

In discussing some of the psychological responses of individuals and groups that contribute to the continuance of the arms race and render a non-violent solution of the current East-West struggle (or any struggle for that matter) difficult, the report deals in particular detail with the phenomenon of 'dehumanization'. This, it points out, is a serious and fundamental problem of our time, to which the forces of industrialization, specialisation, bureaucratization, and automation are increasingly contributing. Dehumanization is the tendency to denude other individuals and groups of human qualities in order to protect a person from feelings of guilt and shame about the way he feels about or acts towards them. It is a defence mechanism which enables one to write off other people's suffering or death as something that neither concerns nor moves one personally, and with which no identification takes place. While dehumanization makes statistics out of other people, it has a similar effect on the self. It leads to an image of oneself as powerless, a mere cog in the wheel, passively following orders. It stifles one's capacity to feel and act like a human being. It results in a diminished sense of personal responsibility for the consequences of one's actions, and prevents people from taking steps essential to the maintenance of the well-being of society and the prevention of mass destruction. The report underlines the need "to investigate what innovations in modes of thinking are needed, and how they may be brought about, to counteract the intensified callousness toward human worth and suffering resulting from the advances in modern technology and the push-button aspects of nuclear warfare."

The Dangers of Deterrence

The report discusses the policy of deterrence in some detail, because as it rightly points out, it is the relationship of mutual deterrence between the two super-powers that is responsible for having prevented the outbreak of nuclear war so far. But, it adds, though the nuclear stalemate, or the balance of terror, has proved a useful temporary expedient, long-term reliance on it as a permanent arrangement is fraught with dangers. Deterrence can fail, partly because some of the psychological assumptions on which it rests are dubious. Firstly, it assumes that there will be rational and responsible control on both sides of the decision to use nuclear weapons. But behaviour under stress of extreme fear tends to become more impulsive and less rational. The spread of nuclear weapons to other powers will increase the chances of nuclear weapons falling into the hands of those with limited tolerance for emotional strain. Secondly, there are people with suicidal tendencies, who in destroying themselves have no compunction about destroying others. Thirdly, deterrence suffers from the drawback that it deters the other side by the threat of punishment. It does not use the promise of reward. Punishment, or the threat of it, may inhibit acts undesired by the 'deterrer', but it leaves the underlying motivation unchanged and, if anything, acerbates hostility towards the 'deterrer'. Reward on the other hand creates a favourable attittude towards the rewarder, thereby reducing the incentive towards undesired behaviour.

Confronted as we are with these (and other non-'psychological') deficiencies in the present system of mutual deterrence, the search for more satisfactory arrangements for the maintenance of international security must continue. But under any system there will remain the need for some means by which conflict can be conducted and resolved without resort to violence. (It is interesting to note that under a system of world government, or a centralised authority with a preponderance of coercive power, though that need will still be great, it will no longer be vital, since conflict, if it does lead to violence, will be containable within safe limits by the preponderant force of the central authority, and will be resolved according to the will and law of the world community.)

The report examines some non-violent methods of conducting conflict, involving action by one, both and third parties. As an example of action involving one party to a conflict the report contains an interesting discussion of non-cooperative non-violent action on Gandhian lines. It is enthusiastic about the advantages and prospects of this means of conflict in the domestic sphere, but points out that its applicability to international conflict seems limited, because its effectiveness depends on making an ally of the opponent's conscience, on appealing to a set of shared values and exemplifying the opponent's ideals. This can only happen when there is continuous personal contact between members of opposing groups — a condition which is not met in conflicts between nations. Examples of action taken by both parties to a conflict are negotiations, and competitive co-existence, in which the opposing parties mutually undertake to desist from active efforts at destroying each other. Action taken by third parties may be informal, or may involve formal procedures such as arbitration or negotiation. Moreover, supranational organisations also play 'third party' roles. The discussion of the psychological aspects of all these alternatives to violence in the condut of conflict makes fascinating reading. What is more, the report shows that they hold out hope of reducing tension between national adversaries.

Implications of Curb on Advertising

Subrata Banerjee

The rules prescribing restrictions on advertising expenditure by companies have been withdrawn. It is proposed to re-issue fresh rules after considering representations from industry, the advertising trade and other concerned interests.

However, the thoughtless manner in which the rules were first promulgated creates serious doubt whether the Central Board of Direct Taxes will be able to come to a correct decision on the question of legitimate advertising expenses.

In the circumstances, there is a strong case for appointing an expert committee to examine the issue objectively. The committee could consist of Government officials, representatives of industry, the press and the advertising trade and an independent economist. Only such a committee will be able to consider all aspects of the problem and judge whether advertising expenditure should be restricted or not and, if so, how.

THERE seems to be an implicit assumption by those who frame income tax regulations that no marketing organisation which realises the necessity to advertise will be inhibited by any tax regulations, however prohibitive. It will continue to advertise, may be on a somewhat restricted scale, and the income tax authorities will happily harvest the revenue. This seems to be the view of S L Rao too ("Tax on Advertising" *The Economic Weekly*, March 27, 1965). He ends his analysis of the implications of tax limitations on advertising on this note. The matter, however, is not as simple as all that.

Advertising, because it is seen by the public all the time, creates the illusion that it is a separate entity, complete in itself. It is often felt that advertising by itself sells goods or services. This is not true. It has to be understood that advertising is only one factor in the total complex of marketing operations. It is just one cog in the machinery of selling. No intelligent business management considers advertising apart from the total selling and distribution arrangements.

Costs May Go Up

It is in this context that the proposed income tax limitations on advertising expenditure should be considered. The real implication of such a measure is a tax on the entire selling and distribution expenditure of a marketing organisation. Advertising really forms only a part, and a very small part of this expenditure.

As advertising is just one of the tools of selling, it will be wrong to think that it is not irreplaceable. Its importance lies in the fact that it is the least expensive and most effective method of selling. If advertising is taxed many marketing organisations would find it more attractive and more economical to spend more money on the other methods of selling than pay taxes. S L Rao, in his article, has indicated some of the other possible methods available.

It is true that the case of consumer goods industries is somewhat different. Their ratio of advertising to sales turnover is relatively high. They cannot do without advertising. Just in order to survive they will have to advertise beyond the minimum limits that may be prescribed and pay the tax. They too will, however, reduce their current expenditure considerably.

Obstacle to Competition

Every organisation will naturally revise their advertising expenses to reduce the tax liability. The rest of the money will be diverted to other and more expensive, and in many cases relatively less efficient, methods of sales promotion. Such a step can have two effects. Rise in the cost of selling will lead to a rise in prices. This in turn will soon mean reduction in sales and hence lower production. Non-utilisation of full production capacity will adversely affect the economics of large scale production. As it is, there is considerable under-utilisation of capacity in many consumer goods industries. This is partly due to scarcity of raw materials and partly due to lack of demand. This situation will further deteriorate if limitations are imposed on advertising at this stage in our economy.

It is the declared policy of the Government to operate a mixed economy and prevent the development of monopolistic tendencies. A sufficient number of units has been licensed in each area of production for this purpose. This means competition. How can competition be effective without adequate advertising? The smaller and new units, competing with well established manufacturers can get their products known to the consumer effectively and economically only through heavy advertising. With restrictions on advertising expenditure they will be at a disadvantage and monopolies are bound to emerge in many industries. Already in many consumer products industries a single manufacturer commands the major share of the market. Sometimes this share is larger than that of all the other units put together.

We are all anxious to save foreign exchange and develop indigenous production of many goods now imported. Quite a few such industries have already come up. Greater achievements are called for in this direction. How can such industries and those producing import substitutes get their products accepted by consumers without adequate advertising?

Restrictions on advertising expenditure will encourage inferior and adulterated products. With higher selling costs leading to higher prices and lower production, branded goods will naturally be ousted from the market. Consumers will have to make do with inferior substitutes. It should be remembered that a manufacturer who advertises his products mentions certain product qualities. He thus makes himself publicly accountable to the consumer for the quality of his product. This is why there is greater confidence among consumers in branded goods. The manufacturer of non-branded goods is not accountable at all.

Impact on Foreign Capital

The Government has had occasion in the past to complain that capital is shy in this country. Various incentives have been offered to offset some of the obstacles to investment of capital, both Indian and foreign. It is surprising that a new deterrent should now be contemplated. Obviously if an investor is faced with higher selling and distribution costs at the very initial stages of marketing, he will have second thoughts. This is especially true of the foreign investor, who has never operated in circumstances where limitations are imposed on selling efforts. He can expect a favourable return on his investment

from large-scale production and the maintenance and expansion of mass markets. Otherwise he would have to raise prices and lose the benefits of mass production and mass markets.

What about Export Promotion?

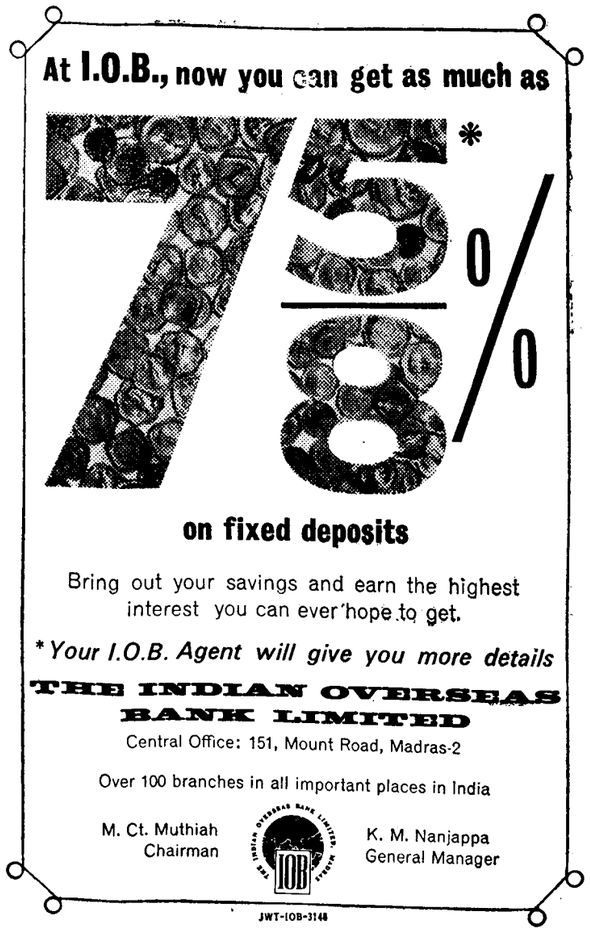
Export promotion efforts will also be hampered in such a situation. Restrictions on advertising, leading to under-utilisation of plant capacity because of a restricted home market, will raise the unit cost of production. This will reduce our competitive strength in export markets. Sufficient funds will also not be available for advertising abroad on an adequate scale. As it is, our export promotion drive is being hampered in many product areas precisely because of higher prices and inadequate advertising and sales promotion efforts. Restrictions on advertising expenditure will merely make the situation worse.

It is vital for our economy to modernise our farming methods. This means inducing the farmers to use modern agricultural tools, fertilisers, improved and scientific cattle feed and so on. This is an area where quick results are essential. And yet restrictions on advertising expenditure will mean that a large number of manufacturers of agricultural implements and allied products will be compelled to reduce their sales promotion efforts. We shall, of course, happily go on spending more and more valuable foreign exchange to feed the people.

In recent years a small section of farmers has begun to have a disposable surplus income. To some extent this is being used to raise their own standards of living. A large percentage of this goes into the manipulation of foodgrains prices. Advertising can help to divert more of this money towards the purchase of a wide range of consumer products and consumer durables, to ensure a higher standard of living. Here is an area where consumption needs to be encouraged in the interest of our developing economy.

In the countryside advertising can thus provide an incentive to higher productivity. This was the experience of the United States economy in the "developing" stage some 70 years ago. W W Rostow, the American economist, advanced this idea some time ago. He suggested a Sears-Roebuck type of catalogue for the Indian farmer to spread the take-off stage from the cities to the countryside. Seventy years ago, the American farmer saw in the attractive catalogues put out by the Sears-Roeback mail order company illustrations of inexpensive tools, fertilisers, etc, and also of a wide range of consumer durables that make for better living, such as sewing machines and electric lights. The dream of possessing these luxuries acted as a spur to higher production in agriculture. Rotow suggests that Indian farmers could be more strongly prompted to adopt modern farming methods, if given a picture of "incentive goods" such as table fans, radios or bicycles which they could buy if they raised a higher yield. Such a possibility will be, of course, impossible with restrictions on advertising expenditure.

It is obvious that sufficient thought was not given to the implications of a restriction on advertising by the income tax officials far removed from the day to day operations of selling and distribution. Having seen the initial efforts of these officials, it is difficult to feel assured that representations from advertising and allied trades will help them come to a correct decision on the question of legitimate advertising expenses. The only way seems to be to appoint an Experts Committee which can go into the whole question objectively. Such a Committee could comprise Government officials, representatives of industry, the press, advertising and allied trades and an independent economist. Only such a Committee can really decide whether advertising expense should be restricted or not, and if so, how.



Caste and the Kerala Elections

Robert L Hardgrave Jr

The mid-term election in Kerala was fought by the Congress and the Communists to secure the support of the Ezhava community.

The failure of any party to secure a majority, however, only emphasises the fact that while the politics of Kerala may be caste-bound, no party can rule with the support of one community alone.

The erosion of the political solidarity of the Ezhava community by the Congress may reflect the initial stages of differentiation within that community. Under the impact of economic change, as each community becomes increasingly heterogeneous, political interests within it will get differentiated and as this happens the polarity between the communities in terms of party support may be expected to decline.

PERPETUATING the political *immobilisme* which has incapacitated the state since its creation, the people of Kerala went again to the polls on March 4, to scatter their votes among fifteen parties and more than five hundred candidates. The campaign for the fifth major election since independence was lackluster, and the people responded with a bored indifference, but on election day, more than 60 per cent turned out to register their political literacy by distinguishing between the Congress and the dissident Kerala Congress and between the Left and the Right Communist parties. While no party secured a majority, the largest slice of the votes was taken by the Left Communists. With 29 of their winning candidates imprisoned under the Defence of India Act, the Left CPI won 40 of the Assembly's 133 seats. The Moscow-backed Communist Party of India, ideological opponent of the allegedly pro-China Leftists, secured only 3 seats. The Congress Party won 36 seats, and the rebels, who had toppled the Congress Ministry only six months before, took 23. The elections, however, reflect not so much the strength of communism in India, much less support for China, as the peculiar pattern of communal rivalries which cut to the quick of Kerala society.

Kerala is a land of contradictions in a nation of contrasts. As India's smallest state, Keala has the highest birthrate and the greatest pressure on the land, it abounds in agricultural wealth, yet imports half its food supply. Its international exports bring 25 per cent of India's dollar earnings, yet Kerala's per capita income is the lowest in India. It has the highest literacy rate and the highest rate of unemployment. With the largest community of Christians, it has the highest Communist vote too. It is at once a bastion of orthodox Hinduism with the most elaborate system of caste ranking in India and a region deeply affected by the process of social mobilization and change. With many of the prerequisites of political modernization, Kerala is confronted with the omnipresent reality of caste in politics, a spectre of tradition decried by Nehru as a reversion to "tribalism".[1]

Caste Ranking

Traditionally the elaboration of the ritual hierarchy reflected the economic position of the constituent castes, with each caste associated with a particular occupation and sharing a common economic status. The caste system historically, however, was not rigid, for as a caste gained economic power, a commensurate ritual rank usually followed. Caste ranking in Kerala reflects such a process, but in the development of its linear elaboration, a rigidity stifled the movement of castes in the hierarchy, freezing the lower castes in their positions of subservience. Only the Muslims and Christians, both being outside the hierarchy, were able to exploit new economic opportunities and in so doing to raise themselves in social status. The process of pauperization initiated by population growth and the divisions of lands accentuated the economic disparity between castes. Thus, in the high correlation between caste ranking and economic position, the socio-economic structure of Kerala came to reflect the highly elaborate hierarchy of ritual purity.

Caste ranking places the Namboodiri Brahmins at the peak of the hierarchy. Numbering only 8 per cent of the Hindu population, it remains primarily a landowning community. Despite the number of political leaders from the caste, such as the Left Communists' E M S Namboodiripad, the community has little political power. A far more potent political force is the Nair community, the traditional warriors of Kerala. As a landowning and mercantile community today, the Nairs, numbering 25 per cent of the Hindu population, are the pivotal force of Kerala politics. They have traditionally held the balance, making or breaking a Government with the shifts of its power. Economically subservient to the Nairs are the Ezhava, or Tiyyar as they are called in Malabar. Traditional toddy-tappers, the community is considered the highest of the polluting castes. With nearly 45 per cent of the Hindu population, however, the economically depressed Ezhavas are perhaps the single most powerful community in Kerala.

In addition to the mutually antagonistic Nairs and Ezhavas, the Christian community ranks as a major political power in Kerala. Although the Christians, 24 per cent of the population, are divided among the Syrians (of whom there are two sects), the Protestants, and the Roman Catholics, it is the Catholic community which numerically dominates and which holds the locus of political power through the organization of the Church. Through the Muslim League, the Muslims, 16 per cent of the population, are a major factor politically, particularly in the Malabar region of northern Kerala where they are the dominant community.

As the Muslims are concentrated in certain areas of Malabar, so each of the other communities dominates in particular regions of Kerala. The Christians are concentrated primarily in Ernakulam and Kottayam districts. The Nairs form the dominant community in the areas of Trivandrum District, and the Ezhavas are particularly strong in Palghat. Each political party must thus seriously consider the dominant community, or as the Communists prefer, "the social base", in the selection of its candidate. That each party tends to choose its candidates from the dominant community, however, does not cancel out community as a factor. Although there are elements of each community in all parties (except for the Muslim League), the parties in Kerala have come to be associated with particular communities, and within each party, factionalism expresses the divisions of religion and caste. Indeed, it is the politics of caste which forms the fundamental reality of political life in Kerala.

Kerala, as a linguistic state, was formed in 1956, combining the former princely states of Travancore and Cochin with the Malabar portion of Madras. Following independence, Travancore and Cochin, then separate, held their first elections in 1948. The Congress, at the height of its prestige, captured all the seats of the Travancore Assembly, save one Independent who later joined the Congress. Congress President Pattom Thanu Pillai, a leader of the Nair community, became the Chief Minister and was joined by two Congress leaders of the Christian and Ezhava communities T M Verghese and C Kesavan, in the formation of the first Travancore ministry. The Muslims, however, were dissatisfied by what they saw as their exclusion from the cabinet, and Pillai attempted to expand the Ministry to include a more communal representative body. In so doing, he only fortified Nair strength within the Government, and both Verghese and Kesavan threatened to resign if a new Nair minister was not dropped immediately from the cabinet. Pillai acceded to their demands only to be challenged again by the Christians, backing another Nair, T K Narayana Pillai, in opposition to the Chief Minister.

In October 1948, only a few months after the formation of the Government, P T Pillai resigned as Chief Minister and crossed the Assembly to join the ranks of the Socialist Party (later the Praja Socialist and now split into the Praja Socialist and the Samyuktha Socialist Parties). T K Narayana Pillai was elected party leader and became the Chief Minister of the new Government, but the greater portion of the Nair community followed P T Pillai into the opposition Socialists. With the new Chief Minister, the weight shifted in favour of the Christians, and although Kesavan remained within the Congress, the Ezhavas — threatened by Christian dominance — increasingly shifted their support from the Congress to the Communist Party. The Muslims, totally alienated from the Congress, rallied around a reactivated Muslim League. Thus, in the first year of independence the pattern of political instability in Kerala was set. Shifting coalitions of caste and community, both within and among the various parties, have defeated each successive Government.

In 1949, Cochin was merged with Travancore to form the State of Travancore-Cochin. Narayana Pillai retained control of the new Assembly, but Cogress strength was reduced to 44 of 108 seats. With charges of corruption and pressure from the Hindu and Muslim factions within the Congress, Narayana Pillai was forced to step down in 1950. A new "caretaker" Government was formed by C Kesavan, continuing in office until the 1951-52 General Elections. If the elections gave the Congress a weak victory, securing again only 44 seats, they strengthened the position of the Christian community within the party. With the support of the dissident Travancore Tamil Nad Congress (which in 1956 won its demand for the inclusion of the southern district of Travancore in Tamil-speaking Madras State), the Congress secured the necessary majority to form a Government, and in March 1952, A J John became Chief Minister. The Ministry, while now commanding a narrow majority, lived by the grace of the Tamil community; and in September 1953, the TTNC withdrew its support from the John Ministry, and a vote of no-confidence brought the Government down, The Assembly was dissolved, and the Ministry continued as "caretaker" until new elections could be held in February 1954.

Role of Tamil Nadars

The 1954 elections in Travancore-Cochin brought a political polarization which was to severely test the prestige of the ruling Congress Party. The Praja Socialist Party, supported almost entirely by the Nair community and led by P T Pillai, allied itself with the Communist-backed United Front of Leftists, predominantly Ezhava. The electoral arrangement consisted of an agreement among the parties not to contest against each other, thus allowing for straight contests between the Congress on one hand and the UFL or PSP on the other. With the Nairs and Ezhavas joining together in opposition to the Christians, the campaign centred primarily on the communal relationship between the Catholic Church and the Congress Party. A K Gopalan Nair, leader of the CPI in Parliament, together with a colleague, wrote an open letter to Nehru complaining about the role of the Church in the elections. "Almost all churches in Travancore-Cochin", they wrote, "have been turned into election offices for the Congress Party." [2]

Congress won 45 of the Assembly's 118 seats, returning victorious candidates from the Christian constituencies of Kottayam, Ernakulam, and Trichur districts. The PSP secured 19 seats, mainly in the Nair-dominant constituencies of Trivandrum and southern Quilon. The United Front of Leftists won a total of 40 seats, 23 of which went to the communists. The greatest concentration of their support rested in the heavily Ezhava regions of Quilon and central Travancore-Cochin.

Without the support of the Tamils, the Congress was unable to form a Government, and the PSP, emphasizing that the electoral arrangement with the UFL in no way bound them, began to put out feelers for a possible coalition Ministry with either the Congress or the UFL. P T Pillai expressed support for a Leftist coalition, but the National Executive of the PSP was wholely opposed to cooperation with the Communists. Further, the Nairs themselves were fearful of political dependence upon the Ezhava. When the UFL offered to form a Government, the Congress immediately responded with support from the outside for a PSP Ministry. Pillai agreed to form a Government, and in March 1954, the PSP, with only 19 members in the Assembly, took control of Travancore-Cochin.

The PSP Government, however, was to last only nine months, defeated in a vote of no-confidence moved by the TTNC. The Tamil's antagonism toward the Government reflected more the traditional enmity between the economically depressed Tamil Nadars and the landowning Nairs than it did the Tamil's aspiration for union with Madras State. Indeed, it was the support of the TTNC which enabled the creation of another short-lived Congress Ministry. Charges of corruption and nepotism were soon levelled at the new Ministry, however, and, with the defection of a "rebel" contingent from the Congress, the Government fell after one year. Last minute efforts were made by Pillai to form another PSP Ministry with Congress support but political instability had reached such a crisis that the Governor was forced to advise the President of the conditions in Kerala. In March 1956, the President, under Article 256 of the Constitution, assumed the powers and functions of the Government of Travancore-Cochin, abolishing the Assembly until the General Elections of 1957 would give it a new lease on life.

States Reorganisation Helped Communists

Before the elections, however, in 1956, the States of India were reorganized on a linguistic basis. The Malayalam district of Malabar in Madras was added to the State of Travancore-Cochin to form the new State of Kerala, and the Tamil-speaking regions of southern Travancore were merged with Madras. With the heavy concentrations of Muslims in northern Malabar and the Ezhava strength in the southern portions of the district, particularly in Palghat, the acquisition of Malabar deeply affected the communal balance in Kerala, with grave consequences for the emerging pattern of political power.

In the campaign for the 1957 elections, the All-Kerala Catholic Christian Convention called on all Catholics to oppose Communist candidates and to support the Congress. Kottayam District went heavily for the Congress, as did the predominantly Christian constituencies of Ernakulam, but the force of the Church brought victory to only 43 candidates for the Assembly's 125 seats. The position of the Christian community within the party, however, was seen in that of the 43 Congress victors, 23 were Christian. The Nair-supported PSP fared even worse, securing only 9 seats. The strength of the Communist Party rested with the Ezhavas and the Scheduled Castes, and to a lesser extent, with the Muslim labourers of Kozhikode and Palghat. The addition of the Malabar constituencies tipped the scales toward the CPI. Securing 60 seats, the Communist Party, together with 5 Communist-supported independents, held a clear majority and was called upon to form a Government. Party chief E M S Namboodiripad became the Chief Minister.

Legislation under the new Government soon heightened old communal rivalries. The agrarian reform bills were attacked bitterly by the landowning elements of the Christian and Nair communities, but mass agitation against the Government was aroused by the Education Bill. The Act sought to attain greater Government control over the 7,000 private schools receiving State assistance. Most of the schools lay in the hands of the Christians who saw the bill as an attempt to take over their schools and to dictate the content of the teaching programme. Particularly at issue was Clause 11, which stipulated that teachers be appointed from approved lists and that in the appointment of teachers, communal representation would be observed. The provision would reserve 50 per cent of teaching positions to "backward" classes, that is, the Ezhavas — the Communists' major supporters.

The Communists appealed to the poverty-striken Muslims of Kozhikode District, the Muslim League Stronghold, emphasizing that the Muslim community would benefit through the reserved seats. The League, however, feared Communist encroachments among its community members and joined hands with the Christians against the Government. The Nairs resentful of the Christians' virtual monopoly of education and fearful of their ascendency in the Congress Party, realized nevertheless that the Christians' loss at the hands of the Education Bill would be of no gain to the Nairs, for their community association, the Nair Service Society, too maintained private schools.

"Liberation" Struggle

Many members of the so-called "backward" communities, having had the benefits of special reservation in government for more than 60 years, were often far more prosperous than some of their "advanced" neighbours. To remedy this anomaly and placate the growing opposition to the Education Bill, the Administrative Reforms Committee of the Communist Ministry suggested that a new definition of "backwardness" be determined on an economic rather than a caste basis. Under pressure from the Ezhavas, however, the recommendation was withdrawn. This action so antagonized the Christians, Nairs, and Muslims that they announced "direct action" against the Government. Mannath Padmanabhan, leader of the Nair Service Society, and leaders of the Catholic clergy, together with the Muslims, joined in the formation of the Vimochana Samara Samiti for the "Liberation Struggle" to free Kerala from Communist rule.

In the six-week agitation by the Samiti and the allied Anti-Communist Front of Father Vadakkan, more than 80,000 arrests were made, some 10,000 were jailed, and 15 people were shot dead in police firings. On July 31, 1959, the President of India, on the advice of the Cabinet, intervened in Kerala and imposed President's Rule after twenty-eight months of Communist control.

The united front which had ousted the CPI from power now provided the base for an electoral alliance and the establishment of a coalition Ministry of the Congress, the PSP, and the Muslim League. In the elections of 1960, following five months of President's Rule, the Alliance secured 94 of the 125 seats. The Communists won 26. With victory, however, the Congress would have nothing to do with the "communal" Muslim League, and the PSP, which had been in alliance with the League since 1954, refused to be party to a coalition which excluded the Muslims. The impasse was resolved through the intervention of the General Secretary of the League, who urged the PSP to form a coalition with the Congress, assuring "the fullest co-operation and support of the Muslim League to a cabinet that might thus be formed". So it was that another Government in Kerala was formed, with P T Pillai as Chief Minister for the third time. The Speakership went to the League.

Within the Congress Party itself communal dissension was crystalizing around the Christian Home Minister, P T Chacko, and the Ezhava Deputy Chief Minister, R Sankar. Sankar aimed the guns of the Congress organization at the open communalism of the PSP and the Muslim League. Chacko, as the leader of the Legislative party, stood by the Alliance. Under pressures from the All-India Congress Committee in New Delhi, Chacko gave away, and the Muslim League was pushed out of the Alliance. New Delhi then reached down to "promote" P T Pillai out of Kerala politics and into the Governorship of Punjab. Sankar stepped in as the Chief Minister of an all Congress Ministry.

The Split in Congress

With the departure of Pillai from the arena of politics in Kerala, the Nair community felt its interests threatened by the ascendency of the Ezhavas in the Cogress. Chacko himself was none too happy about the prospects of the Ezhavas supplanting Christian influence in the Congress and became increasingly antagonistic toward the Chief Minister. With the Government's attempt to evict Catholic peasants from certain temple lands, Chacko threw his support to the peasants in opposition to the Govern-

ment of which he was Home Minister. With the backing of the AICC in New Delhi, Sankar forced Chacko's resignation.

From within the Congress, Chacko attacked the privileged position of the Ezhavas as a "backward" class and accused Sankar of persecuting the Church. Chacko found a ready ally in the leader of the Nair Service Society, Mannath Padmanabhan. The Muslim League, long on the firing line of Sankar, could hardly be considered unsympathetic. Thus, in opposition to the Sankar Ministry, there again emerged the same communal contingent which had brought the collapse of the Communist Ministry four years before. It represented an alignment of the Nairs, Christians, and Muslims, against the Ezhavas. This time, however, the Ezhavas were in the Congress.

With the death of Chacko, Sankar purged the Kerala Congress Committee of the Chacko supporters, for the most part Christians. The issue was forced, and under the leadership of K M George, 15 Congress Assembly members withdrew their support from the Government. Under charges of corruption, totally discredited in the eyes of the people, in September 1964, the Sankar Government fell. Governor's Rule was for the third time imposed, perhaps this time to the relief of a politically weary population.

Kamaraj's Miscalculation

On the defeat of the Ministry, the Congress rebels formed the Kerala Congress as an opposition party. The Church, however, was reluctant to oppose the Congress. Many Christians continued to support the Congress, and the dissidents informally put out feelers for negotiations. The price for their support to Congress would be the ouster of Sankar from party leadership. Although the people had lost confidence in the Sankar Government, the President of the All-India Congress Committee, K Kamaraj, backed the former Chief Minister and said that no "deal" would be made with the Nair and Christian communalists who had brought the Congress Government down.

Kamaraj's unwillingness to compromise with the rebels only strengthened the fears that the Congress President was attempting to engineer a shift in the social base of the Congress Party in Kerala from the Christians to the numerically more powerful Ezhava community. Kamaraj was in an awkward position, for if he compromised with the rebels, he would immediately loose the Ezhava support to the Communists. His refusal to compromise, however, would inevitably mean the loss of support from sections of the Christians and Nair communities which had traditionally supported the Congress. Kamaraj, in a major political defeat was caught on both horns of the dilemma, for he underestimated the strength of the rebels and overcalculated the power of Sankar in the Ezhava community.

Congress Defeat

The stronghold of the rebel Kerala Congress was in the districts of Kottayam, Ernakulam, and Alleppey — the areas which had formerly been the bastion of Congress strength. Kamaraj's attempt to salvage support of the Christian community by setting up Chacko's brother as a Congress candidate ended in defeat at the hands of the rebels. The Church, while remaining officially neutral and only calling upon its members to support democratic forces, had given informal sanction to the Kerala Congress dissidents. The Christian constituencies which had before always gone Congress now voted solidly for the rebels. In Kottayam District itself, of 14 seats the Congress secured only 1. The defeat of the Congress came at the hand of two inter-locking, but mutually antagonistic, alliances. Mannath Padmanabhan solidly supported the Kerala Congress, drawing a large portion of the Nair community into the rebel fold. The Kerala Congress had also entered into an electoral understanding with the Nair-backed SSP and the Muslim League, both of which had separately made arragements with the Left Communists.

While the ideological and personality dispute within the Communist Party of India had ended in a formal split into the right and left factions, the Moscow-recognized CPI or Right Communists in Kerala remained but a handfull of leaders without followers. E M S Namboodiripad, the former Chief Minister of Kerala, was the leader of the Left faction and commanded the support of the people. Despite the rise of Sankar in the Congress, the greater portion of the Ezhava community, as before, remained solidly united behind Communist Party. Indeed, in the very constituency Sankar had cultivated, Attingal, the Congress leader was defeated by his Left Communist opponent. Although imprisoned throughout the campaign, Sankar's opponent, an Ezhava himself, commanded the support of the dominant Ezhava community.

Thus, in the elections as the communities polarized, Congress was squeezed out. It was not so much a debacle as a gross miscalculation. Had the two parties, the Congress and the Kerala Congress, been able to unite, it would have received approximately 45% of the vote — more than in any previous election since 1954. Further, the combined vote of the Left and Right CPI was less than 28 per cent — a decline of nearly 10 per cent since 1960. Per centages must be taken cautiously as they must be matched with the number of seats contested. In any case, however, an actual decline in support for the Communists was recorded — a decline represented perhaps in the Congress' partial success in weaning away sections of the Ezhava community from the Communists.

The campaign was in large part fought by the Congress and the Communists to secure the affections of the low caste Ezhavas. The failure of any party to secure a majority, however, only emphasizes the fact that while the politics of Kerala may be caste-bound, no party can rule with the support of one community alone. That the Congress' has eroded the political solidarity of the Ezhavas may reflect the initial stages of differentiation within the community. Under the impact of economic change, as each community becomes increasingly heterogeneous, so their political interests will begin to differentiate, and as they do so, the polarity between communities in terms of party support may be expected to decline. Until then, perhaps the only alternative to prolonged chaos was expressed on the anonymous posters seen near Trivandrum's secretariat buildings: "We want President's Rule".

Notes

1 See Robert L Hardgrave, Jr. "Caste in Kerla: a Preface to the Elections". *The Economic Weekly*, November 23, 1964.

2 Margaret Fisher and Joan Bondurant, "Indian Experience with Democratic Elections", Berkeley: Indian Press Digests. No 3, University of California, 1956; p 65.

3 *The Hindustan Times*, February 22, 1960.

A Trade Theory for Developing Countries

Staffan Burenstan Linder

The trade policies of developing countries and the thinking which has inspired these policies differ greatly from conventional trade theory and policy. Although the explanation of this phenomenon may simply be that the policies actually pursued are misguided, this paper will instead suggest a reformulation of trade theory.

On the basis of this alternative theory it could be concluded that conventional theory is inapplicable and that present policies, although probably sub-optimal in many respects cannot be evaluated on the basis of conventional theory.

For an Indian reader, critical as he is likely to have been for a long time of conventional trade theory, this approach will probably not appear startling. However, what does not seem to have been sufficiently well done is a replacement of the conventional theory with a coherent alternative demonstrating clearly why and how conventional doctrines are not applicable.

The present paper will be directed towards this task of reconstruction.

[This paper contains ideas put forward in a book soon to be published under the title "Trade and Trade Policy for Development." The approach also formed the analytical background to a report written for UNCTAD under the title "The Significance of GATT for Underdeveloped Countries".]

FIRST of all, it must be observed that the group of underdeveloped countries is so heterogenous that no single theory can be formulated which offers adequate insights into the problems of all these countries. The particular theory to be advanced here is aimed at the situation of developing countries or regions, i e, areas which have entered into a development phase holding out real promise of propelling them into a process of self-sustained growth. For these countries or regions a distinction must first be made between trade with advanced countries and with other developing countries.

Trade with Advanced Countries

The Import Minimum

As to the trade with advanced countries our starting-point will be the observation that certain imports into the developing countries fulfil a special function. They are what will be called "input imports" which cannot be produced domestically and which are required by the developing country in order to utilize the existing productive capacity and the growth potential. The input imports consist of *operation imports*, i e, raw materials not existing at home and spare parts to imported machinery; of *reinvestment imports*, i e, various capital goods needed to replace the third kind of input imports, or *expansion imports*, i e, imports of various investment goods. To the extent that a sufficient amount of operation imports cannot be secured the existing productive capacity cannot be fully utilized. To the extent that enough reinvestment and expansion imports (which we can lump together into *investment imports)* cannot be obtained, there will be a frustration of the growth potential. This frustration will be manifested in a failure to realize the savings which would be forthcoming if there were opportunities to import investment imports. If there is even a lack of reinvestment imports, the absolute stock of capital goods will decline.

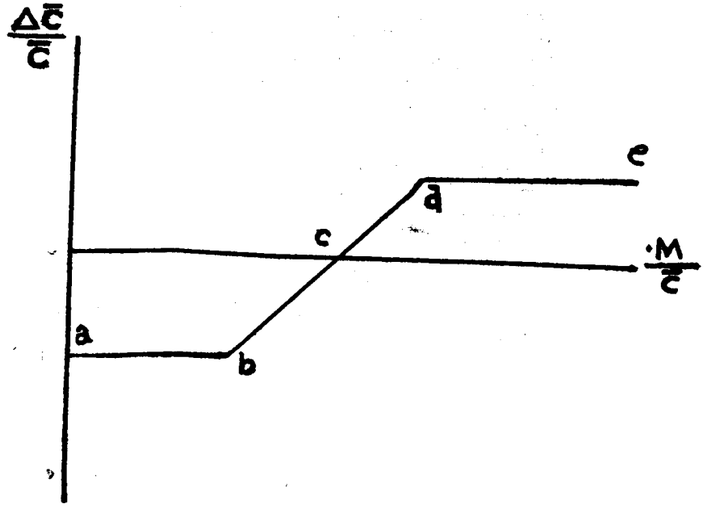
The relationships between input imports and domestic production and capacity can perhaps best be set out in terms of a simple diagram. In Figure 1 the rate of growth of capacity $\frac{\Delta \bar{C}}{\bar{C}}$ is measured on the vertical axis.

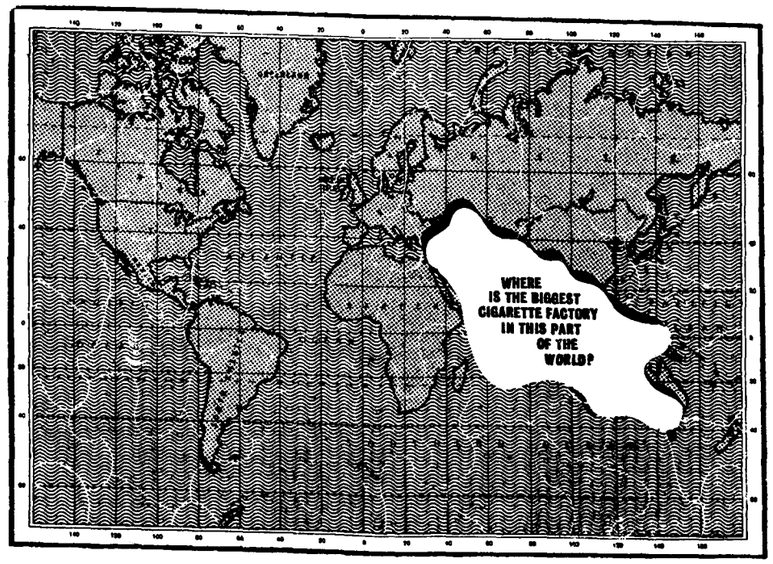
Input imports as a fraction of total capacity $\frac{M}{\bar{C}}$ are measured along the horizontal axis. In this diagram a function can be drawn to express the role of input imports.

If there are input imports just enough to operate the existing capacity and to maintain its size, i e, if there are input imports just enough to cover the operation and reinvestment purposes, the rate of growth will be zero. To the extent that additional amounts of input imports can be obtained for expansion purposes, there will be a positive rate of growth. When the amount of expansion imports is so big that all planned savings in the economy can be realized, the function will level off. From here on the rate of growth can increase only by ordinary capital imports which serve the function of adding to domestic factors, rather than complementing them. Whether or not the maximum rate of growth in capacity that can be achieved in a particular country or region reaches the rate which could be referred to as the "minimum socially acceptable rate of growth" is uncertain. Our diagram has, of course, nothing to say on this point.

If, on the other hand, the actual amount of input imports is so small that the full need of reinvestment imports cannot be secured, there will be

Figure 1







IN INDIA ...AND IT'S VAZIR SULTAN'S

The biggest cigarette factory in South-East Asia. Owned by The Vazir Sultan Tobacco Company Limited. In Hyderabad, Andhra Pradesh, India. One of the world's finest, with high-speed automatic machines, the most skilled experts and quality control scientists. Backed by modern cigarette-making research. Which famous cigarette does this factory produce? Charminar.

Charminar's rich flavour and unique taste make it India's most popular cigarette. One out of every four cigarettes smoked is a Charminar. It works out to nearly 900 million Charminars smoked every month! To meet this demand requires a fantastic rate of production...over 20,000 cigarettes a minute. Only a world-size company could do it. In India, The Vazir Sultan Tobacco Company Limited does it every day!

There's nothing like Charminar—India's greatest cigarette!

THE VAZIR SULTAN TOBACCO COMPANY LIMITED

MAKERS OF INDIA'S GREATEST CIGARETTE!

CAS/VS-5

a negative rate of growth. This negative rate will reach its maximum level when there are no reinvestment imports at all. Further reductions in input imports would mean a curtailment of operation imports and would affect capacity use rather than capacity size.

On the basis of this reasoning the function a b c d e in Figure 1 can be drawn. It should be noted that on the horizontal axis input imports have been measured as a fraction of total capacity so that any change in capacity would not immediately mean a shift in the function. It is, of course, obvious, however, that even a function of the type in Figure 1 may change through time. It will be affected by such things as changes in the propensity to save, changes in the relative need for input imports, and changes in the capacity to produce domestically goods which in former periods have qualified as input imports. Changes of this latter kind are of particular interest because they are necessary for the country in order to change the role of trade as depicted in the Figure over to a role which would more resemble what it, on the basis of conventional theory, is thought to be in advanced countries.

However, it is obvious, though not underlined in conventional theory, that the imports of advanced countries, too, consist to some extent of what could very well be referred to as input imports. The gains from trade for countries such as the U K and Japan are regularly said to be "extraordinarily great". This is only because their imports are made up to an unusual extent of goods which, if they could not be imported, would lead to difficulties in maintaining production.

Nevertheless, the neoclassical theory is applicable to the conditions of countries such as the U K and Japan. Thus, the fact itself that the developing countries need certain imports, which we have called input imports, is not of any definite importance for the relevance of neoclassical trade theory. However, if the import minimum were combined with an *export maximum* and the export maximum were, in fact smaller than the import minimum, the consequences would be far-reaching. Then it would be impossible to transform domestic factors into certain strategic inputs not only through domestic production but also through trade.

The Export Maximum and the Foreign Exchange Gap

According to the conventional theory the existence of an export maximum is an impossibility. A simple application of the comparative cost doctrine tells us that a country can always export goods in the production of which it is *relatively* efficient in order to import products in the production of which it is relatively inefficient, i e, in this case the input imports. However, in this doctrine although it has almost achieved the status of a truism there is a serious flaw. The comparative cost theory is based on the implicit assumption that in the production of the goods in which it has a comparative advantage a country is sufficiently efficient to be able to pay the factors of production involved in the export activities a minimum reward, i e, a reward above subsistence incomes. In advanced countries this assumption can very well be made; but it should of course be specified. As long as appropriate expenditure policies are being pursued, an advanced country can certainly export goods in the production of which it has a comparative advantage. Thus, in spite of the failure to specify the assumptions of the comparative cost doctrine, it remains applicable to advanced countries; and the import minimum which for countries like the U K and Japan is conspicuous, does not, since it can be covered, call for any reformulation of the theory. However, in the case of developing countries the assumption concerning minimum factor rewards must not only be made explicit; it must also be recognized that it might very well not be fulfilled in their trade with advanced countries.

The reason why the developing countries may encounter an export maximum is that they may be sufficiently efficient only in the production of various primary commodities, the foreign demand for which is too small and too inelastic to allow an expansion of exports beyond the need for imports. As regards manufactures, there are great differences in demand and production structures between the advanced and the developing countries. Those manufactures which are currently produced in the developing countries, and in the production of which the developing countries thus must be sufficiently efficient to pay more than minimum factor rewards, *are not demanded in advanced countries*. As to the manufactures that *are* demanded in advanced countries, they are not currently produced in the developing countries. And due to the difficulties the developing countries have in meeting the high requirements, technically and commercially, production of such goods cannot be taken up at an efficiency sufficient to cover minimum factor rewards.

If the export maximum is smaller than the import minimum, a developing country can be said to face an acute foreign exchange gap. This gap, it should be noted, exists in spite of optimum expenditure policies. This should be emphasized, at the same time as it must be stressed that the foreign exchange difficulties of a developing country may self-evidently be much worse than they have to be, i e, if the country pursues inept expenditure policies.

The foreign exchange gap need not be reflected in an actual balance of payments deficit. It will be reflected in such a deficit only if the developing country can find means of financing the deficit. Otherwise, and this is the interesting feature of the trade situation of developing countries, an *internal disequilibrium will be substituted for the external imbalance.* The only third alternative would be that the developing country finds ways of closing the foreign exchange gap through recourse to trade policy measures of a kind which, on the basis of conventional trade theory, would be considered highly unorthodox.

Trade with Other Developing Areas

However, as has already been indicated, the foreign exchange gap analysis is intended to cover only the trade with advanced countries. What concerns trade with other developing countries, it seems as if it could be appropriate to make use of conventional trade theory. In this trade there are no particular import minima or export maxima. Instead, trade serves the role of permitting a more efficient allocation of resources and of enabling the utilization of economies of scale. However, the application of conventional theory will lead to certain unexpected results when juxtaposed with the theory of trade with advanced countries. This is so since, in order to make use of the advantages of trade with other developing countries, a developing country must pursue discriminatory policies against the advanced countries. If the unorthodox policies at which has been hinted already as recommendable to

direct trade with advanced countries have to be applied against other developing countries also, trade with those countries would probably be reduced to a trickle.

The discriminatory policies mean that developing countries should, in an optimum solution, pursue their trade within a single large customs union. Interestingly enough, it is not only trade creation within such a union which is to be welcomed. This we should expect on the basis of the neo-classical trade theory use of which is presently made. But also trade diversion away from advanced countries would be beneficial since it would permit a greater concentration of the actual imports from advanced countries to the particular input import category.

CONCLUSIONS

At this stage the theoretical implications of the foreign exchange gap analysis might be summarized as follows.

(i) *The gains from trade are of a different nature.* A developing country trades to exert a multiplicative effect on its capacity use and growth, rather than to improve the allocation of the existing, fully employed resources in the marginalist sense. For this reason, trade could be characterized as a *super-engine* of growth, rather than as a mere engine of growth as it has often been described. However, to the extent that a developing country does not succeed in meeting its import requirements and thus faces an acute foreign exchange gap, the extremely attractive gains from trade tend to become exasperating since they cannot be fully realized. Trade is then a *potential* super-engine of growth. Trade with other developing countries takes place, however, to improve allocation.

(ii) The possibility of an export maximum in relation to an import minimum means that the *comparative cost doctrine has limited validity.* A developing country need not be able to export the goods in which it is most competitive, since there might be no demand for these products in advanced countries. And, as regards products for which there is a foreign demand, the country need not be able to export enough of those goods in the production of which it has what the conventional theory would refer to as a comparative advantage, since productivity is not high enough to support the factors involved in their production.

(iii) *The existing balance of payments theory cannot be applied* if there is a foreign exchange gap. Contrary to the situation in conventional analysis, internal and external equilibrium cannot be established simultaneously. Whatever the expenditure policies, imports cannot be reduced below a certain limit without causing internal instead of external disequilibrium, and exports cannot be stimulated as in advanced countries. Thus, a foreign exchange gap reflected in an actual balance of payments deficit does not imply over-absorption of goods and services in the ordinary sense. No matter how much absorption is reduced, the deficit could not be removed without substituting internal disequilibrium for external.

Conventional balance of payments adjustment measures are applicable, however, in the sense that suboptimal expenditure policies would worsen the situation.

(iv) *The usual kind of savings-investment equation in Keynesian models and in growth models must be modified.* As long as there is an acute foreign exchange gap, it is inappropriate to put $I = S = sY$, even though this is an *ex-post* identity. Instead, one should work with an equality stating that investments are limited by the availability of investment imports.

(v) In countries with an acute foreign exchange gap *capital imports are of an unconventional nature* since they do not supplement scarce domestic resources. Instead, they have the effect of increasing input imports so that the investment constraint can be lifted. Capital imports beyond the closing of the foreign exchange gap serve the usual function.

(vi) If external and internal equilibrium cannot be achieved simultaneously, *the basic postulate of the pure theory of international trade is not fulfilled.* The usual division of trade theory into balance of payments theory and pure theory cannot be made. Balance of payments considerations must be brought into the analysis of structure and welfare. This means that *the whole edifice of commercial policy conclusions built within pure theory is inapplicable* to trade relationships with advanced countries. Also, the trade policy towards other developing countries will, though based on conventional theory, show distinctive differences from the recommendations usually deduced from that theory.

British Books for the World

THE Book Development Council, an independent organization to promote the export of books, was launched in London on April 9. Its chairman is Patrick Gordon Walker, former British Foreign Secretary. Part of the Council's work would be research into the developing book needs of selected areas of the world. The Council would assist at least one bookshop in every major city in the world to carry a representative selection of current and standard British books. It would also carry out curriculum research in consultation with authorities on the spot.

"In the present drive for exports, there can be no item more important than that of books", according to Gordon Walker. "They provide an essential contribution to international understanding which cannot be overestimated."

Nearly every British publisher of note has joined the Council, which has been described as a "British enterprise for international co-operation". It will try to make available overseas the skills of British publishing wherever they can be used — particularly in the developing countries.

Exhibitions, trade fairs and special displays of books will be arranged in co-operation with the British Council and the Publishers Association. Among the short-term objectives of the Book Development Council are coupon schemes, correspondence courses, low-priced book schemes, co-operative mailing facilities, and improved bibliographical services for overseas. Booksellers from overseas will be invited to Britain for training, and British booksellers will go abroad to study the needs of other countries.

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The Marketable Surplus Function for a Subsistence Crop

Comments

I—C H Hanumantha Rao

IN his study of marketable surplus for a single subsistence crop ("The Marketable Surplus Function for a Subsistence Crop", *The Economic Weekly*, Annual Number, February 1965), Raj Krishna found the marketable surplus function to be linear in the case of majority of the samples analysed. These results would imply that "the marginal propensity to sell out of the output of a subsistence crop is constant over the wide range of output above the minimum subsistence output". From these findings relating to a single subsistence crop, Raj Krishna proceeds to question some of the widely held beliefs regarding the consumption behavious of poor farmers as well as the affect of farm size structure on the marketable surplus. He says :

> "These findings should weaken the widely held belief that output increases on relatively small farms are always likely to be swallowed up in consumption whereas those on large farms are likely to flow into the market. The truth seems to be that in many areas the small as well as the large producers producing more than a minimum output sell (consume) the same additional quantity out of every additional unit of output . . . it follows that the usual discussions about changes in the farm size structure having a favourable or unfavourable effect on the marketable surplus of a subsistence crop have a lean empirical basis . . . The overall policy implication of the analysis is that it is best for Governments to concentrate on inducing increases in farm output without any special discrimination in favour of small or large farms."

The study of a single subsistence crop does not warrant the above inferences regarding the consumption behaviour of the farmers and the policy implications regarding the influence of farm size structure on the marketable surplus. These conclusions can be justified only if the nature of the marketable surplus function for total output of the farmer consisting of all crops can be shown to be similar to that for a single subsistence crop. That these two many turn out to be dissimilar is supported by a number of considerations.

If the small farmers allocate a relatively larger proportion of farm area to food crops other than the crop under study and (or) if a larger proportion of output of these crops is consumed by the small farmers as compared to the large farmers, then the marketable surplus function for subsistence crops would exhibit a non-linear relationship as the amount sold would increase with every unit increase in the output of food crops. This is quite conceivable as small farmers are known to grow and consume relatively more of inferior cereals whereas Raj Krishna's study relates only to a single superior cereal, viz, wheat or rice.

Marketable surplus of small farmers is a function not merely of output on the farm but also of other kind receipts. Many small farmers supplement their incomes in a substantial way through kind receipts by working on large farms. Since such kind receipts as a proportion to total output decline with the increase in income, the marginal propensity to sell would show an increase with the increase in output, if such kind payments are included in their total output. Incidentally, by treating kind payments by the large farmers (which are in fact the kind receipts of the small farmers) as marketable surplus, Raj Krishna has overestimated the elasticities of marketable surplus because the number of hired labourers and consequently the amount of kind payments increase steeply with the increase in farm size. These elasticities may represent the behaviour of 'potential' surpluses when the wages will have been completely monetized. They do not reveal the marketed supply behaviour for a partially monetized Stage.

The usual hypotheses regarding the consumption behaviour of small versus large farmers concern the per capita changes in consumption in response to the changes in per capita income. Raj Krishna could not hold the family size factor constant. According to him "in the economics of subsistence farming, the peasants determine the size of output of the subsistence crop itself keeping their family needs in view. The output variable itself reflects family size." This explains why in most of his functions, family size when included as another independent variable turned out to be non-significant. The problem of inter-collinearity between independent variables signifies only the limitation of the particular method followed. Since this method fails to eliminate the effect of the changes in family size, these findings can not disprove the usual hypotheses relating to the behaviour of marketable surplus with the changing per capita output.

If the proportion of farm area allocated to food crops declines with the increase in farm size or farm income, that for non-food crops increasing correspondingly, as is often found, then the total marketable surplus function (food as well as non-food crops) would show a distinct non-linear relationship because non-food crops are almost entirely marketed. It does not follow, therefore, that the changes in the size structure of holdings cannot have any effect on the marketable surplus.

A more equitable structure of land holdings may, other things remaining the same, lead to a larger allocation of area for subsistence crops for the purposes of consumption and to a corresponding decline in the overall marketable surplus. Of course, this does not necessarily imply that equitable distribution is either desirable or undesirable or that the marketable surplus cannot be increased through any other method, e g, by increasing productivity, whatever be the structure of holdings. What is suggested here is that the usual hypothesis regarding the effect of size structure of holdings on the marketable surplus is not disproved by Raj Krishna's findings from the study of a single subsistence crop.

In the case of certain samples Raj Krishna found marketable surplus be-

having in a non-linear way. These, according to him, belong either to extremely poor or extremely wealthy villages. One wonders whether in the case of such samples the subsistence crop under study is not a predominant crop or whether some of these samples are not characterized by mono-culture. In cases where the above suspicion turns out to be true the output of the subsistence crop under study would be a proxy for total output and the non-linear behaviour can be explained in terms of the usual income hypothesis. Raj Krishna suggests that "after a certain level of income has been reached the cultivation of the subsistence crop becomes highly commercial and the marginal propensity to sell rises with output." *A priori* there is no reason to believe that the subsistence crop under study should alone become highly commercial after a certain level of income has been reached. Any other crop could become commercial, depending on the relative profitability of crops. The fact that the subsistence crop under study is found to be commercial indicates that it may be a predominant crop owing presumably to its high profitability and the non-linear behaviour of marketable surplus can be explained by the variations in income without bringing in the mean income levels of samples.

For the so-called "linear zone", the hypothesis of constant marginal propensity to consume (or sell) would be meaningful only if it can be shown that the crop under study is the only crop grown in these areas or is at least the predominant crop. Alternatively, it has to be shown that the crops other than the one under study exhibit a similar behaviour in regard to their marketable surplus. In the absence of such evidence the hypothesis of "constant marginal propensity to consume (sell) over a wide range of income for a single subsistence crop" cannot have any analytical or policy significance. In any case, one must justify such a hypothesis on theoretical grounds as well, if one is serious about its implications. Conclusions drawn from empirical findings having a lean theoretical basis could be as meaningless as those flowing from *a priori* notions lacking in factual evidence.

II—I N Krishnaji

RAJ Krishna's assertion that "the truth seems to be that in many areas the small as well as the large producers producing more than a minimum output sell the same additional quantity out of every additional unit of output" and "thus in an important sense the market supply behaviour of small and large farmers is similar in these areas" is based on the formulation of the relationship

(A) $M = a + b\,Q$,

where 'a' and 'b' are constants independent of the size of output Q, and M denotes the marketed surplus.

Tests for departure from linearity in certain samples are conducted to substantiate this assertion.

[I] The specification of the above relationship corresponding to a sample of (say) n farms is

(B) $M_i = a + b\,Q_i + e_i$, $i = 1, 2 \ldots n$

with the usual assumptions about the residuals e_i. While one could always obtain a least squares estimate of 'b' whatever the nature of sampling might be, the above specification will lead to a valid estimate of the error variance and hence valid tests of significance only if the sample is random and not purposive. This is because, in a purposive sample the assumptions about e_i are grossly violated. In fact, given the truth of the relationship (A) and given a sample of observations it is possible to so construct purposive sub samples that the residuals are systematically positive or negative with a reasonable degree of certainty. This is true irrespective of whether the sample is stratified according to the size of output or not. The figure illustrates this point.

Since a purposive sample is merely a subset of the points shown in the scatter, it is obvious that some choices introduce a bias. If, for example, one wants to include large farmers, largeness being defined by the line at Q_2, the only points available are those above the true regression and such an inclusion will overestimate 'b'. Thus it is difficult even to say in which direction the bias in estimation would lie, if sampling is purposive. Again, a purposive sample might exclude certain classes of output altogether.

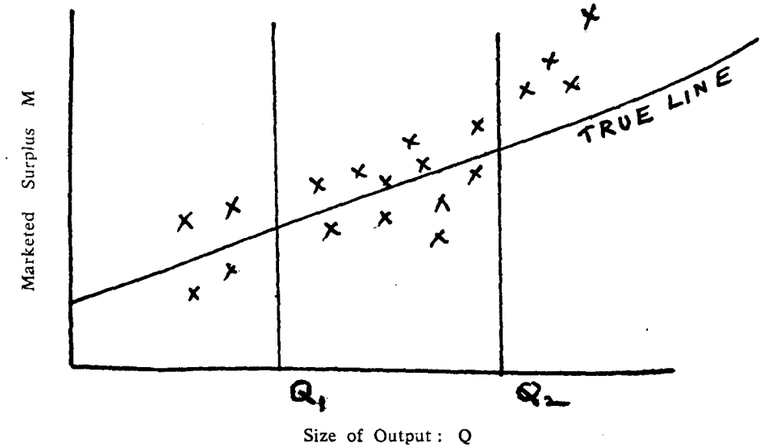
It would, of course, be different, if the entire population of M's is stratified by the size of output Q, and samples are drawn *at random* within the strata. The assumptions of the specification (B) would then hold, but it would, then, be proper to call it a stratified sample rather than a purposive sample. Since it is not clear from Raj Krishna's paper whether his purposive samples are stratified random samples or as the name connotes merely a collection of observations chosen at will from a previously chosen sample or a post-stratified sub-sample, it is very difficult to interpret his results satisfactorily. So much for estimates based on purposive samples, when linearity is assumed.

[II] The objection to the use of purposive samples in testing departure from linearity is more serious because it is possible to choose the purposive samples to substantiate the linearity hypothesis.

In conclusion, Raj Krishna's results would be more meaningful if the following two questions are answered more clearly.

(a) How are the 'big', 'medium' and 'small' farmers defined?

(b) What is the precise procedure of sampling?



The New Village—I

V Nath

During the last few years attention has begun to be directed towards differential progress in agriculture in different parts of the country. It is becoming increasingly clear that while in some areas agriculture has begun to display considerable dynamism, its progress in other areas is still very slow. Identification of the factors — physical, economic and social — which contribute to these differences in progress is important for understanding the dynamics of agricultural progress.

Case studies of villages of especially rapid or slow progress is a fruitful method of identifying these factors because the sharp contrasts between the two situations bring out these factors prominently. Moreover the case study method by describing change in different aspects of the economy and social life of the selected village makes it possible to bring out the inter-relationship between these.

This study of a village in Central Punjab, an area which has experienced rapid technological change in agriculture and economic progress, has been undertaken with these objects in view.

It describes the various changes in agriculture experienced by the village, the inter-action between these, the shape of the agricultural enterprise and of the village after the improved practices advocated by extension workers have been largely adopted and, finally, the problems which agricultural progress and relative prosperity created.

Although the study is focussed on change in agriculture, progress in other directions — health, education, transport and communications and levels of living — has also been described.

A major conclusion emerging from the study is that change in agriculture is part of a larger process of social and economic change, as a result of which the complexion of the village and the character of village life are changing rapidly and a new village is emerging. Hence the main heading.

It is hoped that this study will be followed by case studies of slow progress in agriculture in north India and studies of both slow and rapid progress in other parts of the country so that the dynamics of agricultural progress are more adequately understood.

[This study will be completed in three other instalments to appear consecutively which will deal with "technological change in agriculture", "the impact of change" and "factors behind technological change".

The views expressed are the author's and he alone is responsible for them.]

THIS study is based on a three-weeks' stay in 1963 in village Jitpur[1] of Ludhiana district of Central Punjab. This is a comparatively large, multi-caste, village with a population of about 1850. A village of this size was selected in order to observe the effects of change in agriculture and of economic progress on cultivators as well as non-cultivators and especially to see how far the latter had contributed to these changes and had benefited from them.

A major part of the study consisted of discussions with individuals and groups of cultivators about agricultural techniques and seeing the improved practices and devices at work. Several group discussions, in which anybody from the village could participate were held. In addition individual interviews were held with the Sarpanch of the village panchayat, the Chairman and the Secretary of the service co-operative, the Manager of the seed and fertiliser depot, the Village Level Worker, the Patwari, a few progressive farmers (on their farms), some Harijan leaders, one of the two fabricators of agricultural implements, and one young man who does electrical installation work in the village.

Data on demographic characteristics, land-holdings and economic activity were collected for all households in the village through a household census. More detailed data on agricultural operations of medium-sized cultivators (those having holdings between 8 and 14 acres) and on employment and earnings of the Harijans were collected on a sample basis. Ten families of medium-sized cultivators and ten of Harijans were included in the sample. The object of the survey of the cultivators was to obtain a closer acquaintance with their farm operations and to obtain an approximate idea of their levels of production and income. It was also useful in seeing how far improvements like use of chemical fertilizers for which data on consumption for the block and the village were given by the block staff, were being followed by these cultivators. The sample survey of the Harijans was intended to obtain a more precise idea of their level of income.

Besides work in this village, several other villages in the Block were visited in order to see other noteworthy developments. One of these villages had a successful co-operative milk producers' society supplying milk to the Government dairy at the State capital. Another had a number of progressive farmers settled in a garden colony which is one of several such colonies established in the Punjab in the post-Partition years. Detailed discussions about agricultural progress and extension activities were held with the Block Development Officer and other members of the Block extension staff, and later with the Pilot Project Officer of the Package Programme, and a few specialists at the Punjab Agricultural University, Ludhiana. I am indebted to all these people, and especially to the B D O and his staff who had to spend considerable time with me, for their assistance in this study.

The Area And The Period

Ludhiana is one of the more progressive agricultural districts of Punjab. Since 1960, it has been selected for the Intensive Agricultural Development (Package) Programme of the Ministry of Food and Agriculture. Accordingly, the intensity of agricultural extension effort in it is greater and the resources being made available for agricultural development are much larger than in an average district of the State. However, this more intensive effort began only in 1961; the district had not received any special attention earlier. The changes described in this study are the results mainly of developments which had taken place before inception of the

Package Programme, and, as the discussion brings out, are related to the social and economic changes which have occurred all over Central Punjab in the post-Partition years and to development activities undertaken in all parts of the State. But it is well to keep in view the fact that the very selection of Ludhiana as the Package Programme district indicates a relatively high standard of agricultural development and a potential for attaining rapid increases in agricultural production as a result of the programme.

Secondly, Ludhiana and a number of smaller towns of Central Punjab have seen rapid growth of small scale industry in recent years. The centre of this development is the town of Ludhiana itself, in which there has been a phenomenal growth of machine tool and light engineering industries. Lately, this development has overflowed to the larger villages, especially those which have certain advantages like location along the Delhi Amritsar (Grand Trunk) road. This growth of small-scale industries has important effects on the rural economy and agricultural techniques, which are discussed below. Moreover, the agricultural changes described in this study and growth of small scale industry in towns are both part of a larger process of socio-economic change. However, for the purposes of this study, I took care not to select an industrial village. Such villages are still few in number and selection of one of these would have interfered with analysis of agricultural change which is the main theme of this study. The influence of industrial growth described in this study is the regional effect which has been felt by all villages in this area.

The selected village is well served with road transport, has electricity and has attained a high level of agricultural productivity. But, it is not exceptional in any of these respects in this area. The majority of the villages in this C D block are within two miles of an allweather motorable road and the motor transport facilities available to them are almost as good as those available to this village. Electric supply has been extended to 88 out of 107 villages of the block. As regards agricultural productivity, the average yields of crops reported for this village are comparable to yields reported for the block. Similarly, in the level of fertiliser use, which is a good index of acceptance of agricultural improvements, the village is not exceptional. The average figure of 34.0 kg of chemical fertilizers used per acre under crops reported for this village, has been attained or exceeded by a number of other villages in this block and by several blocks in this district.

II

The Village and the People

The Village

Jitpur is a medium-sized, multi-caste village, having 299 households and a population of about 1,850. It is located at a distance of two miles from a small tehsil and block headquarters town, which itself has a population of only about 6,000 and is not much more than a large village. Jitpur is situated on an all-weather motorable road which links it with this town on one side, and with a market town (population about 25,000) on the other. There is a regular bus service with 12 buses plying each way on this road. In addition, four three-wheeler Tempos are plying continuously. As a result, a motor transport vehicle is available on this road every ten minutes throughout the day. The village is not suburban in character: Ludhiana, the nearest large city (population over 5 lakhs) is about 25 miles from it. But these details about frequency of road transport have been given in order to indicate how quickly and easily the villager can move out of the village. This fact was brought home to me during the first visit to the village. When I reached the village, I was told that a prominent village leader whom I had expected to meet, had left for the State capital that very morning. I was disappointed at the prospect of not being able to see him. But before I left the village four hours later, the man had returned. The entire trip to the State capital, located about 40 miles away, including his making certain enquiries about his work in the capital had taken just six hours. This rapidity of travel by road, in which this village or the villages of this block are by no means exceptional, is a very powerful factor in the travel of new ideas to the village and in lessening of the distance — in time, in ways of thinking and in levels of living — between the people of the villages and those of the towns, which in turn is an important factor in technological progress in the villages.

Another first impression may be recorded also, in order to give a perspective of the technological level to which the village has access now. The village has two shops of fabricators of agricultural implements. These are owned by two extended families of Ramgarhiya Lohars (smiths), resident of the village. One of these shops is on the approved list of fabricators of agricultural implements for the State Department of Agriculture. It manufactures *rahats* (iron persian wheels), iron ploughs, buckets, steel trunks and similar articles of sheet steel, besides doing repair work. This shop with its electric motors, a power press, lathes and other power-driven machines is comparable in equipment and technical skill of its workmen to any small manufacturing unit in the neighbouring tehsil town or even in Ludhiana. Several young men from Lohar families of Jitpur are working in Ludhiana as skilled workers in small engineering units and the men working in the village have stayed behind, not because they are inferior in skill or capacity to work to those who have gone out, but only because they feel that they can make as much or more money by running the family shops in the village. These men understand machines — electric motors, tractors, trucks, flour mills, almost any machine that is likely to be used in the village—and their presence in the village is a major factor in technological progress. It means that if an electric motor or other power driven agricultural implement like a chaff cutter or sugarcane press goes out of order, it will be repaired quickly and efficiently, and if the repair cannot be done locally or a part needs to be replaced, the cultivator will be suitably advised to get this done from the block headquarters town or Ludhiana. He need not be afraid of being left helpless in case of a breakdown or of long expensive delays or heavy repair costs. It means further that the cultivator or his young son has a high standard of technical competence to look up to. The fact that this standard already exists in the village gives an impetus to him and to his young son to handle machines and to correct small defects himself. During subsequent discussions in the village, many cultivators explained that they seldom have any problem with their electric motors; that they could correct small defects themselves and went to the tehsil town only in case of a major trouble like a burnt armature. One elderly cultivator went so far as to say that the longer they worked their motors the fewer breakdowns these had.

This level of competence in handling machines is in striking contrast to that found in an average village in parts of the country, where the village smith or carpenter confines himself to making and repairing the traditional agricultural implements and is either incapable of, or does not care to handle, even such non-power-driven improved implements as iron ploughs or sugarcane crushers.[2]

The People

The distribution of households by caste is given in Table 1. Detailed data on land ownership, cultivation and other economic activities, distribution of population by age and sex, literacy and standard of education are given, caste-wise, in the Appendix Table.

The Bazigars are not permanent residents of the village. They live in semi-permanent huts in one corner of the village and are dependent mainly upon casual agricultural or non-agricultural labour. They also rear buffaloes or cattle for sale of milk or animals. They are a semi-nomadic people who stay at the outskirts of large villages and small towns for months at a time. In recent years, they have been trying to settle down as cultivators or cultivators-cum-labourers and are being assisted in this process by the State Government with allotment of land for cultivation and with financial assistance.

There are sharp differences in land-ownership and occupation among the different castes as will be seen from Table 2. The Jats are the principal land-owner-cultivators: they own and cultivate practically all the land of the village. Among the other castes, Mahajans, Mistris and 'other artisans' are essentially non-cultivators. The Harijans have agricultural labour as an important source of income; but they have no rights in land. Of the 104 land-owning families in the village, 96 are of Jats, and of the 82 families of cultivators, 76 are of Jats. These cultivate 96 per cent of the land of the village. The concentration of land-ownership and cultivation in the hands of a single caste could hardly be greater.

Further, as the data of the Appendix Table bring out, the participation of Jats in non-agricultural occupations is relatively small. A number of Jats have gone out of the village in the Army and elsewhere; but among those living in the village, more than 90 per cent are engaged in cultivation.

Mistris, Mahajans and the other artisans' depend upon occupations other than cultivation. In the case of Mistris, the principal occupations are those of mason, carpenter and smith, the latter including skilled work in machine shops in the village and outside. Out of 56 workers living in the village, as many as 43 are classified as engaged in skilled work. Fourteen of these masons, 12 are carpenters, and 11 are smiths. The principal occupations of Mahajans are petty shop-keeping and white collar services. Four families take up cultivation of their small holdings. Agricultural and non-agricultural labour is also reported by a few persons, obviously those who are uneducated or are too poor to do anything else. A number of persons among the Mahajans are not doing any work. These are old people, who depend upon their pensions and/or remittances from sons in service outside the village.

The 'other artisans' follow their traditional occupations, supplementing earnings from these by labour, agricultural and non-agricultural. Their numbers are sufficiently small (1 to 3 households each) to enable them to make a meagre living in this way.

The Harijans are the big landless-group. A few families have their traditional occupations — scavenging for six families of Balmikis, weaving for six families of Julahas — as important sources of income. But the great majority (75 families), who are called Ramdasias or Ravidasias[3], depend almost exclusively upon agricultural and/or non-agricultural labour. These people gave up their traditional Chamar's work i e flying of carcasses of dead cattle and making of leather goods, about 40 years ago. But even when they practised it, it contributed only a small proportion of their incomes, and their main reliance was on labour. Out of 110 Harijan workers living in the village, as many as 91 were reported to be engaged in agricultural and/or non-agricultural labour. Fifteen among these are *sanjhees* (attached agricultural labourers) working for cultivators for an annual payment, given in most cases as a share of produce; 13 are non-agricultural labourers, while the remainder take up casual agricultural or non-agricultural work as one or the other becomes available.

Since the *sanjhees* get a share of the produce, it may be thought that they are share croppers and not labourers. The impression is strengthened by the fact that some *sanjhees* besides contributing labour, pay proportionate share of the land revenue and cost of seed, fertilizer, etc. The annual contract (usually verbal) between the cultivator and the *sanjhee* specifies the items to be contributed by the latter and the crops of which he is to receive a share. (Usually the *sanjhee* gets a share of the grain and cash crops; but is not given any share in fodders or by-products like chaff, cotton sticks, etc.) But the cultivators were emphatic in maintaining that the *sanjhees* were agricultural labourers,

Table 1: Distribution of Households by Caste

Caste	No of Households	Population
(1) Jat	105	780
(2) Ramgarhiya Mistri (smith, mason, carpenter)	37	205
(3) Mahajan* (Brahmin, Khatri and Arora)	46	289
(4) Harijan (Ramdasia, Balmiki, Julaha)	87	517
(5) Other artisans: Darzi (tailor), Kumhar (potter); Nai (barber); Jhiur (water-carrier); Teli (oil-presser); Gujar (grazier)	15	92
(6) Bazigar	9	48
Total	299	1831

* The term Mahajan is used by the villagers for all these three castes of traders-cum-white collar workers. It has been retained here for the sake of convenience even though I realise that quite different castes, like Brahmin and Khatri are included in the group. The number of households by individual caste is as follows: Brahmin, 27; Khatri, 17; Arora 2.

that they had no part in decision making, in cultivation and that giving them a share of the produce was only another method of paying for their labour. The Harijans themselves did not contest these claims nor did they make any reference to their having had rights in land at any time in the past.

The remarkable adherence of castes to their traditional occupations and roles in the village may be noted. Ownership and cultivation of land is concentrated in the hands of the Jats. The only other participants in cultivation are Harijans; but their role is confined entirely to furnishing labour. The Mahajans and the Mistris, the two other major castes of the village, have confined themselves to their traditional roles of traders-cum-white collar workers and skilled artisans respectively. This adherence to traditional occupations and roles is in striking contrast to the technological and economic progress which the village has made in recent years. It shows that economic progress need not involve basic changes from the traditional roles and patterns of economic activity of the different castes. On the other hand, as the following discussion will bring out, this very adherence, *voluntary or forced*, has provided a major incentive to economic and social progress. The fact that castes like the Mahajans and the Mistris did not have an opportunity for participation in land-ownership and cultivation within the village, meant that as population increased and aspirations rose with spread of education and increasing contacts with the outside world, these castes sought an escape from the limitation of local economic opportunity in emigration. Each caste chose the occupation(s), for which it was best suited because of its traditional occupation and role in the village. Among the Jat cultivators also, young men from families with small holdings sought an escape from declining incomes at home in emigration. As a result, the area acquired an active tradition of emigration which has been a major influence in economic and social progress. The alternate response of traditionally non-cultivating castes participating in land-ownership and cultivation with varying degrees of combination between cultivation and the traditional occupation of the caste, which is found in villages in many parts of the country, was not made here. Both the social situation and the laws were responsible for this. The land-owning cultivating Jats were too powerful and too deeply attached to the land to allow non-cultivators to acquire rights in it. Secondly, acquisition of land by non-cultivators was prohibited under the well-known Punjab Land Alienation Act of 1901.

Emigrants

The figures of Appendix Table include data on those emigrants from the village who are unmarried and those who are married but keep their families in the village. These persons have been included for two reasons. Firstly, since emigration is an important factor in technological and social change in the village, some data on numbers who have gone out of the village are of interest for this study. Secondly, people of these two categories, even though living outside the village are part of the social, and to an extent the economic, situation of the village. The men with families living in the village send remittances and themselves visit the village as frequently as possible. Most of those from cultivating families continue their interest in land. The unmarried ones have equally strong links and interests. Their parents, uncles and other relations in the village are the only family they have. They look to them for assistance in getting married and in setting up their own homes in future. These two categories of emigrants are best thought of as constituents of village families, who are living outside it. Many of them will come back; others will remain 'men of the village', until they establish themselves sufficiently to take their wives and children with them.

The emigrants included in this Table total 89. Most of them are Jats, Mahajans and Mistris; the number of Harijans and other artisans is very small. Emigration from this village (and this area generally) has been mainly from castes which are socially and economically the most advanced, and the least from groups like the Harijans which were poor and depressed. The largest number of emigrants (42) are in the Army. More than half of these (23) are Jats; the remainder being Mahajans (10) and Harijans (7). The other occupations of the emigrants are skilled work (22), and white collar services and professions (32). The Mahajans are either in white collar services and professions or in military service. The Mistris are mostly skilled workers though a few are in white collar services and professions also. They are conspicuous by their absence from the Army. The eleven Jats listed under skilled work are mostly drivers of buses and trucks. They are about the only people in the village who take up this form of skilled work: the Mistris avoid it. This was explained by the villagers with the remark that the Jats alone have the physical strength and stamina required for this exhausting work.

The area has a long tradition of military service. The Jats and, to a lesser extent, the Brahmins were the first to join such service. The first recruits to the British Indian Army went in the last quarter of the 19th Century and there are many men in the village today, who have served in the first or the second World War. On the other hand the recruitment of Harijans to the Army is a very recent phenomenon. Six of the 7 young men reported as being in military service, joined the service only after the declaration of the Emergency.

Migration to take up white collar services and professions and skilled work also began several decades ago. The Mahajans were prominent in the former and the Mistris in the latter. Masons of this village have been going out for work on public works and private house construction for several decades. Before the Partition, they used to go for work on the Canals in West Punjab, and to towns like Lahore, Lyallpur and Rawalpindi. This tradition continues and several of them are now working in Delhi and towns of the Punjab.

This tradition of emigration has had very important economic and social consequences some of which are related to the main theme of this study. Emigration with its inflow of money, and new ideas especially from persons who came back to live in the village, brought rise in economic level of the families of the emigrants and rising aspirations and widening mental horizons for the whole village. The village people saw that there was opportunity outside, and that it was possible to avail of it instead of enduring a low and declining income at home. In case of cultivators, emigration meant also that the process of sub-division and fragmentation of holdings was less rapid than it would have been otherwise. The relatively comfortable size of holdings, which we note below as a major reason for successful technological change, is the result partly of emigration.

Two aspects of emigration which deserve special mention are going to canal colonies of West Punjab and to foreign countries. The canal colonies were a major avenue of emigration for cultivators of this area in the early years of this century, and the area is now full of cultivators who have come back to their ancestral villages after the partition of the Punjab. This return migration has, as explained in Section VI, been a significant factor in agricultural progress. But this particular village did not participate in migration to canal colonies. The explanation given for this was interesting. It was explained that the then Zaildar[4] of the village when asked by Government whether he or any person from his village, would like to take land in the canal colonies, had refused

Table 2: Land Ownership and Cultivation

(in acres)

	Land Ownership		Cultivation	
	Families	Area Owned	Families	Area Owned
(1) Jats	96	1,033.0	76	1,065.0
(2) Mistris	3	11.5	2	9.5
(3) Mahajans	4	28.5	4	28.5
(4) Harijans	1	6.0*	0	0
Total	*104*	*1,079.0*	*82*	*1,103.0*

* Just allotted in a neighbouring village; cultivation not begun.

Appendix Table

Selected Economic Data for Households, Caste-Wise

		Jats	Ramgarhia Mistris	Mahajans	Harijans	Other Artisans	Bajigar	Total
Number of households		105	37	46	87	15	9	299
Population:	Male	472	110	154	281	57	25	1099
	Female	308	95	135	236	32	23	832
	Total	780	205	289	517	92	48	1931
Population: above 15 years	Male	271	74	94	134	37	12	622
	Female	170	56	77	108	19	9	439
	Total	441	130	171	242	56	21	1061
Number of literate persons above 15 years	Male	68	37	71	30	8	1	215
	Female	8	17	13	—	—	—	38
	Total	76	54	84	30	8	1	253
Number going to school	Male	91	30	32	56	8	8	225
	Female	49	29	40	19	4	2	143
	Total	140	59	72	75	12	10	368
Land ownership and cultivation								
No of land-owning households		96	3	4	1	—	—	104
Area owned (acres)		1033	11.5	28.5	6	—	—	1080
Number of cultivating households		76	2	4	—	—	—	82
Area cultivated (acres)		1065	9.5	28.5	—	—	—	1103
Economic Activity								
No of workers:								
(*i*) including emigrants		245	70	83	120	29	13	—
(*ii*) excluding emigrants and living in village		213	56	53	110	26	13	—
No of workers in village in:								
Cultivation		194	—	9	—	—	—	203
Agricultural labour		1	—	1	91	4	1	
Non-agricultural labour		4	4	4		5	12	127
Skilled work		1	43	7	5	8	—	64
Service		1	1	13	8	2	—	25
Others (inc, shopkeeping, contract work, traditional village craft, etc)		5	7	14	5	5	4	40
Migrants:								
Military service		24	—	10	7	1	—	42
Skilled work (inc drivers of motor vehicles)		11	9	2	—	—	—	22

the offer. His grandson, a prominent leader of the village, was mildly proud of this attitude of his ancestor, though many others were of the view that this had retarded the progress of the village.

Emigration to foreign countries from villages of this area has been mainly to Malaya, Thailand and East Africa. From this particular village, several Brahmin families have settled in East Africa. But the latest phase of such emigration is migration of young men to the U K for taking up jobs as unskilled or semi-skilled workers. Large number of young men from Ludhiana and other districts of Central Punjab have been going to the U K during the last few years and during the course of this study I had occasion to experience the ferment which news of employment in U K on "good wages" was causing in the area. Employment vouchers, wage rates, cost of living and living conditions in U K and the possibility of saving money and sending it home, were the talk of the small block headquarters town. Information on these points obtained from all possible sources—letters and remittances from the young men who had gone to the U K, news picked up at Ludhiana, Delhi and other towns—was pooled and discussed at length by the young men from the villages who gathered at restaurants and other shops in the town. The concensus of opinion was that wages were "good"; but cost of living was high, and one could save money only by living in overcrowded tenements and enduring physical hardship. Since the average young man of this area is quite prepared for these, there was considerable enthusiasm for going abroad, especially among young men with some education who did not want to engage in farming or other ancestral occupations.[5]

Notes

[1] The name of the village is ficticious.

[2] I know of villages in another State where cultivators who grow sugarcane and make gur do not own the cane presses, but hire these from smiths in towns, who look after the repairs also; because the local smiths cannot repair these presses.

[3] The correct word appears to be Ravidasias, i e, followers of Ravidas, the celebrated Chamar Saint; but the word Ramdasias is more commonly used.

[4] Headman of a group of villages. The post was abolished after Independence.

[5] No young man from Jitpur had gone for such work to the U K till the time of this study. But two young men explained to me that they were thinking of going and had sent the necessary applications for employment vouchers, passports, etc.

(To be continued)

AROUND BOMBAY MARKETS

Dalal Street Digesting Gains

Wednesday, Morning

DALAL STREET did not make any new high mark last week. With anxious bear covering nearly over and fresh institutional support very much restricted, the market preferred to digest the gains already made and consolidate its position before pushing its way further up. And in the process of adjustment, the market beat a modest retreat. While odds are that last week's setback is a correction of the sharp recovery from the panicky low registered on March 27, it could well be argued that the rally has started petering out.

Apart from continued anxiety about the political situation arising from developments in Vietnam and frequent skirmishes on the Indo-Pakistani borders, trading sentiment last week was affected to some extent by the restrictions imposed on the outflow of capital in the British Budget. But this only induced tired bulls to reduce their commitments and discouraged fresh support. Sellers, however, were never really aggressive during the week. Except for substantial bull liquidation in National Rayon near the week-end which had a slightly unsteadying influence on the general trading sentiment, equities prices last week drifted lower mainly due to lack of support.

If sellers were not aggressive it was partly because of the highly encouraging corporate news during the week and partly because of the considerable shrinkage in floating stocks of several scrips on account of massive purchases by the Life Insurance Corporation. New India Industries, Amar Dye Chem, Modi Industries, Ahmedabad Jupiter and Victoria Mills, to mention a few names, reported impressive results. Reports indicating a possible removal of the statutory control over the price and distribution of steel had also a steadying effect on the trading sentiment.

While there has been a noticeable improvement in the general market sentiment and the recent recovery holds out the promise of being extended further, any undue optimism about the outlook for equities needs to be avoided if only because of the continuing political uncertainties and monetary stringency. Apart from technical considerations, even the recent rally from the March 27 low point has been made possible mainly by massive institutional support. Outside public interest in the market continues to be negligible. Institutional support alone cannot bring about the revival of investors' confidence.

COTTON

Cotton Curbs Go

THE Indian Cotton Mills' Federation has removed all restrictions on cotton purchases by the mills and on the stocks that they can hold. The Federation's decision to give up its 8-point scheme aimed at securing cotton at or below the appropriate ceilings through self-restraint could not have been prompted by any reassessment of the supply position of cotton. For, excepting a few varieties like Cambodia and L 147, most varieties of cotton are again quoted at around the ceilings, indicating a none-too-satisfactory supply. According to informed sources, the Federation had been under considerable pressure from the State Government to do away with the restrictions on the purchases of cotton by mills and on the stocks that the mills could hold in order to meet cotton growers' demand for better prices. Since the scheme of self-discipline had never been much of a success due to lack of cooperation from various quarters, the Federation has decided to remove the restrictions thereby putting an end to the mounting criticism of cotton growers and also to the futile controversy regarding purchase of Cambodia cotton at 5 per cent below the appropriate ceilings. It is now left to the Textile Commissioner to enforce the price control order should prices pierce the statutory ceilings.

Cotton prices have firmed up considerably over the past fortnight or so and if this trend persists, which seems quite likely, it will not perhaps be long before unofficial premiums emerge in respect of several varieties. Prices have firmed up even when mills are reluctant to enter into large fresh commitments because of the accumulation of large stocks of cloth with them at a time when credit is both difficult and costly. An improvement in the off-take of cloth is likely to give a big boost to the cotton market.

While the Indian Cotton Mills' Federation has given up its scheme of self-restraint designed to keep prices within appropriate ceilings, ready cotton merchants in Bombay have decided on a code of self-discipline aimed primarily to ensure that no cotton is sold to mills on credit. Under the scheme, no member or trader will buy or sell cotton or kapas above the appropriate ceilings and every trader will insist on delivery to be taken by mills and payment made strictly in accordance with the by-laws of the East India Cotton Association. Rules regarding time-limit for weighment of cotton are being tightened. Though mills are at present supposed to weigh cotton within four days after the contract, the actual position is quite different. The time limit is proposed to be extended to 11 days but mills failing to weigh goods within the extended time-limit will be required to pay carrying charges. Further, the sellers will henceforth disallow any "fancy stone allowance" to mills. The proposed code of self-discipline has been characterised as a desperate move on the part of cotton muccadums and merchants to ensure their survival in the context of the extremely stringent monetary conditions obtaining at present. It is extremely doubtful whether the trade will be able to observe the code of self-discipline and sell cotton to mills on its own terms.

Even though most varieties of cotton are at present quoted at around the ceilings, market reports indicate accumulation of stocks with growers and traders. This is rather intriguing. High prices and accumulation of stocks can go together only when prices are expected to rise still higher. If growers and traders continue to sit tight on their stocks even when prices are at or very near the statutory ceilings, it can only mean that they hope to be able to sell their product at well above the ceilings. In sympathy with the increasing firmness in the spot material, cotton futures recorded a further rise last week; the August contract was bid up to a new high of Rs 768 (per 3 quintals).

OILSEEDS

Prices Continue to Rise

THE oilseeds market displayed further remarkable strength last week, with prices rising to the highest levels for a few months. The strength was particularly marked in linseed and linseed oil. The quotation for spot linseed rose from Rs 45 to Rs 47.50 (per 50 kgs) and linseed oil improved from Rs 17.75 to Rs 19 (per 10 kgs). Linseed further were quoted well above the maximum price permitted during the week — the hedge contract is not allowed to rise (officially of course) by more than Rs 2 (per 100 kgs) during any week. While official trading remained suspended most of the time, in kerb dealings the June contract was bid up to Rs 95; correc-

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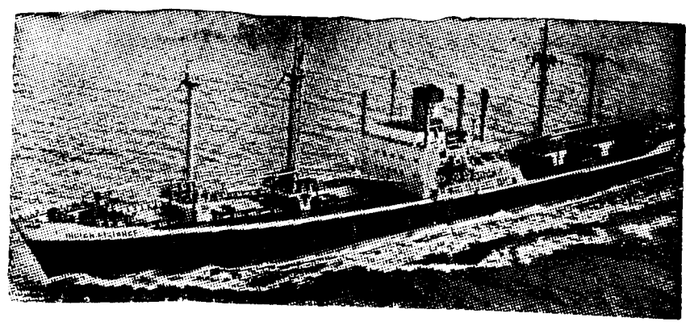
Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in 1956 and later to Rumanian ports. In 1959 the Company forged still another link in the overseas with South America, and in 1960 it extended its service to Poland.

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tive profit-taking brought down the rate to around Rs 93.70 near the week-end. The rise in prices was due more to scarcity of offerings than to any sudden increase in off-take though traders reported fairly satisfactory demand from paint manufacturers. Despite a fairly good harvest, the supply of linseed oil is said to be poor for this time of the season. The movement of goods is said to have been affected by the recent rains in Uttar Pradesh, Madhya Pradesh and Rajasthan. Apart from the restricted flow of supplies, sentiment in linseed was also aided by rumours that Pakistan was interested in purchasing Indian linseed oil. Linseed prices have been merely following the trend in mustardseed prices which have been moving up and up despite a record harvest. In Delhi, mustardseed oil was bid up to Rs 29 (per 10 kgs) last week; the quotation has been appreciably lower around Rs 23 some weeks ago.

The strength in linseed and mustardseed has had a profound impact on the general market psychology. Groundnut oil ready has been marked up from Rs 22 to Rs 23.10 (per 10 kgs) and what is more, centres which are the traditional suppliers of groundnut oil to Bombay have been making purchases of oil in the Bombay market recently. Castor futures have risen from Rs 77.40 to Rs 79.10. Bullish psychology seems to have firmly seized the market. Goods are no longer moving out from the producing centres in desired quantities. Growers and traders are reluctant to part with their stocks at the current prices, which, though quite high from the consumer angle, look low compared to the fantastic rates obtaining near the fag-end of the last season. Stockists are in no mood to ponder over the marked improvement in the supply position of edible oils this season, partly due to record harvests and partly due to the import of 75,000 tonnes of soyabean oil for the vanaspati industry and 50,000 tonnes of mutton tallow for soap manufacturers. Unless the authorities take firm action to discourage holding and hoarding of stocks at various levels and inter-State movement of goods is freely allowed, it might become difficult to check the rise in oilseeds prices, improved supply notwithstanding. The way prices are surging forward at a time when the movement of mustardseed and linseed crops is expected to be in full swing is quite disturbing. Any relaxation of export curbs at this juncture is likely to complicate the situation further.

Export houses did not mention any important fresh business during the week. The further rise in groundnut oilcake prices has made fresh export business difficult, particularly with the U K. The buying by Communist countries too has been restricted of late. Cottonseed cake also did not evoke much interest. Export business in oils remains at a standstill. With the decline in overseas prices and a rise in domestic prices, the disparity between Indian and world prices has increased further.

BUSINESS NOTES

Madras Rubber

UNTIL a few months ago, the new tyre units were experiencing keen competition from well-established brands as a result of over-capacity in the industry, and had to keep their production much below installed capacity. But conditions have since changed for the better not only on account of improvement in demand, but also because concession and reliefs in the 1965-66 Budget have brought some benefits for the industry. Besides, there are indications of increased purchases of tyres from the new companies by the Government and semi-Government undertakings. In view of the unfavourable conditions then prevailing, Madras Rubber Factory worked at only 35 per cent of installed capacity during its financial year ended September 1964. Production has been stepped up gradually in the current year; towards the middle of March it ran at around 600 tyres per day and is expected to reach 75 per cent of the capacity by September. Some of the well-known automobile manufacturers now use the company's tyres as original equipment. The company is also steadily increasing its exports of types; the current year's exports are expected to be substantially higher than those of the past year when goods worth Rs 8 lakhs were exported.

In the meanwhile, the company has reported a set-back in its results for the year 1963-64. While sales turnover has nearly doubled to exceed Rs 5 crores, the gross profit has shrunk by more than a third to Rs 21.60 lakhs. After providing Rs. 18.92 lakhs (Rs 11.86 lakhs) for depreciation and nil for managing agents' commission and development rebate, which received Rs. 1.07 lakhs and Rs 18.40 lakhs, respectively, last year, the accounts show a profit of Rs 2.68 lakhs against Rs 3.12 lakhs a years ago. The dividend is skipped, and the profit together with the previous year's surplus of Rs 1.02 lakhs is carried forward.

Phillips Carbon Black

A SUBSTANTIAL improvement in its results has been recorded by Phillips Carbon Black in the second year of operation ended November 1964, when its sales expanded from Rs 91.08 lakhs to Rs 197.24 lakhs, and after providing Rs 24.23 lakhs (Rs 38.32 lakhs) for depreciation, the company earned a profit of Rs 24.16 lakhs compared to a loss of Rs 39.64 lakhs incurred in the previous year. After adjusting the profit against the previous losses, there still remains a debit balance of Rs 23.51 lakhs to be carried forward.

Considering trend of earnings, however, it seems the company will not take long to wipe off this deficit. Production was increased to nearly 70 per cent of the installed capacity during the year, and is likely to be increased further. Interruptions in power supply have been greatly reduced following the installation of a new distribution system, and a much higher production rate has been recorded for the past few months. What is more encouraging is that the company's product has been in good demand, and all production is readily taken up by the market. The expansion of ten million pounds of capacity is expected to be completed by the beginning of next year.

From June 1964, the company raised its prices by about 5 per cent in order to counter the steadily rising costs of raw materials. The recent ten per cent duty on all imported materials will substantially increase costs, and a further revision of selling prices may become necessary, though the management says it shall make every effort to avoid this.

Dunlop Rubber

THE year 1964 was another successful one in the history of Dunlop Rubber Co (India). Despite the problems arising out of keen competition and uneven flow of raw material supplies, the company established new peaks in production and sales. The years to follow are expected to bring not only fresh problems, but also greater opportunities; and with a view to meeting the challenge of future, the company has already set before it the aim of "further expansion through increased productivity, additional capacity, improved quality and service second to none". Meanwhile, the major expansions of both the factories at Sahaganj and Ambattur have already made considerable progress, and outlets for further diversification are constantly being explored.

With the growing demand for its products both in the home and export markets, sales during the year jumped by Rs 4.60 crores to Rs 45.34 crores, and gross profit expanded by Rs 73.71 lakhs to Rs 4.63 crores. After charging depreciation of Rs 65.67 lakhs (Rs 59.83 lakhs) and providing for tax liability Rs 194.77 lakhs (Rs 158.82 lakhs), the after-tax profit was Rs 202.79 lakhs as compared to Rs 168.87 lakhs for the previous year. Development rebate reserve claimed Rs 21 lakhs (Rs 10.25 lakhs), preferential dividends Rs 4.60 lakhs (same) and ordinary dividend Rs 109.37 lakhs (Rs 78.75 lakhs). The dividend rate is kept unchanged at 17.5 per cent, and of this the half payment proposed as final is payable on the capital as enlarged by the issue of rights and bonus shares. The remaining surplus of Rs 67.81 lakhs is to be transferred to general reserve which last year received Rs 106.15 lakhs, but then that was possible after taking credit for the preceding year's surplus of Rs 25.88 lakhs and for Rs 5 lakhs being the provision for retiring gratuities written back.

Associated Bearing

DURING the year to December 31 1964, Associated Bearing Company incurred a loss of Rs 16.49 lakhs, as against a profit of Rs 0.78 lakh earned in the previous year, even though sales of textile products were almost double at Rs 48.08 lakhs. After transferring Rs 5,000 (Rs 39,000) to development rebate reserve and providing Rs 14,143 (Rs 35,000) for tax liability, the year's net loss aggregated Rs 16.69 lakhs which together with the previous loss makes a total loss of Rs 22.99 lakhs to be carried forward. There is good reason to expect better results in the current year, as production of bearings started early this year and is progressing at a good tempo, and increasing quantities of ball bearings have already been sold. The 10 per cent regulatory customs duty will, however, affect the company's working because it will increase the duty on machinery and tools and raw materials to be imported. This will force the company to raise prices of its products.

The company proposes to issue debentures of Rs 1 crore carrying interest at eight per cent per annum. A public issue is proposed to be made for this purpose after getting it fully underwritten by well-known financial institutions. During 1964, the company raised loan capital of Rs 1.65 crores by way of debentures from ICICI.

Killick Industries

AS in the previous year, Killick Industries' results have been again affected by a set-back in the earnings of John Baker and Sons. A year before, its margins had diminished and the last results are poor because of the go-slow policy of labour at its steel files factory, culminating in a strike that continued for three months. Despite the end of the strike, the current year's prospects for this division are not rated high, as the recent increase in import duty on steel is expected to affect profitability. Practically all the steel used in the manufacture of files is at present imported from abroad.

In welcome contrast to the poor showing by John Baker, however, the various managed and subsidiary companies of Killick have generally produced good results. The company's income by way of commission and office allowance from the managed companies has gone up by Rs 5 lakhs but this improvement has been nullified by an almost equal contraction in the company's sales of products. The total income is slightly up from Rs 101.26 lakhs to Rs 103.03 lakhs but, with expenses rising at a faster pace, the outcome is a lower gross profit of Rs 17.37 lakhs compared to Rs 19.66 lakhs a year ago. The directors have provided Rs 2.78 lakhs (Rs 2.60 lakhs) for depreciation, Rs 4.95 lakhs (Rs 7.20 lakhs) for the tax liability and Rs 0.10 lakh (Rs 0.15 lakh) for development rebate. Together with the sum of Rs 0.85 lakh (Rs 0.28 lakh) being refund of previous year's taxes, the disposable profit is slightly higher at Rs 10.39 lakhs compared to Rs 9.99 lakhs last year. The equity dividend is increased by 50P to Rs 8 a share, and should absorb Rs 10 lakhs against Rs 9.37 lakhs previously.

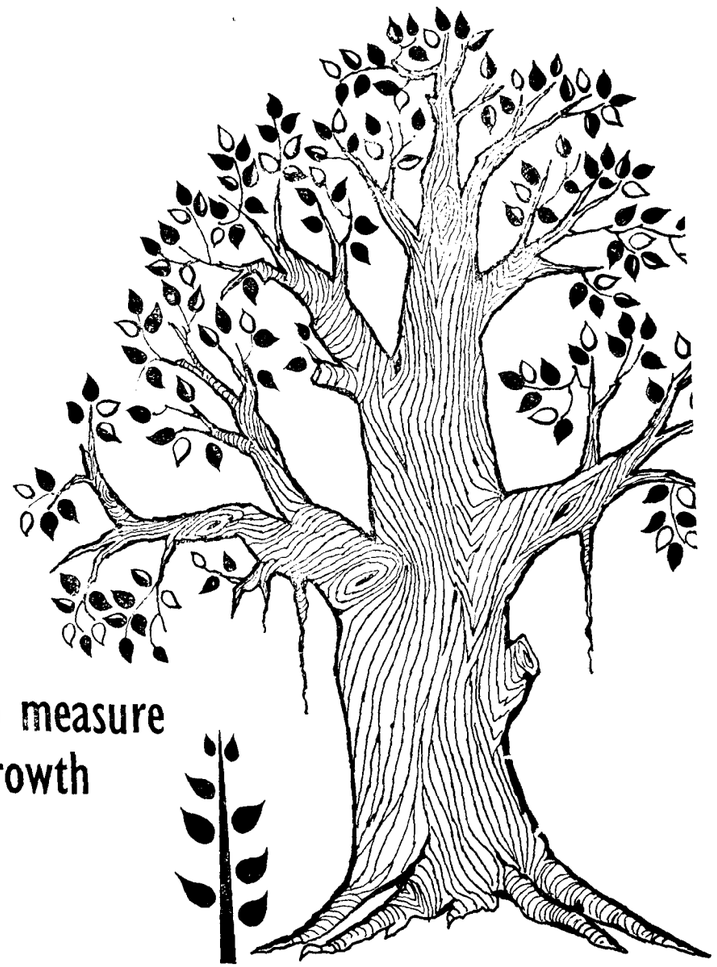
Hindustan Lever

HINDUSTAN Lever's preliminary results for the year 1964 showed that despite an impressive jump in sales the company had earned lower profits, because vanaspati had a very difficult year due to the shortage of edible oils. Now the directors' report shows that during the year the company recorded satisfactory progress in most of its other lines of manufacture.

Sales of soap recorded a small increase, while those of the non-soapy detergent, Surf, continued to expand steadily. Toilet preparations experienced a further substantial increase in demand, sales of feeds and concentrates for poultry expanded rapidly in Western and Northern India, and those of cattle food remained steady. But the milk products plant at Etah, which came into operation from mid-1964, experienced shortage of milk.

The modernisation of the company's soap plants both at the Bombay and Garden Reach factories is proceeding on schedule, and the major works are expected to be completed by the end of this year. Also, the new Surf plant, under construction at Calcutta, should be ready by that time. The company has begun work on the installation of a nickel catalyst plant in its Bombay factory, and this should come into operation in early 1966. It will help save a good deal of foreign exchange required for imports of the catalyst.

A small scale unit for animal feeding stuffs was started at Ghaziabad, where the company has its dehydration plant. Besides, the company has started there a poultry development unit to investigate efficient poultry rations for stock kept under Indian conditions. It is also proposed to take up marketing of quality razor blades, and for this purpose the company is entering into a partnership with a razor blade manufacturer of New Delhi.



How to measure Growth

All things grow in age—but only *some* grow in size and stature. A young sapling shoots up—sprouts new leaves and branches. But how does one measure the growth of a bank? Take the Bank of Baroda, for instance.

One way would be to compare figures. The Bank of Baroda began in 1908 with a single office in Baroda. Now it has as many as 235 branches in India and abroad. And deposits exceed Rs. 170 crores.

A strong and progressive institution with over 55 years of experience, the Bank of Baroda has had a successful programme of branch expansion. It has also aimed at an ever-widening pattern of service. Indeed the Bank's chief goal has been to widen the range and scope of its banking services for the convenience of its customers.

THE BANK OF BARODA LTD.

(Estd. 1908) Head Office: Baroda

now has over 235 branches all over India and abroad with deposits totalling over Rs. 170 crores

Write in for our free booklet entitled **'May We Help You?'** which gives details of all our services.

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FROM THE CHAIR

The United Commercial Bank Limited

Address by the Chairman Shri I P Goenka

THE following is the Address by the Chairman, Shri I P Goenka, to the Members of the United Commercial Bank Limited at the Twenty-second Annual Meeting held on Wednesday, the 7th April 1965:

I extend to you all a very hearty welcome to the new headquarters of the Bank, which was formally opened by Shri G D Birla on the 29th August 1964. The blueprints of our architects have, as you can see, been transformed into an aesthetically beautiful building which now serves to provide Calcutta with a unique landmark. The ample space and the efficiently planned lay-out for staff will both ensure that we shall be able to tender more efficient service to our customers and in brighter surroundings.

As a prelude to the business of today's meeting, we should pay respectful homage to the memory of Pandit Jawaharlal Nehru. His services as a fighter for freedom and as a builder of modern India after independence will forever be remembered. Not only did he secure for India a position of high respect among the comity of nations; not only did he provide India with a driving force of political unity and economic development; his contribution has been of value to the world at large, serving as he did as a beaconlight for peace in our times. That Pandit Jawaharlal Nehru's legacy has been meaningful is attested to by the fact that, despite apprehensions to the contrary, we have had the unanimous election of Shri Lal Bahadur Shastri as his worthy successor. There is no doubt that, under the able guidance of Shri Lal Bahadur Shastri, India will be in a position to build up a solid edifice on the strong foundation laid by Pandit Jawaharlal Nehru.

Today, all of us miss the august presence of Shri G D Birla at this meeting. Shri Birla had made no secret of his growing desire, in recent years, to retire so as to make room for the emerging generation. Accordingly, he laid down office as Chairman even as he formally opened the new building on the 29th August 1964. With his wealth of experience in financial, industrial and other fields, Shri Birla ensured that the progress of the United Commercial Bank would be swift and sound. I am certain that all of us, Shareholders, Directors, management and staff, would wish to place on record our high appreciation of Shri Birla's outstanding contribution to the Bank during his twentyone memorable years of leadership and to convey to him our deep and continuing personal regards. I am moreover obliged to him because, even after his retirement, he continues to take a keen interest in the affairs of the Bank and makes his wise counsel readily available to us.

Shri M L Dahanukar, who has been a Director since the inception of the Bank, retires today from the Board on grounds of health. The Bank has greatly benefited from his long association and I wish to acknowledge on your behalf the very valuable guidance and counsel given by him during the period of his office and wish him speedy recovery and a long life.

I now present to you for your consideration and adoption the Balance Sheet as at and Profit and Loss Account for the year ended 31st December 1964, which have already been in your hands; and I shall touch briefly on the working of the Bank during the past year.

Branch Expansion

With a view to widening the scope of the Bank's service to the public, as many as 26 new branches were opened during 1964 in various parts of the country as against 18 branches in the previous year. Out of these 26 branches 9 were at unbanked centres. The total number of branches at the end of 1964 stood at 202. We shall be opening 21 new branches by 31st July 1965 under a programme approved by the Reserve Bank of India. With more branches in bigger cities like Calcutta, Bombay, Madras and Delhi we hope to be able to provide our customers with better and speedier service. It will also be our endeavour to open more branches in unbanked centres and spread the banking habit in the rural areas, despite the fact that such branches are not remunerative for the first few years of their working.

Staff

Our Management and staff are being kept at full pressure in dealing with the increased volume of business. Expansion of business calls for continuous recruitment of new staff and training and promotion to higher cadres of the existing staff. It has always been the endeavour of the Management to give full scope to the members of the staff to expand their knowledge by training so that they may give better and more courteous service to customers. Introduction of machine accounting would have certainly helped in providing quicker service, but non-availability of the right type of machines on account of import restrictions has not made it possible to make much headway in this direction. I would like to take this opportunity of expressing on behalf of the Shareholders and Directors of the Bank our gratitude to the General Manager and to all other members of the staff for their excellent work during the year, without which the favourable results that we are able to place before you could not have been achieved.

It would be seen from the Balance Sheet that the Deposits of the Bank show further rise during the year of nearly Rs 13 crores—the percentage of increase being 10.7. The increase of Rs 4.08 crores in Savings Bank Deposits as against Rs 1.89 crores last year is worth noting.

Liquid Assets

The total of our liquid assets of Rs 17.43 crores consisting of Cash on hand, Balances with banks and Money at Call and Short Notice represents 13.01 per cent of our Deposit habilities. This compares favourably with 9.7 per cent *at* the end of last year. The proportion of the Bank's investments in Government Securities continues to be high. Out of the total investments of Rs 38.18 crores, investments in Shares and Debentures amount to only Rs 79 lakhs. The investments of the Bank are shown at a figure which is below the market value and give a ratio of 28.5 per cent to Deposits.

We hold no undated Government Securities and the majority of our holdings matures within 10 years.

Our quick assets consisting Cash and Bank balances, Money at Call and

Short Notice and unencumbered Government Securities total Rs 54.81 crores as against Rs 48.91 crores at the end of 1963 and form 40.9 per cent of Deposits which I trust you will consider as a highly satisfactory position.

Advances and Bills

Our Advances and Bills stand at Rs 93.44 crores which represent 69.8 per cent of our Deposits. The corresponding figures at 31st December 1963 were Rs 85.95 crores and 71.0 per cent. In keeping with the policy of the Reserve Bank of India, the Bank continues to provide credit facilities for exports and other productive purposes and to Small Scale Industries as well. We have also made a beginning in the extension of credit to the agricultural sector by the grant of loans for the purchase of fertilizers, production of improved seeds, etc. The medium term finance to industries stands at Rs 2.57 crores as against Rs 1.75 crores at the end of last year.

Profit and Loss Account

The working results of 1964 have further improved with gross earnings recording an increase of over Rs 1 crore. For the best part of the year the interest rates on advances remained the same as in the previous year. The income from Commission, Exchange and Brokerage was a shade lower than in the previous year mainly due to the fact that the business of our branches in the Far East was considerably affected on account of political conditions there. The average yield from investments in Government and other securities was more or less the same as last year. On the expenditure side the interest paid on Deposits and Borrowings showed almost the same rise as in the previous year. The rise in Salaries and Allowances and Provident Fund was nearly Rs 41 lakhs as against Rs 27 lakhs last year. This, in a large measure, was on account of the increase in the staff and the grant of *ad-hoc* increments to subordinate staff and Dearness Allowance to the members of the subordinate, clerical and supervisory staff consequent on the abnormal rise in prices. The increase in other expenses was due to the opening of a larger number of new branches during the year. Together with the amount brought forward, the balance for disposal totals Rs 83.94 lakhs. The allocation of Rs 17 lakhs to Reserve Fund is the same as that for the previous year. The Gratuity Trust Fund receives Rs 1 lakh more than the previous year while allocation to Bonus to staff is higher by Rs 5 lakhs. The Shareholders would be happy to note that it has been possible to recommend an increase in the rate of dividend from 12 per cent to 13 per cent *less* tax on the increased share capital.

Food Situation

Let me now turn to a survey of the economic situation in the country. While the choice of a successor to Pandit Jawaharlal Nehru was effected with smoothness and unanimity, the problems which confronted the new cabinet soon after its formation were of a formidable nature. I refer to the difficult food situation that developed suddenly all over the country. The seeming shortfall of supplies aggravated the price situation which, at the time, was already most disquieting. At that stage, had it not been immediately and effectively tackled and remedial measures promptly taken, a serious crisis might have set in. For thus having been able to control a most abnormal situation, we all owe a considerable debt to the readiness of the U S Government to proffer further gigantic assistance under P L 480. The fact remains that the general index of wholesale prices rose from 139.0 at the end of 1963-64 to 155.0 on 20th February 1965; and during this period the index for food articles went up from 141.0 to 160.2. The last year has thus been one during which the country has as its most immediate and compelling problem the need to control the price situation and reverse its trend. I am not here going to suggest what ultimately any country has to do to repel inflationary tendencies. But I think we should take note of the measures that, in the monetary sphere, were instituted by the Government with a view to regaining control of the price situation.

Monetary Measure to Control Prices

The approach of the Government in this regard appears to have been guided by the traditional and conventional solutions for checking inflationary pressures. The central banking institution used its powers of selective credit control whereunder the banking system was from time to time guided as to the margins that were required or the limits that were to be imposed in respect of advances against specified foodgrains and commodities. When it became patent that selective credit control by itself was inadequate to arrest the upward trend in prices, Government resorted to the most basic of its monetary weapons, the Bank Rate. When on September 25, the Bank Rate was raised by the Reserve Bank to 5 per cent from the 4½ per cent at which it had stood from the 3rd January 1963, there was for the first time implicit recognition by Government of the possibility that the trend in foodgrain prices might, if unchecked, lead to a general rise in the level of prices. I am however happy to note that the upward trend in prices has not only been effectively checked but also reversed and the indices of wholesale and foodgrain prices have registered a decline over a period of two months by 8 and 13 points respectively by 6th March. With the new stipulations and restrictions on access to central bank credit, monetary policy in India has taken on the aspect of quantitative rather than merely qualitative control. Since the close of the year, apparently with a view to lending greater strength to its own orthodox measures, the Reserve Bank again raised the Bank Rate to 6 per cent and, at the same time, central bank credit was made almost prohibitively costly for the banking system. I am not myself in disagreement with the successive raising of the Bank Rate since it is intended to bring in a more realistic structure of interest rates. That the cost of money should alone have tended to remain low in India does not accord with the general increase in the price level that is to be anticipated in a developing economy. Furthermore, as has happened consistently since the raising of the Bank Rate in May 1957, I think it is not altogether incorrect to say that changes in the Bank Rate follow rather than precede changes in interest rates in the money market. I think we may be confident that the higher interest that we shall pay on deposits will succeed in mobilising new resources for the banking system—resources which are sorely needed if we are effectively to extend sufficient finance not merely for the growth of industrial production but also for the distribution of the products manufactured.

Credit Squeeze

While on the subject of interest rates I wish to add my comments on some aspects of monetary management. The linking of the cost of central bank credit to liquidity is certainly more equitable than the other

formulae that have been tried out in the past inasmuch as it is a recognition of the basic canon that banks should not lend beyond their means and thereby overextend themselves. But at the same time I am afraid that any multiple-tier system of Bank Rate has little merit to commend it since it might, in effect, result in the denial of credit to worthwhile productive endeavour. I may point out that it is normally during the busy season that the banking system needs to have recourse to central banking credit. This is because during this period a considerable element of a seasonal demand for money gets superimposed upon the normal needs of industry and trade. If simultaneously, the industrial demand for funds also increases, then the banks are confronted with a problem of substantial dimensions. Obviously, credit to industry for production cannot be stopped; equally obviously, the seasonal demand for funds must be met, since in large part this relates to raw materials used by industry. But in the present circumstances with a lowering of liquidity causing increases in the rates of interest paid on the total of borrowings from the Reserve Bank, not a few institutions become reluctant or unable to lend even against essential needs. If, therefore, the Government desires that the extension of bank accommodation for productive purposes should continue smoothly, then there is need, I suggest, for the evolving of a special formula in respect of busy season financing. I think that up to half of proven credit for the busy season should be refinanced by the Reserve Bank at Bank Rate; and borrowings in this regard should be left out of the reckoning when the liquidity ratio is determined. Otherwise, I fear, I repeat, an emerging situation in which bank credit for productive purposes will not be readily forthcoming.

Spread Between Deposit and Lending Rates

Again, I cannot quite appreciate the central banking institution's need to fix minima for deposit rates and maxima for advance rates. It ought, I suggest, to be the other way about. The strengthening of the banking system requires that its earnings should not get eroded by the payment of unnecessarily high rates of interest on deposits; and such strengthening also requires that, where and to the extent necessary, earnings are enlarged not merely for the twin purposes of adding to reserve and of at least maintaining the dividend distribution to the shareholders so that right issues can be successfully undertaken, but also for making provision to cover the inherent risks of loss involved in the financing of new kinds of endeavour.

Inducement for Production

If the raising of Bank Rate was intended to prevent the use of available funds for non-productive purposes or output of lower priority, what is necessary to keep in mind is that ultimately the only answer to inflation is adequate supply of goods, whether by higher production or through the medium of imports. In the light of our current foreign exchange situation, the dissipation of our scarce resources for imports, particularly of consumer goods, must be ruled out. I am heartened to find that the Finance Minister, in his budget for 1965-66, has taken due note of the need to encourage production in every possible way. There is a wide range of inducements available to industry to increase output and to plough back profits. Tax Credit Certificates, themselves of a tax-free nature, are to be available, subject to certain conditions, on additional production and in respect of additional excise duties that might become payable and also with regard to additional tax burdens that a company itself might be liable for. What is more, for the first time in years, the budget underscores reliefs, concessions and inducements rather than innovations, impositions and additional burdens. Especially do I welcome the relief that has been offered in personal income-tax, since, as my predecessor remarked last year, there is no meaning in offering incentive to industry "unless there is incentive for individuals". With the introduction of Tax Credit Certificates to investors in regard to their holding of new equity shares up to specified maxima, there is the beginning of official policy intended to foster and encourage the channelling of the savings of individuals into worthwhile corporate endeavour. The restoration of the exemption from Wealth Tax of specified investments can be said to be further inducement for the investor in this behalf. The fact that new companies will be exempted from the liability to dividend tax up to 10 per cent distribution for 5 years is further reason why the investor would be emboldened to support such issues.

Revival of Capital Market

When all is said and done, the magnitude of response to new issues in the capital market depends upon the state of the Stock Exchanges. I am sorry to have to say that the reaction of the Stock Exchanges to the Finance Minister's budget proposals for 1965-66 has been less than enthusiastic. Perhaps one reason lay in the high expectations that had obtained before the budget. In particular, it had been hoped that the Dividend Tax would be abolished and that the assessment to capital gains of bonus shares in the hands of the shareholders would be repealed. It was the psychological shock of finding neither of these reliefs which, I dare say, accounts for such pessimism as holds sway in Lyons Range or Dalal Street today, more particularly in the background of slackness in capital formation during the last year. The liability of shareholders to capital gains tax on bonus shares is particularly indefensible, since, in the event of capitalisation of Reserves, the undistributed profits of a company bear taxes at three points—first, when profits are transferred to Reserves; second, when Reserves are capitalised; and third, yet again, when the bonus shares are taxed in the hands of the shareholder. Possibly, partially in recognition of these facts, the Finance Minister has given notional credit of 10 per cent of the tax on the capitalisation of Reserves as far as affecting the individual's liability to Capital Gains Tax that he has to pay on the bonus shares received by him. I wish the Finance Minister will find it possible to do more in this regard. But I would emphasize that there is, in line with Government's monetary policy, a very strong case for the abolition of the dividend tax. The revenue from this source is comparatively negligible. But psychologically it has an adverse effect on investors. It needs to be realised that, at a time when Bank Rate is 6 per cent, when a one-year deposit in banks also earns 6 per cent, the investor's anticipation of a fair and reasonable yield on his holdings will also be correspondingly high. If then, perchance, the distributable surplus with a company gets reduced by such a charge as dividend tax, the automatic reaction of the Stock Exchanges is to depress the prices so that the yields thereon conform to the new structure of interest rates—based on a Bank Rate of 6 per cent. Thus, while Shri T T Krishnamachari's budget contains

many favourable features. I would enter here a strong plea for the repeal of the dividend tax.

However, the tax and other incentives in themselves are not likely to enable increased production. Capacity to a not inconsiderable extent is lying idle for lack of imported raw materials and components. We are finding it hard to pay for the so called maintenance imports despite the success that has attended our effort to augment export earnings, which rose during April-December 1964 by Rs 40 crores as compared with the relative figure for April-December 1963. Idle capacity represents idle investments both of which the country can ill afford today.

Foreign Investments

The improvement in exports notwithstanding, realism requires us to recognise the fact that the scope for enlarged earnings is limited. The incentives given by the Finance Minister can be of limited avail. What, then, is necessary is that there should be a more vigorous endeavour tt import substitution. I dare say that the inducements available in this regard should be sufficient to foster the growth of particular industries manufacturing components. But a prerequisite is that research is undertaken with a view to pinpointing the industrial areas wherein such exchange savings would be possible. We have also to realise that beyond a point foreign aid on a government basis is not feasible; moreover, the cost of servicing such debt as well as the liabilities for repayment will to a corresponding degree be reflected in our foreign exchange reserves. Indeed, it would seem that the Finance Minister has come to the conclusion that private foreign investment touches less heavily on our foreign exchange resources; the repatriation either of dividends—or of capital at times—does not involve the country in any considerable drain of foreign exchange. It is thus that we have to appreciate the steps taken by Government to encourage the inflow of private foreign investments—steps comprised in what the Finance Minister described as "hospitable and fair treatment" for private foreign enterprise. Some weeks before the budget, the Finance Minister announced that conditions for private foreign capital to enter the country had been liberalised; it is now possible for a foreign enterprise to get a letter of intent in its favour. Again, the concession has been offered to the foreign investor of re-investing the proceeds of any sale within India; any capital gains arising therefrom will not be liable to tax, provided the re-investment is made in priority industries.

On the subject of foreign assistance, I would suggest that aid for maintenance imports is essential for the success of the plans themselves. For, it is only then, that we shall be able to make use of idle capacity, increase production and enlarge exports. Such higher export earnings are necessary, in turn, not only so that we ourselves can import more industrial raw materials, but also in order to make payments of accruing interest on foreign loans as they fall due and repayment of loans as instalments become liable to be paid. Interest on foreign debt of a normal nature has been rising in geometric progression; from no more than Rs 3.49 crores in 1954-55, the cost of interest on foreign debt has gone up to Rs 84.68 crores for 1965-66. Even so, repayments have risen impressively from Rs 47.59 crores in 1962-63 to Rs 97.28 crores in 1965-66. While I will not minimise the liabilities in foreign exchange that India is now burdened with, I would like to draw the attention of our friends to our exemplary conduct in meeting our obligations. Thus, as against foreign loans outstanding, at the end of 1965-66, of Rs 2,764 crores, we shall have already paid out interest amounting to Rs 355 crores; and repayments of instalments of principal as at the end of 1965-66 will have added up to Rs 407 crores. That, in the midst of our foreign exchange difficulties, we should have met such commitments bespeaks highly if I may say so, of India's creditworthiness. I urge our foreign friends, then, to extend untied credits to us, so that the beneficial cycle of utilisation of idle capacity, augmented production and enlarged exports can be set in train.

Revolving Foreign Exchange Credits

Aside from the generosity of our foreign friends, I venture to suggest that the commercial banking system in this country can raise foreign exchange for maintenance imports. The Export Credit and Guarantee Corporation, it is true, has evolved a scheme for revolving foreign exchange credits for exporters; but for reasons I am unable to fathom, the scheme has not been availed of to any significant extent. I should think that the commercial banks in India could muster considerable foreign exchange resources by way of loans from their correspondents and associates in other parts of the world for precisely this kind of financing. The banking system in this country can help in fuller utilisation of idle industrial capacity; and it should be given the opportunity so to contribute. It is time that the various Export Promotion Councils and the Chambers of Commerce gave wide publicity to the scheme of revolving foreign exchange credits. If there are any procedural difficulties in the utilisation of such credits, they should be expeditiously removed.

Although the last year has been a hard one, we must be grateful that signs of a turn for the better have begun to be in evidence. It is for us to seize the opportunities as they offer themselves, so that we can now proceed with our great task of industrialisation.

Note: This does not purport to be a record of the proceedings at the Annual General Meeting.

Anil Starch

A SHARP contraction in margins has more than nullified Anil Starch Products' impressive expansion in sales. The company's preliminary profit figures for the year to December 1964 show sales nearly 22 per cent higher at Rs 4.18 crores but gross profit more than 6.5 per cent lower at Rs 47.14 lakhs. Depreciation charge has absorbed about Rs 9 lakhs more at Rs 26.94 lakhs and development rebate reserve has claimed Rs 2.60 lakhs more at Rs 4.30 lakhs. There is a sizable saving in the tax charge, which at Rs 10.41 lakhs is less than a half of the last year's. But inspite of this and the addition of Rs 0.22 lakh being refund of income-tax, the disposable profit amounts to only Rs 5.71 lakhs compared to Rs 8.63 lakhs previously.

The directors have not taken any decision in regard to the dividends at their meeting held on March 25. It is expected to be decided at their next meeting. Last year, the company paid a total dividend of Rs 25 per ordinary share, inclusive of Rs 5 as bonus, which absorbed Rs 9.95 lakhs. The preferential dividend claimed Rs 0.35 lakh.

CURRENT STATISTICS

Labour Situation in 1964

S. No	State	No. of Industrial Disputes Referred to I R M	No. of Failure Reports Received	No. of Disputes Referred for		No. of Disputes Out of col. 5 in Which Awards are Available		No. of Works Committees Required to be Formed	No. of Works Committees Actually Formed and Functioning	No. of Workers Covered by Works Committees in Col. 8	No. of Strikes and Lock-outs	No. of Workmen Involved in Strikes and Lock-outs	No. of Man days Lost	No. of Estts Required to Frame Standing Orders	No. of Estts (out of Col. 15 Which have Got Certified Standing Orders
				Adjudication	Arbitration	Decided in Favour of Workers	Lost to Workers								
1	2	3	4	5	5A	6	7	8	9	10	11	(P) 12	(P) 13	(P) 14	15	16
1	Centre	5,557	651	303	185	42*	15*	1,432	10,55,969	955	8,49,662	315	124,373	6,52,253	1,829	1,728
2	Andhra Pradesh	353	98	62	2	19	6	129	68,905	133	68,136	65	50,722	4,09,205	336	283
3	Assam	341	98	82	1	1	1	302	N A	81	N A	27	14,360	45,363	1,137	887
4	Bihar	—	—	—	—	—	—	—	—	—	—	33	36,377	3,81,338	—	—
5	Gujarat	1,550	437	175	15	26	—	112	57,488	68	42,844	72	15,112	1,05,321	—	3
6	Jammu & Kashmir	—	—	—	—	—	—	—	—	—	—	1	240	720	—	—
7	Kerala	2,437	235	172	15	15	10	396	51,695	79	49,372	148	62,824	7,13,362	459	340
8	Madras	4,535	358	175	89	100	30	556	2,52,616	424	2,20,166	184	54,204	3,82,773	4,774	4,269
9	Madhya Pradesh	612	105	43	4	8	—	—	—	16	17,000	33	14,215	33,168	—	—
10	Maharashtra	3,738**	817**	461	240	338	74	422	N A	205	95,047	590	2,63,398	15,36,059	1,289	1,049
11	Mysore	618	294	129	4	77	26	299	1,50,000	141	80,000	83	34,770	1,87,188	421	303
12	Orissa	162	77	16	—	—	—	83	49,657	18	11,802	Nil	Nil	Nil	88	55
13	Punjab	1,570	448	177	32	60	49	274	73,055	167	58,216	39	4,938	49,033	251	184
14	Rajasthan	—	—	—	—	—	—	—	—	—	—	41	10,987	53,211	—	—
15	U P	4,538(P)	1,819	439	72	48	11	—	—	—	—	165	64,850	6,52,684	1,310	1,083
16	W Bengal	6,082†	730†	427†	N A	240††	98††	—	—	—	—	195	1,81,584	20,31,568	1,748	1,415
17	Delhi	1,369	314	185	62	50	24	87	—	24	19,700	32	2,722	21,156	87	66
18	Himachal Pradesh	—	—	—	—	—	—	—	—	—	Nil	—	—	—	—	—
19	Manipur	—	—	—	—	—	—	—	—	—	Not received	—	—	—	—	—
20	Nagaland	—	—	—	—	—	—	—	—	—	Nil	—	—	—	—	—
21	Tripura	—	2	1	—	—	—	—	—	—	—	—	—	—	—	—
22	A & N Islands	9	5	—	—	—	—	20	13,729	11	8,384	3	398	2,228	38	19
23	L A & M Islands	—	—	—	—	—	—	—	—	—	Nil	9	2,382	11,658	21	11
24	Goa, Daman & Diu	60	1	1	1	—	—	—	—	—	—	Nil	Nil	Nil	—	—
25	Pondicherry	7	6	5	—	2	—	5	—	—	—	—	—	—	5	3
	Total in 1964	33,538	6,495	2,853	722	1,026	345	4,117	17,73,114	2,959	15,20,329	2,035	9,38,456	72,68,288	15,798	11,698

Notes:—

** Include I D Act, Bombay Industrial Relations Act and C P & Berar Industrial Disputes Settlement Act.

† Not included cases reported in December 1964 for the Regions of Darjeeling, Jalpaiguri and Assansol.

†† Refers to 338 Tribunal Awards published in Calcutta Gazette during the year 1964.

(P) — Provisional.

NA—Not Available.

* In addition ,13 awards were received in which the parties with the permission of Tribunal referred the disputes to arbitration under Section 10—A. The arbitration awards are awaited.

Source: Ministry of Labour and Employment, (Volume 1), Annual Report 1964-65.

BANKING RETURNS

(Rs crores)

Reserve Bank	April 9	Apr 2	March 12	Apr 10' 64
1. Note circulation	2719.25	2640.49	2633.66	2545.34
2. Rupee coin	94.77	97.75	94.73	105.36
3. Deposits				
(a) Central Govt	54.69	62.54	84.23	52.17
(b) Other Govts	13.77	24.27	4.40	9.76
(c) Banks	94.45	98.84	90.40	84.91
(d) Others	171.04	170.50	147.35	158.79
4. Foreign securities	77.46	77.46	69.46	108.46
5. Balance held abroad	9.49	14.69	14.85	12.19
6. Rupee securities	2432.23	2367.69	2346.32	2232.76
7. Investments	89.67	74.97	116.10	108.29
8. Loans and advances to Govts	102.22	81.86	87.82	113.16
9. Other loans and advances	262.95	315.35	300.50	189.82

Scheduled Banks	Apr 2	March 26	March 5	Apr 3 64
1. Aggregate deposits (net)	2615.04	2576.99	2559.69	2298.56
Demand (net)	1260.34	1231.05	1213.64	1082.50
Time (net)	1354.70	1345.94	1346.05	1216.06
2. Cash in hand	67.40	67.21	67.07	61.72
3. Balance with Reserve Bank	92.76	94.55	97.17	85.91
4. (2) +(3) as % of (1)	6.12	6.28	6.42	6.42
5. Borrowings from Reserve Bank	161.36	152.86	129.93	74.94
(a) Against usance bills and/or promissory notes	58.45	53.06	31.37	42.77
(b) Others	102.91	99.80	98.56	32.18
6. Advancees	1713.46	1696.18	1668.35	1538.31
(a) State Bank	425.77	419.58	411.48	356.57
(b) Others	1287.69	1276.60	1256.87	1181.74
7. Bills discounted				
(a) Inland	273.29	263.75	237.14	238.41
(b) Foreign	75.44	73.72	77.78	67.33
(c) Total	348.73	337.47	314.92	305.74
(i) State Bank	51.66	50.73	43.85	21.77
(ii) Others	297.07	86.74	271.07	283.97
8. (6)+(7) as% of(1)	78.86	78.92	77.48	80.22
9. Investments in Govt Securities	718.27	719.60	722.74	631.76
10. (9)as % of (1)	27.47	27.92	28.24	27.49

Bombay Money Rates

(Per cent per annum)

	April 2	March 26	March 5	April 3, 64
Call money from Banks	8.44	8.13	6.87	6.52
Deposits 14 days	...	...	...	...
Three months	5.00	5.00	5.00	...
Six months	5.50	5.50	5.50	3.75

Index Number of Wholesale Prices

(Base: 1952–53=100)

Group And Sub-Group	Feb 1964	Jan 1965	Feb 1965	%Increase (+) or decrease (—) in Feb 1965 as compared with Feb 1964
Food Articles ...	**140.5**	**167.9**	**160.6**	**+14.3**
Cereals ...	122.1	145.3	142.7	+16.9
Pulses ...	129.1	196.3	176.4	+36.6
Fruits & Vegetables	156.6	174.7	162.0	+ 3.4
Milk & Ghee ...	128.4	153.5	154.2	+20.1
Edible Oils ...	154.7	220.4	198.7	+28.4
Fish, Eggs & Meat	153.7	185.8	183.7	+19.5
Sugar & Gur ...	178.3	182.0	167.1	+ 6.3
Others ...	179.6	183.0	176.1	+ 1.9
Liquor And Tobacco	**122.3**	**137.6**	**138.8**	**+13.5**
Tobacco ...	119.6	135.7	137.0	+14.5
Fuel, Power, Light & Lubricants	**140.5**	**146.6**	**146.3**	+ 4.1
Industrial Raw Materials ...	**143.5**	**172.0**	**169.2**	**+17.9**
Fibres ...	135.6	145.4	148.3	+ 9.4
Oilseeds ...	158.9	219.0	208.3	+31.1
Minerals ...	91.5	129.3	129.3	+41.3
Others ...	132.7	136.8	137.9	+ 3.9
Manufactures ...	**131.9**	**141.5**	**140.8**	**+ 6.7**
Intermediate Products	**141.3**	**161.7**	**156.8**	**+11.0**
Finished Products	**130.4**	**138.1**	**138.1**	**+ 5.9**
Textiles ...	128.4	135.8	136.4	+ 6.2
Cotton manufactures	135.9	138.7	138.7	+ 2.1
Jute manufactures	99.9	121.9	124.4	+24.5
Woolen manufactures	162.4	169.2	170.3	+ 4.9
Silk & Rayon ...	143.7	144.3	143.5	+ 0.1
Metal Products ...	163.0	169.5	169.5	+ 4.0
Chemicals ...	199.2	123.1	124.3	+ 4.3
Oil Cakes ...	167.8	226.4	214.5	+27.8
Machinery & Transport Equipment	125.5	128.4	128.4	+ 2.3
Others ...	127.8	128.8	129.0	+ 0.9
All Commodities ...	*138.1*	*159.6*	*155.3*	*+12.5*

Financial Position of Major Ports

(*Rupees in Lakhs*

Name of Port	Period	Revenue*	Expenditure*	Surplus or Deficit*
Calcutta	1962–63	1736.34	1704.10	+32.24
	1963–64	1828.03	1762.68	+65.35
Bombay	1962–63	1429.31	1248.34	+180.96
	1963–64	1634.23	1483.03	+150.70
Madras	1962–63	477.52	442.32	+35.20
	1963–64	447.20	487.40	—40.20
Mormugao	1962–63	125.74	64.27	+61.47
	1963–64	124.53	45.27	+79.26
Visakhapatnam	1962–63	187.28	194.88	—7.60
	1963–64	220.05	194.64	+25.41
Cochin	1962–63	142.85	145.62	—2.77
	1963–64	174.82	160.17	+14.65
Kandla	1962–63	112.84	89.92	+22.92
	1963–64	117.22	109.00	—6.38

* Includes Pilotage Account.

Source: Ministry of Transport, Government of India, Annual Report 1964–65.



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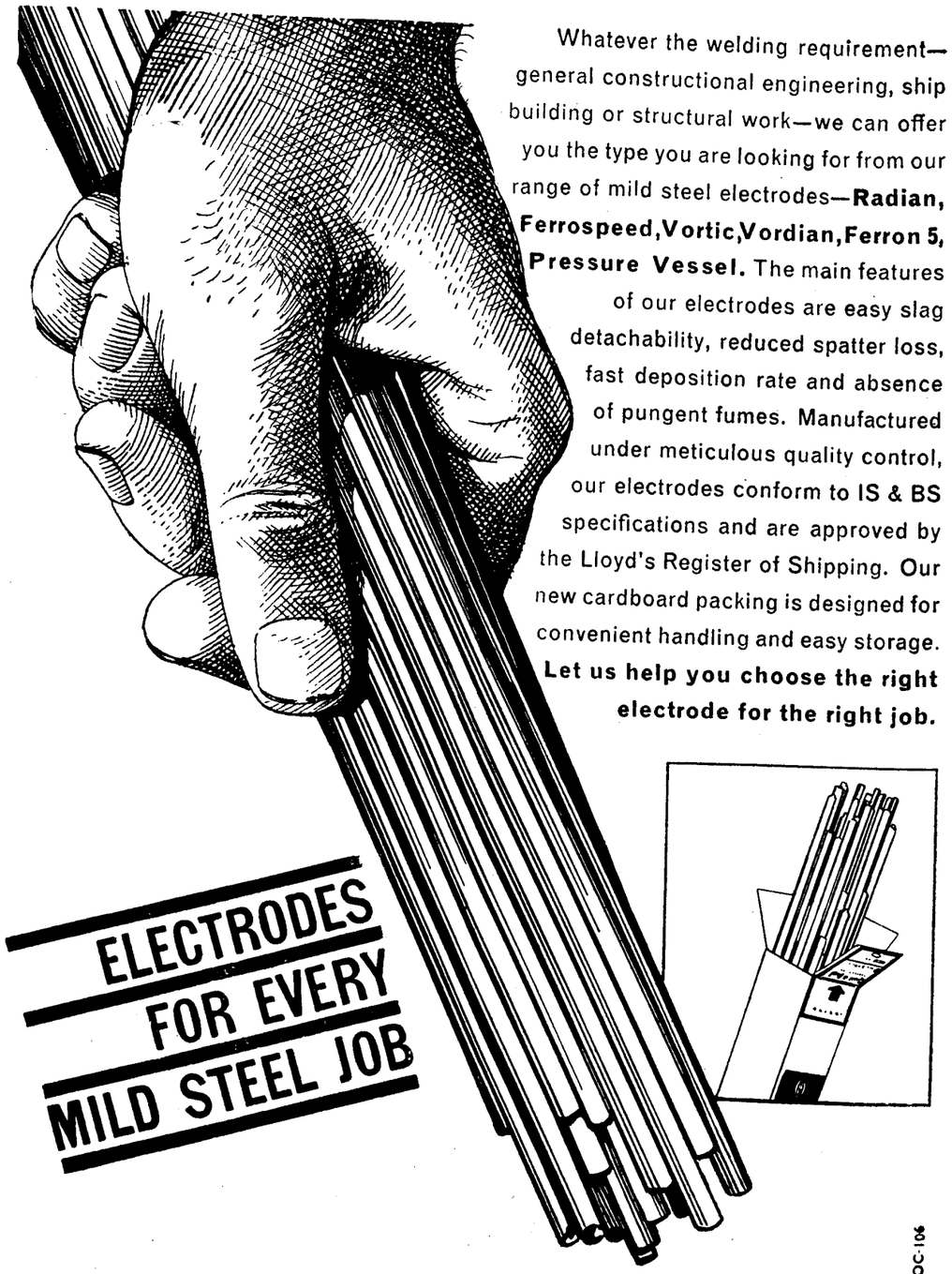
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That Bandung and This

DISTANCE and warped reporting have not successfully concealed our debacle at Jakarta. But the predominant reaction, even outside the Government unfortunately, has been either to ruefully blame it on the machinations of Pakistan and China or to play down the Anniversary celebrations as inconsequential and to take the attitude that India couldn't care less what went on. There is no inclination to ponder over the developments since 1955 which have made this Bandung so different from that. It is hard to believe that it was barely ten years ago that the Bandung Conference was held. The metamorphosis of our role in the Afro-Asian world and among the non-aligned could not have been more dramatically emphasised than by the contrast between our part at the first meeting in 1955 and the almost embarrassed appearance we put in at the Tenth Anniversary celebrations.

Consider our 1955 role : We were in the euphoric stage of our friendship with China; the conclusion in 1954 of the Pancha Sheel agreement with China led us to assume the responsibility of introducing her into the comity of nations—first among the Emerging Forces as a prelude to her eventual entry into the U N. So successful was Pandit Nehru's role that, by all accounts, Chou en-lai emerged as the leading figure of the Conference. Our ties with President Sukarno and his country also were particularly close. There was a Delhi-Jakarta *entente* with emotional and nostalgic references to the close cultural ties and similarities in contemporary economic and political postures. 'Bung Nehru' was as much a father figure in Indonesia as 'Bung Karno' himself and in India affectionate references were made to the basic rationalist and secularist approaches of the Indonesian leader, a Muslim but part Balinese and one steeped in the writings of Tagore and Gandhi. The odd man out at Bandung was Pakistan's Mohammed Ali Bogra and to a smaller extent Ceylon's Sir John Kotelawalla. Pakistan had just tied herself to the Western bloc through the Baghdad Pact and the SEATO, and Indian despatches at that time said that Pakistan's presence was at best a concession to her geographical Asianness and at worst a calculated plan of the Americans to put up Asian opposition at the meeting to what seemed to be a promising Delhi-Peking-Jakarta friendship. Pakistan and Turkey were indeed embarrassed participants while the irrepressible Sir John Kotelawalla drew many unfriendly comments for his presumption to speak against China.

If all this is repeated at length, it is only to draw the contrast with the Tenth Anniversary meeting. This time it is India who has been the odd man out. Far from playing a leading role, we are reduced to feeling gratified that we are not considered 'un-Asian'. Of the five original sponsors (at Bogor) of Bandung, Ceylon and Burma have lost interest. Pakistan and Indonesia have teamed up and we are left wondering why and how it all happened. It is childish to blame Pakistan as opportunistic or Sukarno as behaving like an ungrateful upstart as some of us seem to be doing. Pakistan is going through the same heady phase of a non-aligned and independent stance in foreign affairs as we did in the early fifties. She has mended her fences with the radicals of Asia—China and Indonesia—while being unremitting in her opposition to us. There is certainly more consistency in her policy than is conceded here if we interpret it as always being guided by the lodestar of opposition to India. Indonesia's change in attitude is the amalgam of disillusionment with our virtual abandonment of non-alignment, of envy at the aid which we seem to get, and of the Indonesian President's personal anger with some of our attitudes and personalities. Our support to Malaysia must have been the proverbial last straw but the parting of the ways was clear enough even at Belgrade.

It is unfortunate but a fact that we are now out of step in Asia. Our growing dependence on aid—for everything from food to military hardware —has rightly made us cut a sorry figure; our refusal to speak out on important issues out of fear of offending either Washington or Moscow or

which any increase in deposit rates will fail correspondingly to mobilise fresh deposits", he fears that the only result of the high rates now prescribed will be to reduce bank profitability.

Other bankers have taken less unambiguous positions. The chairman of the United Commercial Bank is a model of circumspection when he says that he is "not in disagreement with" the successive raising of the Bank Rate since it is intended to bring in more realistic rates of interest. He also concedes that the linking of the cost of central bank credit to bank's liquidity is equitable since it recognises that banks should not lend beyond their means and thereby over-extend themselves. Finally, he is cautiously hopeful that the higher deposit rates will bring more deposits to the banks.

But his approval of all these measures is severaly qualified. On the central question itself, he is apprehensive that the raising of the cost of credit might result in denial of credit to "worthwhile productive endeavours", particularly during the busy season. This argument does not, however, come out quite clearly. For one thing, it ascribes an importance to the Bank Rate inconsistent with his statement a little earlier that the Bank Rate follows rather than leads interest rates in the money market. That apart, it is not clear whether what is meant is that at the higher rates of central bank lending, total bank credit will be insufficient to meet the demands of "worthwhile productive endeavours" or that particular banks, which are overextended, will find themselves at the end of their tether. If it is the latter possibility that the chairman had in mind, is that not exactly what linking of the cost of central bank credit to the banks' liquidity is expected to achieve? Inevitably there will be a redistribution of advances among the banks as has happened in the last few months, in favour of the State Bank.

It is also interesting how, when the monetary authorities themselves seem to be giving up the pretence of being able to direct bank credit into different activities according to some order of priorities, bankers continue to argue as if their dispensation of advances strictly conforms to national purposes. The Deputy Chairman of the Indian Banks' Association has drawn attention to the fact that bank advances to industry had increased to 59 per cent in March 1964 from 34 per cent nine years earlier while their commercial and financial advances had declined to 31 per cent from 50 per cent. It is, however, difficult to draw any inference from these figures about the impulses which cause banks to distribute their advances among different sectors. To a large extent the changed percentages reflect the growth of industrial production in the period in question and the increase in the proportion of national income originating in industry. Besides, the break-down of bank advances is by borrower category, not purpose, and as such the higher percentage of advances to industry may indicate to an extent larger inventory-holding by industry and perhaps vertical integration of manufacture and trade in certain sectors.

With the shortage-of-credit-for-essential-uses argument based on rather faltering foundations, the bankers' case against the higher cost of central bank credit comes to depend very much on the profitability argument, which is sharpened by the prescription of minimum deposit rates and of a ceiling on advance rates by the Reserve Bank. The Deputy Chairman of the Banks' Association claims that on the basis of the prescribed rate of 6 per cent on one-year deposits, banks will "break even" after meeting overheads only if they can earn an average of 10 per cent on their advances. These are startling statistics, considering that roughly a third of total bank deposits earn no interest at all and that a considerable proportion of the rest earns interest well below 6 per cent. However, even if we accept the Bankers' Association's figures what they indicate is that there will now be greater pressure on every bank to raise the preferential rates that it charges on advances to favourite borrowers and bring then nearer the rates charged from the rest. If this happens it will be no bad thing—unless, of course, bankers can convince us that their advance rates, too, are graded according to the rating of the purpose of the advance in the scale of Plan priorities!

A Rebuff or An Affront?

WHEN is a rebuff a rebuff and not a snub, and when does it become an affront and an insult? Is a request for the postponement of an official visit by the host country any of these? President Johnson's postponement of Lal Bahadur Shastri's visit has been variously interpreted in this country. In Parliament it has been taken very seriously indeed. One member went so far as to describe the postponement as "unprecedented in diplomatic history". What seemed to irk members particularly was the fact that Shastri had been bracketed with President Ayub Khan. But this should have caused less surprise; it has long been U S policy to treat the two countries on a basis of parity. After all, Pakistan does still belong to CENTO and SEATO. Moreover, her diplomatic star is rising. It must be equally galling to Pakistan to feel "equated" with India.

Given Parliament's predictably strong reaction, Shastri must have decided that a suitably strong response to the US action was called for. On balance his decision to cancel his visit seems appropriate. It takes some of the steam out of increasing criticism in the country of growing subservience to the U S. Besides, Shastri's and India's views on Vietnam have already been conveyed to President Johnson via Harriman and will no doubt be conveyed to him again via Cabot Lodge, who is due to pass through Delhi soon. Indo-U S relations hardly suffer on account of unsatisfactory lines of communication. Shastri is not likely to have persuaded Johnson to stop bombing North Vietnam during his brief sojourn in Washington. Indeed the U S President would not have asked for a postponement, were he somewhat more amenable to other people's views on Vietnam. This appears to be the real cause of concern: the calling off of Shastri's visit is only another indication of the U S President's increasing irritation with, and disinclination to consult, adverse international opinion on Vietnam.

Too Much Useless Research

IF the impact of modern science on our agriculture appears nominal, it is not for want of enthusiasm for research but because much of the research is misdirected. Worse, the results of this research hardly ever reach the man at the plough. This is what one reads in the Estimates Committee's report on the working of the Indian Council of Agricultural Research.

The I C A R is charged with promoting and aiding research in agriculture—with providing the needed "leadership". For this purpose, it makes grants to schemes of research undertaken by various recognised institutions, private and public. In this the ICAR has not escaped the common administrative failings. The Estimates Committee notes that the long and cumbersome procedure laid down for sanctioning schemes leads to the lapse of more than a year between the receipt of a scheme and the communication of its financial sanction and of

yet another year or two before the scheme is actually activised. In the selection of personnel there is further delay.

But the most serious criticism the Committee has to make is with regard to the co-ordinating functions of the Council. Unnecessary duplication and much waste of resources are the result of the helpless attitude assumed by the ICAR. One of its spokesmen admitted to the Committee: "It is a fact that excepting for research which is carried on under the grants given by the ICAR, we have no knowledge of the research programmes of State Governments. They do not come to us and so we do not know... It is doubtful whether the State Governments themselves know what is being done at various institutions. There must be a fair amount of duplication going on". The Agricultural Research Review Team (1964) had earlier reported similarly: "On several occasions we saw research along parallel lines being done at stations situated only a few miles apart but under different authorities and found no co-ordination between the programmes".

Such examples of misdirected energy were found elsewhere too. The Council spends nine to ten lakhs of rupees out of its research funds on administrative staff when the Government could be asked to shoulder this burden. In 1964 it brought out 39 publications, 32 of which were in English, 7 in Hindi and none at all in the regional languages. The Estimates Committee is very sceptical about the need for so many publications—none of them meant for the cultivator. Indeed, it has ample reason to be. On March 31, 1964 the value of the Council's publications that remained unsold was close to three and a half lakhs of rupees.

On the promotion of agricultural education, the vigilance and assistance of ICAR have been less than adequate. A host of agricultural universities, ill-planned and ill-equipped, often with less than thirty acres of land for experiments have freely mushroomed in several parts of the country, creating problems of deterioration in standards, lack of uniformity in courses and in the number of years of training and regional imbalances between the supply of and demand for agricultural graduates. Little planning has gone into agricultural education as is obvious from the fact that no proper scheme of incentives to attract the right talent has been worked out. The administrative services and medicine and engineering remain the prized professions and the poorest quality students take up agriculture. This is hardly surprising when the scales of pay, conditions of work, chances for promotion are all such as to discourage the entry of the better students.

Research is meaningless if the cultivator does not benefit from the increased knowledge and yet the weakest part of the ICAR is its extension programme. Contact with the cultivator is minimal and the successful graduates prefer administrative posts to farm work. The Estimates Committee suggests the opening of more vocational schools teaching agriculture to middle school boys in the villages. One may go further and say that what is needed is an overhaul of the assumptions and objectives of the present education system in the rural areas which is at best a poor copy of its urban counterpart, unrelated and irrelevant to the needs of the villages. Agricultural education is not a mere matter of turning out agricultural graduates and introducing agriculture in the schools. It implies a change in values and attitudes. This is the objective that education in the rural areas ought to be tailored to achieve, but isn't.

Saving and Investment

THE Reserve Bank's estimates of saving and investment in the Indian economy have been brought upto 1962-63. The latest estimates, the third in the series, are published in the March issue of the Bank's *Bulletin*. Though "basically" the method of estimation has remained the same as before, there have been some "refinements". These relate mainly to (i) saving of State governments; (ii) blowing up of saving figures for the corporate sector on the basis of the paid-up capital of enumerated companies; and (iii) household sector's saving in the form of gold and in physical assets in agriculture, corporate shares and securities. Inventories in (non-corporate) trade and agriculture have been included for the first time.

According to this study, at 1948-49 prices, total gross saving amounted to 5.7 per cent of national income in 1950-51; over the next three years the percentage fell to 5.4 in 1953-54. In 1954-55 it jumped to 8.0; then it rose further to 9.7 in the following year. There was a slight decline to 9.5 in 1956-57, followed by a sharp fall to 7.0 in 1957-58. The figure recovered only slowly over the next five years, so that in 1962-63 it had only reached 9.7 (which is the level it had already reached seven years before). Of course, as the study points out, since the necessary information is not available for all the individual years, the estimates of year-to-year variations in saving are rendered "less reliable". Still the decline in the percentage of saving in 1957-58 was so marked that it merits detailed analysis. The study refers only to proximate causes: "a running down of inventories in agriculture and trade and a sharp drop in investment in urban housing."

There is some analysis of the estimates which reveal significant results. For example, it is shown that average saving-income ratio for the government sector declined from 11.9 in the First Plan period to 11.2 in the Second. The ratio for the domestic corporate sector showed a major decline from 42.8 to 35.8. The saving-income ratio has been rising only for urban households. Another interesting result is that "within the household sector, in most years covered by this study, the share of rural saving is much less than that of urban, considered in relation to total saving, or in proportion to national income or income of the respective sectors".

Aggregate marginal saving-income ratio during the Second Plan with reference to the First Plan is estimated at 18.9 per cent; the corresponding ratio during the first two years of the Third Plan with reference to the last two years of the Second Plan is estimated at 14.6 per cent. As contributors to total saving, both government and the domestic corporate sector have done badly. The percentage share of government in total saving declined from 17.6 in the First Plan period to 17.3 in the Second; (government's saving as a percentage of national income rose from 1.2 to only 1.5 over the same period). The percentage share of the domestic corporate sector in total saving over the same period also fell from 6.2 to 5.1; (its saving as a percentage of national income stayed put at 0.4). But the household sector increased its share from 76.2 to 77.6 and its saving as a percentage of national income rose from 5.0 in the First Plan period to 6.6 in the Second.

The study also contains much useful information on the behaviour of domestic investment and the inflow of capital from abroad. Investment as a percentage of national income (at 1948-49 prices) was 7.2 in the First Plan period, 11.7 in the Second, and 12.3 during the first two years of the Third.

The Ideal Contraceptive

A Correspondent writes :

THE Union Government's green signal to the States to promote the use of intra-uterine devices (IUD) as an effective method of birth control promises to prove a landmark for the family planning movement in the country. The search for an inexpensive, effective and simple contraceptive has brought forth what seems to be a satisfactory answer with the added advantage that, once adopted, it requires a couple to do something to restore an otherwise inhibited fertility.

The origin of IUD can be traced back to the use of rings of silkworm gut and gold or silver wire by a German gynaecologist, E Grafenberg, around 1928-30. These devices continued to be used by individual doctors but there was little interest in them in medical literature between 1934-59. In 1959, the research publications of two doctors from Israel and Japan revived interest in IUD. Experiments by two American doctors, Dr L C Margulies of the Mt Sinai Hospital of New York and Dr Jack Lippes of the School of Medicine of the University of Buffalo, with 'coils' and 'loops' respectively, removed the difficulties of the earlier devices and opened up new vistas in the technology of family limitation.

An international conference sponsored by the Population Council in New York in the spring of 1962 and attended by medical representatives from 11 countries, including India, held IUD as extremely promising and recommended expediting of further work. In the same year, the Government of India entrusted to the Indian Council of Medical Research the task of evaluating intra-uterine contraception and some 48 studies covering over 2,000 women were undertaken. While the results of these studies are yet to be published, the decision to recommend IUD to the States indicates that the results have been encouraging.

Both the Margulies coil or spiral and the Lippes loop, now in world-wide use, are made of polythelene which is chemically inert and flexible enough to permit their insertion through a strand-like tube with a plunger without any dilation of the cervix. The technique of insertion is simple enough and trained midwives can do the job so that the organizational problem in promoting family limitation becomes manageable. Both the coil (shaped roughly like a shepherd's crook) and the loop (shaped like a double 's') are available in two sizes—large and small —and for both the large size has been found more stable and effective. While the mechanism of the conception-inhibitory effect of IUD is yet a subject of research, the failure rates—the number of unintended pregnancies per 100 insertions at 12 months after insertion—of the loop and the coil are significantly lower than those for condom or diaphragm as used by a sample of 1,165 metropolitan couples in the U S A in 1957. The cost of a coil or loop is about 15 to 20 paise and it can remain in the uterus as long as desired without any carcinomatous effect. Also, unlike sterlization, whose reversibility is as yet under experimentation and discussion, IUD can be removed without any adverse effect on fecundity or the child-bearing capacity of the female.

A central question about IUD has been the rate of their expulsion, with or without notice by the wearer, and the rate of removal due to complaints of excessive or persistent bleeding during or after menstruation, pain or the development or reactivation of pelvic inflammatory disease. However, women using IUD can be trained to verify, say, every week whether the IUD is in position. Besides, these problems appear mostly in the first few months after insertion and it seems possible to remedy them through anticipatory administration of vitamins and minerals and the use of antibiotics. While women with any infection may not be given IUD, advance assurance about the transitory nature of side effects also promises to improve the acceptability of IUD.

IUD are being used in many countries including the U S A. The Lippes loop has been found more effective than, and preferable to, the coil. A factory for the manufacture of IUD is being set up by the Government at Etawa in Uttar Pardesh. Pending the adequacy of indigenous supply, the Government has arranged to secure about 6 million devices from the Population Council, New York, to be distributed to various States.

While the recently accelerated medical research on the physiology of reproduction can legitimately be expected to come up with even more effective and simpler contraceptives in the future, at the moment IUD appear to be the ideal contraceptives to meet the need of the masses in a country like India. While it cannot eliminate the need for sufficient motivation for family limitation, it will certainly facilitate the generation of such motivation. And since once inserted, IUD do not require couples to take precautions at every coitus, the need for a steady level of motivation for family limitation will be minimized.

Capital Export and Balance of Payments

BALANCE of payments problems have recently forced the world's two most important capital exporting countries, the U S A and the U K, to take steps to discourage the flow of private capital abroad. In this context the quotation given below from the statement of the Chairman of British Petroleum to the company's shareholders is of interest. British Petroleum, incidentally, operates almost wholly outside the U K. Nearly 100 per cent of its producing activities are located overseas and so are nearly 90 per cent of its sales. Says the BP Chairman :

"During the past year a good deal of attention has been given to the subject of overseas investment by British companies. When considering our (BP's) contribution to the U K balance of payments, I think it best to distinguish between two quite different aspects of our operations. The first part is our overseas trading in oil which does not enter this country. From the results of this overseas trade the contribution amounted to £ 42 million in 1964 after allowing for new investment abroad... The second contribution consists of the saving on our oil imports into this country to meet the energy requirements of the home market. The cost of these imports in balance of payments terms was £ 36 million, but if this oil had had to be purchased from a foreign-based oil company the overseas payments might well have been at least £ 25 million more.

"It appears true to say, therefore, that your company's contribution to the U K balance of payments totalled at least £ 67 million, being the overseas earnings of £ 42 million plus the £ 25 million saving on imported oil, and these figures are arrived at after deducting in full all remittances for new investment overseas. Nor should we forget that considerable exports from this country such as plant, machinery and general stores are generated by our operations abroad.

"... Our net assets outside this country at the end of last year were about £ 450 million, so that in terms of a contribution to this country's balance of payments the return on this investment was about 15 per cent."

CAPITAL VIEW

A 'Coup' in the Foreign Office

Romesh Thapar

IN knowledgeable circles, our quiet, self-effacing Prime Minister is considered one of the most remarkable political in-fighters of the sprawling Congress Party machine. Admittedly, he has not been endowed with the kind of equipment which we have come to associate with leadership, yet he has managed to present himself to the country as the only possible candidate for leadership. Today, for example, when his public image is anything but what it should be, the truth is that he is more firmly in the saddle than ever before — and this is so despite the repercussions of the Abdullah visit, despite the successful Pakistani attack in Kutch and despite the crude and brusque manner in which his visit to the USA has been 'postponed' by President Johnson.

Calculations Upset

It is somewhat difficult to cut through the whys and wherefores of the situation which prevails, but, nevertheless, it is important to record that Prime Minister Lal Bahadur has for some weeks been rather concerned by the way in which various trends in foreign affairs are compelling him to assume postures not relished by him. True, these postures are inhibited, belated, disjointed, without a determination born out of conviction. In totality, however, they have confused the careful calculations of those influential circles who until yesterday firmly believed that a few sharp proddings would make post-Nehru India a vassal of the West. President Johnson's computers, human and mechanical, seem to have indicated that the GOI will be more easily tackled after the buffeting it receives at the Afro-Asian Algiers Conference!

That India has been equated with Pakistan, and that Lal Bahadur has been made to look rather ridiculous before the world, will not be lost upon the GOI. There is anger in normally placid quarters. But will it find expression in a more frank assessment of critical international issues? Will the lazy leadership of this country be roused from its long sleep? Or will we continue to phrase our declarations in such a way that we influence no body and only irritate our friends? The pointers are ominous.

The other day, U S Ambassador Chester Bowles thought fit to visit our Foreign Office to lecture a senior secretary on the failings of India's foreign policy. Bowles used the most intemperate language in describing his reactions to the GOI's stand on the escalation of the war in Vietnam, the use of gas and the inadvertant description (by Foreign Minister Swaran Singh) of the U S President as a 'U S spokesman'. The GOI was told that it was ungrateful for the assistance given by the U S A since the Chinese attack in NEFA and Ladakh, that it lacked understanding of the implications of the Vietnamese conflict as part of the war against communism, and that it was unable to distinguish between its friends and enemies. Some such insinuations were made earlier by Averell Harriman. Bowles also opened fire, as it were, on the GOI's attitude to the twisted aircraft carrier story.

Juniors at the Foreign Office expected that Bowles would be ticked off as soon as the note prepared by the senior secretary had been studied. Minor slips of this kind by self-important Ambassadors had earned them a pointed rebuke in the past. There was no reaction. And, towards the end of last week, came another blow. Unknown to the Foreign Minister, a press statement was issued announcing the constitution of a Committee of Secretaries to help formulate foreign policy. It was in the nature of a 'coup' at the Foreign Office, and has been so interpreted in the Capital. Indeed, the assessment is even more provocative. It is maintained that in future the possibility of obtaining western aid and assistance will be an over-riding consideration in the formulation of foreign policy, that this is the real objective designed for the new Committee of Secretaries.

Reduced to a Rubber Stamp

It is still unclear as to how this concept of a Committee of Secretaries came to be projected. Foreign Minister Swaran Singh knew nothing about this move which, in fact, reduces him to a rubber stamp. True, the Prime Minister has been widely criticised as a result of his Foreign Minister's inept handling of issues. But it passes comprehension how this new Committee is going to fare any better. These gentlemen of the ICS — described by K M Panikkar as 'the unlettered service'! — are already so involved in dabbling in all manner of subjects that their tentacles need to be drastically confined. If, however, their job is to make foreign policy dependent on the *diktats* of western aid and western capital, then it is time to investigate what goes on in the Foreign Office.

On the surface, the story is that Swaran Singh has protested against the attempt to make him an obedient mouthpiece of such a committee. Some say that this is Lal Bahadur's subtle way of easing him out of the Foreign Office, and wonder who will succeed him to this degraded post. It is argued that only if Lal Bahadur took over the reins could the Committee be made to look innocuous, but this too is out of the question. As for the demoralising effect this move to 'streamline' foreign policy planning has had on the permanent cadre of the ministry, the less said the better; a serious revolt is developing against the 'coup'.

Conspiracy Against Foreign Service

Even casual observers of the scene have been startled by the almost deliberate attempt to give the most incompetent men the most responsible positions in the Foreign Office. If the present process continues unchecked, we will be at the mercy of men who have no understanding of the vital interests of this country and little desire to project them. Of course, the usual seniority arguments are used to justify the process. The attempt is to smear the entire foreign service with the charge of incompetence, although it is well-known that the service has many able officers who could be used to strengthen policy planning. In this way it is intended ultimately to so infiltrate the foreign service that power passes to men committed to a Westward orientation.

The conspiracy against the solid core of the foreign service, which continues to work for a sovereign policy, has been developing for several months. It was speeded by the waffling of the Foreign Minister and the heavy reliance the Prime Minister places on the advice of those bureaucrats closest to him. Members of the I C S Establish-

ment (active and retired) who were frustrated in their attempt to push through the VOA deal, and senior military personnel, who imagine that a military alliance with the West is the only answer to China and Pakistan, had also been lobbying for a drastic overhaul of the Foreign Office. The 'Coup' has been most carefully planned for the public has been influenced to believe that a salvage operation is overdue.

The poor calibre of the seniors who control the Foreign Office, their refusal to coordinate their activities or to establish a policy planning cell which would activise their more able juniors, the conscious effort to keep the more perceptive men of the service engaged in unimportant diplomatic assignments which could well be done by the moronic seniors posted in Delhi, the deliberate failure to plan international moves in perspective or to engage the talent of experts in researching trends in strategic areas of the world, and the apathy shown in projecting India's case abroad, has been exploited to create the sanctions for the constitution of a Committee of Secretaries to formulate foreign policy. The implication is that we only need the brains-trust of a few non-experts to give us expertise. How fatuous!

Shake-Up Imperative

The dreams of the 'coup' leaders have fortunately been shattered by President Johnson's rude 'postponement' of the Prime Minister's visit to the U S A and the subsequent 'cancellation' of the trip by Lal Bahadur himself. Incensed by the treatment given, the Congress parliamentary party is boiling with rage — and the rage increases every time an attempt is made to explain away the rudeness with a sly anti-Pakistani interpretation of the incident, for it is known that other visits by lesser persons have not been postponed. The Prime Minister himself has spoken with a new-found sharpness on the Vietnam situation — and at a meeting of the Indo-Soviet Cultural Society in the Capital! This new emphasis is likely to be underlined in the coming weeks, as also the stress on India's close friendship with the Soviet Union.

But the Prime Minister requires to do more than this if he desires to block the developing 'coup' in the Foreign Office. The situation of paralysis which has been deliberately created under the aegis of Swaran Singh by a present bureaucratic apparatus at the Centre can only be broken by a real shake-up in the Foreign Office, a shake-up which brings the most able and dedicated officers of the foreign service into control irrespective of seniority and other such absurd considerations. Preferably, this shake-up should follow the appointment of a new Foreign Minister.

Lal Bahadur cannot afford to procrastinate. Too many challenges are developing. It is imperative that an active, alive Foreign Office start functioning without delay. Only then can we be reassured that the projected 'coup' has been squashed.

LETTER FROM SOUTH

Dissidents in the Congress

IT is still not clear as to when exactly the gathering of Congress dissidents is going to take place in Bangalore. There are possibilities that it will be postponed for some time because of certain new developments in Kerala. But there is little reason to doubt that such a convention will take place some time this year to prepare for the pre-election tussle for constituencies.

The convenors of the proposed convention are the anti-Nijalingappa group of Congressmen in Mysore State. They allege that the present Ministry is corrupt, factional and isolated from the people. A great many memoranda have been prepared by the Congress opposition against the Ministry to this effect and publicly circulated as well as sent on to the High Command. The complaint now is that the High Command has also turned callous and hence an appeal has to be made directly to the supreme arbiter—the people.

The motivating forces seem to be caste rivalry—the Lingayat-Vokkaliga conflict is at the root of a great deal of the political strife in Mysore State —and the conflict between Congressmen belonging to the old Mysore State and those who came in when all the Kannada-speaking areas were amalgamated. Though linguistic reorganisation was never opposed, the movement for a united Karnataka had not gained the tempo or the depth that similar movements acquired in Andhra and Kerala.

No Coherent Programme

The dissidents in Mysore State have not yet put forward any very coherent programme or a well thought out platform of action. Corruption seems to be the rallying point. Where they have displayed a certain novelty is the invitation they have extended to other dissidents in other States and the energy with which they are attempting to bring in the Kerala Congress rebels. They seem to feel that they can give a lead to the rest of the country and form dissident Congress parties in one State after another till a parallel Congress is ready throughout the country by the time of the 1967 General Elections.

It has now been disclosed that the first thoughts about forming an all-India dissident Congress matured during the Guntur AICC session last autumn. The brain behind the move is said to be Morarji Desai or, at any rate, the coterie close to him. The strategy is based on the calculation that with the death of Pandit Nehru the possibility of balancing, manoeuvring and yet remaining together has considerably diminished. At the same time, the discontent of the people was sure to mount without Nehru there to act as a safety value. But no opposition party would be able to garner the harvest of this discontent as the Congress was still identified in the minds of millions with India itself. Hence, the failure of the Swatantra to make any significant headway since the last elections. Logically, therefore, the dissidents should put forward the claim that they were the "true" Congress.

The first move in the new game was the formation of the rebel Congress in Kerala. Kamaraj attempted to boldly face the challenge but the results demonstrated that quite a sizeable chunk of the traditional Congress vote had shifted its allegiance, undoubtedly on the basis of caste and religious appeals. It was significant, also, that the official Congress, though still well-off financially, did not have quite the plethora of funds that normally is made available to it. Possibly, the hope was that some heads would roll! The hope was very nearly realised since the effective campaigning in the State for the official Congress was confined to Kamaraj and Krishna Menon.

The full impact of this new factor in southern politics could not be felt because of the hesitations of the Nair Communalists and the Catholic hierarchy. The rebel Congress leaders were quite prepared to form a coalition ministry with the Muslim League and based on the benevolent neutrality of the Left Communists. The latter, however, did not agree to any blanket promise in the matter. Worse still, Mannath Padmanabhan suddenly declared that President's Rule was the best solution in the given circumstances and that his grouse against the official Congress was that they had not 'shot' both varieties of Communists! This was followed up by some Catholic bishops coming out with the pious warning that all good Christians should remember that they must do nothing to further the ambitions of the atheists. Both these influential forces are hesitating as to whether the present juncture is the most propitious for staging an open rebellion. Their caution is likely to prejudice the chances of the proposed Bangalore convention as well.

A great deal will depend on the extent to which the Shastri-Kamaraj *entente* is able to consolidate itself and intervene firmly but imaginatively not only in the internal strife of the Congress but in the larger policy conflicts that are looming ahead. There are no significant signs yet that either of these two leaders will demonstrate imaginative firmness.

Growing Polarisation

The real significance of dissidence, however, lies in the belief that the Congress name has still a magic appeal to the vast majority who are expected to favour the concept of progress with stability. The corollary of this belief is that no viable alternative to the Congress, i e, openly anti-Congress, can be built in the near future. It cannot be denied that the Congress hold on the people is still very extensive and that as capitalist development proceeds the tendency to play it safe by sticking to old labels will increase in strength among the smaller proprietors. But this very development itself produces its own polarity, not between increasing wealth and increasing poverty but between concentration of power and rising expectations. Already, the operation of this polarity can be seen in the greater stridency of Big Business on the one hand and attempts at militant consolidation as in the Sangram Samiti of the workers or, locally, in the Mahagujarat Janata Parishad. It is this latter trend that has all the potentiality of rapid growth, if the various Left parties do not pursue their sectarian paths. Once this trend gathers momentum a real choice opens before the people and the large mass of democrats who still hold to the Congress.

The possibilities of some sort of open split in the Congress can and should be utilised by the adherents of this trend to push ahead. It would be fatal, however, either to rely on the dissidents for an alliance to move Left or to rally to the official Congress in the name of defence against the Right. The first task of the Left is to establish its identity through a platform and through joint actions. This in itself would produce a sizeable mutation in the political scene, not the least of which would be the inducing of relevent separations in the Congress. Then alone would true dissidence in India acquire coherent mass dimensions.

Dharmapuri Victory

Another setback to the dissident plans came with the Congress victory at Dharmapuri in Tamilnad. The election contest took place in the aftermath of the recent massive anti-Hindi upheaval. The DMK had mustered its entire strength, Rajaji had actively campaigned and the Congress seemed rather demoralised, especially as the seat had been won by an Independent in 1962. The 11,000 majority, therefore, represented a thumping success for the Congress, somewhat belying facile hopes that the mass base of the Congress had substantially melted away. Many a Congressman, attracted by the dissident idea, must have wondered whether the chances for personal uplift were still not better within the official fold.

These reverses, however, are not likely to completely kill the new move. The Mysore dissidents seem to be firm on keeping to their original resolve. The objective situation appears also favourable to the possibilities of split. Even when Nehru was alive the factional squabbles were mounting in the last year. It is not altogether fanciful to postulate that these quantitative conflicts are approaching the point of a qualitative leap to open dissidence.

FROM THE LONDON END

Convincing the Americans

EASTER is traditionally a time for hope, and Harold Wilson's sketch to his American audience provided a most convincing Labour blueprint for the real economic renaissance of Britain. In a really inspired speech at the New York Economic Club, the British Prime Minister's main object was to scotch finally any rumours that remained of the possible devaluation of the pound, to restore foreign confidence in Britain's economic ability to deal with her balance of payments problems, and to raise, once again, the vital question of international liquidity and the need for a more positive approach to this problem.

In his speech, Wilson strongly reaffirmed the Government's "unalterable determination to maintain the value of the pound". Hard-headed New York businessmen must have seen the logic of Wilson's confession that shortly after he had formed a Government, he had discussed with Brown and Callaghan the serious difficulties of the balance of payments position they had inherited from the Conservatives, and had discussed the possibility of devaluation, but had reached the firm conclusion that this, though providing an easy way out, was not the solution for Britain's problems. The situation was quite different from 1949 when the exchange rate had been held at an unreal level at the end of the war, and the time had come to make terms with reality. The situation to-day was different. Moreover, it would disrupt established and trusted values in world trade and have a particularly unfortunate impact on the Sterling Area and international trade generally. Surely the Americans must have got the message that if

Labour had intended to devalue the pound, it would have done so immediately after taking office, so that the blame could have been squarely laid on the Conservatives.

The British Prime Minister dealt at some length with the measures now being adopted by the Government to tackle the balance of payments deficit which he hoped would be reduced by half, to $350 millon in 1965. He hoped that it would be completely eliminated in 1966.

Overseas Investment

Justifying the Chancellor's curbs to restrain new overseas investment, he pointed out that it was economic nonsense to feel that Britain should keep on adding to capital investment abroad for the sake of future returns, at a time when she was still in the red on her current payments. While Wilson was making his speech in America, the oil companies in Britain, particularly British Petroleum and Shell, were starting to mount a campaign against the restrictions on overseas investment introduced in the Budget.

Many commentators on the Budget have pointed out that one of the main drains which keep Britain in the red in her balance of payments account, is the vast sums that are spent annually on overseas military expenditure. This is running currently at the rate of some £300 million. It was, therefore, somewhat reassuring to hear the categorical statement from the Prime Minister that Britain's military expenditure abroad would be cut by one-third if the Defence Department met in full a new economic target which had been set for them. The aim is to save between £50m and £100m in overseas military expenditure.

How this saving will be made is not yet clear. The most likely possibility is a cut in the money spent in Germany on maintaining the British Army of the Rhine. It is understood that while in Bonn, Harold Wilson discussed this matter with the German Government, and if agreement were reached, as much as £50 million could be economised under this head. Of course, there is also the possibility of reductions in Malaysia and Aden, but given the Government's attitude to policy "East of Suez" and Britain's traditional role there, it does not seem very possible that many economies can be made there.

Giving a clear warning that those who speculated on a devaluation of sterling would burn their fingers badly, Wilson went on to point out that Britain's gold and convertible currency reserves were only a small fraction of its real reserves which it could bring forward to defend the present parity of the pound. These included Britain's overseas assets currently estimated at £11,000 million. Of these, £4,000 million were portfolio securities, and £6,000 million direct investment. The Government itself had an additional portfolio of foreign securities worth about $1,250 million "which we regard as our second line reserve and are easily mobilizable".

No Impact on Exchange Market

In making this statement, he was reiterating what the Chancellor of the Exchequer had said earlier in the week, when he stated that the Government would be prepared to throw the whole of the country's £4,000 million odd stock of private portfolio investment abroad into the battle to save the $2.80 parity if its existing supplies of ammunition were likely to prove inadequate. It should be noted that Callaghan's speech did not have much effect in bringing about a transformation in the exchange market in favour of sterling, and there was no rush for holders of short-term funds abroad to start transferring their money to London. Indeed, they still seemed to prefer the expense of covering themselves against exchange risks. The main reason why, despite a vigorous official declaration that the parity of the pound should stay put, the foreign exchange market still remains unconvinced, is that there is a widespread tendency these days to believe that even when Governments are contemplating devaluation, they are more or less duty bound to say that they will defend the official parity. Hence, there is a certain cynicism about these declarations.

However, the fact that the present Labour Government is determined to defend the parity of the pound with all the means at its disposal, has now been made evident to the world, and interest will, therefore, be focused on the more long-term proposals that the Government is taking to restore the economic balance of the country. In this connection, Wilson outlined the ten-point programme which the country was undertaking. These involved "tough measures" which would lead to "a new drive and a new sense of urgency, a new ruggedness and competitiveness" and technological advance and invention throughout British industry. These involved an all-out attack on restrictive practices, the redeployment of resources, and the launching of an incomes policy. To ward off inflation, they had imposed, both in the November and in the April Budgets, net increases in taxation and associated changes of nearly £600 million.

International Liquidity

Another major theme in Wilson's speech was the urgent need to supplement the world's existing liquidity arrangements. The burden of Wilson's remarks on this subject was that the world was in danger of drifting into deflation unless agreement could be reached on increasing the volume of world monetary liquidity, to keep pace with the demands upon it which expanding trade would involve. Under the present system, there was no means of matching the volume of liquidity to the needs of world trade without the continuous export of crisis and deflation from one currency area to another. Perhaps with memories of his recent visit to Paris, he said that too much was at stake for the payments problem to become part of any undeclared conflict for leadership and power within the Western alliance. Obviously, Wilson is no believer in a return to the gold standard. He said this was "effectively repudiated 35 years ago" by Keynes, and that there had been no change since then. He believed that an international credit revolution was essential now just as a revolution in national credit had been a prerequisite of the spectacular 19th century industrial development.

Certainly there is no doubt that a dangerous situation lies ahead if the present views of Continental bankers that the world's liquidity resources are sufficient is allowed to carry the day. Without some more efficient means of credit creation, plans of developing countries will grind to a halt for lack of foreign exchange induced by balance of payments difficulties which inhibit the main lending countries.

Excess Imports of Capital and Technology in the Private Sector

Michael Kidron

Many of the collaboration agreements between Indian industrialists and foreigners have not only been of no advantage to us but have actually thwarted the growth of technical know-how in the country. This fact was recently confirmed by no less an authority than the Council of Scientific and Industrial Research.

In this article the author shows that under collaboration agreements much capital and technology have been imported into India, unnecessarily and at great cost to the country. He also probes some of the reasons for such excess imports.

Important among these is the care taken by foreign collaborators to see that the importing of a technology is divorced as far as is practicable from the imparting of that technology. Patents are used to this end as are licensing arrangements and the many restrictive clauses written into collaboration agreements. Partial technologies are supplied and fundamental research and development confined to the foreign partners' home firms.

[Much of the material for this paper was gathered on a tour of India in February 1965, made possible by the British Council, Bombay University and the University Grants Commission.]

ELSEWHERE I have argued that India can expect little in the way of foreign private investment—as distinct from an increase in foreign claims on local resources — however permissive a policy the Government adopts[1]. The reasons lie in the bias of the typical foreign investor today towards technologically-intensive manufacturing and in the institutional nature of his inducement to invest. It is further argued, against the general view, that large flows of private capital are neither always necessary for, nor necessarily beneficial to, economic development.

This paper carries the argument further by showing that capital and technology have been imported unnecessarily, that is, wastefully and at great cost to the country. This is true in both the public and private sectors, although illustrations will be drawn from the latter only.

'Excess imports' like 'love' or 'sand dunes', is not readily amenable to quantitative description. Like the one, it contains a large normative element. Like the other, it deals with shapes rather than sizes. Like both, it is not, therefore, less real a concept. In an interesting article, John Knapp defined 'excess borrowing' as "imports of capital which arise otherwise than in connection with a need to finance such supplies of goods and services from abroad as are, in a given state of tastes, techniques and available resources, and of a given amount and composition of output and growth, both indispensable and unequitable."[2]

We can do worse than accept his definition and pass on to the more worthwhile matter of adducing current examples, probing some of the reasons for them and questioning the relevance of the 'rules of the game' which harbour them to India's problems.

In almost every plant visited, and in which the foreign collaborator had a significant equity stake, new equipment could be seen standing idle. In some it was fork-lift trucks, at Rs 30,000-40,000 apiece in foreign currency, replaced by one-ton pedal lifts made locally and selling at between Rs 300 and Rs 400. In others it was automatic lathes, replaced by very much cheaper capstans.

The Reasons

Asked for the reason, management spoke readily of short runs not justifying the use of the most productive equipment available; less readily of why and how the equipment was ordered in the first place. In one case, it was thought — only *half*-facetiously — that fork-lifts, idle or not, symbolized the seriousness and importance of the undertaking. In others it was admitted by the Indian partners that they had started with little idea of the equipment required for production and little experience of the technological approach likely to be adopted by the foreign partner: that where they had had an inkling of the extent of the gap between requirements and recommendations, they were unwilling to debate every last detail before concluding the collaboration agreement or even during the first few months of its operation, since they had more to lose than their collaborators from its termination or from the retarded growth of easy working arrangements and mutual understanding. As the outlay on such equipment was normally the foreigners' concern, the Indian partners did not pay a direct penalty and could afford, therefore, to be liberal.

Underemployment of too-specialized plant has its counterpart in underemployment of much of the technological knowhow which, having recommended its use, accompanies the equipment. One large firm, with three foreign technicians on its payroll, is typical. The three are highly skilled, two of them within a very narrow range as is normal within the mammoth organization which seconded them. Their particular specialisms are required for between two and four days a month on average. For the rest, they operate on a level they themselves consider inferior to that of their immediate Indian subordinates. There is more here than an overimport of expensive knowhow. The fact that these foreign technicians receive between seven and fourteen times their immediate, and frequently more-skilled, Indian subordinates, breeds frustration and irresponsibility within the firm, which affect directly the degree of waste, the amount of machine breakdowns, etc. After all, "they (the foreigners) are responsible, let them clear up the mess".

In this case management admitted that two at least of the three could be repatriated without damage to their operations, but pleaded unwillingness to enter lengthy negotiations with their collaborators and — a unique argument, this — thought the money well spent as an insurance against restive Indian shareholders: such is the strength of Indian xenophilia that the presence of foreign technicians would, they thought, give body to a plea of *force majeure* should anything go wrong in production.

Further examples deriving, like these, from ignorance — the Indian partners' ignorance of what is required; the foreigners' ignorance of conditions in India, coupled with his frequent use of technological (efficiency) criteria rather than economic (cost) criteria in selecting plant — could be

Age is not all... nor the mere fact of survival on the frayed ends of tradition. Among the earliest promoters of a concept — that of self-sufficiency for our country through extensive industrialization, we have known no ingenious ways to overcome obstacles apart from flexibility in decision making, and regard for ordinary principles of management wedded to probity. If we are today a rational complement of industrial units, that is because of our reluctance to sit on the fence of the status quo — waiting for an overwhelming consumer demand to develop before being able to set our sights. And if we have a modest reputation of worthiness, we intend to live up to it through an optimum use of talents, available resources and initiative.

AGE IS NOT ALL...



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multiplied. They embrace cases of plant design and layout that had had to be drastically altered — by Indians — before production could commence; cases of unsuitably-frozen technology; others of unnecessary and frequent changes in product or process specifications; and much else. In aggregate, however, they are probably less important than those that derive more directly from accepted institutional arrangements or the 'rules of the game'.

An extreme example is to be found within one group whose managerial efficiency can stand comparison with anyone's. Two of the group's companies, standing side by side within a single complex of plants, manufacture very similar products, use very similar techniques and equipment and sell to an almost identical body of customers. Yet they are involved in two sets of collaboration agreements, two sets of imported equipment, two bodies of foreign technicians, of managers, sales staffs and overheads. The waste is obvious; and the explanation unanswerable within the accepted 'rules': the first foreign collaborator proved unwilling to expand his commitments when a market developed for the second line of products, and both foreign collaborators — competitors on a world scale — proved unwilling to join with the Indian group in a single consortium.

Pull of Brand Names

Such patent duplication of costs and effort within a single group and on one site is rare. But duplication is nonetheless the norm. On two occasions met with, important, well-entrenched Indian firms were forced into unwanted, technologically-superfluous foreign collaborations in order to secure the use of foreign brand-names. Without them they would almost certainly have lost out in competition with new entrants to the industry who had that foreign distinction. On almost every other occasion, collaboration agreements were found to have been concluded in industries and for products already covered in their essentials by similar agreements.

There are a number of reasons for this general duplication. One is the strong xenophile prejudice that suffuses Indian society. Almost invariably, an imported article is *ipso facto* preferable to one made in India and commands a higher price; a foreign brand manufactured locally by a foreign firm is better than one made by an Indian firm; and so down the line with decreasing value accompanying receding foreign-ness. This alone is a strong inducement for Indian firms to seek foreign links whatever the cost to the country as a whole.

Another, related reason is the care taken by many foreign collaborators to see that the importing of a technology is divorced as far as is practicable from the imparting of that technology. Patents are used to this end, as are licensing arrangements and the many restrictive clauses written into collaboration agreements; partial technologies are supplied; and fundamental research and development confined to the foreign partners' home firms. Often there are overwhelming economic arguments for such behaviour; equally, there are convincing arguments from interest, particularly for technologically-progressive firms whose strength lies in their control of the most productive techniques and in whose revenue the sale of knowhow looms large. Unfortunately for India, the presence of such firms guarantees that output in the industries in which they operate can expand beyond their own targets only by recourse to further collaboration agreements and further imports of capital and technology. Unfortunately, too, such firms are increasingly typical of new foreign investment.

Underlying both reasons is the Government of India's unquestioning compliance with one of the most fundamental — and, at this stage of development, one of the most crippling — of the 'rules of the game', viz, that technology remain overwhelmingly in the private realm.

To anyone aware of Japanese or Russian practice at a parallel stage of development, it seems incredible that the Government has voluntarily retained the British law on patents; that is, has voluntarily elected to remain one of the most expensive countries in the world for drugs,[3] where richer countries like Germany, France, Italy or Switzerland, that make no pretence of 'socialistic patterns', have abrogated patents in the industry and benefit from cheaper medicines.[4] It is almost as incredible that — at least until recently —' the Government has ignored such restrictive provisions in collaboration agreements as enjoin Indian firms not to use information supplied beyond the currency of the agreement, not to collaborate with other parties in related fields, or not to manufacture certain key components of a product. Equally surprising is the Government's complacency at the universal absence of research and development clauses in agreements.

Probably most incredible of all — reflecting something of the low priority given economic development in practice — is that the Government of India has refrained from conscripting Indian technologists and setting them to work and to train others on the job, whether in other private units or in public-sector pilot plants; has never, it appears, even considered such a move.

By one set of rules, proposals such as are implicit here are foul in every sense; by another — those relevant to economic development without dependence — they are an essential part of the game. And while it is true that the realities with which the Government of India has to deal are more complex than those of the playing field, and that private control over technology is not entirely undisputed at present; and while it is also true, given the organization of the world market in technology, that no government would be able to impress all its requirements into public service, it holds nonetheless that there is a choice to be made between technology (and much of the plant in which it is embodied) as a private commodity and technology as a public service. It is on this choice that the reality of excess imports hinges.

Notes

1 See the author's paper on 'Indo-Foreign Financial Collaboration in the Private Sector' submitted to the Seminar on Foreign Collaboration and his article. "Behaviour of Foreign Capital: Its Methods of Control in India" in *The Economic Weekly*, Special Number, July 1964.

2 'Capital Exports and Growth', *Economic Journal*, September 1957, p 432. While recognizing that such a concept could have no currency within the 'rules of the game' accepted in the period he dealt with, Knapp adds: 'But there is nothing to be gained from thinking that nineteenth century exports represented real resource transfers essential for the growth of production in developing countries if in fact they were nothing of the sort', *(ibid*, p 436).

3 See, eg, US, 87th Congress, Senate Report No 448 (Kefauver Report), *Administered Prices: Drugs*, Washington DO, 1961, p 112.

4 *ibid*, p 107ff.

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Peeping into the Future

Taya Zinkin

RECENTLY a very interesting conference was held in Paris under the auspices of "Futuribles", that serious body of crystal gazers headed by the distinguished French political philosopher, Bertrand de Jouvenel. There were some hundred delegates at the Futuribles conference which was summoned to try to forecast the relationship between power and the people in times to come. There were delegates from almost everywhere: two Indians, one of them a very senior civil servant indeed, there was a Pole from Warsaw, two Yugoslavs from Titoland, an Israeli, a Turk from Turkey and a Turkey from California, a galaxy of American scholars, French scholars, politicians and civil servants, many Britons, a few Germans and Swiss, a very amusing Belgian, some Scandinavians, a Senegalese. The Nigerian could not come because he was being sworn in as Minister, the Vietnamese because he was under house arrest, the Rumanian from Rumania, as distinct from the Rumanian from the London School of Economics had flue, and take-off Rostow was prevented from attending because of the developments in Vietnam. All in all there were close to a hundred delegates. Some of them very distinguished indeed; professionally they ranged from economists, jurists, sociologists, psychologists, politilogists which is a new word for political scientists, administrators, businessmen, historians, journalists, philosophers and politicians. For three whole days, from morning till evening these wise men gazed into their crystal balls in an attempt to predict the future of what Bertrand de Jouvenel calls the Active Power.

Decline of the King

There was astonishing agreement. The good old days when the Prime Minister or the King could say, *"l'etat c'est moi"* have gone, whether the country is democratically run or not. For this there are many reasons.

First and foremost there has been what Professor Shils called the *moral revolution,* the realisation even by the dumbest, the most feudal or the most authoritarian that power is not by divine right but by the will of the people. Next, and equally important, there is the competition with the state from all sorts of busybodies who know as much or more than the government and who do get ways of expressing their criticisms be they defence correspondents, economics dons and journalists, city editors, market researchers, gallup polsters, heads of special bodies like Neddy or the Planning Commission or the Atomic Energy Commission or simply private firms of computer programmes analysis.

Another reason is that power is becoming more and more complex technically speaking so that the politicians have to consult more and more experts and technocrats and naturally power shifts to some extent to the technocrats and the academically qualified. Moreover audio-visual and technical methods are superceding the straight forward old-fashioned ways of courting power. Thus television replaces parliament to a large extent, while gallup polls replace byelections.

People Given Their Head

Finally, and perhaps the most important factor is that everywhere, be it in America or in Russia, the efficiency of government is being measured in the growth of the national income instead of, as it used to be in the pre-second world war days, in terms of military conquest and the size of the pink on the map. Once the measure of the efficiency of the government is in percentages of the national income, or in function of the value added, the people have been given their head; only if they cooperate can government be efficient as the constant failure of the Soviet agricultural policy proves. Indeed, planning makes it possible for the ordinary citizen to voice his protest in a way *laissez-faire* economics did not. This explains why there has been a politisation and a proliferation of interest groups who make themselves felt, like farmers, trade unions, engineers, etc. The multiplication of the functions of the state provide a multiplication of means of protest. This is somewhat paradoxical, but seemed to be accepted by all the delegates; the Professor from Warsaw insisted that there are already pressure groups emerging in his own country. Indeed, there was agreement that the Active Power of tomorrow will be of similar nature everywhere with more authoritarian concentration in the democracies, where power will be more with technocrats and less open to question by lay politicians and voters because of ignorance, while there will be decentralisation of power in the dictatorships thanks to the creation of all the new pressure groups. As the professor from Belgrade put it eloquently "the right to disagree is the most fundamental of all human rights."

The only exception to the rule of diminishing political power seemed to come from the Senegalese delegate, D'arboussier who has just been appointed number two to U Thant at the UNO. According to him independence has put undreamed of political power in the hands of the governments of the newly emerging states. As he put it: "African states have for the first time discovered the importance of political power. In Europe there was time for transitional experience from political to economic power, but in Africa where we have to catch up we have to do everything at once and this means exercising a great deal of political power which, by virtue of the small size of our elite, must be concentrated in very few hands and must lead to the one party state."

Seat of Power

Next to the future of power the Futuribles scholars devoted their attention to the seat of power or what would be left of it. The delegates from the the socialist countries were not very interested in what must still be for them a very academic discussion. The dialogue, therefore, was largely confined to the rest, be they white, black or brown.

Whereas for the African States the seat of power is in the handful of its elite, in Turkey it is quite distinctly with the Armed forces which as the lady delegate from Ankara pointed out is the only possible escalator to power and social mobility because Turkey is still in transition from being a backward to an industrial country and does not have a large enough middle class for the technocrat to assert himself. In India, where there is a large enough middle class, there seems no doubt that power is with Parliament and the Planning Commission and that slowly the people will assert themselves—as indeed they seem to have done, if I read my papers correctly, when the city of Ahmedabad, the fount of Congress and the home-ground of Gandhiji, defeated Congress over the non-teaching of English.

The French, obsessed as they are by the recent developments of their

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history, kept insisting that power must be strong and that it must be with the civil servants and the technocrats; they would have been quite happy to see the politician wither away in favour of the administrator and the expert. The British remained benignly amused: after all when one's muddling democracy goes back to Magna Carta there is little point in bothering about the seat of power. The Americans by contrast were most allergic to the suggestion that anybody, be it the President, Dr Strangelove, the Harvard Faculty or the Congress, might have power. They proposed, quite seriously, that the agencies which will be created to collect information and which may, therefore, contain the seed of that power which comes from advanced knowledge and understanding between cause and effect, be multiplied *ad infinitum*. The Germans, obviously unwilling to trust themselves to be good for all times, seemed to favour the seat of power residing in ultra-territorial bodies like the special agencies which will be set up to reinforce the Common Market and the One Europe and for which Gatt, Nato, or the Strasbourg Parliament already provide a guidance.

Experts and Politicians

But what fascinated me above all, listening to the experts as they went on conjecturing about the future of Bertrand de Jouvenel's imaginative "Active Power", the power which has to do with the conscious *wanting* or *willing* of the future of the nation, was that experts are vastly different from politicians. Politicians the world over have one thing in common: politics, which runs thicker than party loyalty. Thus, there is more in common between a Tory MP and a Congress MP, or between a member of the Presidium and the Cabinet in say Paris or even London, than between French democrats and British democrats and Indian democrats. This is because politics is its own idiom, it creates bonds such as there are between say doctors wherever they come from.

But with experts of the social sciences the primary bond is not between themselves but between them and their own compatriots. They are Frenchmen, Britons, Americans first and experts only second. This was most visible not only through the attitudes to power of the various delegates but also through the way they approached the problems of the Futuribles exercise of gazing into crystal balls. The French do it with Cartesian logic, they must have a theory, the theory must be admirably and lucidly expressed in classical French of the highest literary quality. Words have a fascination of their own for the French who are artists at choosing them. The Germans are somewhat pedestrian and very long winded. They are more concerned with the substance of treaties and checks than with effects of oratory. The British are generalists with a profound sense of the ridiculous and an equally profound distaste for theories. They muddle through from one pragmatic notion to the other, they play politics and power by ear. The Italians are above all profoundly cynical and very funny. They like to laugh at everything. As one of them explained privately, without a sense of humour we would be overcrushed by the Colyseum and the Vatican. The Americans are unbelievably earnest, they have a touching faith in statistical data and on the spot investigation. They are ready to investigate anything, then they are ready to feed their results into computers which should give them, adequately programmed, the answers to varying questions which they believe must be correct if the data and the programming was accurate. One can laugh at the American passion for collecting data; I remember a colleague of mine in the days when I was doing biochemical research at the University of Wisconsin who was assaying everything under the sun for its pantothenic acid content. One day, having run out of things to assay, she asked me to let her have a piece of my shoe laces and found, that, as the prefix pan indicated, there were traces of the acid in my shoe laces.

No Substitute for Information

One can laugh, but one should not. There is no substitute for information. What may at times be deplored is that the information is misused or misinterpreted. Nevertheless information is always valuable. Thus as one computer expert explained to me, had there been sufficient data in the computers, Martin Luther King might have been informed that it was the right time to embark on his march to Selma, and that the march would have certain results. As it was, there was a prolonged and quite agonising appraisal of what to do, where to do it, how to do it, and when to do it. All of which could have been solved by a run of a fully programmed and heavily informed computer. The ultimate decision to do right or wrong must, of course, still rest with the politician. Thus the same scientist said that if Truman and the Allies had known the after effects of Hiroshima they would still have dropped the bomb. The decision had been taken although it was known that an unprecedented number of people would die; this was deemed in the interest of ending the war; the radiations were only a side issue as far as decision making was concerned and would have been irrelevant.

Cause and Effect

The Americans insisted that it is important to know the relations between cause and effect. Their arch example was that when Henri VIII divorced Katherine of Aragon he did not plan the Reformation. The French argument seemed to be that he would still have divorced her and that any prognostic made by those who are actively engaged in assessing the relations between cause and effect are bound to be vitiated because they *are* the Active Power. A French diplomat quoted in support of his thesis the prognostics of Lord Curzon and an Australian by the name of Pierson who were both taking a Futuribles guess at the balance of power in Asia. Thus at the turn of the century Curzon wrote that India is the pivot of Asia and holds the secret of world domination and the British Empire while China will always remain static and never present any danger to Asia. Pierson said the exact opposite. Why was Lord Curzon wrong and Pierson right? The answer seems to have been that Curzon was a high official consulted by his own government and that he rationalised events while Pierson was an academic outsider.

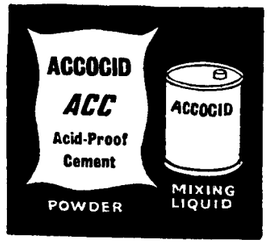
It is this need for detached outside prognostic and interpretation which makes the exercise of Futuribles worthwhile, indeed there is a great deal in the theory that the Active Power is the least qualified to take long term views and therefore decisions. This need for detachment does go a long way to explain why the two most impressive Futurible scholars have so far been Karl Marx and, even more impressive and accurate in his prognostics, de Tocqueville. If science and the Americans have their way, both will be replaced in the not so distant future by electronic computers of immense complexity.

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The New Village-II

Technological Change in Agriculture

V Nath

This study of a village in Central Punjab aims at identifying the growth factors in agriculture.

The first part of the study, which appeared last week, presented the basic data on demographic characteristics, land-holdings and economic activity. In this, the second part, the different facets of the technological change in agriculture in the village are examined.

The picture that emerges is that of an agricultural community in which there have been notable advances in methods of utilisation of resources and a process of rapid adoption of improved agricultural practices is well under way.

This process began with consolidation of holdings which was followed by a rapid increase in the number of irrigation wells and electrification of most of these wells. These three developments made possible a more intensive cropping pattern, more adequate irrigation and care of all the crops grown, and increasing attention to adoption of recommended improvements, notably use of chemical fertilisers.

A stage has now been reached when adoption of improved practices has become part of the agricultural enterprise of the average farmer. Further, beginnings of highly specialised types of commercial farming or livestock enterprises, like commercial poultry production, have already been made.

The area is now ready for larger changes, which would bring about major transformations in farming techniques and make farming significantly more specialised and commercial.

Pattern of Land Holdings

IT has been noted in Table 2 (p 682, *The Economic Weekly*, April 17, 1965) that the 82 cultivating families of the village cultivate a total of 1103 acres. This gives a crude average of 13.45 acres per cultivating family. The distribution of families by sizes of cultivated holdings is given in Table 3.

The largest number of families (70 out of 82) cultivate between 5 and 20 acres. Femilies cultivating less than 5 acres are very small in number and have only a part-time interest in cultivation. Familes cultivating above 20 acres are also very few. Several of them are undivided joint families.

On further classification by one acre divisions, it is found that the largest number of families (21) cultivated between 10 and 11 acres, and that the median cultivated holding is 10.5 acres. The villagers consider those cultivating between 8 and 14 acres as medium-sized cultivators. Such cultivators number 38, somewhat less than half of the total. Data on farm operations of the ten sample cultivators of this group are presented in Table 4.

It will be seen that the net disposable income of these cultivating families ranged from about Rs 1,200 to over Rs 5,500 per year; the variation being dependent upon the number of workers in the family, the area cultivated, whether irrigation was being done by bullocks or by electric motor and the level of fertilizer use. This income remained with the family after meeting all its needs of food, providing for fodder for livestock including milch animals, and paying all the cultivation expenses (e g for seed, manures and fertilizers, labour etc). The value of the foodgrains and other produce (*gur*, *khandsari* sugar and cotton) retained by the families for domestic use varied from Rs 1,275 to Rs 2,360. Each family was keeping besides bullocks, two or more milk-yielding buffaloes and since the milk yields are fairly high (8 kg per baffalo per day or higher) the milk was sufficient for meeting all the milk and *ghee* requirements of the family. Further, all families grew some vegetables and had kept a few poultry birds also. Accordingly, the food needs of the families were met almost fully, and at a fairly satisfactory level of nutrition; and the disposable income was available for expenditure on clothing, repair or extension of the house, education, travel and miscellaneous expenses.

The calculation is not very refined, but it is adequate for the purpose of obtaining an approximate idea of the economic level of the middle cultivator. It is clear from it that this cultivator is considerably above the subsistence level; that he has a small surplus for education, travel and other needs after meeting his elementary needs for food, clothing, housing etc. Data on the character of housing, facility of electricity and water supply in the house, and possession of durable goods given later and general observations in the village also point to a similar conclusion. The main significance of this conclusion is that since the cultivator is not constantly pre-occupied with meeting his barest minimum needs, he can afford to bring a business approach to his cultivation, to take some risks and to make experiments with new practices. The extension staff emphasised that this latter had been one major result of the economic changes of the last fifteen years. As the VLW put it, "Earlier the sole aim of the cultivator was to feed his family and that of the Harijan who worked for him. Now however, several of them aim at making more money and are looking for changes in practices which would enable them to do so".

Land Use and the Cropping Pattern

Data on distribution of the cropped area among principal crops in 1951-52, 1956-57 and 1961-62, as obtained from the records of the Revenue Department, are given in Table 5.

These figures do not show any noteworthy change either in the net area sown or in the gross cropped area during this period. But there is an increase of about 200 acres in the irrigated area. In 1961-62, 85.6 per cent of the cropped area of the village re-

Table 3: Distribution of Families by Sizes of Cultivated Holdings

Below 5 acres	3
5 to 10 acres	22
10 to 15 acres	30
15 to 20 acres	18
20 to 30 acres	4
30 acres and above	5

ceived irrigation. Irrigation was almost entirely from wells. Out of 951 acres irrigated in 1961-62, 940 acres were irrigated by wells. The increase in irrigation during this period has been due to increase in number of wells (from 30 to 51) and electrification of a large number (36) of these. The area under canal irrigation is very small, only 11 acres. The distributary of a canal passes through the village; but very few cultivators take water from it. The main reason given for not taking water from the canal is that there is sufficient water in the wells, and cost of lifting it is not too high. The fear of water-logging, which is a major problem in some of the canal-irrigated areas of Central Punjab, also discourages use of canal water.

The figures of Table 5 show significant changes in the cropping pattern, with increases in areas under more remunerative and higher-yielding crops like cotton, maize and the winter fodder *berseem*, and decreases in those under lower-yielding crops like gram, rabi grain mixtures (wheat-gram, gram-barley) and the summer fodder *chari*. The area under maize has doubled during this period; cotton which was not grown in 1951-52, has become an important crop and acreage under *berseem* has also increased. All these crops yield much more than the crops they have replaced. Maize and cotton are higher yielding or are more remunerative than gram or wheat-gram or barley-gram mixtures. *Berseem* similarly yields much more than *chari*. It gives 5, 6 or more cuttings in one season, compared to one cutting of *chari*. The value of fodder from an acre under berseem is estimated at about three times that from an acre under *chari*.

This change in the cropping pattern has become possible because of increased availability of irrigation, and especially because the cultivator has a much larger quantity of water entirely under his control. He can follow an intensive cropping pattern and ensure adequate attention to each of the crops grown by him. During discussions in the village, the cultivators repeatedly referred to the latter fact.

Consolidation and Electrification

All cultivators were agreed that the present phase of rapid improvement in agriculture, started after consolidation of holdings which was completed in the village during 1951-52. The advantages of consolidation of holdings for more efficient and intensive cultivation are so well known that it is not necessary to explain these here. However, the case of the Sarpanch may be mentioned to illustrate the point. He said, "Before consolidation my family had share in lands falling under 13 wells; but after consolidation all our lands came under one well, though we constructed another well later." Consolidation of holdings was followed by a spurt of development activity, the most important feature of which was extension of well irrigation. The village had 30 wells in 1951-52. By 1961-62 the number had increased to 45. In addition, there were 6 kutcha-bore tubewells in the latter year, bringing the total number of irrigation units to 51. The village received electricity in 1954; it was among the first villages in the block to receive it. Electrification was followed by a wave of installation of electric motors on the wells. Eleven motors were installed within one month in 1955 when a large *taccavi* loan was sanctioned for this purpose by the State Government. At the time of this study, 29 out of 45 wells had electric motors and one had a diesel engine. In addition, the 6 *kutcha*-bore tubewells mentioned above were also fitted with electric motors. This *kutcha*-bore is an interesting innovation because it enables a cultivator to

Table 4: Farm Operations of Ten Sample Medium Cultivators

Sl. No	Area cultivated *acres*		Motive power for irrigation	Persons in household No	Workers in household No	Value in rupees of		Cash expenditure on			Net disposable income		Livestock	
	Total	Irrigated				Home Consumption of products	Sale of produce	Labour	Electric power	Fertilizers	Total	Per family worker	Work animals bullocks	Milch animals bullocks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1)	9	9	Bullocks	8	3	1700	3960	100	—	181	3679	1226	3	3
(2)	13	13	—do—	5	1	1495*	750†	100	—	92	1158	1158	+1 camel 2	2
(3)	8	8	—do—	8	1	1280	1410	160	—	64	1186	1186	2	2
(4)	11	11	—do—	10	3	1275	2650	100	—	197	2353	784	+1 camel 2	2
(5)	14	14	—do—	12	4	1906	2950	100	—	122	2728	682	+1 camel 4	3
(6)	13	13	Elec. Motor	17	5	1905	3225	—	522	140	2563	513	+1 camel 4	2
(7)	14	14	—do—	10	3	2360	6925	100	850	437	5538	1846	3	4
(8)	8	8	Bullocks	6	2	1266	1270	60	—	42	1168	584	2	1
(9)	14	14	Elec Motor	10	2**	1591	3500	100	400	158	2842	1411	+1 cow 4	4
(10)	13	13	Bullocks	8	2	1515	2404	100	—	72	2232	1116	4	2
													+1 cow	

* Has other dependants also.
† Plus Rs 600, income from carting.
** In addition one sanjhee kept and paid 1/9 share of production.

start irrigating his land without constructing a *pucca* well. A tube is inserted in the ground by digging a *kutcha* hole, a pumping set and electric motor are installed on it and irrigation is started immediately but the pucca well is constructed after two, three or more years when the cultivator can spare the capital. It was also reported that some farmers in neighbouring villages had two or three such bores in different parts of their farms and used portable motors which they took from one hole to the other. This latest innovation which saves time and investment is an indication of the facility which the cultivators have acquired in the technique of irrigation with the help of electric motors.

Installation of electric motors was helped by liberal grants of *taccavi* loans by the State Government. Loans for 8 electric motors totalling Rs 13,000 were sanctioned during 1955, when the first set of motors was installed and till the time of this study, loans totalling Rs 26,300 had been sanctioned for 15 electric motors. Thus, taccavi loans have financed electrification of half the wells in the village.

Electrification makes possible lifting of water at a markedly lower cost, besides allowing a saving of time in irrigation. The estimate given in Table 6 of the comparative cost of irrigation of one acre of wheat by electric pumping and by lifting water with the help of bullocks was given by one cultivator and is generally accepted. Irrigation with an electric pumping set besides being much cheaper is also much more intensive and adequate. It was explained that with an electric pumping set four waterings for the wheat crop were adequate; but with bullocks 6 to 7 waterings were required.

The effect of electrification of wells has not been so much increase in area under irrigation, as more adequate and intensive watering of the irrigated land. The saving of labour of man and beast, which electrification has brought about, has been utilised by cultivators mainly in this form of more adequate and intensive irrigation of their crops, which along with increased use of fertilizers and other improved practices, has resulted in increased yields. Improvement in the quality of livestock has been another striking benefit. This has resulted both from reduced strain on bullocks—lifting water for irrigation is considered extremely strenuous for the bullocks—and better feeding, which has become possible as a result of larger area under green fodders. Explaining this point, one cultivator said, "Now we have green fodder the year round, with the result that we feed our animals better and also make a saving on the grains which we used to feed them earlier".

More Intensive Manuring

This is probably the second most important aspect of technological change in agriculture. It consists both in better use of farm-yard manure and greatly increased use of chemical fertilisers. The latter which began only during the early 50s, has shown a rapid increase especially during the last five years as the figures in Table 7 bring out.

This village is not exceptional in the progress of fertiliser use or in the average quantity of fertilizer used per acre. The total fertilizer consumption in the block itself has increased from 295 tons in 1956-57 to 2,141 tons in 1961-62 and is expected to reach 4,000 tons in 1963-64. The average figure per cultivated acre in the village was 344.0 kg per acre as compared with 25.3 kg for the block. The highest average of almost 100 kg per cultivated acre was reported from the garden colony village mentioned later.

Use of chemical fertilizers has become an integral part of the agricultural pattern of the village. The VLW mentioned that practically every cultivator in the village was using chemical fertilizers, and that a large number were following the dosages recommended by him. One reason for the popularity of chemical fertilizers is that the average cultivator realises that the increasingly intensive cropping pattern which he is now adopting, cannot be sustained without their use. He understands that he just does not have adequate farm-yard manure for all his crops and most use chemical fertilizers in addition. There is good awareness also of the relative cost and returns from fertilizer use. In one of the discussions, a cultivator mentioned that in case of the wheat crop, the cost of the chemical fertilizer was recovered from the additional chaff which they got as a result of the higher yield, and the additional grain was their profit. There was general agreement with this view. Another indication of the cultivators' understanding of chemical fertilizers may be had from the speed with which the new fertilizer CAN (calcium ammonium nitrate) has spread. In the early years of the C D block, the extension staff popularised the use of ammonium sulphate but during the last three years, when there has been a shortage of ammonium sulphate, and CAN from the Nangal Fertilizer Factory has been

Table 5: Distribution of the Cropped Area Among Principal Crops

(Acres)

	1951-52	*1956-57*	*1961-62*
Total geographical area	1,238	1,239	1,239
Net area sown :	1,132	1,118	1,118
Irrigated	786	771	951
Unirrigated	346	347	167
Gross cropped area:	1,637	1,663	1,639
Irrigated	1,256	1,271	1,440
Unirrigated	381	372	199
Area sown more than once	505	545	521
Percentage of net area sown	*44.6*	*48.7*	*46.6*
Area under crops			
Kharif: Maize	121	188	240
Cotton	—	198	143
Sugarcane	191	99	178
Summer fodders:	295	231	195
Chari	249	155	127
Other	46	76	68
Wheat	474	357	436
Other Rabi grains and mixtures	319	276	237
Winter fodders (mainly *berseem*)	92	154	164
Vegetables	4	4	7
Other crops	16	6	11

freely available, they have been propagating use of the latter.

The B D O explained that while ammonium sulphate was still demanded by cultivators for certain crops — it was considered particularly good for groundnut — the majority of the cultivators had already switched over to the use of CAN. They had understood that their crops needed nitrogen, and that CAN supplied it just as efficiently as did amonium sulphate They might not know the English word 'nitrogen'; but they had grasped the basic idea that ammonium sulphate, CAN and other manures (like farm-yard manure) supplied the same essential element to the soil.

Use of superphosphate for the wheat and groundnut crops is also increasing rapidly. The latest introduction is potash. Its use is being propagated by the extension staff for the wheat crop from this year (1963-64) only, and 8 tons of potash have been distributed in the block area. As the results are considered to be promising, the block staff feel that the quantity could be increased to about 100 tons next year. The main advantage of potash is that gives a polished appearance to the grain, which fetches a higher price in the market. The yield is also reported to be somewhat higher with its use.

Better Use of Farm-Yard Manure

This is linked with consolidation of holdings on the one hand, and use of chemical fertilizers on the other. Consolidation gave a fillip to use of farm-yard manure, because as a result of it all cultivators and most non-cultivators who had livestock were alloted sites for compost pits on the outskirts of the village. This allotment removed the difficulty of land for pits which many cultivators and non-cultivators like Harijans who kept cattle, faced. All these pits are well utilised. In addition many cultivators have pits in their holdings also. Experience with use of chemical fertilisers has aided use of farm-yard manure because it has made the cultivators conscious of the value of their own farm-yard manure. So long as the cultivators did not buy fertilizers they were not acutely conscious of the monetary value of the farm-yard manure which they produced themselves or which they obtained from Harijans and others in the village. But, when they began to buy fertilizers they began to be aware of the value of farm-yard manure also, because they began to compare what a cartload of farm-yard manure could do for their crops in comparison with what a bag of chemical fertilisers did. Moreover, as a larger number of Harians and other non-cultivators began to have manure from their newly allotted pits buying and selling of manure (for cash or in exchange for fodder) became more common. In 1963, the price of one cartload of manure during the kharif sowing season (May-June) when most of the farmyard manure is applied to the fields, was more than Rs 6 per cart, and many cultivators were commenting that this was an all-time high.

However, even though there is greater awareness of the value of farm-yard manure, and its use has increased, the practice of burning cow-dung has not stopped. The Compost Inspector of the block explained that the cultivators realised that the practice caused a serious loss to agriculture and that the more progressive and prosperous ones would be quite willing to stop it if an alternate fuel was available easily and cheaply, and the problem of heating milk for making *ghee* could be solved. As regards the latter, he explained that cow dung cakes were essential for heating milk for *ghee* making, because of the slow heat and the particular flavour which they imparted to the ghee and which was especially fancied by the village people. This preference may result in some cow-dung continuing to be burnt for heating milk, even after the households switch over to other fuels. But the main problem is obviously that of providing an alternate fuel.

The Problem of Fuel

The present fuel consumption pattern of the village is somewhat as follows:

(i) The cultivators and the Harijans depend upon home produced fuel — cow dung and agricultural wastes like cotton sticks.

(ii) Most Mahajan and Mistri families, who do not keep milch animals, buy fuel. They buy cow-dung cakes, agricultural wastes, fire-wood charcoal or kerosene, depending upon availability and price of different fuels, and the income and level of living of the family.

Cow-dung cakes are sold mostly by the Harijans and "other artisans". Fire-wood and charcoal are sold in three fuel shops located in the village.

Table 6: Comparative Cost of Irrigation with an Electric Pumping Set and Bullocks

Rauni irrigation (fiirst irrigation after preparing the land) of one acre of wheat

With Electric Pumping Set	(Rs)	With Bullocks	(Rs)
Cansumption of electricity for 6 hours (approx)	2.00	Wages of 2 men for 2½ days @ Rs 2.50 per man per day	12.50
Wages of 1 man for three-quarters of a day @ Rs 2.50 per day	1.87	Expenses of two bullocks for 2½ days @ Rs 5 per day	12.50
Total	3.87	Total	25.00
Or say, 4.00			

Table 7: Use of Chemical Fertilisers

	1958-59	1959-60	1960-61	1961-62	Tons 1962-63*
Nitrogenous :					
Amonium Sulphate CAN (Calcium ammonium nitrate)	20.00	23.00	24.00	31.00	36.05
Phosphate : Superphosphate	2.00	3.05	2.00	7.04	10.01
Total	22.00	26.05	26.00	38.04	46.06

* Sale of fertilizer between April and November 1963 was about 75 tons and it was estimated by the VLW and the BDO that the total for 1963-64 would be between 90 to 100 tons because top dressing of *rabi* crops had yet to be done.

As many as ten families have kerosene stoves, which they use for a part of their cooking.

The chief requisite for reducing consumption of cow-dung as a fuel is making available alternate fuels at a cheap price. The families which are already buying fuel will buy any fuel which is cheap and easily available. They will gladly use soft coke or firewood or even electricity if it is cheap. The cultivators and Harijans will have greater resistance to buying fuel. But even they will buy fuel, if it is cheap and conveniently available. The value of cow-dung for agriculture is realised by the cultivators and it is not considered free. But it is used, because it is there and is cheap. The *gobar* gas plant and more efficient *chulhas*, especially those which can use agricultural wastes like cotton stocks also have good possibilities of being adopted.

Use of Improved Implements

The third notable aspect of technological change is use of improved implements. Use of improved iron ploughs, chaff cutters and iron sugarcane presses which began to be used in the Punjab villages 30-40 years has become universal, and newer improvements like furrow-turning and soilstirring ploughs, bullock carts with pneumatic tyres, chaff cutters and sugarcane crushers driven by electric motors have also been introduced in considerable numbers. The number of implements, including improved implements, at the time of the study is given in Table 8.

It will be seen from the above that the stage of acceptance of small improvements, e g iron ploughs or chaff cutters is long past. Even the bullock cart with pneumatic tyres which involves considerable investment, is in general use. The cultivator is now at a stage when he is prepared to adopt any improved implement which is distinctly superior to the one he is using already and which he can afford to buy or hire. Secondly, he is prepared to accept any innovation or modification in existing practice, which results in a clear saving of time, labour or money, This last is very well illustrated by the recent change in the practices regarding threshing of wheat and shelling of maize.

Wheat has been threshed in Indian villages from time immemorial by bullocks going over piles of harvested wheat placed on the ground. This process involves back-breaking labour by men and bullocks for two or three weeks in April and May. Winnowing is done by throwing the wheat and chaff against the breeze. Both these processes have been replaced in the West by the combined harvesters. These machines are beyond the reach of the Indian cultivator; but during the last few years a number of small mechanical threshers costing between Rs 2,000 and 3,000 have appeared in the markets of the Punjab. Some of these have begun to be used by cultivators in this area also and it was reported that some cultivators of this village had got their wheat threshed by one such machine the previous year. However, more significant than use of this machine is the new practice of using the chaff cutter (which most cultivators possess) for threshing wheat. In this new process, whole stocks of wheat are fed through the chaff cutter which cuts the chaff into smaller pieces and separates the ears of grain. The mixture is then gone over lightly by bullocks for a few hours and the grain is separated. Another method is to put the ears of grain through the maize-sheller described below. It was reported that nearly 40 per cent of the wheat crop of the village had been threshed in this way during the previous year.

The advantages of the new process are obvious. It results in considerable saving of time and labour during April and May which are among the busiest months of the year. This is the time when cotton and early summer fodders have to be sown and weeding of sugarcane has to be attended to. The cultivator does not have to do back-breaking labour in the hot sun as he had to do in the past, and can devote himself to more fruitful work. The practice has two other advantages also. It reduces risk of loss of grain and chaff from dust-storms and thunderstorms which are quite common at this time of the year and yields better, cleaner grain and chaff because these do not get mixed with the dust. Secondly it does not involve use of any special, expensive equipment, but depends upon use of tools which the cultivator possesses already. But the most significant point about it, from the point of view of this study, is that it has become popular mainly through the initiative of the cultivators themselves. An extension worker might have evolved the practice and extension staff might have had some part in popularising it. But it was obviously not evolved at a research station and was not propagated by the extension staff as an important recommended practice.

The mechanical maize-sheller is a simple device which consists of nothing more than an old mobiloil barrel, fitted with wooden pedals, mounted on a horizontal wooden shaft. It operates with mechanical or bullock power. There are three such machines in the village, one of which is owned by an agricultural implement fabricator and the other two are owned by the two flour mill owners. These people undertake shelling of maize for cultivators at a higher charge of one seer, per maund (1 kg per 40kg) of grain shelled. It was reported that about half of the maize crop of the village was being handled by these machines and that five machines would be adequate to handle the entire crop. Here again is an instance of a simple machine evolved through local ingenuity which gives substantial benefits — saving of time, labour and a much better product.

One result of these technological advances is that the extension workers and the engineers working on improved implements have acquired a new hope and confidence. I had occasion to visit the agricultural implements workshop attached to the Agricultural University and to see the work being done on evolving improved implements like improved ploughs, a combined seed-cum-fertiliser drill and an improved hoe. Many of the improved ploughs and other implements devised at the workshop are improvements on the implements used by the cultivators earlier and have proved to be very popular. From discussions with these people it was clear that they had acquired the confidence that any imple-

Table 8: Number of Implements

Ploughs	
Desi (unimproved)	82
Iron (improved)	142
Iron, furrow turning	44
Cotton drills	6
Maize shellers	3
Tractors	—
Chaff cutters	
Manual	70
Bullock-driven	30
Motor-driven	8
Sugarcane crushers	
Bullock-driven	58
Motor-driven	4
Bullock carts with	
Wooden wheels	34
Pneumatic tyres	38

ment which was distinctly superior to the one used by the cultivator and met all his requirements would be accepted. This confidence is a very important fact.

At this workshop experiments were also being made with small tractors. The main objective of these experiments is to evolve a tractor which meets all the needs of a medium cultivator with a holding of 10 to 15 acres and which sells at a price which this cultivator can afford to pay. The engineers and some of the other specialists at the University were very confident about the success of these experiments. They felt that among the models available abroad there were some which could meet all these conditions and could with suitable modifications be successfully placed in the Punjab market.

Use of Improved Seed

The Punjab cultivator has long been familiar with the use of improved seed of some crops. Improved varieties of wheat like C-591 and of sugarcane like CO-312 were accepted several decades ago and have been in general use since. The most important change in this area during the last ten years has been introduction of longer staple 'American' varieties of cotton. The practice of growing American cotton was brought to the area by refugee cultivators returning from the canal colonies. It spread very quickly in the early 50s when it nearly replaced the shorter staple *desi* varieties. However, it received a set-back later, because the price differential in favour of the American variety was reduced and it was found that the American variety was more susceptible to disease. As a result both American and Desi varieties are now grown in the area. In this village, most of the cotton grown is of the American variety but as the figures in Table 5 show, the area under cotton has declined after 1956-57, partly because of damage from disease.

In case of wheat also the older C-591 variety has been largely replaced by a new variety, C-273 which is more resistent to disease, has bolder grain and consequently fetches a better price. The experience with the spread of this new variety is interesting, because it brings out the speed with which a new, distinctly superior variety can replace an older one. This variety was introduced by the Department of Agriculture about seven years ago and it is claimed by the extension staff that it almost replaced the C-591 variety in this block within a period of about four years. When one considers that one season must elapse before the first demonstrations on cultivators' fields can give results, this time span of four years is quite small and shows a high degree of receptivity of cultivators to improvements like improved seed with which they have long been familiar.

Another noteworthy development is that some of the more progressive cultivators are themselves looking for new varieties. One such cultivator had obtained from a cultivator in another block, seed of a new variety of wheat which was supposed to give very high yields with intensive application of chemical fertilizers. This new variety has not yet been released by the Department of Agriculture because experiments on it are still in progress. But this cultivator had obtained it on his own and during my interview with him, gave quite a sophisticated analysis of the economics of high yields with heavy doses of fertilizer. Another cultivator was experimenting with a new kharif fodder evolved by crossing bajra with napier grass which gives very high yields and is also very nutritious.

Use of Pesticides

Use of pesticides is the latest among the improvements advocated by the extension staff, and is not as widespread as use of improved seed or of chemical fertilisers. This is due partly to the fact that the chemicals and equipment like power sprayers needed for spraying the crops are expensive and partly to the fact that chemical pesticides are ineffective in case of some important plant diseases of the area. Thus, there is as yet no chemical cure for the Gurdaspur borer which attacks sugarcane and causes heavy damage to the crop in some years. But, wherever the cultivators can use pesticides cheaply and effectively they are doing so. This is illustrated by the use of pesticides against storage pests. The practice of using BHC on grain kept in storage has been advocated by the extension staff during the last three years and the VLW claimed that it has already been adopted by the majority of cultivators in this village. Some of them mix BHC with the grain in the storage bin while others spray it by hand on the bags.

Livestock Husbandry

The standard of livestock husbandry in the Punjab has always been comparatively high. Some of the best breeds in the country like the Hariana bullocks and Murrah buffaloes come from the Hariana (south-east Punjab) area which is not far from this district. Moreover, recent technological changes in agriculture and rise in agricultural productivity have also contributed to improvement in the quality of livestock. Mention has been made above of improvement in feeding resulting from larger areas under green fodders, and of less strain on the working animals as a result of introduction of electric motors for lifting water. The bullocks and buffaloes now seen in the village would rank among the best in the country.

The villagers are also keenly aware of the value of good breeding. Two pure-bred bulls, a Hariana cow bull and a Murrah buffalo bull, are maintained by the panchayat through the traditional practice of being allowed to roam freely in the fields. Castration is universally done and early, in order to avoid indiscriminate breeding. However, artificial insemination has not become popular, even though this facility, which is available at the veterinary hospital in the block headquarters town can be availed of without difficulty. Certain other attitudes, e g, towards treatment of disease and taking up commercial production of livestock products, also indicate that considerable progress has yet to be made before scientific attitude towards livestock husbandry and a commercial outlook towards production and sale of livestock products become widely established.

Treatment of Disease

The block headquarters town has a well equipped veterinary hospital. Similar hospitals are located in other towns at distances of 5 to 10 miles. Besides there are sub-centres in the larger villages. With this net-work of hospitals and sub-centres, facilities for treatment of sick animals and of breeding with animals of pure breeds are within easy reach of most villages. The veterinary doctor in-charge of the hospital explained that the hospital and sub-centres were quite popular with the villagers; that large numbers of animals were brought to these daily; that he and his assistants were called frequently in cases of serious sickness

of animals and that programmes of control of epidemic diseases like H S and foot-and-mouth disease were effectively organised from time to time.

While all this would be correct, another experience which I had, gives a revealing insight into the present attitudes towards treatment of livestock disease. During my first visit to the village, I was told that the village was going through an out-break of foot-and-mouth disease, and that a special ceremony, a *jag* (from Sanskrit *yajna* or sacrifice) would be organised the next day to bring it under control. It was explained that a special messenger had been sent to a neighbouring town to obtain a charm *(taweez)* from a wellknown practitioner of Chamars and that the ceremony would consist in collecting in the morning all the cattle of the village at its various gates, passing them through the gates, and sprinkling on them while they passed, water in which the charm and leaves and fruit of the neem tree had been dipped. They added that a large quantity of rice would be cooked at one place and distributed to all the house-holds in the village, and that no fire would burn, i e, no cooking would be done in any individual house, and that no person would be either allowed to come into the village from outside or to leave it, on that day.

The *jag* was duly held the next day; but I was not able to witness it because of the ban on entry of outsiders. The Sarpanch, an educated wide-awake man with extensive urban contacts, was a leading figure in organising the *jag*, and the other village leaders, most of whom are equally educated and wide-awake, took a prominent part in it. Even the young VLW, an excellent extension worker who was otherwise quite progressive in his outlook, appeared to share the villagers' belief in the *jag*. When I mentioned celebration of the *jag* to the veterinary doctor, he admitted that celebration of such *jags* at the time of outbreaks of foot-and-mouth disease was common in the area. He mentioned also that villagers frequently resorted to treatments of this kind when their animals were sick, and that these treatments were often done simultaneously with the veterinary treatment obtained from hospitals.

Dairying and Poultry Farming

The attitudes towards commercial dairying and poultry production also show that the traditional prejudices against these are being overcome only slowly. There is widespread prejudice against sale of milk by cultivators in Punjab and adjoining states of Northern India. This prejudice has been weakening in recent years when, with the growth of urban demand for milk, sale of milk has become very profitable. In this area, the city of Ludhiana and other towns obtain most of their milk supply from villages, through vendors who collect milk in the villages and bring it to the towns on bicycles. The block headquarters town obtains its milk supply in this way. In addition, there is a large and growing demand for milk from the government dairy at the State capital. The dairy obtains its milk supply from milk producers' cooperative societies, several of which are located in villages of this block.

This village sends milk to the block headquarters town, the quantity being estimated at between 120 and 150 kg daily. Besides, there is considerable sale of milk within the village itself. Most Mahajans and Mistris and many Harijans do not keep milch animals and buy milk, the quantity varying with the size and income of the family. Many jats also buy milk when their animals are dry. But commercial milk production is much less than it could be, and the prejudice against production of milk for sale among cultivators is partly responsible for this. It is significant that sale of milk was reported by only 5 people and three of these were non-Jat, one Brahmin and two Harijans. Some village leaders mentioned that the number of milk sellers was in fact higher and that many cultivators, who were actually selling milk had not reported the sale, because of the stigma attached to it.

A milk producers' co-operative society for supplying milk to the government dairy at the State capital had been formed in the village two years earlier; had worked for some time, and had then failed. Its failure was attributed by the village leaders to dishonesty and inefficiency of the staff attached to the milk collection centre located in the village. But later, when I discussed this subject again with them after having seen the successful operation of such a centre in a neighbouring village, they agreed that the main reason for the failure of the scheme was lack of interest in commercial dairying among the cultivators.

The same attitude prevails towards production of eggs for sale. The cultivators have no prejudice against consumption of eggs or other poultry products or against keeping some birds for meeting their domestic requirements of these. In fact, the practice of keeping birds for meeting domestic requirements has increased greatly in recent years, as the cultivators have become more prosperous. The U L W estimated that as many as 75 families (mostly of Jat cultivators) were keeping poultry. But only one person had started commercial production in a small way, by keeping a flock of about 50 birds.

However, both successful dairying and commercial poultry farming were seen elsewhere in the block. Dairying was seen in adjoining village which had a co-operative milk producers' society supplying milk to the Government dairy at the State capital. The society has 20 members from the village, and in addition collects milk from non-members in other villages. The supplies range between 400 and 600 kg of milk daily. The members of the society were very satisfied with its working and explained that they received good income from sale of milk. Many of them had steadily increased milk production during the one year's working of the society. It was an experience also to see delicate instruments like the Babcock butterfat tester being operated by an old illiterate member. The Chairman of the society, a young man, educated and very progressive dairy farmer, was exfremely enthusiastic about its working. He mentioned that the members of his society had recently bought 60 quality buffaloes from an adjoining district to increase their production of milk. His own herd of about 15 buffaloes was among the best in the block and two of his buffaloes had received prizes for high milk production. He explained that the average milk yield of a buffalo among the members of the society was 8 kgs per day (some of the buffaloes in his own herd yielded 16 to 18 kgs per day, at the peak of the lactation period), that one buffalo could yield a net profit of Rs 75 to 100 per month to its owner and that several members of the society with only 2 or 3 buffaloes were having incomes of between Rs 150 to 200 per month.

Commercial production of poultry was also seen in this village and elsewhere in the block. This is one of the blocks selected for intensive development of poultry in the State. As part

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of the poultry development programme a poultry extension centre and a marketing society were established at the block headquarters about a year ago. These provide all the assistance and facilities—one day old chicks to start a new flock, balanced feed, medical assistance, especially inoculation against disease like Ranikhet, incubators for hatching of eggs and arrangements for marketing of eggs and birds—which a farmer needs to start and run a poultry farm. The block has about a dozen poultry farms with flocks of 100 to 500 birds each, and the number is increasing.

The poultry farmer in this village was an educated young man, the son of a government officer, who had turned to poultry keeping about a year earlier when he was unable to get a suitable white collar job. He explained that he had obtained one day old chicks from the government poultry farm at Ludhiana and got technical assistance from the extension staff at the poultry extension centre. He was a member of the poultry marketing society, bought his feed and marketed his eggs through it. During the previous winter he had made good money by selling eggs for hatching to the I A D P people at Ludhiana. He mentioned that he could get a net income of Re 1 per bird and that he was making more money by keeping poultry than he would have made in any white collar job. He had started with about 300 birds in his own residential house, but was so satisfied with one year's working of his enterprise that at the time of my visit he was building a new, scientifically designed poultry-house outside the village, and was planning to increase his flock to 1,000 birds.

Later, I had occasion to see several other poultry farms, including one located at the block headquarters town, which was being managed by the wife of a white collar worker. This woman was keeping about 400 birds in the yard of her home. She had started keeping poultry about 3 years earlier, and her initial success had so encouraged her that she had bought her own incubator and had set herself up as a supplier of chicks to new poultry farmers.

Poultry farming is making rapid progress in the block and in the district. The number of poultry farms has increased during the last three years and will increase even more rapidly now, since it has caught the attention of the people. The main attraction is the high price of eggs in the markets of Delhi and the Punjab towns. The staff of the poultry extension centre and several of the poultry farmers themselves explained that the new, scientific method of keeping poultry, which had eliminated the risk of heavy mortality from disease, had made poultry farming quite profitable. Indeed, it has transformed poultry keeping which was a neglected branch of animal husbandry, to which attention was given only by the poor scheduled castes or the Muslims into a profitable enterprise.

But it is interesting to note that this new development of poultry is mainly in the hands of educated people. Some of them are cultivators; but others like the wife of the white collar worker mentioned above are non-cultivators. The enterprise requires a certain amount of capital and what is more, strict adherence to certain recommended practices, e g, inoculation of birds at stated periods, balanced feeding, culling etc, which the average farmer still finds too tedious; but which the educated person can adopt easily.

The speed with which commercial poultry farming is spreading leads me to think that commercial dairying can also make similar progress, if there are comparable advances in technique and similar facilities for marketing etc are made available. The main requirements for development of dairying are improving the milk yields of animals and more efficient organisation of milk collection. As regards the former, one specialist at the Agricultural University was of the view that through systematic breeding and improvement in feeding practices the milk yields of buffaloes in this area could be increased by 50 to 75 per cent within a few years.

The Problem of Excessive Numbers

In any discussion on animal husbandry in India, the problem of numbers asumes prominence, because the number of cattle is much in excess of the requirements of agriculture and their low quality is considered to be due mainly to this fact. The prevailing practice in many parts of the country is that animals, especially cows and young stock, are turned loose on village pastures and other common lands and fallows, and subsist on whatever grazing is available in these. The situation in this respect is strikingly different in this village today. The numbers of cattle is not too large and the practice of grazing on common lands and fallows, never very important, has almost disappeared. The number of livestock at the time of this survey were reported to be as shown in Table 9.

Thus there were only 131 pairs of bullocks for over 1,100 acres of intensively cultivated, well irrigated land, which has a high intensity of double cropping. This number is not only not excessive; but appears to be barely sufficient for meeting the requirements of agriculture. The only other animals kept in appreciable numbers are milch buffaloes, which are the primary source of milk supply. On the other hand, the number of cows and young stock, which form such a large proportion of cattle in several other parts of the country, is comparatively small. One reason for this is that the cultivators do not attempt to be self-sufficient in their requirements of bullocks by breeding cows and raising young stock. They do not find this practice economical. The prevailing practice is to buy either mature bullocks or young calves of between 1 and 4 years of age, and to bring them up until they are old enough for work. Buying of young calves is preferred to buying of mature bullocks, because these are cheaper. These bullocks and calves are bought mainly in the *mandis* of the Hariana area, which are not far from here. Most cultivators do not rear buffaloes either. These are reared by Harijans or other castes like Bazigars, for whom it is an important source of income. Even buffaloes which have gone dry are often given by cultivators to Harijans to keep through their dry periods and are taken back, when they are in milk.

It is clear from this that the cultivator has a very practical attitude towards livestock husbandry. He keeps only those animals which are most useful to him, and keeps feeding of unproductive animals or even of productive animals through their unproductive periods at a minimum. But the animals which he does keep, he feeds well. Unlike farmers in many parts of the country, he does not have the attitude of keeping large numbers of animals (and allowing them to starve) just because it does not cost him anything to do so.

Table 9: Number of Livestock

Bullocks	262
Cows	89
Youngstock	123
She-buffaloes	261
Youngstock of buffaloes	197
Goats	109

This attitude is related to the fact that the practice of allowing the cattle to graze in pastures, etc, has been stopped and there is now almost exclusive reliance on stall feeding. Growing of fodder crops and stall feeding of cattle have been prominent features of the farm enterprise in Punjab for a long time: but in villages of this area, these have received further emphasis after consolidation of holdings and electrification of wells. First, with consolidation even the small areas of pastures which had been available earlier, were eliminated. Secondly, with the growing intensity of cropping, hardly any areas of fallow lands are available for grazing of animals. Thirdly, as explained earlier, with increase in irrigation and in agricultural productivity, cultivators now grow much larger quantities of green fodders.

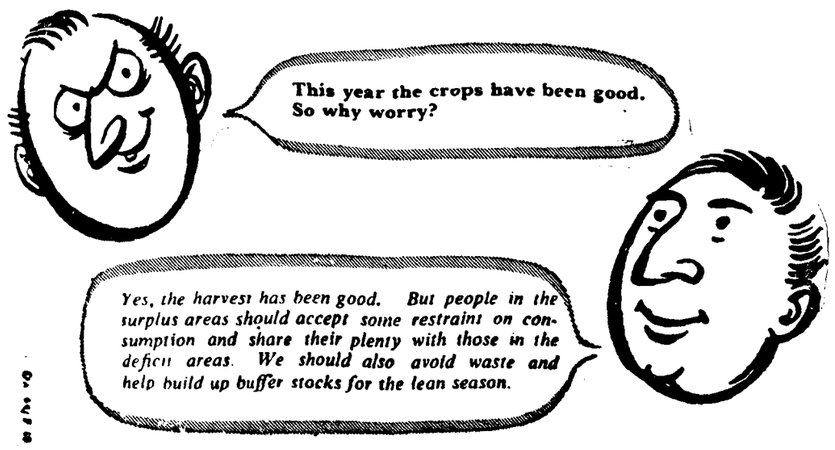
Therefore, if the present phase of mechanization, i e. electrification of wells, is followed by the further step of introduction of small tractors, the presence of a large number of surplus cattle will not prove an intractable problem. The introduction of tractors will be accompanied by progressive reduction in the number of cattle through the simple process of cultivators selling their existing bullocks and not buying new ones. Buffaloes will continue to be kept however for their milk and their numbers may even increase, if commercial dairy-farming makes progress. The need for farmyard manure will then be met increasingly from the buffaloes. These developments will be similar to those in U S A and Western Europe, where the farm-work animal, the horse, has disappeared after introduction of tractors, and there has been a sharp increase in the number of cows of specialised dairy breeds.

On The Eve Of A Technological Revolution

The picture which emerges from the above description is that of an agricultural community in which there has been notable advance in methods of utilisation of resources and a process of rapid adoption of improved agricultural practices is well under way. This process began with consolidation of holdings, which was followed by a rapid increase in the number of irrigation wells and electrification of most of these. These three developments made possible a more intensive cropping pattern, more adequate irrigation and care of all the crops grown, and increasing attention to adoption of recommended improvements notably use of chemical fertilisers. Much progress still remains to be made in intensifying agriculture and extending adoption of improved practices to all the farmers. The use of chemical fertilisers for instance, could be increased ten-fold before the levels considered adequate by the agricultural scientists are reached. But a stage has now been reached when adoption of improved practices has become part of the agricultural enterprise of the average farmer; when proved improvements like improved seeds of several crops, and nitrogenous fertilisers are adopted by the majority of the farmers, and a new seed variety or a new fertiliser takes only a few years (3 to 5) to get widely accepted. There are farmers in these villages who are not only ready to adopt recommended improvements: but are themselves looking for these in an effort to increase their production and incomes. Their number is small; but their presence has an influence which is far greater than their numbers. Further, beginnings of highly specialised types of commercial farming or livestock enterprises, like commercial poultry production, have already been made.

The area is now ready for larger changes, which would bring about major changes in farming techniques and make farming significantly more specialised and commercial. Expansion of poultry farming and of commercial dairying; much larger and more scientific use of commercial fertilisers and pesticides; large scale introduction of the small tractor and mechanisation of a variety of agricultural operations will be some of these changes. The successful experience with technological change has put the farmers in a mood in which a large number will be ready to adopt these larger and more fundamental changes. The economic level of the upper half of the farmers (those with holdings above 10 acres) makes it possible for them to be receptive to these changes, and there are no problems like that of a large number of unproductive cattle, which would present insuperable obstacles in the adoption of these.

(To be Continued)



Capital Formation through Consumption

Vinay Bharat-Ram

It is suggested here that greater reliance ought to be placed on the production of consumer goods as a means of capital formation.

While, generally speaking, it is true that capital is an important element in productivity, the role of motivation and the desire to live a better life should not be under-rated. In those sectors, particularly, where a low capital output ratio under-scores the importance of human ingenuity in putting simpler forms of capital to use, a confrontation with mass-produced consumer goods may achieve significant results.

IN a large part of the Indian rural setting there is reason to believe that,

(A) The very concept of a better standard of life associated with greater and more diversified consumption is outside the mental horizon of the farmer;

(B) The relative rise in the price of agricultural commodities has been a maior setback to the raising of productivity. To the extent farm incomes have risen without a corresponding rise in productivity, the farmer has been enabled to maintain his current standard of living by exerting even less than before.

Factors (A) and (B) warrant two somewhat opposite approaches:

(i) to tax the farmer almost to the point of subsistence so that in order to merely exist he has to enhance productivity: or

(ii) to stimulate his consumption propensity to a point where he would be willing to exert himself in spite of windfalls in the form of relative price rises of food over manufactures.

The first approach is clearly likely to cause political complications in a democratic-cum-predominantly agricultural society. The second, though less-publicised than the first, seems deserving of special consideration.

Inducement to Raise Production

My argument is that mass-produced consumer goods made available in the rural areas can bring about some changes in the attitude towards productivity through a two-way process. First, the farmer will tend to exert more within the broad limits of the existing technology. Secondly, he will be induced to use more ingenious methods through acquiring new knowledge and by withholding consumption just enough to move a step in the direction of a more favourable capital-labour complement. For example, he might forego the purchase of a used bicycle in the present to buy more fertiliser in the hope that he will be able to possess a new bicycle in the future when his farm output has increased as a result of an increment of capital. Of course, this presumes a transformation in attitudes which may at best come about very gradually. However, the experience of Japan in the early stages of development suggests that this kind of a change is not impossible.

Basic Problem

This approach detracts a little from the Ricardian prescription of direct means of enhancing productivity. It runs closer to the Malthusian point of view where consumption and saving are not necessarily regarded as mutually exclusive. The relevance of this theme to economic development seems considerable.[1] Rostow uses it up to a point when he argues in favour of transferring idle resources from those who tend to hoard to those who tend to invest in productive enterprises.[2] Such a transfer can take place either through making available loanable funds to the urban sector or through enhanced rural consumption. An enhanced marginal propensity to consume inflates the total income generated by a given new investment. This places in the hands of the entrepreneurs greater investible funds. Consequently — provided new investment is a positive function of the availability of funds— greater initial consumption will have actually led to greater saving and investment.

The basic problem is how to bring consumer goods within the reach of rural society. There is, first, a general shortage of consumer goods in relation even to urban demand. Second, an expansion in the output of consumer goods will divert scarce resources, including foreign exchange, from the capital goods industries.

There can be two ways of looking at this problem. First, what would happen if the economic forces are left to work themselves out? Second, what would be most desirable from the point of view of economic development?

If the economy is left to move in the present manner the two societies —urban and rural—might yet find a meeting point even if in the quite distant future. Industrial estates will spring up in various parts of the country; there will be long periods of under-utilisation of capacity on account of a shortage of, mainly, foreign exchange and agricultural raw materials. The development efforts of the Government in the rural areas will gradually take root because the greater the shortfalls in achievement the greater will be the political pressures on the Government to find short term solutions Rising employment opportunities around the major industrial estates will attract larger numbers of the under-employed from the relatively low income rural sector and will hopefully ease some of the pressure of population on land. This will inevitably force the farmer to use more labour saving and perhaps more efficient methods of production. Consumer goods will gradually trickle into rural areas and begin to provide some of the necessary incentives. Hence the two societies may ultimately merge.

Bringing the Two Societies Closer

This is an optimistic view of a generally pessimistic situation. The pessimistic view might well foresee the economy gradually becoming static. The lag in agricultural productivity might add to the already severe foreign exchange shortage by making inevitable the imports of food and the imports of agricultural raw materials necessary to feed existing capacity. This will become a drag on industrial activity which cannot sustain itself indefinitely without the support of a healthy agricultural sector. Meanwhile the growth of population will be increasingly wiping out the marginal gains in productivity.

1 Arthur Smithies has developed this idea in his article, "Rising Expectations and Economic Development", *The Economic Journal*, June 1961, pp 255-72.

2 Rostow, W W: "The Stages of Economic Growth", p 64.

The question to ask then is what would be most desirable from the point of view of economic development? It seems clear that the two societies should be brought closer together and their growth should proceed in an integrated fashion. This has been recognised in a general way by the planners. Even so there is a case for drawing attention to certain specific areas where greater emphasis may prove worthwhile:

(1) The plans have recognised the importance of a network of roads in the rural areas. These should receive considerably greater attention as a means of bringing urban and rural societies closer together.

(2) The key role of the personnel associated with the Community Development Project is undisputed. The success of these projects depends heavily on the quality of these persons, their training and the dedication with which they work. Greater thought, therefore, might be given to their selection, training and morale. This training apart from imparting knowledge about details of the programmes might also include an exposure to the social sciences. This would help in their being able to understand the problems of the peasant in some depth.

(3) The lack of confidence in the minds of the farmer in regard to his own ability to use new methods is a definite bottleneck. It is associated with a basic fear of the adverse consequences of new technique failing to pay off. A change in this outlook, it could be argued, will come about in any event because science inevitably tends to extend itself. This, however, is not the point. The problem is to accelerate the adaptation to new techniques and in this matter a two-pronged approach could be of help. First, some form of insurance against the risks of using new approaches might be provided to the farmer. (Crop insurance of the kind that operates in Japan is one possibility.) Second, a more concerted effort might be made at demonstrating the potentiality of new techniques in selected areas where the absence of water or fertiliser are not insurmountable bottlenecks.

(4) There are then certain lessons that can be drawn from the operation of the "demonstration effect" in the developing countries. The demonstration effect has primarily touched the urban centres. It is responsible for an "achievement orientation" which seems basic to the objective of raising the standards of living. It might be possible to select some of the healthier aspects of the demonstration effect and project them into rural society. The need to do this has already been accepted in the case of family planning, education and medical care. These are certainly excellent importations from the industrial societies and their need cannot be over-emphasised. They are nonetheless long term variables and do not possess the direct appeal of some of the other stimulants to achievement found in the urban cultures. Typical examples of such stimulants are consumer durables like bicycles and radios. It is not inconceivable that their vigorous extension in the rural areas will provide an exposure to symbols of achievement. It is of some relevance in this connection to explore possibilities like the provision of tax concessions to those who will be willing to locate consumer goods industries in the more remote parts of the rural sector or the granting of sales tax concessions on certain consumer articles sold in the agricultural regions.

To sum up, it is suggested here that greater reliance be placed on the production of consumer goods as a means of capital formation. While generally speaking it is true that capital is an important element in productivity the role of motivation and the desire to live a better life should not be underrated. In those sectors, particularly, where a low capital-output ratio highlights the importance of human ingenuity in putting simpler forms of capital to use, a confrontation with mass-produced consumer goods can achieve significant results.

The desire for higher standards of living must be related to direct efforts and must not be allowed to result in short-sighted consumption of capital. To ensure this, the part that education and the Community Development Programme can play is crucial. Nevertheless, the mainsprings leading to faster economic development will have to be founded on a deeper understanding of the forces that restrain the individual from finding self-expression in new ways rather than on a hope that modern techniques and methods will be automatically adopted.

THE
UNITED COMMERCIAL BANK LIMITED

Head Office : 10, Brabourne Road, Calcutta-1.

I. P. GOENKA
CHAIRMAN

Authorised Capital	:::	**Rs. 8,00,00,000**
Subscribed Capital	...	**Rs. 5,60,00,000**
Paid-up Capital	...	**Rs. 2,79,99,250**
Reserve Fund & Other Reserves	...	**Rs. 3,37,00,000**

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R. B. SHAH
GENERAL MANAGER

AROUND BOMBAY MARKETS

Dalal Street Inclined Upward

Wednesday, Morning

DALAL STREET displayed remarkable steadiness last week. It not merely recovered the ground it had lost in the preceeding week but it was also able to make a new high mark in the recovery phase which has been in progress since the panicky sell-off on March 27. Gains were widespread and quite pronounced in certain cases. Tata Steel, T Maneklal, Tata Chemicals and Tata Locomotive were the outstanding bright spots. Scarcity of offerings, short covering and fresh bull support—all these contributed in varying degree to the recovery in prices. The market's performance could have been still better but for the disturbing news from across the Indo-Pakistani border, particularly in the Kutch-Sind area.

The almost uninterrupted flow of encouraging corporate news undoubtedly aided market sentiment. But the buying that pushed up equity prices last week was inspired mainly by fresh institutional support to the market. The Life Insurance Corporation was reported to have purchased a huge parcel—about 25,000 shares—of Tata Steel shares and in a matter of days the quotation for the generally slow-moving Tata Steel shot up from Rs 144.50 to Rs 150—the sharpest rise for a single week for several months; corrective profit-taking caused a modest setback near the week-end. Apart from the L I C buying, the professional support for Tata Steel was also based on expectations of a higher dividend as the company is believed to have fared much better during 1964-65 than in the preceding year. Tata Locomotive and Tata Chemicals are being fancied for a similar reason. T Maneklal have soared from Rs 405 to Rs 450 following the announcement of one-for-three rights issue.

Sustained institutional support for many of the popular counters in the forward list in recent weeks has had a significant impact on the 'budla' charges at the turn of the settlement. Notwithstanding the high interest rates, carry-forward charges have declined considerably because of the scarcity of floating stocks as a result of institutional buying. Technical position of the market has also aided recovery—the decline in equity prices between February 28 and March 27 had been very steep indeed. Technical correction had been overdue; the process of technical adjustment is well underway. It is difficult to say how the current recovery phase will progress in face of the uncertain political situation.

COTTON

Prices Harden Further

COTTON prices showed a further hardening tendency last week. The turnover, however, was very much restricted. This is scarcely surprising. Faced with the accumulation of large stocks of both cloth and yarn and the consequent financial strain on their resources, mills have been in no mood to purchase cotton in quantity. Only the needy mills have figured as buyers recently and their inquiries have been mostly confined to good quality cottons. Digvijay is about the only variety which is eagerly sought after and its price has risen by Rs 40 to Rs 50 per candy within a week or so; it is now quoted almost at the ceiling. Another variety which has been in the news recently is L 147. The Indian Cotton Mills' Federation is reported to have made some purchases of this variety mainly under pressure from the State authorities which have been over-anxious to woo the farmers. Reports indicate accumulation of L 147 stocks in upcountry centres which is generally attributed to the fact that this cotton has been mixed up with other inferior cottons with the result that mills have been reluctant to purchase this popular variety at prices demanded by the growers and traders in upcountry centres.

The way the growers are being wooed by the State authorities gives one the impression that there has been an extraordinary fall in cotton prices which calls for remedial action. Nothing could be farther from the truth than this. Excepting a few varieties which also include CO2, most of the varieties are quoted very near the ceilings. With the 1964-65 cotton crop estimated at between 55 lakh and 57 lakh bales, the supply position cannot be said to be very comfortable. But for the acute financial stringency and the accumulation of cloth and yarn stocks with the mills, cotton prices might have pierced the ceilings again; prices have been ruling above the ceilings most of the time this season.

The decline which occured during the latter part of March and continued into early April seems to be a temporary phenomenon. Prices have already registered a sizeable recovery recently. In the circumstances, the Textile Commissioner's reminder to mills that they should complete purchases of entire quantity of their quotas of Indian cotton by the end of July seems hardly necessary. The Textile Commissioner has also warned the mills that if they fail to fulfil their obligation in regard to the compulsory purchase of Combodia A and B and ICS-67, they would render themselves ineligible for the issue of allotments for the import of global cotton.

OILSEEDS

Disturbing Trends

ALL the available reports indicate that the total availability of vegetable oils in the current season is likely to be 20 to 25 per cent larger than in the 1963-64 season. Groundnut and mustard and rapeseed crops are an all-time record; production of other oilseeds is also better. The domestic supply has been augmented by the import of 75,000 tonnes of soyabean oil of which about 30,000 tonnes will have reached the country by the end of May. The import of 50,000 tonnes of tallow for the soap industry will also ease the demand for vegetable oils which this industry had been using in the past. Moreover, there has been no export of groundnut oil this season and the export of linessed oil has also been negligible whereas considerable quantities of groundnut oil had been exported last season by this time.

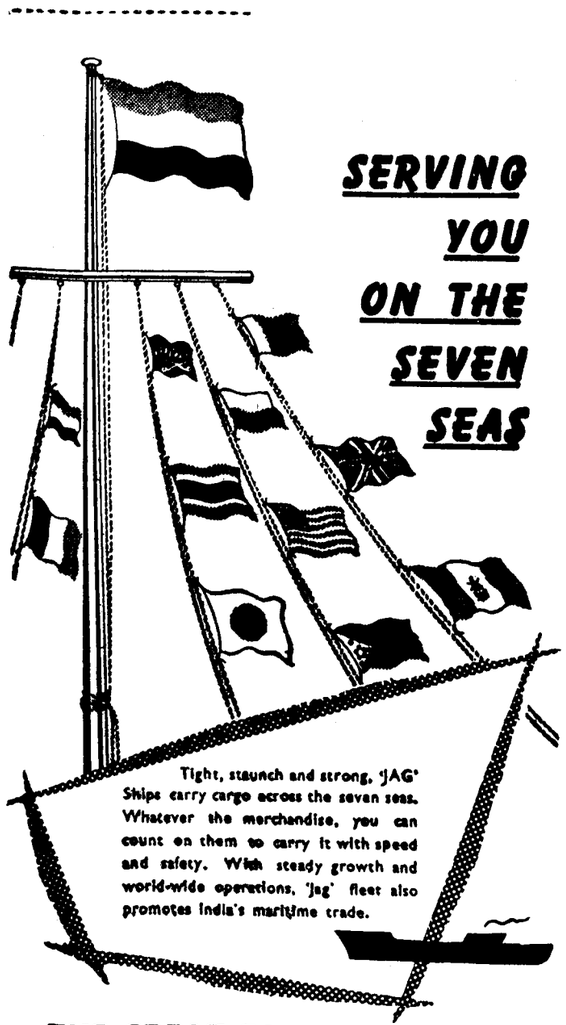
In spite of all this, vegetable oil prices at present are quoted considerably higher than the prices prevailing at this time last year; mustard oil is the only exception and this is because the price of this oil had been pushed up to a fantastic level last season because of the partial failure of the mustard and rapeseed crop. Both groundnut oil and linseed oil around their current levels of Rs 23.20 and Rs 19.25 (per 10 kgs) respectively are

costlier by about Rs 3 to Rs 4 compared to the prices prevailing a year ago. Despite good harvests, the visible stocks of linseed and mustardseed are reported to be very poor even though the movement of these crops is normally in full swing at this time of the year. Since the marketing of these crops has commenced only recently, the poor flow of arrivals clearly indicates that the stocks are being held at the producers' end. The supplies of groundnut are also relatively small. With the total supplies of oilseeds limited for one reason or another, the crushing industry in Bombay is having a very difficult time; the industry has been hit particularly hard by the continued ban on the export of groundnut from Saurashtra—the chief source of supply.

Last week's strength in the oilseeds market was in no small measure due to the feeling that the Government's decision retaining the present wheat zones will encourage the State authorities to impose fresh curbs on the movement of other commodities, particularly oils and oilseeds. The States had relaxed restrictions on the movement of oilseeds only recently. It would be unfortunate if the free movement of goods were again to be restricted. This will lead to wide inequalities in prices of edible oils in different States causing considerable avoidable hardship.

After an early rise to a new high of Rs 79.70 castor June receded to Rs 77.50 on corrective profit-taking but it again recovered to around Rs 78.50 at the week-end. Official trading in linseed June remained suspended throughout the week as the contract was all the time quoted above Rs 94.50—the maximum permissible rate for the week. In unofficial dealings, however, the June contract was bid up to Rs 96.50 (per 100 kgs). The strength was even more marked in the spot materials. Groundnut oil ready was marked up to Rs 23.20 and linseed oil rose to Rs 19.25 (per 10 kgs). Castor Oil Commercial was also steadier around Rs 16.30.

Export activity was extremely restricted. The rise in domestic prices of groundnut extractions has rendered fresh business with the U K unremunerative and the East European countries have been reluctant to follow the rise because they have already covered the bulk of their requirements from India. With groundnut expellers quoted about Rs 100 per tonne higher than groundnut extraction, the manufacture of de-piled meal has been rendered unremunerative. Fresh business in cottonseed cake has also been very poor. As for oils, business has been at a complete standstill and prospects of reviving exports have been rendered more difficult because of the widening disparity between Indian and world prices.



THE GREAT EASTERN SHIPPING COMPANY LTD.

BUSINESS NOTES

Bank of Baroda

A LOOK back at Bank of Baroda's progress over the past ten years reveals, an impressive record of all-round achievement. It shows that the Bank's deposits shot up from Rs 34.85 crores at the end of 1954 to Rs 169.64 crores at end-1964. In this period, advances rose from Rs 25.50 crores to Rs 120.45 crores, investments from Rs 11.84 crores to Rs 42.95 crores, total resources from Rs 46.66 crores to Rs 212.89 crores and capital funds from Rs 2.28 crores to Rs 4.48 crores. Similarly, the number of deposit accounts increased from 1,25,574 to 6,49,447, that of employees from 1,797 to 6,512 and that of branches from 57 to 235. The financial results of the decade were also equally encouraging, with the operating income rising from Rs 1.53 crores to Rs 9.46 crores and with a corresponding rise in operating expenses from Rs 1.24 crores to Rs 8.61 crores, the net operating earnings after taxes expanded from Rs 20.02 lakhs to Rs 85.53 lakhs. The dividend rate was stepped up from 12 per cent (tax-free) to 18 per cent (taxable), and accordingly dividend disbursement increased from Rs 12 lakhs to Rs 36 lakhs.

Equally encouraging has been the progress of the Bank in 1964 which was the 56th year of its existence. In this year, the Bank's deposits increased by Rs 29.48 crores to Rs 169.64 crores, advances by Rs 14.64 crores to Rs 120.45 crores and investments by Rs 12.36 crores to Rs 42.95 crores. The year's total income jumped from Rs 7.48 crores to Rs 9.46 crores, of which interest and discount accounted for Rs 7.98 crores against Rs 6.12 crores and commission, exchange and brokerage brought in Rs 1.43 crores against Rs 1.30 crores. But, at the same time, expenses also increased in all directions: interest on deposits and borrowings consumed Rs 4.63 crores against Rs 3.47 crores, salaries, allowances and provident fund absorbed Rs 2.65 crores against Rs 2.16 crores, rent, taxes, etc, claimed Rs 40.26 lakhs against Rs 34.83 lakhs. Even then the balance of profit is usefully higher at Rs 85.53 lakhs compared to Rs 75 lakhs a year ago. An amount of Rs 17.25 lakhs (Rs 15.50 lakhs) has been transferred to reserve fund and Rs 34 lakhs (Rs 24 lakhs) earmarked for payment of bonus to staff. The interim dividend at the rate of eight per cent absorbed Rs 16 lakhs as before, and the proposed final dividend at 10 per cent should require Rs 20 lakhs (same).

During the year the Bank opened 30 new branches, making a total of 219 branch offices in India and 15 in foreign countries. The banking business of the Tamil Nad Central Bank, Tiruchirapalli, was taken over from May 16, 1964.

With effect from the beginning of February this year the Chairman, Tulsidas Kilachand, who has been associated with the institution for over 31 years resigned from the Board in order to avoid a controversy with the central banking authority over certain advances made to Synthetics and Chemicals of which Tulsidas Kilachand was also the Chairman. It is stated that an unsecured advance of Rs 12 lakhs was made by the Bank to Synthetics and Chemicals prior to the amendment to the Banking Companies Act, 1949 which came into force from February 1, 1964 and Rs 30 lakhs were advanced after the amendment against surety of Kilachand Devchand and Co Private Ltd. According to the authorities, these transactions came within the restrictions on loans and advances under the amended Section 20 of the Banking Companies Act.

Central Bank

THE results of Central Bank of India, the biggest banking institution in the private sector in India, shows that it continued its stately progress in 1964. As at the year-end, the Bank's deposits jumped to Rs 278.02 crores from Rs 251.28 crores a year ago, advances to Rs 205.70 crores from Rs 190.33 crores and working funds to Rs 306.21 crores from Rs 271.92 crores. The expansion in activity also lifted investments from Rs 66.65 crores to Rs 81.17 crores and reserves and other funds from Rs 5.53 crores to Rs 6.35 crores, whereas the capital got increased from Rs 3.16 crores to Rs 4.72 crores.

The year's total revenue rose from Rs 15.13 crores to Rs 17.46 crores, of which interest and discount accounted for Rs 14.35 crores (Rs 12.48 crores) and commission, exchange and brokerage for Rs 2.98 crores (Rs 2.54 crores). The expenditure also rose in almost all directions. For instance, interest paid on deposits and borrowings claimed Rs 7.48 crores (Rs 6.67 crores) and salaries allowances and provident fund Rs 6.23 crores (Rs 5.18 crores). But even then the directors are left with a higher disposable profit of Rs 215.69 lakhs, compared to Rs 189.26 lakhs a year ago. As a result, employees' bonus is increased from Rs 75 lakhs to Rs 87 lakhs, allocation to reserve fund is raised from Rs 40 lakhs to Rs 43 lakhs and that to special reserve stepped up from Rs 34 lakhs to Rs 40 lakhs. As in the last year, staff gratuity fund again gets Rs 10 lakhs. The interim dividend already paid at Rs 2.40 a share absorbed Rs 35.4 lakhs (Rs 30.28 lakhs) and the final proposed at Rs 2.60 should take away Rs 49.46 lakhs (Rs 33 lakhs). The final dividend as also an amount of Rs 0.25 lakh (being the interim dividends for 1963 and 1964 and final dividends for 1962 and 1963 to the former shareholders of Jodhpur Commercial Bank) are to be paid out of the special reserve.

During 1964, the Bank opened two new branches, 14 sub-branches and five pay offices; and one branch and one pay office were closed down. The total number of branches at the end of the year thus increased from 366 to 385.

Goodyear India

FOR Goodyear India 1964 proved a distinctly better year. Its sales jumped to Rs 13 crores from Rs 10.68 crores and the operations resulted in a net profit of Rs 52.78 lakhs compared to a net loss of Rs 43.43 lakhs in 1963, after providing Rs 32.96 lakhs (Rs 32.48 lakhs) for depreciation and Rs 21.78 lakhs (Rs 19.98 lakhs) for interest charges. Out of the profit, Rs 40 lakhs have been transferred to general reserve and the remaining amount carried forward, lifting the reserves and surplus to Rs 1.59 crores to stand against a capital of Rs 2 crores. If no dividend has been recommended in spite of this happy position, it is because the Board has been influenced by two considerations. First, the limitation of dividends imposed in the Rs 2.25 crore loan agreement with the Export-Import Bank requires the company to accelerate loan repayment if any dividend distribution is made at this time. Acceleration of repayments would deplete necessary working capital needed for the company's current operations. Secondly, the current major expansions programme requires working capital over and above existing funds in order to service the enlarged operations as evidenced by the rights issue made in December last. Consideration of the proposal to issue bonus shares has also been deferred to a later date.

Modi Industries

ALTHOUGH Modi Industries, formerly known as Modi Sugar Mills, is still better known for its interest in the sugar industry, the company is in fact more broad-based. Its other interests range through vanaspati, soap, oil, paint and varnish, lantern, torch, gases and chemicals, distillery, electrodes, and even steels. Such a wide spread of interests is naturally beneficial to a group, for should a few fields of activity be adversely affected in a particular year, the stability of the group as a whole can be maintained in other fields. This is amply proved by Modi Industries' results for the year ended October last when, though the average recovery of the sugar factory fell from over 9 per cent to 8.81 per cent due to damage to the cane by frost and failure of winter rains, and the electrode factory's margins were reduced due to "cut-throat competition" in the market, the company showed a healthy rate of growth in overall sales and profits. The future prospects, too, appear good, as most of the machinery of the steel project is in the last stage of erection. The electric furnace was commissioned in January this year, and the rolling and wire drawing plants are expected to go into production in a couple of months.

The 1963-64 results show that rise in sales from Rs 7.90 crores to Rs 10.25 crores led to a slightly higher proportionate increase in gross profit from Rs 53.11 lakhs to Rs 69.40 lakhs, reflecting a small improvement in margins. Even after making higher necessary provisions, the net profit is more than last year's. Depreciation has taken away Rs 12.78 lakhs (Rs 9.55 lakhs) and taxation Rs 32 lakhs (Rs 24 lakhs). After writing off debenture issue expenses Rs 3.13 lakhs (nil) and after transferring Rs 2.25 lakhs (Rs 50 lakhs) to development rebate reserve, there is left a disposable profit of Rs 19.24 lakhs compared to Rs 17.06 lakhs a year ago. The unchanged dividend of 12 per cent claims a little more at Rs 9.40 lakhs (Rs 8.81 lakhs) since a larger capital is now to participate in the disbursement. Allocation to dividend equalisation reserve is lowered from Rs 11 lakhs to Rs 3 lakhs; last year's allocation was higher because the dividend was to be paid out of it. Price fluctuation reserve gets the same amount of Rs 3 lakhs and general reserve Rs 3 lakhs (Rs 3.44 lakhs).

Larsen and Toubro

LARSEN and Toubro has acquired a controlling interest in Willcox Buckwell India, Delhi, the authorised dealer in Northern India and Rajasthan for Caterpillar Overseas S A, British Crane Corporation, U K, Priestman Brothers, U K, and other well-known foreign manufacturing companies.

The current working results of Willcox Buckwell India Limited are reported to be satisfactory and the sales turnover is expected to exceed Rs 2 crores. For the financial year 1964-65, the Board of Directors have declared an interim dividend of 20 per cent.



CURRENT STATISTICS

Production of Chemical and Other Industries

Name of the Industry	Accounting Unit	1963 No. of Units	1963 Installed Capacity	1963 Actual Production	1964 No. of Units	1964 Installed Capacity	1964 Actual Production
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Acids, Alkalies and Allied Chemicals							
Sulphuric acid	Tonnes	52	820,910	568,150	57	10,11,160	678,900
Soda ash	"	4	296,000	267,761	4	322,800	280,000
Heavy soda ash	"	1	30,000	28,230	2	40,000	36,000
Caustic soda	"	20	187,835	152,282	22	252,300	180,000
Liquid chlorine	"	11	56,100	44,150	14	79,840	47,000
Bleaching powder	"	1	12,960	6,969	1	12,960	7,850
(2) Alcohol, etc							
Ethyl alcohol	K Litres	58	226,870	114,415	16	238,364	150,880
(3) Insecticides, Plastics and Plastics Chemicals							
Pesticides, etc.	Tons	3	7,200	5,739	3	7,200	5,898
B H C (Tech)	"	2	2,800	2,569	2	2,800	2,593
D D T (Tech)	"	5	2,284	1,083	4	2,284	1,460
Copper oxychloride	"	1	108	...	1	108	...
Ethylene dibromide	"	2	190	84.4	2	190	106
Malathion	"	1	66	46	1	66	47
Organo mercurials	"	2	150	48.6	3	300	27.2
Zinc phosphide	"	1	...	427	2	...	612
Pyrethrum extracts				(Prov)			
Disinfectants	K Litres	8	N A	3,310	8	N A	2,439
Liquids	Tons	2	.....	182.36	2	...	409
Solids							
Pesticidal formulations	K Litres	...	1,896 (Prov.)	...	...	20,810 (in terms of tech materials)	7,068
Liquids	Tons	...	...	21,651 (Prov.)	...		43,874
Solids		1	300	3	1	300	59
Ethylene dichloride	"	...	...	...	1	...	16
Colloidal sulphur	"						
Aromatic chemicals, synthetic essential oils, etc	Kgs.	2	202 tonnes for all aromatic chemicals	14,216	2	202 tonnes for all aromatic chemicals	17,927
Alpha amyl cinnamic		2		3,650	2		1,994
Amyl acetate	"	...		...	1		40
Amyl phenyl acetate	"	2		6,792	2		9,796
Amyl salicylate	"	...		...	1		25
Benzilidine acetone	"	2		603	2		167
Citral pure	"	2		10,513	2		15,576
Citronellol pure	"	1		975	1		250
Eucalyptol pure	"	2		223	2		355
Citronellyl acetate	"	1		175	1		245
Ethyl phenyl acetate	"	...		...	2		907
Eugenol pure	"	...		...	1		13
Eugenol acetate	"	2		1,768	2		2,364
Geranyl acetate	"	2		11,588	2		18,279
Geranial pure	"	1		602	2		1,604
Genrannial expalmosa	"	2		3,024	2		6,624
Hydroxy citronallol	"	2		7,797	2		4,502
Ionone pure	"	1		715	...		...
Alpha ionone	"	3		27,164	3		59,972
Beta ionone	"	1		50	1		110
Isobutyl phenyl acetate	"	...		...	1		1,185
Isobutyl salicylate	"	1		3,150	1		3,465
Linalool pure	"	1		155	1		20
Linallyl acetate	"	2		6,176	2		2,378
Methyl ionone pure	"	...		...	...		120
Methyl eugenol	"	...		...	...		226
Methyl benzoate	"	...		...	...		47
Nerol pure	"	1		413	1		745
Phenyl ethyl methyl ether	"	...		...	2		30
Rhodinol	"	1		8,600	...		8,400
Yara yara	"	3		9,528	3		3,201
Resinoids	"	20		11,638	13		15,148
Misc aromatic chemicals	"						

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Perfumery compounds/ synthetic essential oils	Kgs.	7	Unlimited depends on offtake.	1,08,069	9	Unlimited depends on offtake.	1,29,518
Flavouring essences							
Non-alcoholic	,,	10	Do	3,94,294	8	Do	3,87,896
Alcoholic	Litres	1	Do	1,684	1	Do	40,195
Natural essential oils-sandalwood oils	Kgs.	6	1,46,600	98,270	5	.....	90,599
N E O turpentine	Litres	3	.....	31,07,136 (Prov.)	2	.....	22,49,340
Rosin	Kgs.	3	12,396	1,13,80,244 (Prov.)	3	12,396	8,585
Pine oil (synthetic)	Tons	1	300,325	231,067			Tons
Menthol	,,	2	86,500	9,175	1	644	294,350
Plastics					2	92	10,939
P F Moulding powder	,,	5	4,512	2,888	5	4,512	3,143
U F Moulding powder	,,	3	1,074	1,030	3	1,074	1,167
Polystryene moulding powder	,,	1	5,486	5,515	1	5,486	5,051
P V C resin	,,	1	3,600	2,964	2	9,600	6.972
P V C compound	,,	...	...	942	...	.....	1,905
Polyethylene moulding powder	,,	2	6,556	7,923	2	12,500	7,776
(4) Dyes							
Azo dyes (acids & directs)	,,	5	1,635	1,011	5	1,653	1,040
Basic dyes	,,	4	339	200	4	387	260
Naphthols	,,	3	1,273	608	3	1,273	811
Fast colour bases	,,	3	964	371	3	964	438
Vat dyes	,,	3	600	489	3	740	750
Sulphur black	,,	2	1,836	1,565	2	2,290	1,460
Optical bleaching agent	,,	6	420	265	6	420	297
Solubilised vats	,,	3	165	106	3	202	113
Stabilised azoics	,,	3	335	148	3	335	181
Organic pigments	,,	5	820	590	5	905	473
Reactive dyes	Tonnes	...	...	.....	1	50	25
Coke oven by-product							
Crude coal tar	'000 Tonnes	13	380	331	13	380	330
Benzene	'000 Litres	6	35,313	21,328	6	35,313	19,156
Toluene	,,	6	...	1,646	6	...	2,308
Motor benzol	,,	5	...	2,984	5	.....	2,310
Solvent naphtha	,,	6	...	968	6	.....	901
Coal tar Distillation products							
Greosoto oil	Litres	7	.....	8,432	7	.....	12,420
Naphthalene (refined)	Tonnes	4	2,600	283	4	2,600	44
Road tar	,,	7	.....	19,370	7	.....	24,000
Pitch	,,	4	.....	20,434	4	.....	26,468
(5) Soaps and Detergents							
Soaps	Tonnes	59	227,242	164,500	59	229,042	168,000
Synthetic detergents	,,	2	7,315	5,396	2	7,315	6,667
(6) Synthetic Rubber							
Synthetic rubber	Tonnes	1	20,000	6,958	1	20,000	11,938
(7) Fertilizers							
Ammonium phosphate	Tonnes	2	84,480	23,056	2	84,480	44,402
Ammonium sulphate	,,	9	528,260	440,130	9	528,260	427,868
Double salt	,,	1	134,110	47,186	1	134,110	46,628
Nitro-chalk	,,	2	596,336	485,832	2	596,336	526,998
Urea	,,	1	23,460	18,103	1	23,460	17,412
Superphosphate	,,	24	750,570	555,275	25	850,542	646,240

Source : Annual Report of the Ministry of Petroleum and Chemicals, 1964-65, Government of India.

(To be Concluded)



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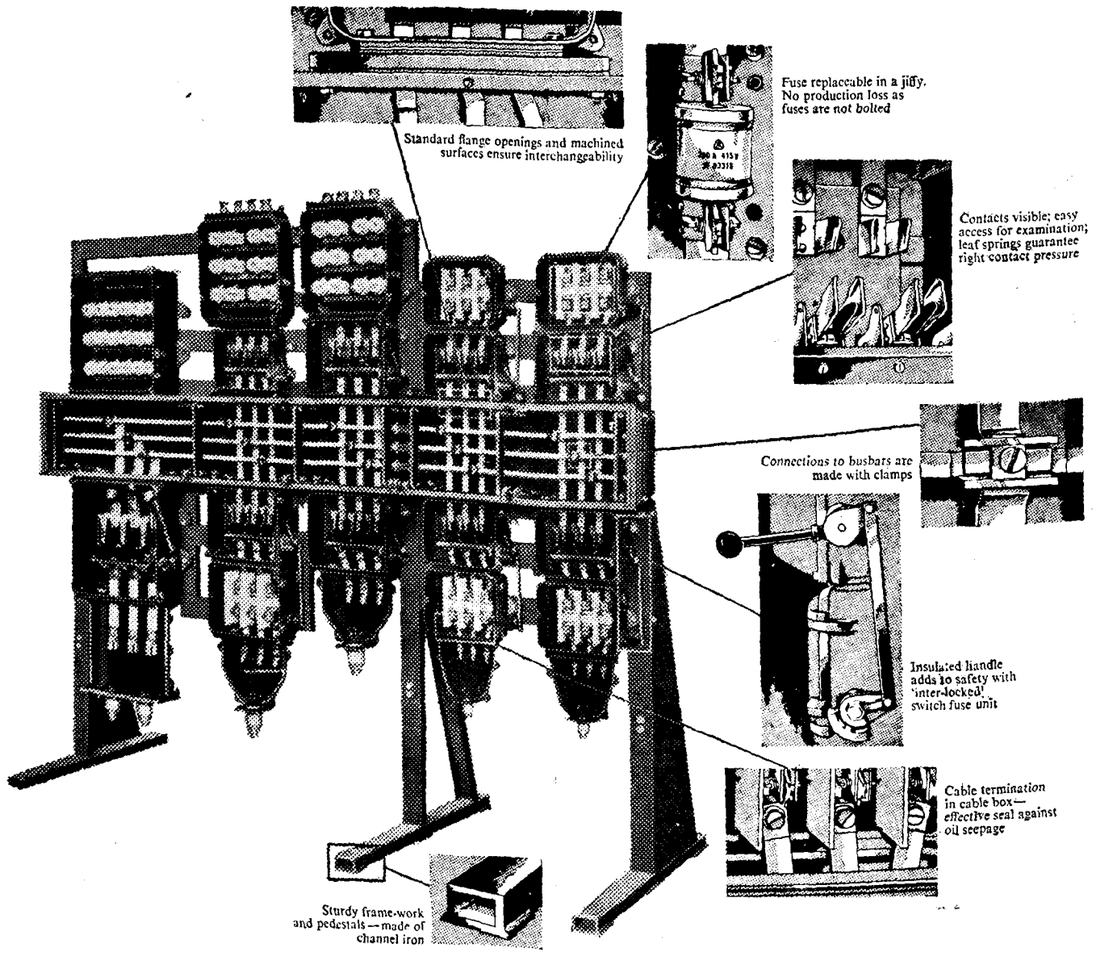
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Pakistan's Tactics

MANY similarities have been noticed between the Chinese aggression against India three years ago and the recent Pakistani attack in Kutch. However, here attention may be drawn to one dissimilarity. It is that in Ladakh China was in occupation of a large part of the 'disputed' territory; in Kutch very little of the 'disputed' area was in Pakistan's possession before the outbreak of hostilities. Following from this, Pakistan in Kutch, as India in Ladakh, will negotiate on the basis of a withdrawal by both parties. India, on the other hand, wants restoration of the *status quo ante* existing before the Pakistani attack. If the two countries stick to their respective terms, as they are likely to since they are so obviously intended to protect their respective interests, the history of the two and half years of bargaining over the pre-conditions for talks between India and China is likely to repeat itself. This does not mean war, of course, but an uneasy cease-fire which should be possible once Pakistan is satisfied that she has gained a tactical position by occupying a substantial part of the 'disputed' area. Having gained her purpose, Pakistan can have no further interest in escalating the conflict.

This is, however, small cause for comfort to India, for what Pakistan has been able to do in Kutch she should be able to repeat elsewhere where for one reason or another she is at a tactical advantage. If India restricts her response to these specific areas, she will invariably come out the loser. After the initial brave talk of throwing out the enemy, the Government of India seems to be beginning to realise this. In his statement in the Lok Sabha on Wednesday the Prime Minister admitted frankly that "on the Kutch border Pakistan has many advantages" and that even if the Pakistani attack didn't advance fast enough the Indian army would have to withdraw since the areas now occupied by it will soon be submerged under water. The most significant part of the Prime Minister's statement was where he said that "if Pakistan continues to discard reason and persists in its aggressive activities, our army will defend the country and it will decide its own strategy and the employment of its manpower and equipment in the manner in which it deems best". The hint is plain enough. If Pakistan starts operations in areas where she has some advantage India will not consider herself obliged to restrict her response to those areas; she will take counter-measures where it suits her best.

It was argued in these columns when fighting first broke out in Kutch last month that the Pakistani attack on our positions was not by itself the important thing, but that it was part of Pakistan's long-term strategy of keeping Indo-Pak relations in a state of tension which would sooner or later compel India to re-open the Kashmir question. To this strategy there can be two answers from India. India can accept the challenge of an over-all settlement with Pakistan which would include Kashmir. Alternatively, she can try to foil the strategy of building up tensions by making it as difficult and as costly as possible. This can be done only through a policy of 'free response'. Of course, such a policy will exact its own price. Principally it will keep alive the constant threat of a major conflict between the two countries. The risk is very real, but not one which is incalculable for Pakistan can hope to gain very little from such a conflict and so her leaders will not be averse to considering all possible alternatives. Further, such a hard-headed policy will mark a departure from the international postures which we have assumed so far and there is bound to be much criticism and not a little pressure, even from friends. Finally, this policy is hardly calculated to infuse amity into Indo-Pak relations. But, considering the current state of these relations, this may be no great loss.

The choice between a determined policy of combating Pakistani tactics to pressurise us into reopening the Kashmir question and one of taking the initiative and making the first moves towards an over-all settlement with Pakistan is admittedly a difficult one and cannot be made

without reference to all its implications for our internal and foreign policies. But the other choice, between either of the two alternatives and a policy of disconnected, *ad hoc* response to Pakistani tactics, which is what we have seen so far, should not be so difficult.

Waste of Vegetable Oils

THE decision to permit vanaspati manufacturers to use soyabean oil up to 50 per cent instead of 20 per cent as hitherto has been dressed up to look like a deliberate step to bring down groundnut oil prices. True, in spite of an all-time record groundnut crop, groundnut oil is today at least 15 per cent dearer than at this time last year. True also that the import of 65,000 tonnes of soyabean oil from the U S under P L 480 and the prospects of its substitution for groundnut oil on a bigger scale as a result of the raising of the ceiling on its use by the vanaspati industry should have some impact on groundnut oil prices. Those who are holding on to stocks even at the current high prices in the hope of still higher prices later may be persuaded to think again.

And yet the decision to raise the limit on use of soyabean oil seems to have been taken by the Government not for its likely effect on groundnut oil prices. It is well known that the first shipments of P L 480 soyabean oil were to arrive here much earlier than they will now and the supplies were to be more evenly spread out. But the dock workers' strike in the U S intervened and upset the time-schedule. As a result, there is now the problem of clearing the supplies as they arrive. To this end, besides permitting the vanaspati industry to use more soyabean oil, it has also been decided to exempt from the minimum margin requirement bank advances to vanaspati manufacturers against stocks of soyabean oil. Prices of soyabean oil in the U S have risen considerably since the time when the imports were first mooted and at current prices the landed cost in India would not have been very much lower than groundnut oil prices but for the waiving of the 10 per cent regulatory import duty. With all these concessions vanaspati manufacturers should have incentive enough to use soyabean oil.

The important issue raised by the decision to allow vanaspati manufacturers to use more soyabean oil relates to the Government's attitude to solvent extraction oils. The Ministry of Health has held solvent extraction oils as non-edible and injurious to health and has on that ground prohibited their use in vanaspati. But it has been difficult to accept this when vanaspati manufacturers had been permitted to use up to 20 per cent U S soyabean oil which is also produced by the solvent extraction process. Now that the percentage has been raised to 50 it needs to be asked what basis remains for the prohibition of use of indigenous solvent extraction oil in vanaspati making. Obviously, the decision to allow vanaspati manufacturers to use 50 per cent soyabean oil instead of 20 per cent was taken quite readily with only the problem of quickly using up the P L 480 supply in mind and without any reassessment of its edible qualities. It is difficult to be convinced, therefore, that the earlier limit of 20 per cent had anything to do with a scientifically calculated "tolerance limit".

The Health Ministry's classification of indigenous solvent extraction oils as non-edible and the ban on their use in vanaspati assume much significance in the context of the perpetual shortage of edible oils in this country. From January this year the Government has prohibited use of edible oils (defined to mean oils obtained by extraction) for the manufacture of industrial hard oils. This is intended primarily to prevent their use in soap-making. But the declaration of solvent extraction oils as non-edible reserved an alternate source of vegetable oil for the soap industry. To that extent the move failed to divert the soap industry entirely from vegetable oils and compel it to turn to animal fat—which should be the objective of any policy of conserving scarce vegetable oils. Some 42,000 tonnes of mutton tallow are to be imported this year, also from the United States, but the misuse of vegetable oils continues as a result of the irrational persistence in regarding solvent extraction oils as non-edible.

It is true, of course, that not all solvent extraction processes are equally efficient in the sense of effectively separating the petroleum-based solvent from the oil so as to render the latter edible. But a part of the extraction done in this country is as efficient as in the case of U S soyabean oil which the Government sees no harm in allowing the vanaspati industry to use. In any case, the objective should not be to condemn solvent extraction oils to non-edible status permanently but to encourage expellers to switch over to modern processes which produce oils fit for human consumption. Only such a policy accompanied by efforts to persuade industrial users, like soapmakers, through restrictions and inducements to give up use of vegetable oils and turn to animal fat will solve the problem of chronic shortage of vegetable oils.

Bourguiba's Initiative

PRESIDENT Bourguiba's remarks on a possible Arab-Israeli settlement to an audience of Tunisian students last week have raised a storm in the Arab world. Contrary to the general impression however, he did not propose that the Arabs should recognise the present frontiers of Israel, but only those drawn for it by the U N. The London *Times* quotes President Bourguiba as having said in his address: "What I have suggested is that all the resolutions of the U N should be applied, including that concerning partition—which would mean the restoration of an important bit of territory to the Arab State of Palestine—and that concerning the return of the refugees. This would mean that the Israelis occupied a reduced area, but they would have the great compensation of peace and an end to a state of veiled war". Thus his proposals entail a return to the frontiers of Israel proposed by the U N in 1947 before they were enlarged by the throwing back of the Arab attack and the return of Arab refugees proposed by the U N in 1948.

The significance of his proposals lies not in their actual terms, which are anathema to the Arabs and unacceptable to Israel, but in the fact that they represent the first public admission by an Arab leader that the Israeli problem cannot be solved by war. Whatever their private reservations and doubts the Arab leaders have always stood united in their proclaimed determination to push Israel into the sea. Nothing less than the extinction of Israel has been the object. Now one of them has said that this is not possible because the great powers will intervene to stop the fighting, after a few hours and that it is not really necessary anyway because Israel and her Arab neighbours can live in harmony. In fact, President Bourguiba is trying to convert his fellow Arabs to the concept of co-existence; he is trying to do for the Arab-Israeli conflict what Khrushchev did for the East-West conflict.

The wrath which President Bourguiba's remarks have caused in many Arab capitals was only to be expected. Bourguiba himself referred to the "chimerical hopes and sterile hatreds" which have been aroused among Palestinian refugees by repeated but so far unfulfilled promises of an eventual restoration to them of their lands and homes (hopes which Bourguiba would satisfy by a negotiated compromise rather than war). The mental adjustment in the popular mind involved in the jump from extermination to co-existence is a big one. President Nasser, the Arab world's most realistic leader, has himself gone on record, in an interview with a French magazine, as saying that Arab honour would be satisfied if the refugees were allowed to return to their former homes and those that did not return were compensated. But his public response to President Bourguiba's proposal must necessarily be cautious. The Arab leaders are in a sense prisoners of their own promises, and cannot afford yet to risk the appearance of suffering a diminution of fervour. But if the result of President Bourguiba's initiative will be to set the ball of public discussion rolling, and start some much needed rethinking at the policy-making level in both Israel and the Arab countries, it will have served a vital purpose.

Weekly Notes

National Planning Council

WHEN the Prime Minister announced some months ago the decision to set up a National Planning Council to advise the Planning Commission on different aspects of plan formulation, there were misgivings about the utility of the new body. The proceedings at the first meeting of the Council appear to confirm these misgivings.

At its meeting on April 21, the Planning Council divided itself into some 12 groups, each in charge of a member of the Planning Commission. The groups will study special problems like irrigation and power, management, agriculture and land reforms, family planning, education, manpower planning, internal trade, etc. By and large, these groups will be concerned with subjects which are already engaging the attention of working groups and steering groups constituted by the Planning Commission as well as of the respective divisions of the Planning Commission and, of course, the respective Ministries. It is to be expected, therefore, that there will be much duplication of work. One would have expected that the groups set up by the Planning Council would replace the older working groups. But no; the two are apparently to co-exist. The argument is that the complexity and multiplicity of the development problems necessitate a close and continuing liaison between the bodies of experts and the Planning Commission.

Attention may be drawn to one of the inevitable consequences of such duplication of work. If the Planning Council studies the same problems as the Working Groups, there will often be conflicting views and voices within the Commission itself, which might necessitate arbitration by some other body. It is not as if we have been spared such conflicts hitherto. It is common knowledge that the Ministry of Commerce and the Foreign Trade Division of the Planning Commission squabbled over the export targets for the Fourth Plan; also the Ministry of Food and Agriculture and the Planning Commission. With the prospect of such conflicts increasing in number it is hardly to be expected that the planning process will be speeded up or made more effective.

Another feature of the groups set up by the Planning Council deserves comment. The Planning Council had been advertised as "a small body of specialists". Every one of its members, one would expect then, would function as a specialist giving the Planning Commission the benefit of his advice on matters relating to his particular field of specialisation. Yet what do we find? Among the 12 groups now set up the same person, for instance, is the chairman of no less than four, in charge of subjects as diverse as international trade and manpower planning and agriculture and land reforms and education. This, it may be explained, was inevitable once it was decided to have members of the Planning Commission as chairmen of the groups since there aren't enough members to go around. In any case, no one has claimed that members of the Planning Commission are specialists and so the Planning Council's pretensions to being a body of specialists refers only to its non-official members. But is even this true? To take the composition of the groups once again, one finds that one non-official member is in the groups on management, industry and minerals and family planning; another in the groups on education, family planning and international trade: and so on. The conclusion is obvious: either the specialists who have been nominated to the Planning Council are gifted with amazing versatility or the Council isn't going to *function* as a body of specialists even if it was *constituted* to be one such.

A Time for Deficit Financing

THE Finance Minister is reported to have told a meeting of the informal consultative committee of the Parliamentary Congress Party last week that the Government's restrictive credit policy would continue during the Fourth Plan period. The circulation of money *(sic)*, he said, would not be permitted to go beyond the levels of the expected growth of production. Controlled credit expansion was imperative since the Fourth Plan strategy would have to be chalked out without any scope for deficit financing.

On the face of it, the Finance Minister's statement contained nothing startling. Both in the Third Plan as also in the Fourth Plan Memorandum the approach of the Planning Commission towards monetary policy is based on the Reserve Bank's norm of "non-inflationary" level of deficit financing. This norm is derived from the estimated rise in real national income, expected changes in the income velocity of money and the probable level of price. But this gives only the broad framework within which monetary policy has to operate; it says nothing whatever about fluctuations in output and prices in the short run with which monetary policy is intimately concerned. To identify the long-term norm with monetary policy is, therefore, a mistake.

The Finance Minister seems to equate the rise in prices in the last few years with the Government's recourse to deficit financing and the credit expansion by banks to the private sector. But haven't there been years, e g, 1952-53 and 1953-54, when a substantial amount of deficit financing coincided with a sharp fall in general prices? The predominant factor which governs the movement of prices in a country like India is the level of food output. If, therefore, we stick dogmatically to a quantity theory approach we might end up by sacrificing growth when availability of food increases. This is what we did in 1952-53 and 1953-54.

In his enthusiasm to pin the blame on deficit financing the Finance Minister has slurred over the real causes of the price rise in the last two years. As much as four-fifths of the rise in real national income during 1962-63 and 1963-64 was absorbed by the rise in investment expenditure and defence outlay. Considering that during this period population also increased by about 5 per cent, it is not difficult to see why prices rose so sharply. But defence expenditure may now be stabilised at around the present level and agricultural production looks like picking up. In these changed circumstances there is no reason why deficit financing must remain the dirty words that they are now.

Prescription for Cooperatives

WHEN representatives of the Reserve Bank, the State Bank, the Ministries of Food and Agriculture and Community Development and Co-operation and the Planning Commission sit on a Committee to study the arrangements for agricultural credit, it was not too much to expect that they would bring to bear on the question their experience and awareness of the weaknesses plaguing the rural credit set-up. But, in fact, the Committee's recommendations turn out to be largely administrative and financial, probably because of the continuing assumption that the imposing edifice of co-operative credit needs only further stretching to be strengthened.

The emphasis of the Committee is throughout on augmenting the financial resources of the co-operative structure, especially at the top level. To this end, the State Bank and the State Governments have been asked to increase their financial assistance. Some acquaintance with the growth of the co-operative movement in this country is enough to prove that what ails the co-operatives is not lack of funds. The working capital of all the societies put together ran close to Rs 1,800 crores in 1962-63 and the average working capital per society rose from Rs 4,190 in 1951-52 to Rs 17,526 in 1962-63. The figure of average loan per member is now Rs 246 while in 1955-56 it was just Rs 64. But all this has been achieved through massive doses of governmental help—hardly 20 per cent of the working capital of the societies is owned by the societies themselves, the rest being externally financed. No wonder that in many villages, no distinction is made between "sahkari" and "sarkari" credit. The deposit effort of co-operatives has been poor—it has never gone above Rs 9 per member in the primary societies in the last fourteen years — reflecting the financial standing of the members. And the percentage of overdues is no less than 25 per cent for the primary societies.

With all the resources available, the co-operatives have made but little dent on the rural credit problem. Rural debt has never been higher, and more than half of this is used for financing current expenditure. The co-operatives by their very structure cannot pose an effective challenge to the competitive power of the trader-moneylender nexus. Where the co-operatives have made an impressive showing, their success is for the wrong reasons. Daniel Thorner's field reports of agricultural credit societies in different parts of the country give grim details of the power and influence of the village oligarchy. Again and again he found that the leadership of the co-operatives rested with the biggest village landlord, the most powerful trader or moneylender or the influential village official, all of whom cleverly diverted co-operative funds for their own uses—often for their own informal money-lending!

In the past attempts to link credit to production have failed. Loans are used for unproductive purposes and where there is no effective supervision it is difficult to prevent this. Where enforcement is effective, the peasant turns to the moneylender for his unfulfilled needs. The integration of credit and marketing has failed for the same reason—it cannot work where the cultivator has little surplus to sell and where the cultivator uses the co-operative marketing agency only to obtain the minimum credit, marketing the rest of his produce through the trader. Availability of cheaper credit has not thus provided the answer. Some means have to be found to reach credit to the poor and the most needy and to prevent the domination of the societies by the influential sections of the village. The dilemma is that where the co-operatives genuinely represent the interests of the weak, they are themselves weak. So much so, they are overwhelmed by overdues and bad debts and are steadily pushed towards final liquidation—last year more than 22,000 societies were awaiting liquidation.

Under these conditions, to repeat well known remedies (excellent in principle, ineffective in practice) of "crop-loans", "integrated credit and marketing", etc, will not help. What is needed is a sober reassessment of the impact of co-operatives on the rural sector and the realisation that without a modicum of economic and social wellbeing of *all* participants, the co-operatives cannot take roots and "de-officialisation" will be impossible.

Japan-Korea Crisis

RECENT attempts to normalise relations between Japan and Korea, which have not had diplomatic ties since World War II, have erupted into a series of violent student demonstrations in Korea and threaten to touch off anti-government rioting in Japan as well. Ostensibly a much needed forward step, the treaty between Japan and South Korea has aroused serious opposition among leftist and nationalist elements in South Korea, and among leftists in Japan. The reasons for the opposition are not difficult to find, though official communiques from both sides have been obscure. In Seoul, one student has already been killed, and hundreds arrested, and reliable reports indicate that the agitation is just beginning, since the labour movement and the secondary school students are becoming actively involved in the struggle.

In Japan, the Socialist Party and the left-wing student organisations are opposing the treaty, which the ruling Liberal Democratic government has rammed through the Diet. The Zengakuren, Japan's largest student organisation, is planning demonstrations for the coming weeks in collaboration with Korean students, and the Socialists and their union movement will be sponsoring meetings and protest rallies. Though the government cannot be shaken in Japan by the treaty issue because of its large majority and the fact that the issue has not aroused national concern as yet, it is entirely possible that General Park's government in South Korea may be toppled by the students, just as President Rhee lost power more than a year ago as a result of student demonstrations.

The roots of the disaffection go deep in Japanese and Korean history, and are related to Japan's economic offensive in East and South-east Asia. For almost a century prior to World War II, Korea was a colony of Japan and was exploited by the Japanese, both economically and politically. With the defeat of the "Greater East Asia Co-prosperity Sphere" and Japan's other imperialist designs, Korea gained her independence along with a strong hatred of Japan. As a result, diplomatic relations were never established between the two countries, and Korea has been engaged in a long-standing dispute over fishing rights with Japan, and has refused to allow Japanese fishing vessels within 100 miles of Korea, much to the distress of the Japanese.

Another cause of fear for the Koreans is the fact that Korea has made many concessions to Japan in matters of trade, and has withdrawn its objections on fishing boundaries. These concessions, which were made mainly to protect the large Korean minority living in Japan, may open the door to economic penetration by Japan into Korea, thereby raising the bogey of Japanese "neo-colonialism". It is true that Japan's economy must expand in order to survive, and the country is now in the throes of a recession due primarily to domestic over-expansion. Given new markets in South Korea, the Japanese economy would have more leeway. Thus, of some advantage to Korea, which could obtain goods cheaply in Japan, economic penetration by Japan could bring other types of domination, with which the Koreans have had adequate experience.

Behind the scenes, the United States has pushed hard to cement Japanese-South Korean relations, and is particularly anxious to have two of its major allies in the Far East on friendly terms. The Americans are, in the long run, anxious to bring Japan into its security system in Asia, and see the present treaty as a first step in this direction.

The situation in Korea has reached crisis proportions, and it is doubtful whether the government of General Park can withstand the combined opposition of the students and the nationalists. Though it is likely that the treaty will be ratified as scheduled, the issue is an important one in Korea's internal politics, and has implications for the Japanese economy and for Asian development generally.

Credit and Capital

A non-economist reader writes:

IN his letter published in the issue of April 17, 1965 V G Pendharkar of the Reserve Bank writes: "As a general principle, one should remember that capital is a scarce resource in the economy. Trying to provide it at a cheap rate only encourages its use in an indiscriminate manner and leads to inflation which in turn affects exports".

To this non-economist reader it appears that this statement needs some examination. To begin with, what is capital? Is it loan finance or physical capital goods? When the central bank acts to raise interest rates in the economy, it raises not the price of capital goods but of loan finance. The higher price will reduce the demand for loan finance and the demand for the goods—capital goods, inventories, labour as also consumption goods—on which it is spent. This will lower the prices of these goods. The impact on prices is here produced by reducing aggregate demand.

Where does, scarcity of capital, understood to mean capital goods, enter the picture? It does not, in fact. But Pendharkar's reference to indiscriminate use of scarce capital gives the impression that it does somewhere. The expression "indiscriminate use" has meaning only with reference to some notion of socially optimal use. Indiscriminate use of capital will arise when the market price of capital is lower than the social cost or when the market price of substitutable factors is higher than their social cost. Isn't this what economists call the problem of choice of techniques? If capital (in the sense of machinery and equipment) is scarce and it is considered desirable to reduce its use in any industry or enterprise, the thing to do then is to either raise its cost or reduce the cost of substitutable factors particularly labour, or both. This could be done by a fiscal impost on capital goods or a subsidy to wages or both—and, directly at any rate, not by raising the cost of credit.

Taking any industry or enterprise, greater economy in the use of capital goods is to be expected with a rise in aggregate investment demand in the economy since, given the elasticities of supply of capital and labour likely to prevail in a developing country, a rise in investment will raise the price of capital relatively to the price of labour.

LETTER TO EDITOR

Fertilisers and Irrigation

I AGREE with your correspondent (*The Economic Weekly*, March 20 p 508) when he says that the ICAR's suggestion that irrigation projects should not be undertaken unless a simultaneous increase in fertilizer supply is ensured was bound to provoke controversy. However, there is nothing controversial about the Council's suggestion itself; what is questionable are the reasons the Council has put forth in support of its suggestion.

The point at issue is the relationship between water input and fertility of the soil. Is it correct to maintain, as the Council does, that applying increased water inputs by itself leads to a rise in the nutrient intake rate of plants, thereby depleting the soil and producing low yields?

On the question of water input I would like to draw attention to what Colin Clark has to say in his "Economics of Irrigation in Dry Climates". On the basis of Penman's theorem on the subject, Clark maintains that water requirements of all crops must be more or less the same, if they are grown on the same type of soil and for the same growing season. Surplus water fed into the soil in the belief that some crops require more water than others is probably just lost through evaporation or is drained into the sub-soil on lighter soils.

The ICAR's suggestion would be valid in broadly two situations — first, where the increase in water input is the direct result of growing crops such as sugarcane having a longer growing period and requiring comparatively large dosages of plant nutrients, and second, where the relationship between water input and plant nutrients is such that indiscriminate irrigation washes away the plant nutrients through erosion or drains them into the deep sub-soil.

BASHIR DESAI

Bombay,
April 20, 1965.

NOW

A Political and Cultural Weekly

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A War Situation Develops

Romesh Thapar

THERE has been so much self-congratulatory talk about the friendships supposedly forged against Chinese aggression during the anxious days of October 1962 that the temptation is great to dwell on the attitudes of these friends in the present confrontation with Pakistan. Of course, extollers of these friendships, local and foreign, are silent about friendship and such things at the moment. Indeed, there is an unspoken fear that if the clash in the Rann of Kutch continues to escalate, as it has done during the last few days, there is every likelihood that India will revise many of the assumptions which have motivated her policies over the past two years.

U S Must Have Known

Already, at the level of the Congress leadership, the uncomfortable thought recurs that President Johnson was made aware of the preparations under way in Pakistan for full-blooded attacks in the Kutch sector and elsewhere — and the decision was taken abruptly to call off the visits of Ayub and Lal Bahadur. After all, no military preparation in Pakistan is possible without the knowledge of the considerable U S military staff attached to the Pakistani army at almost every level. Actually, we ourselves are now experienced in the ways of foreign military advisers and understand how much of our own military control and operation is known to them.

The attempt in the West to treat Pakistan's aggression against India as another one of those 'confused' situations in which it is 'not possible to take sides' was generally expected even by men accustomed to fawning upon aid-givers. But there is demoralisation, and even anger, that 'our friends' are not prepared to do or say anything which might place them in a position critical of Pakistani blackmail or which might appear to favour India in a developing war situation. In fact, once again, India is being advised to do 'something' about demarcating her borders — which very often means that she should surrender territory to her neighbours. 'Useless tracts', they say, forgetting that the argument applies either way.

Prime Minister Lal Bahadur, purged of much of his wishful thinking since the rude treatment received at the hands of President Johnson, returned from a trip to Nepal to preside over a series of secret Cabinet confabulations to determine India's next step. The military situation in the Rann of Kutch, and more specially in the area which would soon be cut off for several months during the annual flooding, was not very reassuring. The Pakistanis obviously hoped that the pressure of an uninformed, excitable public opinion would force the GOI to push military reinforcements into a wasteful and indefensible position — a trap very similar to the one created by the Chinese movement into Thag-La in NEFA in 1962. The effort to stage-manage a 'victory' was only too apparent.

From what can be gathered, a firm decision has been taken to prepare for the possibility of war being forced upon us. Should Pakistan refuse to withdraw from the territory occupied by her, then the skirmishes taking place at widely separate points in the west and east will be treated as part of a general attack. The consequences are clear and do not have to be spelt out. Unless Ayub and his lieutenants are curbed, major battles are in the offing. The realisation is now widespread in political circles that to keep an army on the defensive in the face of continuous attacks is to invite disaster.

We are not without our more cautious strategists. The Prime Minister is being warned of the dangers of a war on two fronts and more, for the Indonesian capacity to make mischief in the Nicobars is not under-rated. And there is a fatalistic feeling that 'enemy agents' will disturb law and order. But these cautious elements are unable to present a coherent alternative plan to punish the aggressor, and they also recognise the serious demoralisation which would grip the armed forces if they are prevented from expelling the intruder.

Take People Into Confidence

Naturally, there is a marked degree of impatience at what appears to be our slow response to the Pakistani intrusion into Kutch. Everywhere people are recalling that Defence Minister Chavan and the General Staff have been assuring us that the armed forces are ready to face China's military machine, and the inevitable question forms: what prevents them from 'bashing' the Pakistani intruders? This is the kind of questioning which the GOI has invited upon itself as a result of the loose talk of ministers and officials. Until the people are taken into confidence, this sort of criticism will mount.

Rawalpindi's near-ultimatum that there will be no cease-fire and no negotiations until half the Rann of Kutch — the Pakistan claim is based on the theory that the Rann is an inland sea! — is surrendered means in fact that the two countries are moving towards war. India cannot afford to wait until the floods in the Rann of Kutch force her to withdraw from forward border positions on the other side of the flood. Pakistan can maintain the pressure, hoping to take over her claim — some 3,500 square miles — after the floods make defence of the area impossible for India. Delhi has, therefore, to face the fact that her territory has been entered and consider that aggression has been perpetrated. This means the activisation of the entire Indo-Pakistan border. A war situation may prevail between the two countries by the time these lines appear in print.

The urgent need to make known the facts pertaining to the borders of the two countries in the Rann of Kutch has not penetrated the bureaucratic apparatus of the GOI. Diplomatic missions in the Capital have still to be informed of the fact and this applies to the foreign correspondents, too. Maybe, our missions abroad are also inactive, without proper briefing. It is also necessary to explain the clear merits of India's case through every media of communication. We are again guilty of taking too much for granted, particularly when it is known that the Pakistani propaganda machine is most active.

In the opinion of many, the Home Ministry also seems to be dragging its feet. True, Gulzarilal Nanda has warned 'the enemies of the nation' that they will be dealt with ruthlessly, but there has been little action to mobilise the people against the communal incendiary, the rabble-rouser who makes it his revanchist profession to locate so-called fifth columnists. And there has been no action against men and organisations known to exist only for communal vendettas. The Home Minister cannot afford to await developments.

The ramifications of even a limited war between India and Pakistan would be wide and deep. It is also within the realms of possibility that a limited war could take on the character of a sustained and unending war of attrition, aided and abetted by interested groups of various description. All the more reason, then, that even as we move to thwart the Pakistani attempt to blackmail us, renewed efforts should be made to work out a rational approach to find a solution to the problem of the undemarcated sections of the borders of our country. Effective, realistic thinking of this kind would certainly help to isolate the blackmailers in Rawalpindi and Peking.

But those in this country and outside who are urging talks even as the Pakistani army sits in the Rann of Kutch are in fact sowing the seed of political instability and chaos which the Peking-Pindi-Jakarta coalition would like to see flourish in this subcontinent. We must constantly remind ourselves of this strategic objective of our detractors, or else we will be persuaded to make *ad hoc* unconnected moves which create demoralisation and disarray. In the speeches of government leaders, there is a surprising lack of understanding of what our enemies seek to achieve. The peripheral territory grabbing is only a minor part of the over-all design to sap the political-economic strength of India and in this way to destroy her unity.

Public opinion, made insensitive by the moronic stressing over the past two years of 'threats' and 'build-ups' on our borders with China and Pakistan, has only just begun to realise that the affair in the Rann of Kutch could spark a war. And the debate in the Parliament has yet to reflect a meaningful emphasis. It is time to galvanise the people for that extra effort which we will require if we are successfully to pull through the present crisis and others that may be spawned by it.

FROM THE LONDON END

Labour's European Policy

THE week-end conference held by Harold Wilson at Chequers with a number of European socialist leaders on a visit to the U K as members of the Socialist International, provides evidence to support the view that the Labour Government is planning a break-through to closer links between the European Common Market and the European Free Trade Area. At a speech made in Margate after the conclusion of the Chequers meeting, Wilson said: "We are now poised to take a new initiative in European economic co-operation".

Wilson Anxious to Close Gap

It is well known that although the Labour Government has, at present, no plans for renewing Britain's application for membership of the Common Market, Wilson is most anxious to bridge the gap between the two trading blocs in Europe. The first step in this policy was taken during his recent visit to De Gaulle, where a foundation was laid for technical co-operation on joint projects between France and Britain which Wilson himself described as an attempt "to tunnel under the tariff wall of the European Common Market and E F T A.".

The actual situation is that by next year both E F T A and the E E C will be free trade areas, with no internal barriers but with high tariffs between them. This is a position that could, in the future, give rise to friction. Members of the visiting European countries, were, apparently, very struck by the fact that Britain, under a Labour Government, was at last beginning to talk like a European country. Many of the leaders of the Socialist International were impressed by the marked contrast in Wilson's attitude to European problems and his apparent new warmth towards the Continent as compared with the rather chilly atmosphere which prevailed during Gaitskell's visit to Brussels in 1962. It will be recalled that in 1962 differences between European socialists were particularly marked on the question of British membership of the Common Market, and the differences came to a head in the sharp clash in 1962 between Gaitskell and Spaak over the conditions of British membership.

Possible Areas of Cooperation

Socialist parties in Europe, unlike the Labour Party, have always regarded planning as something that should be done on a European scale. The Labour Party, on the other hand, has always believed that economic planning must be a national affair, and this is a view that is still held to-day. When Labour first came to power. European socialists felt that with the imposition of the import surcharge, Britain had once more administered a slap in the face as far as Europe was concerned. The excitement over this particular issue has now cooled down and Wilson has certainly won his reputation as "a good European" by his recent statement at Chequers.

Visiting European socialist leaders were particularly struck by the fact that although there were a number of items on the agenda for discussion at Chequers, including Vietnam, international liquidity, Africa, etc, the item which took pride of place was relations between Britain and the Common Market. The following lines of co-operation between E F T A and E E C were discussed:

(a) Intensification of the Kennedy Round of tariff negotiations. If these succeeded, there should be a series of tariff negotiations on commodities of particular concern to E F T A and Common Market countries. An arrangement under which the Six could be treated as one economic unit which might enter into relations with E F T A to give a wider free trade group is also to be explored.

(b) Greater collaboration through O E C D.

(c) Further direct co-operation on specific issues such as that between Britain and France in aircraft development.

(d) Extension of the kind of monetary co-operation that provided financial support for Britain from Central Banks in Europe.

Proposals on these lines are now to be made at the E F T A Ministerial Conference in Vienna at the end of May. Discussions with Common Market countries may well be held after this, either directly or through the Organisation for European Economic Co-operation and Development.

Assurance to Commonwealth

Socialist representatives from E F T A countries were particularly enthusiastic about these proposals, and they feel it has now given the lie to the belief that Britain has no interest in

defending the EFTA set-up — a feeling which was intensified by the import surcharges. They now believe that EFTA has a long and rosy future ahead. It was, therefore, not surprising that EFTA representatives at Chequers should be enthusiastic about this new move, but what was particularly interesting was that the representatives from the Common Market also made no criticism.

One thing, of course, is perfectly clear and that is that at the present moment there is no question at all of Britain joining the Common Market as such. The moves towards closer co-operation are rather on the lines of an enlarged free trade area, similar to the proposal made by Macmillan before EFTA was formed or before Britain had taken the plunge in applying for membership of the EEC.

The Commonwealth point of view was also not overlooked and was indeed very strongly put by the leader of the Canadian New Democratic Party, TC Douglas. He raised most of the points that were made during the Commonwealth Prime Ministers' Conference in London held before Britain's application for membership of the Common Market was finally rejected. Wilson reiterated the assurance that in no circumstances would Britain be prepared to join a European trade bloc which pursued the type of policy that the Common Market was at present pursuing with reference to its agricultural policy. This was obviously said with particular reference to Canadian interests, but Wilson also made it clear that Britain would still insist upon the conditions which they had laid down previously before any attempt was made to join the Common Market.

Of course, there is no knowing how the Common Market will react officially to this initiative for closer economic co-operation. Wilson who is, above all, a realist, knows that no amount of tact and charm is going to make General De Gaulle change his mind about the terms under which Britain can become a full member. If, of course, a socialist government were returned in the forthcoming elections in Western Germany, or if Herr Brandt managed to find a place on a coalition government, it might be possible to ease British entry on terms considered suitable by the Labour Party. Again, with a socialist government in Germany, it would be much easier for Britain to enter into joint arrangements in public enterprises such as in the field of electronics with Germany rather on the lines at present proposed to the French on the aircraft industry.

The Chequers meeting is a culmination of comments and references which Wilson has recently made on the need of improving relations between the two main European trading groups. The British Prime Minister has always been careful to say that no action on these lines would be taken without consultation with Britain's EFTA partners. This was obviously a lesson that was learnt after the violent reactions to the imposition of the import surcharge without prior consultation with the EFTA countries. The Chequers meeting was another personal triumph for Wilson who has now completely placated Britain's EFTA allies, convinced Europe that Britain is not turning her back on the Continent and persuaded General De Gaulle during his Paris meeting that there is great scope for Franco-British co-operation while at the same time succeeding in reassuring Johnson that Britain remains one of America's staunchest allies.



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BOOK REVIEW

India: Secular or Jurisdictionalist?

S K Nath

The Concept of the Secular State in India by Ved Prakash Luthera; Oxford, 1964; ix+187 pp; Rs 12.50.

NEARLY everybody thinks that India is a secular State; yet the word "secular" does not occur in the *Constitution. Two attempts* by a member of the Constituent Assembly to have the word included were defeated due to opposition from Dr B R Ambedkar himself. Again, one of the basic principles of a secular State is that its Constitution lays down a tight division between religious and non-religious affairs: church (or something *like it) is free to conduct what* are strictly its own affairs; but in India *the various religions* have not been granted this internal autonomy. The other basic principle of secularism is that the State is completely impartial as *between the* followers of different religions. The Indian Constitution embodies this principle, and, therefore, *to this extent* is secular. *But a constitution* which embodies this latter principle but not the former (of a *tight division* between *the "church" and* the State) is more properly described, according to Luthera, as *jurisdictionalist.*

Apart from strict impartiality as between different religions, the other common characteristics *of secular and* jurisdictionalist states are *complete* freedom for the individual to choose any faith for himself and qualified freedom to perform any external acts of his chosen faith—the qualification *being* that the external religious observances should be in conformity with the laws of the State. Our Constitution adds this restriction even to the former freedom; but such a condition on the freedom of *conscience* can have very little meaning in practice. The author puts it down to bad drafting.

It seems that there is only one country where the Constitution embodies strict division between secular and religious matters (and the consequent internal freedom for religious bodies). That country is the USA—though even there, in practice, the division is not always maintained: some religious bodies have formed strong pressure groups in order to influence government policy, and there are references to God and Christ in official utterances. There is, besides, the institution of State chaplains. In any case, the age-old injustice of untouchability, carefully wrapped in the folds of Hinduism, made it inevitable that the founding fathers of the Indian Constitution would want to give the State the power to embark upon social reform legislation that "does not stop at the non-religious sphere but extends even to the religious sphere". They could touch almost all parts of untouchability without breaking *the wall* between religion and State (which characterises the legally *perfect* concept of secularity), but they could not throw open "Hindu religious institutions of a public character to all classes and sections of Hindus" without discarding strict, legal secularity. No one need regret this; *Luthera does* not either. A jurisdictionalist Constitution (which is what we have) suits Indian social conditions *better than* a secular one.

However, though our Constitution should remain jurisdictionalist, there is room for improvement in its interpretation by the Parliament. Luthera correctly argues that in its legislation for social reform the Parliament has been unduly timid, confining such legislation to the majority community; this has vitiated the whole spirit of the Constitution—which was to ignore religious differences in civil matters. While Article 44 of the Directive Principles of State Policy laid it down that the "State shall endeavour to secure for all citizens a uniform Civil Code throughout the territory of India", within five years of the enactment of the Constitution the Hindu Marriages Act was passed. In a sense, legislation of this kind is not impartial between the religious sects and hence not jurisdictionalist: if the Hindus' marriage laws should become modern, just and rational, why not *also those of* the Muslims, etc?

The Articles of the Indian Constitution which embody the principle of religious non-discrimination have a most *curious feature.* While other constitutions simply lay down that the State shall not discriminate on grounds of religion and caste, etc, the Indian Constitution specifies that the State shall not do so on grounds *only* of religion, caste, etc. It seems that this peculiar word was included to enable the government to give extra privileges to members of the backward classes—people who belonged to certain *castes* and were *also* poor and deprived. However, the Constituent Assembly later went on to add specific parts to the Constitution explicitly enabling government to grant these humane privileges. Various State governments have been trying to take advantage of the word "only" to reserve seats for different castes *in educational* institutions; they have not always been above the temptation to show extra favour to the politically important castes. Fortunately, each time such a case has been brought to any court the decision has been against the sectarian reservation of seats.

A similar reform is needed in the provisions about the Scheduled Castes and Scheduled Tribes. A great many of the members of these groups are trying to escape from the stigma of their caste names by discarding Hinduism and turning to other religions, *particularly Buddhism.* For every Buddhist in India in 1951, there were 1,671 in 1961. But once a member of a Scheduled Caste or Tribe discards Hinduism, he no longer qualifies for the extra help the Constitution had provided for *him. This is* thoroughly unjust. If the special provisions were designed to help the most unfortunate Indians es*cape from their social* and economic handicaps (rather than to preserve them in their Hinduism), then it is high time *that all* caste criteria were replaced by economic criteria.

But perhaps the most anomalous article of the Constitution is that relating to cow protection (embodied in the Directives): it seems to justify prohibition of cow slaughter on economic grounds! In a *country* where one-third to one-half of the members of the cow family have been estimated to be *economically useless,* the adoption of the Directive on economic grounds is an arresting example of double think.

Though it needs some improvement, our Constitution is no doubt very enlightened in matters relating to religion. Yet the hold of irrational religious *traditions continues* to be strong in the country. Perhaps important improvement will come with widespread education. However, our Constitution permits denominational educational institutions; *it permits religious instruction* even in institutions which are partly state aided. One can argue for the abolition of these permissions; but their abolition is not likely to be enough by itself. Starting from 1926, Turkey attempted increasingly to secularise the state and to weaken the hold of the

traditional Islamic practices on her society. Even oaths by the officers of the state were to be taken not in the name of Allah but on a man's honour. Government policies matched the constitutional changes: religious colleges, tribunals and monasteries were abolished; even the wearing of religious garments outside the places of worship was forbidden in 1934. But in 1947 a number of these measures began to be withdrawn. It would have been interesting and useful if Luthera had given a detailed analysis of why that experiment failed.

Luthera is very good at reporting the facts relevant to his theme, but he fails to develop it strongly and coherently at any one place. Therefore, while this is an interesting and useful book, it could have been much more so — with the same basic research but a better development of the main arguments.

A CALCUTTA DIARY

A Hundred More or Less

WITH a moral insouciance perhaps unparalleled elsewhere in the country, the Ministers of the Government of West Bengal have decided to forgo Rs 100 a month of their meagre salary of Rs 1,000 a month, already reduced, it is said, by 10 per cent because of the contribution to the National Defence Fund. The scheme awaits several clarifications: is the reduction going to be on the original Rs 1,000 or on the emaciated Rs 900? Last week the Finance Department did not know the answers, with no harm done. More important than it all was the reason given for the voluntary cut. "Austerity", we were told. The people laughed luxuriously. The one healthy feature of the Bengali political scene today is that, at least in the urban areas, political gimmicks now evoke only cynical guffaws. This reporter has yet to meet anyone who believes that, because of the cut of Rs 100, some Ministers, are going to skip a meal or stop buying that twenty-fourth punjabi in the finest khadi.

What all this exercise was in aid of remains a matter of speculation. It may be that, after its mock fight with Big Business, represented by none lesser than G D Birla, aided and abetted by Gulzarilal Nanda, S K Patil and Satyanarayan Sinha, the State needed a telling gesture; and the hundred-rupee cut was considered just it.

* * *

One of these days, however, we will have to get down to the job of fixing price tabs on politicians. The reference here is not to the price at which a politician can be bought; every business man knows that, as do party leaders. (Heard the lovely American definition of an honest politician? — The one that *stays* bought.) The question here is how much the people owe a politician elected to a legislature and how much more one that is doubly lucky to be in office, this in terms of his service to — or work for — the people, as distinct from his services to particular groups.

Quite frankly, there is no knowing, no possible cost accounting. A politician goes to the legislature because he has been able to fool, or persuade, a requisite number of voters that he is going to do something for his electors' interests and, at a second remove, for the good of the world. No questions asked about personal qualifications, academic or otherwise. The classic example is Churchill's when he went into the Admiralty and thought that his main qualification was that he was at sea. The civil service, it was taken for granted, would provide what has since illiterately come to be known as "expertise", although in French it has nothing to do with the perfectly good English word, meaning the right thing, expertness—and the Minister the popular opinion. Neither assumption holds good today, for the civil service in the democratic countries frequently knows nothing of quasars or quantum and Ministers' common sense is frequently no more common than sense.

* * *

As it happens, few of these general principles are involved in the West Bengal decision. It is by no means certain that anybody in the West Bengal Cabinet cared to evaluate, in terms of rupee and paise, his worth to the State. They do not work, for which there may be rates; they serve, for which the rewards are to be collected in the next world. Even this Hindu view of life maintained the Hindu social structure, until the additional proposition came along, convincingly, that there were prizes to be collected here and now. If Three Coins in the Fountain could work magic, so could a hundred rupees out of the pay packet; West Bengal Ministers may well be on to a good thing. It may well be a sign of India's economic take-off that Ministers can sign away Rs 100 just like that; many had never seen thirty together, except in other people's hands.

Few can know how much our Ministers and officials, to say nothing of such ornaments as the President and the Governors, are costing the country. The whole picture has been distorted by accounting and auditing manipulations through "sacrifices" here and benefits there; accountants and auditors, be it remembered, are as readily at the service of the Government as they are of private business. We may never know just how much today's President costs the country against yesterday's Viceroy; and the successor is supposed to be mainly decorative. An honest audit might go down to the level of Grade IV and prove the same thing.

* * *

The question of salary, a hundred more or less, has lost all meaning because the distinction between personal and public charges has ceased to exist. This writer knew a member of the Viceroy's Executive Council whose son had used his official car; promptly on his return the father wanted to sign the log book. "How many miles?", asked the father. "Twelve miles, more or less", said the son. Father was indignant, "What do you mean by this nonsensical 'more or less'? I have to pay for this mileage; this was not official; and I want to know whether this was 11 or 12 or 13 or 12½. I will not let you cheat the Government of one yard".

Those familiar with Bengali lore will already have cried, "Ah! another Heramba Maitra. In any event, all this seems very remote from West Bengal ministerial salaries". That, I submit, is the whole point; and we have come to regard Rs 100 as a relative quantity, not as an absolute in terms of morality. The argument is as old as Bankim and Babi Babu; but never old enough to be forgotten, at least in Bengal. It is; hence the hundred-rupee sacrifice to the bitch goddess of success. It may be too late to embark on the thesis that in India today sacrifice may be the most seductive of sirens, the Lorelei of libertarians the world over, India included. But there you are, West Bengal Ministers are a hundred rupees poorer, which does not necessarily mean that hospitality will be poorer; that's another matter.

— Flibbertigibbet

Relative Rates of Growth

Agriculture and Industry

A V Ramsunder

A Rudra has presented in his article ("Relative Rates of Growth: Agriculture and Industry," The Economic Weekly, November 7, 1964) certain rates of growth of industry which are in balance with specified rates of growth of agriculture. One of his important conclusions was that a 12 per cent annual rate of growth of 'industry' over the decade 1960-61—1970-71 is in balance not with 5 per cent growth of 'agriculture' as is believed but with a 6.9 per cent growth. He also works out the pressures on prices that will be generated in the economy by the imbalanced growth.

In view of its importance it is worthwhile to re-examine the problem keeping in mind two important aspects which did not directly enter Rudra's discussion.

First, we shall relate consumption, savings, taxes, etc, directly to the levels of income generated under alternative assumptions about the rate of growth of 'agriculture'.

Second, we shall explicitly make some assumptions about tax-rates, savings ratios, commodity composition of consumption, etc. We have retained most of Rudra's other assumptions.

The present paper concerns itself only with deriving the rates of growth of 'industry' in balance with alternative rates of growth assumed for 'agriculture'. We have also worked out the changes in the overall direct tax-rate that will have to be made in order to make a 5 per cent growth rate of 'agriculture' balance a 12 per cent growth of 'industry'. Finally we have examined the implications of an alternative value for the savings to disposable income ratio.

[The writer is thankful to A Rudra and T N Srinivasan for their guidance and help in the preparation of this paper.]

BRIEFLY stated the following conclusions emerge from our analysis:

(1) We find that a 12 per cent rate of growth per annum of 'industry' is in balance with a rate of growth of 'agriculture' in the range 5.7 per cent —5.9 per cent. The term balance is used in this context to mean that there is balance between total supply (including imports) and total demand (including exports) at base year prices. In interpreting this result a number of qualifications need to be kept in mind: (a) The model is defined in terms of broad aggregates. One can argue that the rates of growth of 5 per cent and 12 per cent widely discussed are not necessarily related to the sectors 'agriculture' and 'industry' as we have defined for this study. It can further be argued that the particular scheme of aggregation adopted may have concealed the extent of imbalances that may be revealed by a more disaggregated study. In this connection it may be mentioned that our sector 'agriculture' includes industries based on agricultural raw materials. Thus if we had treated these industries as a separate sector the results could conceivably have been different. (b) The limitations of the input-output framework with constant coefficients in the context of an economy undergoing rapid structural change are well known and need not be repeated here. In particular supply response to changes in prices are ignored. (c) A number of simplifying assumptions have been made (see section 3) in arriving at our results.

(2) Direct tax-rate as a proportion of Net National Product will have to be raised from 5 per cent to a value in the range 7.4 per cent—7.9 per cent.

(3) If the ratio of savings to disposable income is raised from 8 per

Table 1: Inter-Industry Transactions for India 1960-61

(In Rs crores at 1959-60 *producers' prices)*

Output Sector	Input into sectors		Other Industries		Total Intermediate Consumption	Household Consumption	Govt Consumption	Gross Capital Formation	Exports	Imports	Stocks	Total Final Demand	Gross Output
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Agriculture and industries based on agriculture	2059.7	187.8	21.0	206.6	2475.1	7229.7	104.9		401.1	322.0	197.7	7611.4	10086.5
(2) Mining and industries based on mining (excl coal)	166.7	1126.4	159.6	147.9	1600.8	509.2	225.1	2002.0	57.9	790.9	33.2	2036.5	3637.3
(3) Coal, electricity rail and motor transport	199.3	232.3	137.9	276.7	846.2	219.2	4.7		1.8	0.1	0.2	225.8	1072.0
(4) Value added	7420.8	1480.7	748.7										14276.0[1]
(5) Others+trade and transport margin (incl indirect taxes)	240.0	610.1	4.6										
Gross Output	10086.5	3837.3	1072.0			11994.6[2]							

1 total value added
2 total household consumption at market prices.

cent to 12 per cent it is seen that the rate of growth of 'agriculture' that is in balance with a 12 per cent of growth of 'industry' is in the range 4.6 per cent—4.8 per cent.

(4) The rates of growth of 'industry' which are in balance with given rates of growth of agriculture are generally seen to be *higher* than those obtained by Rudra (compare our Table 3 with Rudra's Table 3). In particular, the rate of growth of 'agriculture' which is in balance with a 12 per cent growth of industry is in the range 5.7 per cent—5.9 per cent as against Rudra's 6.9 per cent. Again the magnitude of foreign exchange deficits generated by an imbalanced growth is roughly half of what Rudra has obtained, though the gross capital formation is somewhat lower in our case (compare our Table 4 with Rudra's Table 4). However, in analysing these differences one must keep in mind the differences in the set of assumption made by us and Rudra.

II
The Model

We have used the inter-industrial set up to study the dependence of agriculture on industry. The economy has been divided into four sectors.

(1) Agriculture and industries based on agriculture.
(2) Mining (excluding coal) and industries based on mining.
(3) Coal, electricity, railways and motor transport.
(4) Residual sector, including commerce and services.

Table 1 gives the inter-industrial transactions for the base year 1960-61, drawn up at 1959-60 producer's prices and Table 2 gives the matrix of coefficients, including the coefficients of value added for the three sectors.

The model consists of the following feasibility condition to be satisfied by the output levels x_{it} (i=1, 2, 3) of the three sectors. The equations may be written as follows:

$$(1)\quad x_{1t} - a_{11}x_{1t} - a_{12}x_{2t} - a_{13}x_{3t} = h_{1t} + g_{1t} + s_{1t} + o_{1t} + e_{1t} - m_{1t}$$

$$(2)\quad x_{2t} - a_{21}x_{1t} - a_{22}x_{2t} - a_{23}x_{3t} = h_{2t} + g_{2t} + s_{2t} + o_{2t} + e_{2t} - m_{2t} + k_t$$

$$(3)\quad x_{3t} - a_{31}x_{1t} - a_{32}x_{2t} - a_{33}x_{3t} = h_{3t} + g_{3t} + s_{3t} + o_{3t}$$

where a_{ij} are the input coefficients, h_{it} is the household consumption of commodity i in year t, g_{it} government consumption, e_{it} its export, m_{it} the import, s_{it} the addition to stocks and o_{it} is the intermediate consumption of the residual sector. k_t stands for capital formation consisting of two parts k_{dt} financed by domestic savings and k_{ft} financed by external assistance. The sectors are so defined that all the fixed capital formation takes place in the second sector and the third sector has neither imports nor exports. In addition to the above three conditions we make use of the following identity:

(4) $y_t = v_{1t}x_{1t} + v_{2t}x_{2t} + v_{3t}x_{3t} + y_{4t}$

where y_t is the gross national product measured in producer's prices of 1959-60, v_{it} is the value added per unit of output in sector i and y_{it} is the total value added in the residual sector.

In order to study the mutual relations between the rates of growth of the output x_{it} and available supply for net exports of agriculture ($e_{1t} - m_{1t}$) we eliminate g_{it}, s_{it} and o_{it} by making suitable assumptions about them and k_t and h_{it} by relating them to the gross national product y_t.

III
The Assumptions

(1) The coefficients a_{ij} and v_{it} are taken from the 1960-61 inter-industry table and are assumed to remain constant over the decade. Rudra, however, has assumed a zero value for some of the coefficients, where the corresponding flow constitutes less than 5 per cent of the total flow. Again, he has raised the input of industrial raw materials into agriculture "to take care of likely technological changes in the latter".

(2) Government consumption is treated as exogenously given, taking the following numerical values (for t = 1970-71) (same as Rudra's).

g_{1t} = Rs 250 crores, g_{2t} = Rs 560 crores g_{3t} = 10 crores.

(3) We treat $s_{it} + o_{it}$ as proportional to the level of outputs x_{it}.

$s_{it} + o_{it} = b_{it}x_{it}$ where b_{it} are assumed to have the following base year values:

$b_{1t} = b_{10} = 0.04$; $b_{2t} = b_{20} = 0.05$; $b_{3t} = b_{30} = 0.27$

(4) The household consumption h_{it} and the domestic capital formation k_{dt} are related to y_t in the following manner.

Depreciation is assumed to be 6 per cent of the G.N.P. This gives the net national product:

$y_{nt} = 0.94\,y_t$.

Direct taxes and surplus of public enterprises are each assumed to be 5 per cent of the N.N.P. Subtracting these two from the N.N.P. we get the disposable income.

$y_{dt} = 0.94\,y_t - 2(0.05 \times 0.94\,y_t) = 0.846\,y_t$.

The total private savings (personal + corporate) are assumed to be 8 per cent of the disposable income. So that we get total private savings at 0.06768 y_t and total household consumption at market prices $C_t = 0.77832\,y$.

It is assumed that the domestic consumption at producer's prices of the output of the three sectors retains to C_t the same proportion in the terminal year as in the base year. In the base year this ratio is seen to be 0.6635. Further it is assumed that 85 per cent of this consumption at producer's prices is from the output of the first sector, 10 per cent from the second and 5 per cent from the third. In contrast to the consumption vector used by Rudra, which he has derived by a modified application of the Linear Expenditure System, our vector has fixed proportions in the three sectors.

To arrive at total domestic savings used for financing fixed investment we have to add government savings to private savings and subtract the net increase in inventories during the final year.

For evaluating total Government savings the receipts are assumed to be 18.8 per cent of the G N P (direct taxes 4.7 per cent, government current surplus 4.7 per cent and indirect taxes 9.4 per cent of the GNP). We have assumed the total Government expenditure to be Rs 2800 crores, in 1970-71. Thus the total savings is $0.188y_t$ - 2800. The net increase in inventories in the final year is assumed to be 1.5 per cent of the G N P. Thus the total gross domestic savings devoted to fixed investment in the final year is $0.06y_t + 0.06768y_t + 0.188y_t - 0.015y - 2800 = 0.30068y_t - 2800$. There are two sources of financing

Table 2: Coefficient Matrix

Input Sectors / Output sectors	(1)	(2)	(3)
(1)	0.204	0.052	0.020
(2)	0.017	0.310	0.149
(3)	0.020	0.064	0.129
Value added	0.736	0.407	0.698
Gross output	1.000	1.000	1.000

total investment. The first is through domestic savings. The second source is through foreign trade deficit covered by external assistance. The figures we use for this second component are already in producer's prices. We need the counterpart of gross domestic savings in terms of output of the second sector in producer's prices. It would have been nice if we had a deflator for this domestic savings component. What we have is a deflator 1.43 (source: Central Statistical Organisation) for equipment part of investment and 1.00 for construction. We, therefore, made the following two alternative assumptions to arrive at an overall deflator for domestic savings component of fixed investment.

A: 80 per cent of gross domestic savings used for fixed investment is devoted to financing construction. The overall deflator in this case is

$$\frac{1}{\left\{\frac{0.8}{1.00} + \frac{0.2}{1.43}\right\}} = 1.064$$

B: 70 per cent of gross domestic savings is devoted to construction. The overall deflator in this case is

$$\frac{1}{\left\{\frac{0.7}{1.00} + \frac{0.3}{1.43}\right\}} = 1.099.$$

The part of capital formation financed by external assistance is treated as equal to the surplus of imports over export earnings.

Thus $k_{ft} = m_{it} + m_{2t} - e_{1t} - e_{2t} - e_{ot}$ where e_{ot} is the net invisible earnings plus domestic trade and transport margin on exports.

For m_{1t} we have assumed that the non-competitive import is 0.01 x_{1t} and the competitive import vanishes for balanced growth. As to m_{2t} the non-competitive part is assumed to equal 0.085 x_{2t} and the competitive import is assumed to be zero.

For e_{1t}, the exports of 'agriculture' sector, we have assumed a given projection of Rs 570 crores and for e_{ot} a value of Rs 220 crores. The way the sectors have been defined with all the investment goods producing industries put in sector 2 and with only the sectors, 1 and 2 engaging in foreign trade no assumption about the export of the second sector is relevant to the calculation.

Table 3: Balanced Relative Rates of Growth

(*Percentages per annum*)

Assumption A					Assumption B				
Sector 1	Sector 2	Sector 3	Value Added in residual	G N P	Sector 1	Sector 2	Sector 3	Value Added in residual	G N P
2.0	*5.6*	*5.9*	*2.3*	*2.8*	*2.0*	*5.4*	*5.8*	*2.5*	*2.8*
3.0	*7.5*	*7.2*	*3.1*	*3.8*	*3.0*	*7.2*	*7.2*	*3.3*	*3.8*
4.0	*9.2*	*8.5*	*3.9*	*4.9*	*4.0*	*8.9*	*8.4*	*4.1*	*4.9*
5.0	*10.8*	*9.8*	*4.7*	*6.0*	*5.0*	*10.6*	*9.7*	*4.9*	*6.0*
5.7	*12.0*	*10.8*	*5.3*	*6.8*	*5.9*	*12.0*	*10.9*	*5.7*	*6.9*

Assumption A: 80 per cent of gross domestic savings used for fixed investment is devoted to financing construction.

B: 70 per cent of gross domestic savings used for fixed investment is devoted to financing construction.

Table 4: Foreign Exchange Deficits Resulting from Unbalanced Growth

(*Value in Rs crores*)

Assumption A					Assumption B				
Rates of Growth of		Competitive Agricultural Imports	Foreign Exchange Deficit	Gross Fixed Capital Formation	Rates of Growth of		Competitive Agricultural Imports	Foreign Exchange Deficit	Gross Fixed Capital Formation
Agriculture	Industry				Agriculture	Industry			
2.0	10.0	1148	1083	5051	2.0	10.0	1208	1143	5177
3.0	10.0	711	658	4805	3.0	10.0	778	725	4947
4.5	10.0	243	204	4545	4.0	10.0	316	277	4699
5.0	10.0	—285	—309		5.0	10.0	—204	—228	
5.0	12.0	392	527	5834	5.0	12.0	480	615	6019
5.7	12.0	—	147	5660	5.9	12.0	—	149	5805

Table 5

	Assumption A		Assumption B	
	Agriculture 5.7%	Agriculture 5%	Agriculture 5.9%	Agriculture 5%
Proportion of direct taxes to N N P	.050	.074	.050	.079
Proportion of Govt. revenue to G N P	.188	.211	.188	.215
G N P (Rs crores)	27438	26005	27903	26155
Agricultural output (Rs crores)	17639	16431	17906	16431
Direct taxes (Rs crores)	1290	1809	1311	1819
Govt revenue (Rs crores)	5158	5487	5246	5623

Table 6: Balanced Relative Rates of Growth with Savings Ratio 12 per cent

(*Percentages per annum*)

Assumption A					Assumption B				
Sector 1	Sector 2	Sector 3	Value Added in Residual	GNP	Sector 1	Sector 2	Sector 3	Value Added in Residual	GNP
2.0	*7.6*	*6.6*	*2.4*	*3.1*	*2.0*	*7.4*	*6.5*	*2.6*	*3.1*
3.0	*9.4*	*7.9*	*3.2*	*4.2*	*3.0*	*9.1*	*7.8*	*3.4*	*4.2*
4.0	*11.0*	*9.2*	*4.0*	*5.3*	*4.0*	*10.7*	*9.1*	*4.2*	*5.3*
4.6	*12.0*	*10.0*	*4.5*	*5.9*	*4.8*	*12.0*	*10.1*	*4.9*	*6.1*
5.0	*12.6*	*10.5*	*4.8*	*6.3*	*5.0*	*12.3*	*10.4*	*5.1*	*6.3*

IV

Results

Dropping the subscript t the relations (1) to (4) can be written under assumption A, as follows:

(5) $0.796x_1 - 0.052x_2 - 0.020x_3 = 0.43896y + 0.04x_1 + e_1 - m_1 + 250$

(6) $-0.017x_1 + 0.690x_2 - 0.149x_3 = 0.051647y + \frac{0.30068y - 2800}{1.064} - 220 + 0.05x_2 + 360 - (e_1 - m_1)$

(7) $-0.020x_1 - 0.064x_2 + 0.871x_3 = 0.02582y + 0.27x_3 + 10$

(8) $y = 0.7357x_1 + 0.4071x_2 + 0.6984x_3 + y_0$

To arrive at the rates of growth of 'industry' which are in balance with specified rates of growth of agriculture, we have to express x_2 and x_3 as functions of x_1. This is achieved by substituting 570 for e_1, and $0.01x_1$ for m_1 in the above and eliminating y between equations (5), (6) and (7). This leads to the following sets of equations under the two assumptions:

Assumption A:

(9) $x_2 = 0.9379x_1 - 5246.5$
(10) $x_3 = 0.2030x_1 - 594.4$
(11) $y_1 = 0.3654x_1 + 1331.5$
(12) $y = 1.6247x_1 - 1219.5$

Assumption B:

(13) $x_2 = 0.9159x_1 - 5103.9$
(14) $x_3 = 0.2007x_1 - 580.0$
(15) $y_1 = 0.3786x_1 + 1261.4$
(16) $y = 1.6274x_1 - 1237.0$

Substituting the values for x_1 for 2 per cent, 3 per cent, 4 per cent and 5 per cent growth of 'agriculture' the rates of growth of x_2, x_3, y_1 and y are worked out. These are presented in Table 3. Again the rate of growth of 'agriculture' which is in balance with 12 per cent rate of growth of x_2 has also been worked out by making use of relations (9) and (13).

Now to work the foreign exchange deficit engendered by unbalanced growth, equations (5) and (6) have been solved for $e_1 - m_1$ and y. These give

A: (17) $y_1 - m_1 = 0.3365x_1 - 0.3858x_2 + 0.0759x_3 - 1409.0$

(18) $y = 0.9558x_1 + 0.7605x_2 - 0.2186x_3 + 2640.4$

B: (19) $e_1 - m_1 = 0.3315x_1 - 0.3898x_2 + 0.0771x_3 - 1394.6$

(20) $y = 0.9670x_1 + 0.7694x_2 - 0.2211x_3 + 2561.9$

By substituting 570 for e_1 and putting $m_1 = m_1^* + 0.01x_1$, where m_1^* stands for competitive agricultural imports, equations (17) and (19) are used to evaluate m_1^* for given rates of growth of 'agriculture' and 'industry'.

The values of m_1^* and the corresponding foreign exchange deficits,

$D = m_1^* + 0.01x_1 + 0.085x_2 - 990$

are presented in Table 4, for 2 per cent, 3 per cent, 4 per cent and 5 per cent annual growth rates of 'agriculture' and 10 per cent growth of 'industry'. The results for combination of 5 per cent growth of 'agriculture' and 12 per cent of 'industry' as well as the balanced rates with 'industry' growing at 12 per cent are also presented.

The table also gives the gross investment calculated as follows:

gross fixed investment $= 0.30068y - 2800 + 1.43 (m_1 + m_2 - e_1 - e_2 - e_0)$

As we have seen above 'agriculture' must grow at 5.7 per cent (under assumption A) to be in balance with a 12 per cent growth rate of 'industry'. If, however, agriculture grows only at 5 per cent the demand at base year prices for agricultural products will exceed their supply. The supply demand balance can be restored through a rise in relative prices of agricultural products, leaving money incomes unchanged. Balance can also be restored without change in relative prices by a reduction in total consumption, expenditure. We now examine the extent to which direct taxes will have to be raised to bring down consumption expenditure to the appropriate level[1].

Denoting the proportion of direct taxes to the Net National Product by 'd' and retaining the assumption about government current surplus and indirect taxes as before, we get:

Private savings $= (0.0714 - 0.0752d)y$
Gross Domestic Savings $= (0.2574 + 0.8648d)y - 2800$

Consumption at producer's prices of the output of the three sectors $= (0.5451 - 0.5738d)y$.

The first two equations of our system (under assumption A) can now be written as:

$0.766x_1 - 0.052x_2 - 0.020x_3 = (0.4634 - 0.4877d)y + 820$

$- 0.027x_1 + 0.640x_2 - 0.149x_3 = (0.0545 - 0.0574d)y + \frac{(0.2574 + 0.8648d)y - 2800}{1.064}$

Substituting the values for x_1 x_2 x_3 obtained by assuming the annual growth rates of 5 per cent of agriculture and 12 per cent of industry for the decade 1960-61 to 1970-71, the first equation gives

$$y = \frac{11112.102}{0.4634 - 0.4877d}$$

Substituting this value of y and the values of x_1, x_2 and x_3 as before in the second equation we get the value of d. Under the two assumptions A and B the values of d are 0.074 and 0.079, respectively. The implications of this increased tax rate on the Gross National Product and on the volume of direct taxes and total government revenue are presented in Table 5.

We have worked out and presented in Table 6 the balanced relative rates of growth obtained under an alternative assumption about the savings ratio. We have assumed the total private savings (personal + corporate) to be 12 per cent of the disposable income. This rate is nearer the rate of savings implicit in the PPD's notes on Perspective of Development[2] than our earlier assumption of 8 per cent. The increased savings results in a lowering of consumption and consequently a growth rate of 4.6 per cent of 'agriculture' is seen to be adequate to balance a 12 per cent growth rate of 'industry'.

Notes

1 In computing this we are ignoring the effects changes in direct taxes may have on the savings ratio as well as on the commodity composition of consumption.

2 "Notes on Perspective of Development, India 1960-61 — 1975-76", Perspective Planning Division, Planning Commission.

Sankey Wheels

SATISFACTORY progress has been made by Sankey Wheels in the second year of its existence. Having completed the construction of factory buildings and installation of the truck wheel plant, the company began trial production runs in the latter half of 1964 and initial sales of truck wheels were also recorded before the year ended. The car wheel plant continued to be operated by Guest, Keen, Williams but from the beginning of the current year this plant was transferred to Durgapur where production of wheels for car, jeep and slow-moving vehicles is now in full swing. During the 53-week period ended January 2, last, the company incurred a loss of Rs 18.76 lakhs, after providing Rs 12.47 lakhs for depreciation. Together with the brought-forward loss, the total loss of Rs 23.45 lakhs is carried to the balance sheet.

The New Village—III

Impact of Change

V Nath

This study of a village in Central Punjab aims at identifying the growth factors in agriculture.

The different facets of technological change in agriculture in the village were examined in the first two parts of the study. The picture that emerged was that of an agricultural community in which there have been notable advances in methods of utilisation of resources and in which a process of rapid adoption of improved agricultural practices is well under way.

The impact of this rapid technological change in agriculture and of the economic progress in the village on castes other than cultivators is analysed here.

The Mahajans

THE non-cultivator castes in the village are the Mahajans, the Artisans and the Harijans. The Mahajans need not detain us long. It has been explained earlier that for several decades they have sought their economic destiny outside the village, through joining services and professions after getting education. The economic changes of recent years have not altered this trend significantly.

The majority of the Mahajan families of Jitpur are dependent to a greater or lesser extent upon income originating outside the village. Some depend upon pensions; others receive remittances from sons, nephews etc, working outside the village. Among the 83 workers listed in the Appendix Table as many as 30 are 'emigrants' with active links with village families. Even among the remaining 53 workers, who live in the village, as many as 13 are in service outside it. Within the village, the principal occupation of the Mahajans is petty shop-keeping. A few have recently taken to mechanical trades like repair of bicycles and flour milling. But the scope for such petty commerce is rather limited. The village is not a commercial centre and is not likely to become one in the future, because it is located so close to the block headquarters town. The aspiration of the Mahajans has for several decades been to seek employment outside the village after education, and most remain so.

The Artisans

As mentioned earlier, the village has two main groups of artisans: the Ramgarhia Mistries — smiths, masons, carpenters — having 37 households, and 'other artisans' — potters, oil pressers, etc — represented by 15 households. The impact of the changes on these two groups has been markedly different. Most of the Mistry families have done well; but the majority of the families of 'other artisans' have benefitted little and continue to be among the poorest people in the village.

The families of smiths are among the most progressive and prosperous in the village. The two families of agricultural implements fabricators are doing a flourishing business in fabrication of agricultural implements and in repair work. Two other families have gone into business — owning brick kilns and trucks and taking up small government contracts. They are among the most prosperous people in the village. A large number of young men from families of smiths have got remunerative employment outside the village, in the machine shops in the block headquarters town and in Ludhiana. The masons are also doing well. As explained earlier, they are very good craftsmen, and as a result of increase in house-building activity, they have managed to get remunerative employment in the village, in the block headquarters town and in neighbouring villages. The wages of a mason range between Rs 4 and Rs 5 per day plus food, so that an average worker can make about Rs 150 per month. The carpenters have not displayed the same enterprise as the smiths or the masons have. They remain closely connected with agriculture and have repairs of ploughs and other agricultural implements as their major source of income. But even they have benefitted from increase in demand for wood-work, resulting from increased construction activity.

In contrast, the 'other artisans' have benefitted very little. The potters and the oil pressers continue their traditional occupations and follow the traditional techniques. But since these do not give them full-time employment, they supplement their earnings from these with agricultural and non-agricultural labour. The potters also haul earth for house construction. The traditional craft of the weavers (6 Harijan families) has been steadily declining as mill-made fabrics have replaced the cloth woven by them, and the recent economic changes have only hastened the decline. The only cloth now produced by them is coarse, heavy *khadi* and *khes* (bed-spreads). Weaving of these two types of cloth survives only because these fulfil some of the more specific needs of rural life. The *khes* for instance, is useful not only as a bed-spread, but serves also as a cheap and durable cotton shawl, which can be used as much for protection against rain and cold as for bringing straw or green fodder from the fields.

In case of all these crafts, there is neither any marked increase in demand for the products nor any technological improvement. Nor does continuation of the current change of processes hold any prospects of revival in the foreseeable future. The economic redemption of the artisans practising these crafts lies in change of occupation — taking up white collar service after education or entering other skilled occupations after learning new skills.

The Harijans

As explained above, the Harijans of Jitpur are primarily a labouring group. The 75 families of Ramdasias depend mainly upon labour, agricultural and/or non-agricultural. The six families of Julahas (weavers) and six of Balmikis (scavengers) have their traditional occupations as supplementary sources of income. The labourers can be divided into two groups:

(i) *sanjhees* or attached agricultural labourers with cultivators; and
(ii) casual unattached labourers who take up labour, agricultural or non-agricultural, according as it becomes available.

Among the latter, 18 men work with trucks, loading and unloading bricks. They could also be regarded as attached labourers, more or less, because they do this work for about ten months in the year and take up other work only during the rainy season when this work is not available.

The other economic activities of the

Harijans are; service (8 workers) and shop-keeping (3 workers). Service is mainly of the unskilled work type, though two young men are skilled workers and one is a white collar worker. Eleven Harijan young men of the village are included among the emigrants in the Appendix Table. Seven of these are in military service and the other four are in other services. The families of shop-keepers and service-men living in the village, and of the young men who have gone out for service are the most progressive and prosperous Harijan families in the village. And, with spread of education and rise in aspirations there is a growing tendency among the young people to look up to these occupations as the means to a higher income and better life.

Wages and Employment

The wages of casual agricultural labourers are Rs 2 per day plus food or, less frequently, Rs 2.50 per day without food. Wages for certain agricultural operations like harvesting of wheat or maize, and making of *gur* which are paid in kind, are considerably higher. But such work is available only for a few days in the appropriate seasons. The Harijan casual labourers figuring in the sample survey reported having done such work for 15 to 25 days in the year.

The wages of casual non-agricultural labourers are Rs 2 per day without food, though workers who load and unload bricks from trucks make much more, upto Rs 4 per day. These workers have also greater security of employment, because this work is available for about ten months in the year.

From the data of the sample households and from discussions with Harijans in the village, it appears that a casual agricultural / non - agricultural labourer can get employment for about 25 days in a month in most months of the year, and that the only slack period when he is unemployed for any length of time is the rainy season (July-August). Assuming a total work year of 250 to 300 days, taking into account the fact that when he does agricultural work he gets food in addition to money wages, and that in specified agricultural operations like harvesting of wheat or making gur, he makes much more than Rs 2 per day, the average annual earnings of a casual agricultural-cum-non-agricultural labourer come to about Rs 600 per year. There was general agreement among the villagers on this point.

The women do not take up wage labour, agricultural or non-agricultural. The only work for which they get wages (in kind) is picking cotton. The women of the sample households had obtained 15 to 25 kg of cotton in the previous year, and all of it was retained for household consumption. The main contribution of the women to the income of the household is made through the livestock enterprise. This income comes through increment in the value of the animals kept, less frequently from the sale of milk, and is reported to range between Rs 200 and Rs 300 per year. Including this income, an average Harijan household with one male earner working as casual agricultural/non-agricultural labourer makes between Rs 800 to 1,000 per year. The *sanjhees* and those working with trucks are better off. The latter get higher wages. The *sanjhees* have assurance of obtaining all their needs of food and other agricultural produce fairly comfortably, and have also greater financial security, because they can depend upon financial assistance from their employers in time of need.

Most *sanjhees* are given a share of the produce, the proportion varying with the size of holding, especially depending on whether one or more pairs of bullocks are kept, on the productivity of the farm and the need of the owner for labour. In a holding with one pair of bullocks, the share varies from one-fourth to one-sixth of the produce, and in one with two pairs of bullocks, it varies between one-eighth and one-eleventh. If more than two pairs of bullocks are kept, the proportion is correspondingly smaller. Until about 20 years ago, the *sanjhee's* share in the produce was decided as follows: If a cultivator had a pair of bullocks and two workers of his own family, the *sanjhee* got one-fifth of the produce, bullocks and men being counted equally for this purpose. Now-a-days however, this principle is not always adhered to, mainly because the cultivators feel that productivity of land has increased with intensive irrigation, use of chemical fertilisers and other improved practices, and the *sanjhee*, who does not contribute to the cost of these, is not entitled to the same share which he was getting earlier. Therefore, progressive cultivators with high level of productivity generally give the *sanjhee* a smaller share of the produce. Some of them prefer to pay their *sanjhee* in cash. In such cases the payment to the *sanjhee* varies between Rs 500 and Rs 600 per year plus food. On the other hand, a *sanjhee* working with a farmer who has not enough workers of his own, or whose cultivation is not efficient, may get a larger share. There was one case in the sample in which the *sanjhee* was getting one-fourth of the gross produce from a cultivator having one pair of bullocks. But as the man was not an efficient cultivator, and production on his farm was low, the *sanjhee* was no better off than the other *sanjhees* included in the sample.

The *sanjhee* gets a share only in foodgrains and other products like *gur* and cotton, but not in fodder crops, agricultural wastes or by-products like cotton sticks. Most Harijans do keep some milch animals, for sale or for meeting the milk needs of their families, and do need fodder. They obtain it in two ways — in exchange for farmyard manure which they have from their animals, and by their women cutting grass growing along field boundaries or as weeds in the fields with standing crops. The cultivators do not object to Harijan women, especially of the families of *sanjhees* and others with whom they have relations, cutting grass in their fields; and the facility of obtaining grass from the employer's fields is one attraction for a *sanjhee* and even for a casual agricultural labourer.

During the interviews with them, the cultivators complained that because of greatly increased availability of agricultural and non-agricultural employment in recent years, they were experiencing difficulty in obtaining labour for agriculture, especially in the months of April-May and September-October, when agricultural work was the heaviest. They also complained that the labourers preferred non-agricultural work to agricultural work in spite of higher wages in the latter, because agricultural work was harder and involved longer hours of work. The Harijans agreed that more employment was now available, but explained that there were still some periods in the year like the rainy season, when they had to remain unemployed for some time. They also admitted that they preferred non-agricultural to agricultural work, and for the reasons given by the cultivators. Their main complaint was that increase in agricultural production in recent years had not benefitted them much. They stated that the wages for casual labour had not risen in proportion to the rise in prices and that in case of *sanjhees* rise in agricultural productivity had been neutralised by reduction in share of the produce.

We now come to the question : how far have the economic changes of recent years benefitted the Harijans and what attitudes do they have to these? The answer may be given somewhat as follows :

(i) The casual agricultural-cum-non-agricultural labourers are still essentially at the subsistence level.

(ii) The *sanjhees* and the workers with trucks are better off. The *sanjhees* have participated directly in the increase in agricultural productivity, though their participation would have been larger if their share had not been reduced. The workers with trucks have a new remunerative source of employment.

(iii) The best-off families among Harijans are those in which one or more members are engaged in occupations like shopkeeping or service.

The Harijans are keenly aware of the fact that economic progress in the village has so far failed to lift most of them above the subsistence level and has only increased the economic disparity between themselves and the cultivating-owners. This creates a certain dissatisfaction among them, especially among the young men.

The largest gains to the Harijans have come through changes in social attitudes and improvement of social services. Untouchability, never as rigorous in this area as in other parts of the country (partly because of the influence of Sikh religion) has almost disappeared. Improvement in health services, construction of works like pavements of streets and pucca wells in the Harijan quarter, and loans for housing have also benefitted them. But the main benefit is coming through education. It has been explained earlier that the most prosperous and progressive Harijan families in the village are those of shopkeepers and men in service, or families from which boys have gone out for service. All these people have been able to enter these more remunerative occupations because of education. It appears that spread of education will be the main instrument for economic and social progress of the Harijans and such progress will come mainly through the social process — education, wider outlook, higher aspirations, striving for and getting better paid jobs, mainly outside the village. The recent extension of compulsory primary education, which has brought a large proportion of the Harijan boys into the schools is a major step in this direction.

Other Aspects of Change

EDUCATION

The tradition of modern type school education is quite well established in this area, especially among groups like Mahajans and Ramgarhia Mistries from which large numbers have been going out in services, professions and skilled work. Among the Jats too, education has been widespread because of the tradition of emigration and military service. But in recent years education has been spreading rapidly among all groups including the Harijans. The village has two primary schools now, one for boys and the other for girls, which have 285 students. In addition 83 boys and girls go to the three high schools in the block headquarter town and three boys attend the college located in the *mandi* town. Thus, the total number of students in the village is 371. Their distribution by sex, caste and type of school attended is given in Table 10.

Compulsory primary education was introduced in the village three years ago. It has been effectively enforced in case of boys and with the exception of a stray case here and there, every boy of school going age now goes to school. In case of girls, however, enforcement is not equally strict and there are many girls especially among the Harijans, who do not attend school. The figures in Table 10 bring out clearly the effect of enforcement of compulsory education on school going. The sharp increase in the number of Harijan boys in the first three classes is particularly noteworthy. The number of Harijan girls going to school has also shown a marked increase though it is still small. Among the Jats also the number of girls going to school is much less than the number of boys but the effect of introduction of compulsory primary education is clearly seen in the increase in number of girls in the first three classes as compared with that in the higher classes. Among the Ramgarhia Mistries and Mahajans on the other hand, the number of girls going to school including high school is comparable to or higher than that of boys. In both these groups, education of girls has become an accepted social practice.

The number of boys and girls in classes I to 9 is estimated to be about 66 per cent of those in the age group 6-15. The percentage of boys and girls of the age group 6-11 going to school would be higher still because the numbers in primary classes are much higher than those in the post-primary classes. But the village is still far from universal literacy. The percentage of literates among adults (above 15 years) was found to be only 23.8 in this survey. The position of universal literacy will be reached only after a generation when the boys and girls who are now going to school become adults. But a situation has already been reached, in which because of the large number of boys and girls in schools, presence in the village of a number of educated men, and of growing awareness and knowledge of things even among the illiterates *ignorance has ceased to be a relevant fact in village life. This is a most significant fact for the educational and cultural progress of village India, because it means that the point at which ignorance ceases to be important can be reached considerably before univer-*

Table 10 : Distribution of School Students by Sex, Caste and Type of School Attended

Caste	Number of Children going to School											
	Primary School						High School			Total		
	Ist 3 Classes			*Class IV & V*								
	M	F	T	M	F	T	M	F	T	M	F	T
Jats	46	31	77	22	9	31	23	9	32	91	49	140
Mistries	16	16	32	8	3	11	6	10	16	30	29	59
Mahajans	13	19	32	4	9	13	15	12	27	32	40	72
Harijans	44	14	58	6	5	11	6	—	6	56	19	73
Other artisans	5	3	8	2	1	3	1	—	1	8	4	12
Bazigars	3	2	5	4	—	4	1	—	1	8	2	10
Total village	*127*	*65*	*212*	*46*	*27*	*73*	*52*	*31*	*83*	*225*	*143*	*368*

sal literacy has been attained. Literacy and education are important as ends in themselves. But they are equally important as means of banishing ignorance and superstition, and changing the mental outlook from a basically tradition-oriented one to a change-oriented one. Experience here shows that the water-shed between ignorance on one side and knowledge on the other can be crossed and a change oriented outlook produced even before the entire population becomes literate.

HEALTH

By far the most significant recent development in the field of health in this area, as in most others in India, has been eradication of malaria. This has meant elimination of the greatest killer and debilitator of man. Moreover, since other diseases like cholera and dysentery, which are prevalent in most other parts of India, have always been less important in the Punjab, eradication of malaria has meant elimination of epidemic disease as a major problem in village life. Campaigns for eradication of small-pox and trachoma, are now being carried out as part of country-wide campaigns, and it is expected that these two diseases will also be eliminated in a few years' time.

I had occasion to discuss the availability of medical facilities and attitudes towards treatment of disease, with the village leaders and with the lady doctor in charge of the hospital at the block headquarters town. The hospital, which has 24 beds, has one doctor, besides nurses and other auxiliary staff. Similar hospitals are located at distances of 5 to 15 miles along all the roads going out from the town. In addition, there are sub-centres located in the larger villages, which provide maternity aid and guidance in child care. Three such sub-centres are located in this block, and this village is included in the area of one of these.

The doctor explained that as part of the work of the sub-centres, house-to-house surveys of all pregnant women were conducted from time to time, that the women were persuaded to come to the sub-centres for ante-natal consultation and were given advice and necessary medicines. Cases in which any complication was likely at the time of delivery, were detected at this stage, and deliveries of such women were attended to either by the nurse-midwife in their homes, or if necessary, at the hospital. At the time of this survey, about a dozen women from this village, were visiting the sub-centre for ante-natal or family planning consultation. All the three *dais* of the village had received the training prescribed by the Health Department and were associated with the programme of the sub-centre. The maternity and child guidance service now available to this village is comparable to that available to any protected section of the population of the middle or lower income group, e g, participants in the Employees State Insurance Scheme, and is very much better than that available to any ordinary urban group.

ATTITUDE TOWARDS TREATMENT OF DISEASE

Treatment of disease, especially serious disease or injury by modern medicine has become accepted. All cases of serious sickness or of injury are taken normally to the hospital at the block headquarter and more serious ones are taken to the hospital at the district headquarter town. But, for treatment of common diseases, there is considerable resort to private practitioners, a *vaidya* in the village and two *vaidyas* and two medical practitioners in the block headquarters town. One reason for the popularity of the private practitioners is that the hospital cannot provide all the medical facilities that a villager may need or desire. Thus, a villager may go to a private practitioner because he is not able to get all the medicines at the hospital — medicines are frequently in short supply —, or because he feels that he will get better medical attention with a private practitioner. But since even the *vaidyas* have begun to use sulpha-drugs and anti-biotics, use of modern medicines is extensive, and the knowledge that a penicillin injection is an effective cure for many a disease, has become part of the culture of the village.

FAMILY PLANNING

A beginning has been made with this programme also. Facilities for consultation and free contraceptives are provided to the women at the sub-centres, and to both men and women at the hospital. The hospital provides facilities for vasectomy also and six of these were reported to have been done during the two years preceding this survey. The doctor, the BDO, the VLW, some workers of the Family Planning Programme and the village leaders with whom I had occasion to discuss the subject, summed up the present practice and attitudes towards family planning as follows:

(i) The number of people using family planing practices is still quite small. The Mahajans and the Mistries use these practices more than people of the other castes.

(ii) But knowledge of family planning practices is spreading rapidly, and the number of people who have begun to be aware of the need for these practices is growing. The cultivators in this area have always been acutely conscious of the limitation of land in supporting an increasing population—the tradition of migration among the Jats is one indicator of this awareness—and the threat to size of holding, and level of income posed by a large number of births is being increasingly realised by them.

(iii) Many cultivators, especially the young ones, are only watching the experience of those who have begun following family planning practices and especially those who have undergone vasectomies, before adopting these practices themselves. Use of family planning practices will spread very rapidly in the next few years as the experience of the small number who are practising these now becomes widely known.

SANITATION

There has been enormous improvement in sanitation and water supply in the village during the last 15 years. Most of the village streets have been paved and provided with *pucca* side-drains with financial assistance from the Community Development Block. Several wells have been made sanitary by provision of well-designed platforms, parapet walls and pullies. But the biggest improvement in water supply has come through installation of hand-pumps in a large number of houses. Sanitary water supply now remains a problem only for the Harijans and 'other artisans', who continue to draw water from the wells.

The main sanitation problems of the village now relate to use of latrines and provision of drainage. The drainage problem has been aggravated in recent years, with installation of hand-pumps in the houses and construction of drains because much larger quantities of waste water now flow into the village pond. No way of draining the pond has been found yet. The Sarpanch mentioned that he had sent a proposal to the State Government for draining the pond through a long drainage channel into a nullah, and was expecting that a survey of the scheme would be taken up by the State Drainage Department in the

[The Appendix Table which appeared with part one of this article on page 683 in the issue of April 17, 1965 was incomplete. The complete Table is as printed below. *Ed*]

Appendix Table: Selected Economic Data for Households, Caste-wise

		Jats	Ramgarhia Mistris	Mahajans	Harijans	Other artisans	Bajigars	Total
Number of households		105	37	46	87	15	9	299
Population:	Male	472	110	154	281	57	25	1099
	Female	308	95	135	236	32	23	832
	Total	780	205	289	517	92	48	1931
Population: above 15 years	Male	271	74	94	134	37	12	622
	Female	170	56	77	108	19	9	439
	Total	441	130	171	242	56	21	1061
Number of literate persons above 15 years	Male	68	37	71	30	8	1	215
	Female	8	17	13	—	—	—	38
	Total	76	54	84	30	8	1	253
Number of children going to school	Male	91	30	32	56	8	8	225
	Female	49	29	40	19	4	2	143
	Total	140	59	72	75	12	10	368
Land ownership and cultivation								
Number of land-owning households		96	3	4	1	—	—	104
Area owned (acres)		1033	11.5	28.5	6	—	—	1080
Number of cultivating households		76	2	4	—	—	—	82
Area cultivated (acres)		1065	9.5	28.5	—	—	—	1103
Economic Activity								
Number of workers:		245	70	83	120	29	13	
(*i*) including migrants								
(*ii*) excluding migrants, i.e. in village		213	56	53	110	26	13	
Number of workers in village in:								
Cultivation		194	—	9	—	—	—	203
Agricultural labour		1	—	1		4	1	
Non-agricultural labour		4	4	4	91	5	12	127
Skilled work		1	43	7	5	8	—	64
Service		1	1	13	8	2	—	25
Others (inc., shopkeeping, contract work, traditional village crafts, etc.)		5	7	14	5	5	4	40
Emigrants in:		24	—	10	7	1	—	42
Military service								
Skilled work (inc drivers of motor vehicles)		11	9	2	—	—	—	22
White collar services and professions		6	4	18	2	2	—	32
Others		—	1	—	2	—	—	3
No of households living in houses:								
Total		**105**	**37**	**46**	**87**	**15**	**9**	**299**
Kutcha		41	18	21	62	12	9	163
Semi-pucca		18	7	14	12	2	—	53
Pucca		46	12	11	13	1	—	83
With electricity		45	24	31	3	5	—	108
With hand-pumps		83	25	35	17	7	1	168
No of households owning:								
Bicycles		55	33	28	7	6	1	130
Sewing machines		30	23	23	2	5	—	83

near future. However, from the discussion with him and other people in the village it was clear that there was not enough concern about this problem among the village people and progress on it would not be rapid. Similarly, no progress has been made in use of latrines and none can be made unless flush-type latrines, which an average farmer can afford to instal in his own house, are introduced. Dry latrines are impractical for the simple reason, that nobody would be prepared to clean them. The sweepers of the village already confine themselves to sweeping of only cow dung and other litter and in the prevailing social climate, it will be impossible to get them to clean latrines.

Levels of Living

Some limited data on character of housing and possession of certain durable consumer goods was collected as part of the household survey. The main object was to get some indication of the advance towards modernisation and of improvement in levels of living. The items were selected with this end in view. Another consideration was to select those items which would show significant differences in economic status within the village. Thus possession of a radio set was considered far more significant than possession of several other modern type consumer goods like a torch, a hurricane lantern or even a wrist watch. These latter have become common place in the villages, but the number of radios is still small enough to indicate significant differences in level of living. Similarly, possession of a sewing machine, a kerosene stove or an electric iron indicates not only a certain economic level but even more a definite urban orientation in the household. The items selected for the survey were: type of house—*kutcha, pucca,* or semi-*pucca;* whether having electricity and hand-pump or not; possession of bicycle, sewing machine, radio, kerosene stove and other electric appliances like a fan and electric iron. The data are presented caste-wise in Table 11.

It will be seen that about 45 per cent of the households are living in *pucca* or semi-*pucca* houses; about 35 per cent are in houses fitted with electricity; but as many as 55 per cent are in houses having hand-pumps. Over 45 per cent of the house holds have bicycles and over a quarter have sewing machines. But the number of radios, kerosene stoves and electric irons is rather small.

Table 11: Levels of Living

	Village	Jat	Ramgarhia	Mahajan	Harijan	Other Artisans	Bazigar
Total No of Households	299	*105*	*37*	*46*	*87*	*15*	*9*
No of households living in houses							
Kutcha	163	41	18	21	62	12	9
Semi-pucca	58	18	7	14	12	2	—
Pucca	83	46	12	11	13	1	—
With electricity	108	45	24	31	3	5	—
With hand-pump	168	83	25	35	17	7	1
No of households possessing							
Bicycle	130	55	33	28	7	6	1
Sewing machine	83	30	23	23	2	5	—
No of households possessing other appliances	radio 20; electric iron: 16; Kerosene stove:10						

It may be noted also that living in *pucca* or semi-*pucca* houses with facility of electricity or hand-pump and possession of these durable consumer goods, is confined mainly to the three upper groups, the jats, the Ramgarhia Mistries and the Mahajans. The Mahajans are visibly lower than the other two groups. This may appear surprising at first; but is readily understood when we consider the fact that a large number of Mahajans are old people or widows living on pensions or remittances from sons and other relatives.

On the other hand the Harijans, the other artisans and the Bazigars have these benefits of modernisation to a very limited extent. As compared with nearly 40 per cent of Jat families living in electrified houses, only three Harijan families (4 per cent of the total) are living in such houses. Harijans come out very poorly even in possession of the bicycle which has come to be accepted as a necessity over large parts of rural India. This contrast in level of living between the three upper groups and the Harijans reinforces the observations about the failure of the Harijans to rise above the subsistence level and the growing disparity between them and the Jats made earlier. It focuses attention on what is perhaps the biggest problem of the village for the future, namely, taking the fruits of higher productivity and income to this large section of the population.

(To be Concluded)

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Assistance from the Aid-India Consortium

A Review

D C Vohra

THOUGH India has received the largest amount of aid from the West in Asia, with half the population of Asian aid-receiving countries, its share in the aid has been only one-third. Per capita aid received by India is $2, as compared with $61 by Israel, $40 by Jordan and $5 by Pakistan. Average western aid received by African countries has ranged between $6 to $7 per head.

That there has been a progressive decline in the pledges by the Aid-India Consortium to this country may be seen from Table 1. From Rs 616.67 crores in 1961-62, the total commitment came down to Rs 509.5 crores in 1962-63, Rs 501 crores in 1963-64, Rs 489.52 crores in 1964-65 and further to Rs 488 crores in 1965-66. Within this broad picture, it will be seen that of all the countries West Germany has progressively reduced its commitment for the past four years from Rs 107 crores in 1961-62 to Rs 41 crores in 1965-66. Considering that the international liquidity position of West Germany is extremely comfortable and also that India continues to have a heavy payments deficit with her, the reduction in West German aid is not easily explained. For 1965-66 most of the countries have maintained their contributions at the 1964-65 level. Belgium did not contribute last year because an earlier contribution of Rs 9.5 crores had remained unutilised; this year it has pledged an amount of Rs 1.90 crores. Austria has contributed Rs 2.38 crores as against Rs 0.48 crores in 1964-65. Last year's low figure of aid from this country was attributable to the fact that the contribution of Rs 5.6 crores in the two previous years was meant to be spread over three years.

Total Consortium pledges during the Third Plan thus aggregate Rs 2,604.52 crores, as against the original estimate of total external assistance requirements of Rs 2,593.50 crores. Since the formulation of the Third Plan, however, the foreign exchange requirements both on account of project and non-project imports have perceptibly gone up. The rise in project imports is partly because of rise in prices which have raised costs in most of the fields and partly because of the enlargement of the scope of some Plan programmes and the inclusion of new projects in the Plan. The requirements of non-project imports have also increased substantially. For one thing, production of a number of commodities having a bearing on the country's import needs has been lower than originally envisaged. Besides, the demand in the economy for a number of commodities has been higher than expected. The quantum of aid pledged, therefore, falls short of the estimated needs and the enhanced imports have had their natural effect on the balance of payments. This is reflected in an unprecedented depletion of foreign exchange reserves. That this has happened despite a better performance on the export front indicates the extent of the divergence between actual imports and Plan estimates.

Balance of Payments

The balance of payments position seriously deteriorated in 1964-65, wiping out all the improvement recorded in 1963-64. It will be seen from Table 2 that imports which have been rising at a rapid rate since 1961-62 gained momentum during the first half of 1964-65 due mainly to the larger intake of food, fertilisers and defence equipment. As compared with Rs 582 crores in the first half of 1963-64, imports during the corresponding period of the last fiscal year increased by Rs 92 crores, reaching an all-time high half-yearly figure of Rs 674 crores. Exports increased by Rs 35 crores, from Rs 371 crores to Rs 406 crores and the balance of trade deteriorated by Rs 56 crores, the deficit rising to Rs 268 crores. Moreover, despite increasing exports during 1964-65 foreign exchange proceeds from exports have not shown a commensurate increase. This partly reflects the fact that about 50 per cent of the increase in exports went to the countries in the rupee payment area and was paid for by a reduction in the rupee balances held by these countries in India. The Economic Survey for 1964-65 also points out that foreign exchange receipts have been actually lower than those shown by the Reserve Bank because the Bank's figures are on a shipment basis and not on foreign exchange accrual basis. This lag is natural, however, in a period of rising exports. The discrepancy for the last year is reflected in a rather large figure under "errors and omissions" which, if taken into account, will take the trade deficit deterioration to Rs 86 crores.

Thus whereas during 1961-62 and 1962-63 the country lost foreign exchange only to the tune of Rs 6.3 crores and Rs 2.3 crores respectively, and in fact gained reserves aggregating Rs 10.8 crores during 1963-64, in the first half of 1964-65 an amount of Rs 55.4 crores was lost from the reserves. The first half of the fiscal year is normally the lean season for exports and some fall in reserves is to be expected but the decline in reserves during April-September was much larger than the figure of Rs 27.9 crores during the first half of 1963-64. What is really disturbing is that the decline in reserves has persisted even during October 1964-January 1965, bringing the total fall to Rs 88 crores which necessitated the transfer of some amounts

Table: 1 Consortium Pledges during Third Plan

(Rs crores)

	1961-62	1962-63	1963-64	1964-65	1965-66	Cumulative Total
Austria	—	2.38	3.33	0.48	2.38	8.57
Belgium	—	4.76	4.76	—	1.90	11.42
Canada	13.33	15.71	14.53	19.52	19.48	82.57
France	7.14	21.43	9.52	9.52	9.50	57.11
West Germany	107.14	66.19	47.38	45.24	40.85	306.80
Italy	—	25.24	21.43	17.14	17.10	80.91
Japan	23.81	26.19	30.95	28.57	28.50	138.02
Netherlands	—	5.24	5.24	5.24	5.24	20.96
United Kingdom	86.67	40.00	40.00	40.00	39.90	246.57
United States	259.53	207.14	207.14	207.14	206.63	1,087.58
World Bank and IDA	179.05	95.24	116.67	116.67	116.38	564.01
Total	**616.67**	**509.52**	**500.95**	**489.52**	**487.86**	**2,604.52**

of gold from Government stocks to the Reserve Bank. This decline is to be contrasted with an accretion to reserves during 1963-64. The improvement in 1963-64 was in fact even more impressive because India had repaid an amount of Rs 23.8 crores to the International Monetary Fund.

A great deal of pressure has been put on the balance of payment by servicing of external debt. Capital repayments and interest payments involving foreign exchange cost the country Rs 50 crores in 1960-61; they almost doubled to over Rs 95 crores in 1963-64 and are estimated to be as high as Rs 140 crores in the last year and Rs 160-165 crores in 1965-66. The fiugure would be greater if repayments to IMF are also included.

The situation is the graver in the context of the Fourth Plan. The planners have estimated total export earnings during the next Plan at Rs 5,100 crores. The requirements of imports (exclusive of PL 480) have been tentatively fixed at Rs 7,200 crores. Subject to the sectoral allocations and estimates of indigenous production, particularly of metals, machinery and chemicals, the estimated trade deficit during the Fourth Plan is Rs 2,100 crores. This, together with obligations on account of payment of interest and repayment of principal in respect of foreign debt amounting to Rs 1,100 crores (Rs 500 crores by way of repayment of debt and Rs 600 crores by way of interest) will result in a gap of Rs 3,200 crores between total payments and total receipts of foreign exchange. This figure indicates the volume of external assistance that will be needed during the Fourth Plan in the form of aid from foreign governments and international agencies and as private capital both in the public and private sectors. Latest estimates, however, place the aid requirements of the Fourth Plan at Rs 500 crores more than Rs 3,200 crores. The main reason for the revision is that the Fourth Plan memorandum assumed a much higher level of capital goods and components manufacture in India than is justified by the progress of the Third Plan.

Against these formidable figures have to be set certain redeeming trends in foreign assistance. First, there is now a general recognition on the part of aid-giving countries of the need for softer loans. India has been able to obtain a number of loans and credits during the current Plan with larger maturities and lower interest rates. The average rate of interest on external assistance has come down from 4.3 per cent in the Second Plan to 3.2 per cent in 1961-62 and further to 2.6 per cent in 1963-64. The share of loans with interest rates of 5 per cent and above in our outstanding external debt has been reduced from 63 per cent in 1960-61 to 50 per cent in 1963-64. The maturity pattern, too, has changed considerably. Whereas 50 per cent of the loans authorised during the Second Plan period were for periods of less than 15 years, the corresponding figure for the Third Plan is only 16 per cent. Further, while only 5 per cent of the total loans obtained during the Second Plan was for over 24 years, the corresponding figure in the Third Plan is as high as 54 per cent. These improvements are largely the result of the changed terms of aid from the US Agency for International Development whose loans are of 40 years' duration and are interest-free. Loans from the International Development Association and Canada are also on

Table 2: India's Balance of Payments

(Rs crores)

	1961-62	1962-63	1963-64	April—September	
				1963	1964
Imports	996.3	1,073.5	1,202.4	582.1	673.7
Exports	668.3	682.2	801.7	370.6	406.0
Trade balance	—328.0	—391.3	—400.7	—211.5	—267.7
Invisibles	—21.7	—30.5	— 16.5	+1.7	—12.7
Current account (net)	—349.7	—421.8	—417.2	—209.8	—280.4
Errors and ommissions	7.8	4.3	46.6	—17.9	—47.3
Private capital (net)	—3.6	+4.1	—11.6	—4.1	—7.3
Banking capital (net)	—4.2	+4.0	—3.1	—19.6	—16.4
Amortisation payments (gross)	—56.1	—47.3	—48.6	—22.0	—19.1
Other capital transactions (net)	—3.0	+2.0	+1.7	—9.7	—6.2
Official assistance (gross)	344.1	449.1	560.0	267.1	318.6
Transactions with IMF (net)	58.4	11.9	—23.8	—11.9	—11.9
Movement of foreign exchange reserves	—6.3	—2.3	+10.8	—27.9	—55.4

Table 3: Foreign Assistance—Authorisations and Utilisations

(Rs crores)

	First Plan		Second Plan		Third Plan		Total		Balance Available on 1-10-64
	Authorised	Utilised	Authorised	Utilised	Authorised	Utilised	Authorised	Utilised	
Loans and credits repayable in foreign currency	212.29	124.13	1,057.69	613.13	1684.83	1017.16	2954.81	1754.42	1200.39
Loans and credits repayable in Indian currency	14.63	2.29	230.42	116.82	49.59	137.88	294.64	256.99	37.65
Grants (excluding those under US Public Laws)	137.96	70.18	121.11	160.29	49.56	160.29	308.63	287.89	20.74
US Assistance under Public Laws 480 and 665 and third country assistance	16.92	5.10	1130.73	545.05	259.92	503.10	1407.57	1053.25	338.23
Total	**381.80**	**201.70**	**2539.95**	**1435.29**	**2043.90**	**1715.56**	**4965.65**	**3352.55**	**1597.01**

similar soft terms. Recent loans from the UK and West Germany carry more favourable terms than the ones sanctioned earlier. This trend has been maintained by the ten countries of the Aid-India Consortium in their latest pledges. It has been stated by the World Bank spokesman that about two-thirds of the aid pledged for 1965-66 will be in the form of grants and low-interest loans for periods of 25 years or more. Of the World Bank-IDA pledge, Rs 50 crores will be from the World Bank carrying the usual high rate and Rs 66.5 crores from the IDA on soft terms.

Apart from the better terms of aid, a notable development in recent years has been a greater appreciation of the needs of this country for non-project assistance. This is a welcome development because the Government of India had maintained that the rate of utilisation of foreign assistance in the past was slow mainly because substantial part of the loans granted by different countries were tied to particular projects which took time to execute. A major argument in favour of non-project assistance has been that India has now reached a stage of technological development when imports of components are needed for its developing industries. The Aid-India Consortium has agreed that a substantial part of the aid extended to India during the coming years should be in the form of non-project aid which could be utilised to finance imports required for the maintenance of the economy. The percentage of non-project assistance is expected to be slightly better in 1965-66 than in the last year; it may be more than 50 per cent of the total assistance. While the USA, the UK, Canada, Germany and Japan have been relatively liberal with regard to non-project assistance, Italy has gone a step further in promising to give two-thirds of its pledge in non-project form.

As for utilisation of aid, while there has been a slight improvement in the rate recently, it cannot be considered satisfactory as a large amount of Rs 1,597 crores, about one-third of total foreign aid received so far aggregating Rs 4,965 crores, was lying unutilised at the end of September 1964 (Table 3). Seen in retrospect, this country relied mainly on internal resources during the First Plan as the external assistance authorised was just Rs 381.80 crores, of which Rs 201.70 crores was utilised leaving a spill-over of Rs 181.10 crores. In the Second Plan the total external assistance authorised was Rs 2,540 crores, the utilisation being somewhat more than half at Rs 1,435 crores. Taking the spill-over from the Second Plan and the fresh authorisations up to September 30, 1964 total aid available for use in the Third Plan was Rs 3,313 crores, of which utilisation aggregated Rs 1,716 crores.

According to the latest official indications, the aid utilisation rate may increase substantially in the coming years. Greater attention is now being paid to the detailed and accurate preparation of project reports for which aid is sought in order to draw quickly upon tied loans. The Planning Commission and the Central Government are believed to be engaged in streamlining administrative procedures on the lines recommended by the Rao Committee on the utilisation of foreign aid.

On towards progress . . .

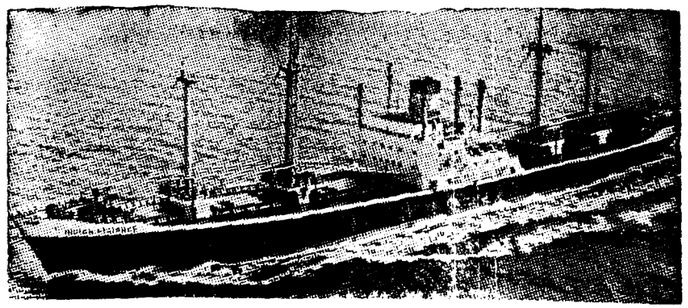
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Dalal Street Unsettled Again

Wednesday, Morning

DALAL STREET received a severe jolt on Monday, April 26, which was reminiscent of the panicky sell-off on March 27. In jsut two hours, the market shed nearly all the gains it had accumulated over a fortnight or so. Monday's sharp decline was caused by nervous bull liquidation and renewed bear pressure. Quite a few shares like Voltas, Tata Locomotive, SLM — Maneklal, Associated Bearings and Synthetics and Chemicals were down again to around the lowest levels for the year recorded a month earlier. The market's position could easily have been much worse but for the substantial support from the Life Insurance Corporation which has been in the market making news for the past few weeks.

The sudden change in the mood of the market came about because of the marked deterioration in the Indo-Pakistani relations due to intensified border attacks by Pakistan. Market sentiment in the near future is likely to be moulded almost entirely by developments in the political situation; trouble seems to be brewing up almost everywhere and it is difficult to say how the situation will shape itself in coming weeks. If the political situation deteriorates, no amount of institutional buying will be able to generate a recovery on the stock market; only the pace of the decline could be slowed down. And even that might not be easily possible.

Speaking at a meeting with the Committee of the Indian Merchants' Chamber in Bombay on April 26, the Union Minister for Planning, Shri B R Bhagat, expressed the view that the economic prospects of country did not hold out any reason for the stock markets to remain depressed. One would have expected the Union Minister for Planning who is also the Minister of State for Finance, to have a better understanding of the factors influencing the stock market. Economic prospects might not be unpromising — they are certainly not as promising as the official spokesmen are inclined to make out. But it does not follow that equity prices should also be rising. The Government's present fiscal and monetary policies are not conducive to any sustained recovery in the stock market. The average yield on equities is far from being attractive in the context of the existing interest rate structure and what is more, funds can be employed more remuneratively in fields of activity other than the stock exchange. This aspect of the problem has not been receiving the attention that it deserves.

COTTON

Unexciting Affair

IT was quite an unexciting week for the cotton market. Though spinner inquiry was reported to be fairly satisfactory, with CO2, L 147 and 197/3 receiving good attention, spot cotton prices held steady around the previous week-end levels. Prices might have hardened further but for the uneasiness caused by the mounting tension on the Kutch border which is fairly close to the cotton growing tracts in Gujarat and Maharashtra. Trading in cotton futures was also devoid of any outstanding feature. After being marked up to a new high of Rs 769.50, the August contract receded to Rs 765 on adverse political news but it steadied again and at its Tuesday's closing of Rs 767.75, the contract showed a net gain of Rs 3 per 3 quintals over the week.

Spot cotton prices are at present less than 5 per cent below the statutory ceilings. But for the accumulation of large stocks of both cloth and yarn with the mills and the acute financial stringency, cotton prices could have easily pierced the ceilings again. How the political situation will develop and how it might affect the tendency to hold and hoard stocks, it is difficult to say. This makes the outlook for cotton prices rather uncertain. But the overall supply position being far from being comfortable, there seems little chance of any important decline in prices in the near future. The statistical position of Bengal Deshi is exceptionally tight. The total availability of Deshi cotton, including the previous season's carry-over of 75,000 bales, is not expected to exceed 4.25 lakh to 4.50 lakh bales. Export sales have already reached 2.10 lakh bales and domestic consumption can be conservatively estimated at 2 lakh bales. This means that the current season will end with a very poor carry-over. Bengal Deshi prices therefore can be expected to remain firm for many months to come.

New Cotton Policy

Considerable interest centres on the cotton policy for the 1965-66 season which is expected to be announced by about the middle of May. New Delhi is awaiting the interim report of the Agricultural Prices Commission before taking a final decision on this issue. But since the Commission has not yet had sufficient time to go into the question of costs of production of cotton and other related crops, the Commission's recommendations in regard to cotton prices will at best be based on an assessment of views expressed by various cotton interests and the Government's policy of partial statutory control over cloth production and prices.

All the available reports indicate that the general view is in favour of abolition of price control over cotton. The reasons vary. Growers see no reason why cotton should be singled out for control; no such control exists over the prices of other agricultural commodities. The trade favours de-control because controls restrict its freedom of operations. The industry is in favour of the abolition of control because the Government has never been able to ensure supplies at controlled prices whenever there has been a shortage. While advocating decontrol, the industry wants that controlled prices of cloth should be revised from time to time in line with the changes in cotton prices. The Indian Central Cotton Committee has already expressed itself in favour of decontrol on the (doubtful) plea that this would encourage increased production of cotton. Press reports indicate that since the Government is determined to retain partial control over cloth production and prices, it is unlikely to remove control over cotton prices. But in order to please the farmers, it will probably raise the ceiling prices by about 10 per cent. If cotton ceilings are to be further raised to such an extent, it would perhaps be much wiser to give up all pretentions to price control over cotton, which would at least save the Government from being accused of inefficiency and corruption: cotton control has been reduced to a complete farce.

OILSEEDS

Prices Continue to Rise

THE oilseeds market displayed further remarkable strength last week. Spot groundnut oil touched a high of Rs 24.50, linseed oil rose to Rs 20.25 and castor oil Commercial was marked up to Rs 17.30 — all per 10 kgs.

Tuesday's closing prices were only a little lower than the highest levels reached in the week. In futures, official activity was extremely restricted. Linseed June contract was quoted all the time higher than the maximum limit prescribed for the week; castor June also was quoted above the weekly limit most of the time. In kerb dealings, linseed June touched a high of Rs 99.10 and castor June was bid up to Rs 81.50 (per 100 kgs).

After three-day long deliberations, the board of the Bombay Oilseeds and Oils Exchange decided on April 27 to impose heavy margins on castor and linseed futures in order to contain the volume of speculative activity and check the rising trend in prices. The margin is to be payable by bulls on all outstanding bull positions. In the case of castorseed, the rate of margin will be Rs 8 per 100 kgs when the hedge contract rises above Rs 80 (per 100 kgs); the margin will rise to Rs 16 at above Rs 82 and further to Rs 24 when the contract moves beyond Rs 84. In the case of linseed, the margin will be levied at the rate of Rs 20 (per 100 kgs) when the contract rises above Rs 96; the margin will be raised to Rs 25 at above Rs 98 and still further to Rs 30 when the contract moves higher than Rs 100 (per 100 kgs).

That the rising trend in oilseeds prices needs to be viewed with considerable concern will be readily conceded. Prices have been rising even though the overall supply position of edible oils this season is appreciably better than in the previous season. While every possible action needs to be taken to check the rising trend in prices, the Association's decision to impose heavy margins on castor and linseed futures seems to have been influenced more by the heavy 'bear' interest of the members of the board than by the anxiety to contain the volume of speculative activity and to arrest the rising trend in prices. The market authorities will have only themselves to blame if official activity in the futures market comes to a virtual stop as a result of the proposed margins.

Futures have been simply following the trend in the spot material. In such a situation, restrictions on futures trading will only widen the spread between the spot and futures prices, with the spot material enjoying a big premium. Speculation must be contained within limits. But what is really needed in the present situation is strong action to discourage holding and hoarding of stocks. New Delhi would do well to ponder over the disturbing price situation.

Soyabean Oil

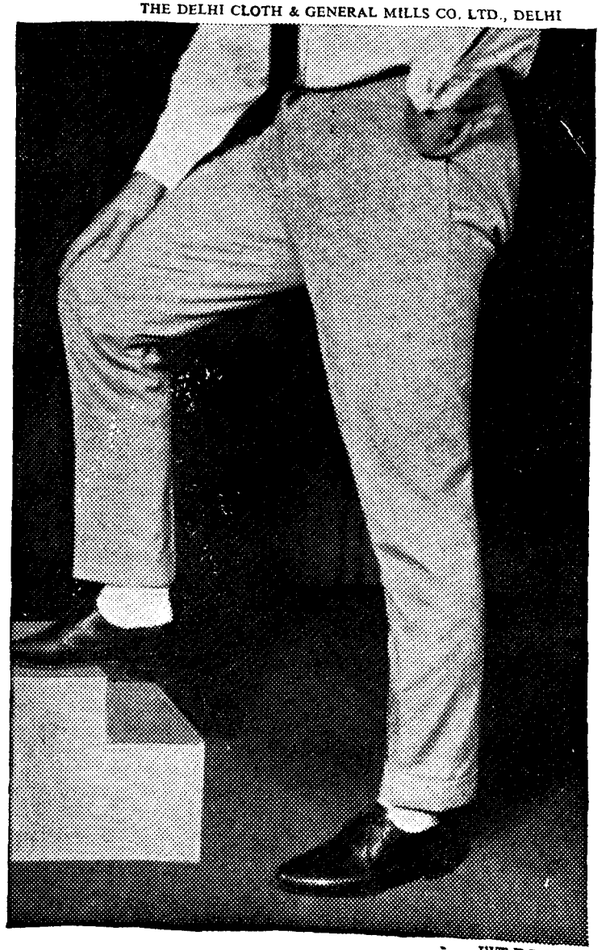
The Government has done well in permitting the vanaspati manufacturers to use 50 per cent of soyabean oil for the manufacture of vegetable oil products against 20 per cent at present. This step had become necessary because of the delay in the arrival of soyabean oil with the result that the entire quantity of 65,000 tonnes that India will be getting from the U S under P L 480 will have to be consumed within a much shorter period of time. Equally welcome is the Government's decision to exempt the import of soyabean oil from the 10 per cent regulatory customs duty and also from the countervailing excise duty. These concessions will bring down the price of soyabean oil by nearly Rs 250 per ton; now the

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landed cost of this oil is likely to work out at between Rs 1,750 and Rs 1,800. This will considerably encourage the use of imported soyabean oil which in turn will release a large quantity of groundnut oil for internal consumption. The use of about 42,000 tonnes of mutton tallow by soap manufacturers will also ease the pressure on vegetable oils.

All this should help impart easiness to the oilseeds market. But vegetable oil prices cannot be expected to come down to any noticeable extent when coconut oil is quoted around Rs 4,400 per tonne. The price of coconut oil is greatly inflated by the enormous profit made by the State Trading Corporation on the sale of copra imported by it.

BUSINESS NOTES

Syndicate Bank

IT is a sad state of affairs when our country, so richly endowed by nature, should depend heavily upon imports from foreign countries for its food supply. While we have made good progress in other fields such as industrial development, public works etc, what we have done in the field of agricultural production has been indeed inadequate, particularly in view of the fast increasing population. Increase in agricultural production is the key-note to the solution of a number of our problems including the present acute food shortage. The problem of raising agricultural production has evaded solution, although it has been engaging the attention of Government right from the inception of the First Plan. In this connection, the diagnosis and the remedy prescribed by Dr T M A Pai, Chairman, Syndicate Bank, has come as a breath of fresh air.

In his annual statement circulated with the Bank's report for the year 1964, Dr Pai says that agriculture has suffered in this country for want of credit more than any other field of economic activity. He has suggested that the country's banks must have a revolutionary approach to this problem and give every possible assistance to the farmer. It should be certainly possible to increase production more quickly in this field, and what could be achieved in the increase of agricultural production by scientific methods of cultivation, application of fertilisers and better irrigation is not properly appreciated. If all commercial banks give special attention to making available agricultural finance, at least progressive cultivators could be encouraged to take up new schemes and increase production by adopting better and more scientific methods of cultivation and using fertilisers.

In fact, Syndicate Bank has already given a lead in this direction, and its example is worthy of emulation by other banks. A year ago, the Bank established an agricultural finance department to help the farmer grow more food crops. A series of experiments are being conducted in modern farming and, with the help of qualified technical staff, valuable first-hand data have already been collected about costs of cultivation, application of fertilisers and problems of financing agriculturists, both for short term as well as medium and long term requirements. As a pilot scheme, the Bank introduced its scheme of finance for the farmer for production of food crops in the South Kanara district where the Bank has a net work of 46 branches. At present short term loans are granted even without security to owner-cultivators for seasonal needs and minor improvements of the farm with repayments spread over to suit the farmer's convenience and repaying capacity from increased production. The Bank has other schemes of medium and long term loans for land improvement, purchase of bullocks, agricultural machinery and dairy and poultry development. Besides, under another scheme, the Bank finances the purchase and installation of pumpsets for agricultural purposes at all places where it has branches. The effective rate of interest on all these schemes has been kept low at seven per cent per annum.

The Bank has also recorded further all-round progress in its financial results during the year to December 1964. Its deposits have risen from Rs 45.49 crores in 1963 to Rs 51.46 crores as at end of 1964 and reserves from Rs 75.25 lakhs to Rs 85 lakhs against the paid-up capital of Rs 87 lakhs. The net profits of year amounted to Rs 48.50 lakhs, against last year's Rs 39.92 lakhs. The advances now constitute 63 per cent of capital, reserves and deposits. The cash and bank balances and investments in government and other securities amounted to Rs 22.99 crores for 1963. The bills for collection and acceptances portfolio of the Bank has almost doubled from Rs 5.60 crores to Rs 10.82 crores. The dividend is maintained at 20 per cent on equity shares.

The Bank opened 14 new branches in 1964, bringing the total number of branches to 203. Of these, five are all-women's branches where the entire staff consists of women.

Shivrajpur Syndicate

IN recent months there has been a definite improvement in the international demand for manganese ore as a result of the record levels at which steel production has been maintained in the importing countries. This has led to a revival of interest in Indian ores and some improvement in the prices offered. But on account of the acute inflationary pressures on costs, prices of Indian ores have remained well above the prevailing international prices, and exports continue to depend almost entirely upon barter business. From the beginning of this year, government policy relating to barters has been modified and barter business will in future be permitted only through the Minerals and Metals Trading Corporation, and not through private exporters as in the past. Shivrajpur Syndicate, one of the old companies engaged in the mining of manganese ore for over sixty years, had suspended production from June 1964 due to the unfavourable market conditions. The company has now entered into negotiations with the M M T C for supply of ore on a long-term basis, and the question of its resuming production is dependent on the outcome of these negotiations which should be known in the near future.

With the suspension of production, the company had to retrench more than 400 staff and labour. During the year to November last, the company's output fell from 25,826 tonnes to 9,753 tonnes but shipments shot up from 36,267 tonnes to 72,612 tonnes as a result of the intense activity in the local market during the last quarter of the year, following the decision that outstanding private barters would lapse if not completed by the end of 1964. This enabled the company to dispose of practically all the accumulated stocks of ore, and sales realisation increased to Rs 67.36 lakhs compared to Rs 37.18 lakhs in the previous year. After charging Rs 3.42 lakhs against Rs 4.45 lakhs for depreciation, the company earned a profit of Rs 8.84 lakhs as compared to a loss of Rs 3.40 lakhs incurred a year ago. Together with Rs 14 lakhs withdrawn from reserves and write-back of Rs 0.81 lakh, there is a total of Rs 23.65 lakhs against which is adjusted the loss of Rs 23.64 lakhs brought forward from the previous year. In view of the improved results, the directors have recommended payment of a dividend at a rupee per share which should require Rs 2.10 lakhs to be paid out of reserves. The company has returned to the dividend list after a lapse of three years.

Jessop and Co

THE financial results of Jessop and Co for the year to October 1964 reflect a healthy growth in output, sales and profits, and this has enabled the management to step up the dividend by 2.5 per cent to 12.5 per cent. Having regard to the imbalance in the supply of steel, scarcity of other raw materials and the limitations of the company's present location, the 1964 achievement is indeed creditable. Sales have jumped nearly Rs 2 crores to Rs 16.71 crores and gross profit about Rs 33 lakhs to Rs 225.33 lakhs. The necessary provisions have taken away more: depreciation has absorbed Rs 37.15 lakhs (Rs 36.25 lakhs), taxation Rs 94 lakhs (Rs 75.40 lakhs), Sur Tax Rs 14 lakhs (Rs 10 lakhs) and development rebate reserve Rs 3.88 lakhs (Rs 8.82 lakhs). But there is still left behind a higher disposable profit of Rs 76.30 lakhs, against Rs 62.11 lakhs a year ago. As before, the dividend on preference shares absorbs Rs 1.30 lakhs but that on ordinary shares requires Rs 25.50 lakhs (Rs 20.40 lakhs). General reserve has been strengthened by a transfer of Rs 51 lakhs (Rs 46.17 lakhs).

The rebuilding of the wagon works could not be completed till the year-end due to difficulties in obtaining steel and corrugated sheets. Production of box wagons was, however, begun in the rebuilt unit. The commissioning of the two new 80 bays in the structural works, the transfer of the production of box wagons to the new works and the steady improvement in the supply of matching steel have enabled the company to progressively increase its contribution to meeting the growing demand for fabricated structural steel. Although the company fell short of the target of 450 road rollers in 1963-64, the management is confident of achieving this target in the current year. A small expansion is now in hand for the manufacture of small road rollers in the 4/6 ton range.

The scheduled rate of production of electric multiple unit coaches and fully furnished passenger coaches was well maintained. The expansion and modernisation of the wagon and structural works have been completed. The company has made a small beginning by exporting pressed steel tanks to Burma. It has also submitted tenders against items of overseas demands. Active steps are being taken to increase productivity by introducing newer and more efficient techniques of production, reducing thereby the man-hours employed and the cost of production.

Kohinoor Mills

AFTER recording an impressive rise in profits in each of the preceding five years, Kohinoor Mills has suffered a set-back in its financial results for the year to December 1964 when, though sales were well maintained at the previous level, profit showed a significant contraction. This outcome is attributed to adverse trading conditions experienced by the textile industry as a whole, particularly on account of rising raw cotton prices and higher wages coupled with unremunerative prices for cloth. With a final dividend of Rs 14, the company has, however, maintained the total dividend rate of Rs 21 a share which was raised by Rs 3 last year.

The year's accounts show that net sales edged up from Rs 8.55 crores to Rs 8.56 crores, and income by way of processing of cloth and yarn increased from Rs 3.52 lakhs to Rs 5.62 lakhs. But the gross profit is lower at Rs 85.72 lakhs, compared to Rs 93.60 lakhs a year ago. The gap is further widened, with the depreciation charge claiming a considerably higher amount of Rs 33.96 lakhs (Rs 21.57 lakhs) and the tax liability also demanding a little more at Rs 24.26 lakhs (Rs 23.20 lakhs). Development rebate requires a lower amount of Rs 4.12 lakhs (Rs 6.11 lakhs), but a substantial saving in the employees' bonus for prior years, which has taken up only Rs 4.53 lakhs against as much as Rs 23.02 lakhs last year, has helped to restore the position. The disposable profit is Rs 18.85 lakhs compared to Rs 20.80 lakhs (which also included Rs 1.11 lakhs written back). The interim payment absorbed Rs 7 lakhs, and the final dividend requires Rs 14 lakhs. This is to be paid out of general reserves after crediting to it the year's surplus of Rs 11.50 lakhs.

Bombay Dyeing

DESPITE a steep rise in raw cotton prices, Bombay Dyeing has turned out satisfactory results for the year 1964. Its net sales have expanded by Rs 2.52 crores to Rs 18.34 crores, and gross profit has improved by Rs 30.58 lakhs to Rs 204.42 lakhs which, however, includes a non-recurring item of Rs 14.60 lakhs being the profit realised on sale of land. With provision for depreciation and taxation taking away higher amounts of Rs 108.26 lakhs and Rs 33 lakhs, against Rs 105.77 lakhs and Rs 27 lakhs, respectively, and development rebate absorbing a lower amount of Rs 13.60 lakhs (Rs 16.80 lakhs), the net profit for disposal has more than doubled to Rs 49.56 lakhs (Rs 24.27 lakhs). The total dividend as raised by 50P to Rs 4 a share requires Rs 40.15 lakhs (Rs 35.14 lakhs) and is well covered by earnings, whereas the last year's distribution was 'short-earned'. Besides, an unexpected gain of Rs 21.60 lakhs has been taken to reserves. This amount was received by the company as earnest money for sale of land at its dye works, and has since been forfeited because the purchasers defaulted in meeting their commitment.

Notwithstanding a difficult situation on the export front, the company has once again maintained its position as the largest exporter of cloth—a tradition kept up for over 20 years. Its 1964 exports accounted for 10.5 per cent of the country's total shipments for the year. The Government's new scheme of tax-credit certificates should benefit the company considerably this year. The organisation for overseas sales has been streamlined, and production for export is already running at a considerably higher level than the average for 1964.

Madura Mills

APART from the common handicap of rising costs experienced in 1964 by the cotton textile industry as a whole, Madura Mills' profit position was also affected by a 100 per cent power cut that continued for 18 days during the year. Besides, the 15 per cent levy on imports into the U K affected exports in the last quarter. Considering these factors, the company's performance has been satisfactory. Sales and processing charges are up Rs 1.39 crores at Rs 19.64 crores and gross profit is Rs 11.18 lakhs higher at Rs 2.07 crores. But the position is completely reversed at the after-tax stage; profit after tax at Rs 55.98 lakhs reflects a decline of over Rs 24 lakhs, because depreciation has taken away over Rs 26.5 lakhs more and tax

charge about Rs 9 lakhs more. With a sizable saving in the development rebate which at Rs 9.39 lakhs is about a third of the last year's allocation, the gap is considerably narrowed. Allocations to reserves for redemption of debentures and an NIDC loan together are Rs 15.82 lakhs against Rs 17.50 lakhs, but no amount has been set aside for general reserve which last year received Rs 14.92 lakhs. The remaining surplus is just sufficient to pay the unchanged dividend of 17.5 per cent costing Rs 30.62 lakhs.

Both the additional 500 looms and the bleaching plant, which are expected to be fully installed during 1965, should add to the profitability but the ten per cent customs duty on imports will not only prove a heavy burden on the company but will also make the fulfilment of its export obligation more onerous. Both depreciation charge and development rebate will require higher amounts in the current year, but relying on the company's strong reserve position the directors hope to maintain the dividend rate.

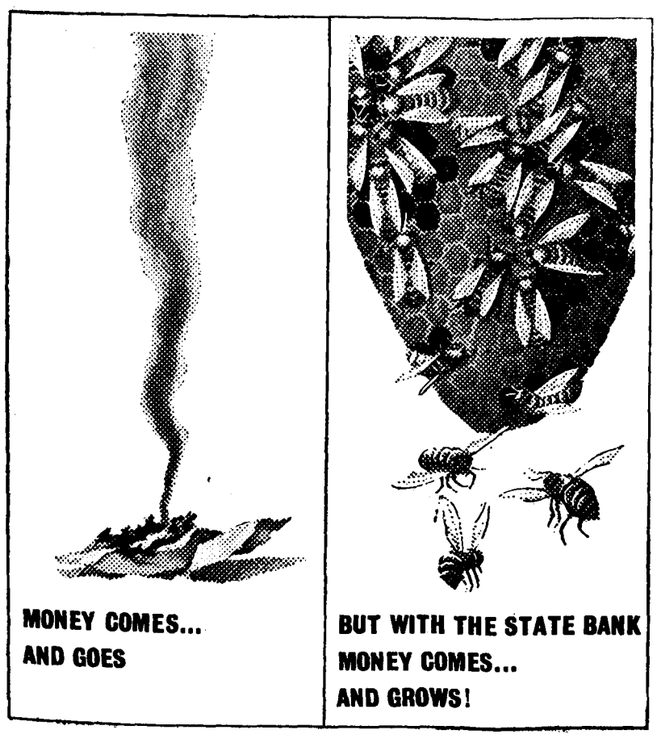
Borax Morarji

BORAX Morarji, incorporated in August 1963, has reported encouraging progress in the implementation of its project. The construction of the essential buildings and ancillary facilities having been substantially completed, trial runs of the borax plant are being taken and erection of the boric acid plant is expected to be completed soon. The company is well set to begin production and sales at an early date. Its products will be marketed under the well known trade mark "20 Mule Team" by I C I (India) as sole selling agent.

These good results have been achieved despite an acute shortage of alcohol that restricted production of polythene. Rubber chemical output was also at around half the capacity as the rubber industry had imported stocks. These adverse factors, however, were more than offset by the increased production of paints, pretreatment chemicals, hydrochloric acid, 'Alfloc' formulations and liquid insecticides. The current year's results should reflect increased output of an extended range of paint products as the new resin plant is nearly complete. Modernisation of the hydrochloric acid plant is also expected to be completed shortly. A determined effort is being made to further expand exports, which have already shown an appreciable rise over the previous year's level.

Associated Cement Cos

IN terms of an agreement entered into between Associated Companies and the Government of West Pakistan on March 13, the company's undertakings comprising the cement works at Wah and Rohri together with the movable and all other assets in Pakistan were transfered to the West Pakistan Government for a total consideration of approximately Rs 3.5 crores which includes interest on diminishing balances. Payment of this amount is to be made by the Government of West Pakistan in minimum annual instalments of Rs 50 lakhs each. This may be made up of deliveries of cement and clinker from Pakistan to India. Any shortfall at the end of a year will be payable to the company in cash in Bombay.



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SAVINGS BANK DEPOSITS:.....5%

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For 91 days and over but less than 6 months 5%

For 12 months and over but less than 24 months 6%

For 60 months and over 7%

Full details of interest rates on request.

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FROM THE CHAIR

The Central Bank of India Limited.

Speech of the Chairman, Sir Homi Mody

THE following is the speech delivered by the Chairman, Sir Homi Mody, at the Annual General Meeting of the Shareholders on Wednesday, 28th April 1965:

LADIES AND GENTLEMEN,

It gives me much pleasure to welcome you to this Annual General Meeting. Before asking you to consider the Directors' Report and the Audited Statement of Accounts, I shall, as usual, take a few minutes of your time to make some general observations.

Since we last met, the nation's leader, Jawaharlal Nehru, passed away, to the profound sorrow of millions of our people. For well over a generation, he had dominated every aspect of our national life and, as was natural, his death created a deep void. The time has not yet come for an objective assessment of Nehru's personality and achievements, but whatever be the verdict of history, his dauntless fight for the freedom of India must ensure for him a permanent place in the hearts of his countrymen.

The year under review was full of stresses and strains in the economy. On the agricultural front, acute shortages and spiralling prices prevailed in many parts of the country in the closing months of the year. The situation led to violence in certain areas, and the failure of Government to perform one of its most elementary duties, namely feeding the people, was vehemently criticised. While the worst seems to have been over, the food problem is far from solution. Government cannot resolve it by larger and still larger imports of foodgrains, by refusing to recognise its errors and trying instead to make a scape-goat of the wholesale trade, by disputes between the Centre and the States on questions of policy and by the creation of a Food Corporation. Apart from the traditional measures of assistance to the agriculturist, what is required, in place of an elaborate and imposing organisational set-up, is a trained body of rural workers who would establish themselves in groups of villages and teach the peasant how to increase production and improve his standard of life.

Our performance was better in regard to industrial production, which showed an increase of about 8.5 per cent over the previous year. This still fell short of the anticipated annual growth of 11 per cent during the Third Plan period. Shortages of raw materials, machinery components and other necessary maintenance imports stood in the way of a fuller utilisation of the installed capacity of industry. The latest figures show a further falling off, and the tightness of the foreign exchange position does not warrant any hope of a better performance during the current year.

Although there was an increase in the volume of exports during the year, since a large part of it was in respect of exports to Rupee Payment countries, our foreign exchange resources did not derive commensurate benefit from this improvement. Our increasing dependence on imports of foodgrains resulted in augmenting the pressure on our Balance of Payments. In fact, the position became so critical that we had to seek a large standby credit of 200 million dollars from the International Monetary Fund. In view of the enormous debt service charges that are piling up, the need for vigorous and sustained efforts to promote exports has acquired greater urgency than ever.

The Budget

At this stage, a few words about the recent Budget of the Government of India will not be out of place. It is a matter of satisfaction that for the first time, in many years, a balanced Budget has been presented. The criticism has been voiced that this balancing is artificial, in the sense that it has been made possible only by the imposition of a regulatory duty of 10 per cent on all imports just a few days prior to the presentation of the Finance Minister's proposals to Parliament. Even so, the change is to be welcomed. More heartening is the fact that the Budget provides refreshing evidence of a new approach. The Finance Minister has sought to simplify the tax structure and has offered a certain measure of relief in personal taxation. He has also proposed issuing tax credit certificates with a view to accelerating the tempo of industrial production and rewarding export performance. While these measures are to be welcomed, it is a matter of considerable disappointment that the Corporate Sector has not received any tax relief worth the name. Until that is done, the capital market which remained extremely sluggish throughout the year can have no hope of recovery. It is well-known that most of the recent issues of capital, even when sponsored by business houses of repute, have fallen completely flat, compelling the underwriters to shoulder the major part of the burden. While the establishment of new financial institutions like the Unit Trust of India and the Industrial Development Bank is a move in the right direction, it must be recognised that neither they nor the Life Insurance Corporation nor the Industrial Finance Corporation can by themselves improve the general climate, or impart the strength and stimulus to investment activity which a vigorous and healthy capital market alone can provide. The one way to remedy the present situation and revive the capital market is to provide incentives to the community to build up real savings and direct them along proper channels.

We are now in the final year of the Third Five-Year Plan. During this period, our achievements have lagged far behind the assurances and expectations held out by the spokesmen of Government. In the words of the Finance Minister's economic survey: "It is now clear that despite larger outlays on the Plan in money terms, many of the physical targets initially envisaged will not be reached till the first or second year of the Fourth Plan." In such a context, one would reasonably expect the Planning Commission to display a greater sense of realism in drawing the outline of the Fourth Plan. Its motto, however, seems to be: "the greater the failure of the present Plan, the greater the size of the next Plan." The draft of the Fourth Plan accordingly provides for an outlay of Rs 21,500 crores, which is almost double the outlay on the Third Plan. This only goes to show that the authors of our Plans have no use for the lessons which their own experience should have taught them. They seem to be anxious only to jump from one gamble to another.

In this situation, I would once again urge the importance of a closer understanding between the Government and the leaders of commerce and industry. Such consultations as take

place between the two sides prove somewhat hollow and unreal, since an atmosphere of distrust of the business community vitiates the proceedings from the start. While the private sector has much to answer for, its record of achievement, by and large, and the nationalist outlook of many of its leaders ought not to be forgotten. A little more of confidence reposed in it will, I am certain, pay rich dividends. It must be remembered, however, that for any such contacts to be fruitful, there must be a two-way traffic. While businessmen must stand solidly behind the basic policies of Government, Government must recognise the legitimacy of their claim to some relief from oppressive controls and taxation, which not only cripple existing enterprises but must end ultimately in the complete stagnation of the economy.

In this connection, it is necessary to remind ourselves that foreign aid is not a perennial spring from which we can go on drawing indefinitely. The aid-giving countries have their own difficulties. The economy of the United Kingdom, for instance, has been encountering rough weather during the past year. Sterling has been under severe pressure and the British Government have been forced, not only to raise the Bank Rate steeply from 5 per cent to 7 per cent, but to resort to other drastic remedies like the imposition of a surcharge on all imports and the negotiation of a huge temporary credit line of 3,000 million dollars from the central banking system of other countries. The USA is also not free from Balance of Payments difficulties, and President Johnson may not find it easy to persuade Congress to vote larger sums for overseas aid to developing countries. Prudence, therefore, demands that in preparing the groundwork for the next Plan, the pitfalls of the previous Plans be avoided, and targets and priorities so fixed as to be in line with the human, physical and financial resources which can be mobilised within our own country.

During the year under review, money supply with the public registered an increase of a little over 10 per cent rising from Rs 3,541 crores to Rs 3,901 crores. This increase being less than the expansion which took place in 1963, it is reasonable to infer that the steep rise in the general price level was due, not so much to monetary inflation, as to a decline in physical output. Scheduled Banks' deposits increased by Rs 272 crores, reaching the figure of Rs 2,525 crores at the end of 1964. As in the previous year, demand deposits contributed a major share of this increase. The improvement of 12.06 per cent in deposits has, however, been surpassed by an increase of 14.64 per cent in Scheduled Bank credit which, at Rs 1,812 crores, showed an expansion of Rs 231 crores over the year.

Credit Control

This takes me on to an examination of certain aspects of the comprehensive credit control measures which have been set in motion by the Reserve Bank during the past few months. Apprehending a repetition of the large credit expansion which had occurred in the 1963—64 busy season, the Reserve Bank took time by the forelock and raised the Bank Rate from 4½ per cent to 5 per cent September last, to be followed by a further increase of 1 per cent in February 1965. Thus, practically for the first time, the Bank Rate has been sought to be used as an effective monetary weapon. A more far-reaching development has been the abolition of the quota-cum-slab system governing the Reserve Bank's advances to commercial banks and its substitution by a more sophisticated system, under which the Bank's effective lending rate would be determined by the net liquidity position of the borrowing bank, the object being to render recourse to the Reserve Bank more difficult and unremunerative. The statutory liquidity ratio had already been raised September last, and now on the top of it, a new concept of net liquidity has been created and put into operation as a further measure of monetary discipline. This net liquidity formula is onerous in many respects. Firstly, for determining net liquidity, all amounts borrowed, in whatever shape or form, and whether from the Reserve Bank or from the Industrial Development Bank, are required to be deducted from the borrowing bank's eligible assets. Thus, even the amounts obtained by a Scheduled Bank by way of re-finance from the Reserve Bank or the Industrial Development Bank for discharging those very obligations which the Government had been repeatedly exhorting the commercial banks to undertake, such as granting of medium-term loans to industry for expansion or rehabilitation, the financing of small-scale industries and the extension of export credits, have come within the mischief of the formula. Secondly, the penal rate of interest, which would become operative the moment a bank's net liquidity ratio drops below the prescribed minimum, is made applicable, not to the residual excess—which would be fair and reasonable—but to the totality of the bank's borrowings from the Reserve Bank. Another provision lays down that even if the decline in the net liquidity position is just a fraction of 1 per cent, the borrowing bank would be compelled to pay penal interest, calculated at the full rate of ½ per cent over the Bank Rate for every drop of 1 per cent or a fraction thereof. Finally, the Reserve Bank has recently further raised the net liquidity ratio from 28 per cent to 30 per cent. I have made these points in order to remove any superficial impression that may be formed that, in the absence of quotas, banks are now free to borrow any amount from the Reserve Bank. In effect, these stringent provisions severely limit the capacity of banks to avail of accommodation from the central banking authority to meet the legitimate credit requirements of their customers.

During the past few months, there has been a definite slackening in the pace of growth of bank deposits. At the same time, owing to an all-round increase in inventory costs, demand for bank credit for genuine productive purposes has become more keen. The result is an unprecedented tightness in the money market, as evidenced by the fact that the inter-bank call money rate has touched an all-time record of 8½ per cent. Besides these curbs on credit expansion, the Reserve Bank has laid down minimum and maximum rates of interest payable on certain categories of deposits with a view to achieving mobilisation of deposits in general. I have no doubt the Bank has acted with the best of intentions, but I am not sure these measures will succeed in bringing down the general price level. As a necessary corollary to the increase in the Bank Rate and in the total cost of money borrowed from the Reserve Bank, all commercial banks have had to step up their own lending rates. This must inflate manufacturing costs all along the line, which is bound to be reflected in the price of any product. In such a situation, the general price curve would tend to slope upward. So for as foreign trade is concerned, it is well known that on account of their high prices, our exports are already at a disadvantage. If an increase in interest charges results in adding to the over-all cost of our export commodities, we are likely to be gradually priced out of the world market. As regards the internal price level, so long as there is a large non-monetised sector, which is willing

and able to lend money to those in need of it, it is wishful thinking to assume that curbs on bank credit are sufficiently powerful to drive out consumer goods from their hidden hoards into the open market and thereby bring down their prices. As a matter of fact, bank advances against foodgrains have been steadily diminishing during the past few years without making any tangible impact on food prices. To quote the Reserve Bank itself: "The impact of credit policy on the price line is conditioned by the availability and cost of alternative sources of finance for hoarding operations."

As regards the growth of deposits, this has to depend ultimately on improving the saving capacity of the people. With taxation remaining at the existing high levels and the cost of living soaring higher, money savings are rapidly dwindling and it would be an over-simplification of the problem to believe that there are large surplus funds which are so interest-elastic as to be readily attracted into the banking system by the mere process of offering higher interest rates. The only way to add to the total deposit resources is to generate fresh savings. Such savings cannot be generated unless, simultaneously with enforcing monetary discipline, the Government's fiscal policies are suitably remodelled. I would just like to add that in the present stage of our economy, the sovereign remedy for our ills is increased production, which alone can prevent a rise in prices and stimulate the country's development.

I would now refer you to the Balance Sheet and Audited Statement of Accounts.

As you are aware, in pursuance of the decision arrived at in the Extraordinary General Meeting held in December 1963, Right Shares were issued by the Bank during the year under review, as a result of which our capital structure has been strengthened to the extent of over Rs 1.5 crores. A sum of about Rs 30 lacs recovered by way of share premium has also augmented our Reserves. Thus, at the close of the year, our Paid-up Capital and Reserves stood at a total of over Rs 10 crores, providing another testimony to the strength of our position in the Indian banking system.

During the year, the Bank was able to add nearly Rs 27 crores to its total deposits, which now stand at about Rs 277 crores, representing an improvement of 10.6 per cent over the previous year. But we have no reason to be complacent in regard to the pace of growth of our deposits, and redoubled efforts will be made during the current year to accelerate the pace. It is only through deposit mobilisation on a larger scale that a bank of our size and status can gather the necessary resources for playing its part worthily in the country's economic development. In this connection, I would refer to a conference recently held by us of the Chief Agents of our branches. It served a very useful purpose and provided an opportunity for the Head Office Management and the Branch Agents to share their thoughts on a variety of subjects, discuss common problems and chalk out future course of action for the healthy development of the Bank's business.

The Bank's advances have moved up by Rs 18 crores, to reach the total of Rs 206 crores. Here again, as in the case of deposits, we account for about 11 per cent of the total Scheduled Bank credit in the country. In regard to the break-up of our advances, I may mention that the share of the industrial sector has gone up from 42 per cent to 47 per cent of the total. This is not as good a percentage as that shown by some of the other big banks, and needs to be improved, but I think you should know our policy always has been to meet, to as large an extent as possible the genuine credit needs of ordinary trade and commerce. I may also draw your attention to the increase of about Rs 10 crores in the balance under Bills Purchased and Discounted. This is a gratifying feature, because it shows a satisfactory velocity and a healthy turnover in our business.

During the year, we increased the size of our Investment portfolio substantially by as much as Rs 14 crores. The net yield on Government Securities is definitely unattractive in the context of present money conditions and, normally, our Bank would have turned to more remunerative outlets for the employment of funds, but the demand of the higher statutory liquidity ratio, which became effective from September last, necessitated diversion of a larger share of our total resources to investment.

The ever-growing demand for additional credit limits from our customers all over the country during the busy season compelled us to draw up to the hilt on our borrowing quota at the Reserve Bank, even though it involved payment of a stiff price by way of interest charges.

Our gross earnings showed a striking improvement over those of the previous year, due largely to an all-round increase in our lending rates, in conformity with the acute tightness of the money market. It is not my purpose today to undertake an analysis of the various factors affecting earnings, profits and disbursements. I only wish to emphasise that we shall need to earn larger and still larger amounts to meet our growing liabilities. It may interest you to know that during the span of three years, between the end of 1961 and the end of 1964, staff salaries and allowances have gone up by as much as Rs 2.2 crores, representing a rise of 55 per cent. It is obvious that our earnings cannot go on bearing such a steeply increasing burden, unless something is done to improve the quantum and quality of the work performed by our staff. Every effort is being made to bring about an improved relationship between the Management and the Staff, and I would like to think that an increasing recognition of the close identity of interests between the two is slowly coming about. To all those who are in the service of our Bank, I would like to say that nothing will please the Board of Directors more than to be in a position to give tangible recognition to their claims for a share in the growing prosperity of the Institution which would flow from better work and better human relations.

It remains for me to place on record our sincere appreciation of the zeal and ability with which our General Manager, Mr F C Cooper, has sought to advance the interests of the Bank. Our thanks are also due to our Deputy General Manager, Mr Vithalbhai Patel, who has been so capably assisting Mr Cooper and sharing his heavy burden. Our appreciation is also due to the managerial and other members of the staff of all ranks at the Head Office and Branches for their valuable services as well as to the various Local Advisory Committees for their guidance and counsel. I must make particular mention of the deep debt of gratitude which we owe to our Vice-Chairman, Mr C H Bhabha, for the competence and devotion with which he has been serving the Bank and contributing to its success.

Year after year, our banking system will be called upon to face greater challenges and shoulder greater responsibilities. I shall end by hoping that the Central will always be in the van of progress and continue to contribute to the prosperity and well-being of the nation.

Note: This does not purport to be a record of the proceedings at the Annual General Meeting.

Managing Director's Speech

THE DUNLOP RUBBER CO. (INDIA) LTD.

The following is the speech delivered by Mr. M.L. Bexon, M.C., Managing Director of The Dunlop Rubber Co. (India) Ltd., at the 39th Annual General Meeting of the Company held in Calcutta on the 28th April, 1965.

I HAVE much pleasure in welcoming you to the 39th Annual General Meeting of the Company. The Director's Report and Accounts have been in your hands for some time, and with your permission I should like to take them as read. This year we have added two new features to the published accounts, namely a brief review of the company's activities and a ten year summary of results. I hope you will have found these useful and informative.

The Year's Trading

Turnover for the Tyre Division in 1964 was once again a record and our two factories at Sahaganj and Ambattur worked to capacity to meet orders. The truck tyre potential did not grow as anticipated in 1964 and the situation was further complicated by the sudden cancellation of substantial orders due to a cut back in Government expenditure. In spite of the highly competitive market conditions, we achieved our planned sales by obtaining a higher share of certain markets. This was due to the good name we have established as manufacturers and suppliers of high quality products and also to the continued loyal support of our dealer friends and the efforts of our sales organisation in giving first class after-sales service.

Our two premium nylon truck tyres — the Plus Bar and GK 56—have been very well received and are proving most popular, particularly with long distance transport operators.

The Gold Seal car tyre has also established an excellent reputation and during the year there was a marked increase in supplies to car manufacturers.

Although cycle tyre production increased last year, we were still unable to meet the demand and further expansion is being implemented. There has been a gratifying response to our request to dealers to maintain the recommended retail prices.

Sales of earthmover tyres continue at a high level and we will very shortly introduce two new extra large sizes. Each of these tyres weighs nearly half a ton and measures just over six feet in diameter. We are the first company to undertake the manufacture of such large sizes in India and the technical achievement is considerable. A brisk demand for these tyres is foreseen and their production locally will result in a substantial saving in foreign exchange.

In view of the increasing importance of the Company's non-tyre business and our future plans for the introduction of new products and expansion of existing lines, we have set up an Industrial Products Division to handle all aspects of this business. The products which are at present handled by this Division are conveyor and transmission belting, hose, Vee belts, Dunlopillo and Adhesives.

Our turnover of industrial products increased substantially over the previous year. Conveyor belting made a significant contribution resulting from an increased share of the growing potential, and there were also increases in the sales of the other items in the range. The demand for our products continues to exceed our production capacity, and we have therefore paid particular attention to obtaining increased productivity from our plant. I am pleased to say that our efforts have been particularly successful in the case of conveyor belting.

With the assistance of our U K associates, we have stepped up the technological development programme of these products and the expansion of the existing range in order to meet the demands resulting from the rapid industrialisation of the country. During the year, after extensive development and field trials, we extended our range of high tenacity conveyor belting and this is now being marketed under the trade name "Starlon". This range has been extremely well accepted by public and private sector undertakings.

The plant and machinery for the manufacture of P V C fire resistant conveyor belting has been installed and production has already commenced. The use of this belting will enable the safety regulations for the prevention of fires in coal mines to be fully implemented and will result in savings of foreign exchange otherwise spent in importing this product. This is yet another Dunlop first in the country.

We are now also implementing our expansion scheme for Fan and Vee belts and this will be completed in 1965. During the year we introduced our new range of "Maxrate" Vee belts which have a 40% higher horsepower capacity and hence meet the revised standard specification.

Our range of braided noses has been further expanded with the addition of Paint Spray, Steam and Chemical hoses, and sales were higher in 1964 due to increased productivity.

Exports

Our export achievement registered a new peak in 1964. Each month a steady stream of our products is sent out to markets overseas and Dunlop tyres made in India are now in use in many parts of the world: cycle tyres have been sent to North and South America, earthmover tyres to Malaysia and Australia, truck tyres to Eastern Europe and Thailand, to mention only a few products and markets.

Every effort is being made to improve further on this performance, but I must mention here that the continual increases in cost of raw materials that have taken place over the last twelve months inhibit our efforts to develop our export business. Unfortunately this trend is continuing and in spite of the benefits of the export promotion schemes organised by the Government of India, it is difficult to be very optimistic unless some scheme can be evolved whereby raw materials for export products can be supplied to us at world prices. Well over 60% of the cost of a tyre is represented by raw materials and it is difficult to remain competitive in world markets, despite manufacturing efficiencies, when the difference between our raw material costs and world prices is continually growing larger.

Raw Materials

The supply position of raw materials throughout 1964 was extremely delicate and considerable problems were raised by the delay in issue of import licences. It is not always realised that when licences are not issued promptly, apart from the danger of running short of essential materials, it also leaves us little time to negotiate prices and we are often compelled to pay higher prices in order to obtain prompt shipment. In particular, this is the case where natural rubber is concerned. A further effect is that we obtain less material for our money with a consequent wastage of foreign exchange. It is important from all points of view that import licences for raw materials are issued in time for them to be utilised in the best possible manner.

Some indigenous raw materials were also in short supply because, due to import restrictions, suppliers were unable to import their requirements of basic materials as required. In such times of scarcity some suppliers do not give proper attention to quality and our technical department was put under considerable strain to ensure that substandard materials were not used in production and that product quality did not suffer.

Where quality meets our standards, we continue to obtain the maximum amount of both raw material and capital goods indigenously. A continuing effort is made to develop these sources to the full in order to save foreign exchange, and we are in close touch with suppliers to guide them and encourage them to manufacture our requirements in India.

I have already made reference to the cost of raw materials, but I must again stress the impact on our manufacturing costs that the higher prices of indigenous raw materials make. A period of price stability for these materials would enable us to endeavour to absorb the extra cost through increased efficiency and productivity, but what successes we have had in these areas, and they have been considerable, have been more than offset by price increases for existing indigenously produced goods. As more materials become available from local sources, so a further addition to costs is involved as each import substitution results in a considerably higher price.

Production

There was again a considerable increase in output at both factories during the year. Our targets were very nearly achieved in each case, despite continued power cuts throughout the year at the Sahaganj factory and an electricity shutdown at Ambattur which lasted for over ten days.

Expansion & Modernisation

The expansion schemes which I mentioned last year are well in hand and to schedule. Those at the Ambattur factory are nearing completion and in fact we produced 30% more truck covers and 11% more cycle covers than in the previous year.

At Sahaganj a new Vee belt shop has been erected and is now in full operation, while, as I mentioned earlier, the P V C belting project has started producing despite delays in the receipt of both imported and indigenous equipment.

In all our expansion plans, the opportunity is being taken to equip your company with the most modern and efficient plant available. Considerable thought is also being given to the replacement of the older equipment, particularly at Sahaganj, with the more modern and efficient plant which is required to enable us to continue to produce competitively, not only in India, but also in the export market.

Training Programmes

Modernisation of equipment is of little value unless more modern management techniques are applied at the same time. Training courses are in operation in India to this end, and I must also record the assistance we receive from our U K associates both in training our staff in Europe and in making available their skilled personnel to visit us in India.

As you will have seen from the Review of the Company's activities, we are installing an IBM 1401 Computer at Sahaganj towards the end of this year. Our staff who have been selected to operate this new department are now under training in the U K at the Dunlop computer centre at Birmingham, and courses are being run in India to ensure that all levels of management will be able to make the fullest use of this new facility.

Profit and Loss Account

As you have already seen from the Directors' Report, the profits before tax have improved by approximately Rs 70,00,000. This was achieved mainly through the increased volume of sales, the price increase implemented at the beginning of 1964 not being sufficient to offset fully the very substantial cost increases which took place during the year.

The net profit for disposal after tax is Rs 2,02,78,676. Out of this amount the statutory transfer to Development Rebate Reserve is Rs 21,00,000 and the provision for Preference Share dividend is Rs 4,60,000, leaving a balance of Rs 1,77,18,676.

The Directors propose to transfer to General Reserve a sum of Rs 67,81,176. An interim dividend on the Ordinary Share Capital of 8¾%, subject to income-tax, was declared and paid during November, 1964, which absorbed Rs 39,37,500, and the Directors recommend a final dividend at the rate of 8¾%, subject to income-tax, on the capital as increased by the issue of Rights Shares and the issue of Bonus Shares and which now totals Rs 8,00,00,000 as explained in the Director's Report. This will absorb Rs 70,00,000.

The Directors are indeed pleased that the result of the year's trading has enabled them to increase the distribution to Shareholders and at the same time plough back sufficient funds towards the future growth and diversification of the Company.

Balance Sheet

The Fixed Assets show a substantial increase representing the expenditure on buildings, plant and machinery in connection with the expansion of both the Company's factories.

Inventories remain much the same as the previous year despite the increased volume of business, reflecting our continued efforts to maintain stocks, particularly of raw materials, at an economic level.

Debtors are substantially higher. This is due to the higher volume of business and the seasonal trend which invariably results in heavy sales during the latter two months of the year.

Cash and Bank balances show a substantial increase but this is entirely accounted for by the sterling balance lying with National and Grindlays Bank Limited, London, and which represents the balance of the sterling paid by Dunlop Rubber Company Limited, U K, in connection with their contribution towards the recent Rights Issue.

This amount will be fully utilised in the purchase of the remaining plant required for our expansions.

Bank borrowings are substantially lower as a direct result of the moneys received from the Rights Issue in December.

The movements in Share Capital and Reserves are fully dealt with in the Directors' Report and I need only mention here that by the capitalisation of Rs 2,00,00,000 out of Share Premium Account, the Issued and Subscribed Share Capital as it stands today is Rs 8,70,00,000 and the Reserves total Rs 6,61,82,292.

Future Prospects

As mentioned in my opening remarks, the Directors' thoughts are now on a further expansion and diversification of the Company and negotiations are in progress in an effort to secure further foreign exchange for this purpose. As you will appreciate, such negotiations are time-consuming and it would be premature at this stage to endeavour to present you any details or to forecast the success or magnitude of the final outcome.

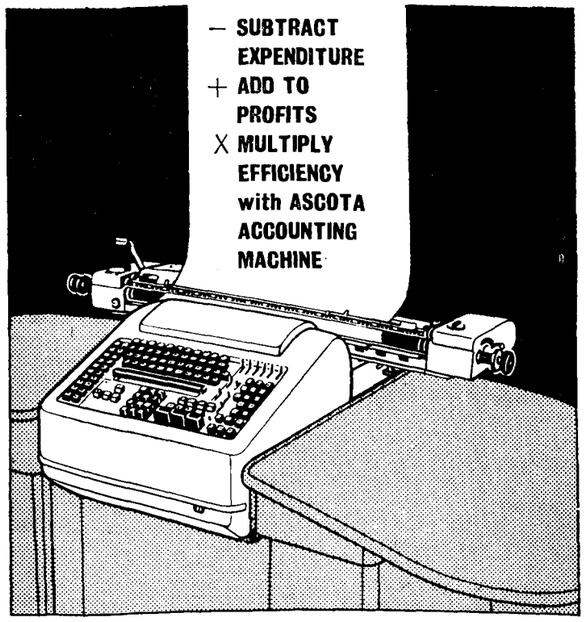
I have dwelt at some length on many of the problems and difficulties we are facing, but I would not like to end only on this note. Even higher targets have been set for 1965 and I am confident that with the continued cooperation, loyalty and effort of all our employees, we can look forward to another satisfactory year.

One hears a lot of talk these days about the difficulties of industry. They exist, and there is no point in trying to minimise them, but opportunities there are in plenty. Our efforts are directed to searching out these opportunities, ensuring that your Company is equipped to seize them, and then making the best use of them to the advantage of the Company and the nation.

Personal

If I may, I would like to conclude on a personal note. This is the last Annual General Meeting over which I shall have the privilege of presiding. I shall be leaving India in June to take up an appointment with Dunlop Rubber Company Limited in London, while Mr Cecil Stack, who is no stranger to most of you, will be returning to India to take over from me. I should like to thank you for the support you have invariably given me and the courtesy with which you have received my addresses on these occasions. As usual, I am sure that you would like me to add your thanks to those of the Directors to all our employees, whose loyalty and hard work have contributed so much to another successful year's operations.

NOTE: This does not purport to be a record of the proceedings of the annual general meeting.



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CURRENT STATISTICS

Production of Chemical and Other Industries

Name of the Industry	Accounting Unit	1963 No. of Units	1963 Installed Capacity	1963 Actual Production	1964 No. of Units	1964 Installed Capacity	1964 Actual Production
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(5) Drugs and Pharmaceuticals							
Anaesthetics:							
Procaine hydro-chloride	Kgs.	1	6,000	7,377	2	90,000	51,504
Ether anaesthetics	,,	3	392,000	142,466	3	392,000	72,532
Ethyl chloride	,,	1	72,000	40,913.9	1	72,000	44,324
Antibiotics:							
Penicillin	MMU	3	65	75,188	3	105	84.26
(a) Chlorotetracycline (b) Tetracycline (c) Oxytetracycline (d) Demothyl Chlorotetracycline	Kgs.	3	18,000	22,331.9	3	10,000	22,220
Chloramphenicol	,,	2	15,000	13,816.4	2	15,000	17,323
Streptomycin & Dihydrostreptomycin	Tonnes	1	45	24.94	2	60	49.21
Antidiabetic Drugs: Tolbutamide and Carbutamide	Kgs.	2	39,600	1,059.7	3	42,600	9,152
Antidysentry Drugs: Di-iodo & Iodo-Chlorohydroxy quinoline	,,	14	73,700	59,437	14	73,700	64,629.5
Antileprosy Drugs: D D S & Derivatices	,,	4	18,300	13,493.3	4	18,300	8,984
Antipyretics:	Kgs.	3	560,000	394,593	3	560,000	443,165
Aspirin	,,	2	32 000	1,782.2	2	32,000	2,327
Phenacetin	,,	4	379,000	265,327	4	379,000	282,178
Sodium salicylate	,,	8	71,580	56,002.3	8	71,580	60,655
Anti T B Drugs	,,	3	196,000	224,556	3	196,000	236,409.4
I N H	,,	1	300	51.5	2	6,300	1,493
P A S & its salts							
Thiacetazone							
Hormones, synthetic Corticosteroid Harmones Testosterone & other Harmones	,,	4	458	456.37	5	3,458	792.1
Liver extracts:	M.CCS	16	67.42	45.172	16	67.42	35.64
Injections	Tonnes	17	652	167.899	17	652	156.856
Orals							
Alkaloid and allied drugs (drugs of vegetable origin)	Kgs.	7	11,760	15,656	7	11,760	11,612
Caffeine & its salts	,,	2	337	260.79	2	337	221
Emetine hydrochloride	,,	1	1,800	876.8	1	1,800	2,025.5
Ephedrine & salts	,,	1	1500– 2,000	2,619.4	1	1500—2,000	2,892
Opium alkaloids	,,	3	——	30,859.2	3	...	37,327
Quinine	Gram	1	12,000	278.0	1	12,000	
Reserpine	Kgs.	3	36,000	16,140.7	3	36,000	19,997
Strychnine & brucine							
Sulpha drugs	,,	2	107,400	79,506	2	107,400	87,938
Sulphadiazine	,,	1	18,200	11,266	1	18,200	9,901
Sulphapyridine	,,	2	46,000	67,765	2	46,000	55,335
Sulphasomidine	,,	2	182,300	73,961	2	182,300	67,148
Sulphathiazole							
Vitamins	,,	3	45,100	62,601	4	.....	57,298
Nicotinic acid & amide	MMU	2	20	17,302	2	20	21,905
Vitamin 'A'	Gms	2	37,000	26,467	2	37,000	22,788
Vitamin 'B-12'	Kgs.	1	1,000	480	1	1,000	635
Vitamin 'B-6'	,,	1	60,000	59,521	1	60,000	68,376
Vitamin 'C'							
Other drugs	,,	3	103,000	37,674.6	3	103,000	36,270
Bismuth sales	,,	6	232,696	124,384.6	6	232,696	103,867
Calcium gluconate	,,	1	54,560	29,143	1	54,560	30,092
Chloral hydrate	,,	2	204,000	70,612.6	2	204,000	28,223
Calcium lactate	,,	2	328,000	295,024	2	328,000	166,473
Ether B P	,,	4	60,000	17,338.15	4	60,000	19,975.5
Ferrous gluconate	,,	5	10,188	7,123	5	10,188	8,745.8
Nikethamide	,,	4	154,000	94,812.8	4	154,000	100,435
Saccharine	,,	2	24,360	3,596.7	2	24,360	3,237
Diethylcarbmazine citrate	,,	1	1,800	1,199	1	1,800	2
Meprobmate	,,	1	120	228.66	1	120	542
Buclizine	,,	1	300	133.1	1	300	72.65
Meclozine	,,	1	300	137.1	1	300	284
Hydroxyzine	Litres	1	259,200	46,871.94	1	259,200	41,899
Dextravan							

(Concluded)

BANKING RETURNS

Reserve Bank	April 23	April 16	Mar 26	Apr 24, '64
	(Rs crores)			
1 Note circulation	2712.70	2734.03	2606.86	2536.27
2 Rupee coin	96.57	94.86	97.75	105.85
3 Deposits				
(a) Central Govt	49.52	50.23	90.91	52.72
(b) Other Govts	16.40	10.59	24.72	13.53
(c) Banks	97.96	95.02	98.76	85.86
(d) Others	168.14	169.89	155.87	159.94
4 Foreign securities	72.46	77.46	77.46	108.46
5 Balance abroad	6.75	7.17	8.25	7.97
6 Rupee securities	2441.15	2436.61	2337.92	2222.47
7 Investments	133.05	132.03	142.82	154,12
8 Loans and advances to Govts	83.41	108.97	73.97	111.39
9 Other loans and advances	283.36	268.48	306.38	171.02
Scheduled Banks	Apr 16	Apr 9	Mar 19	Apr 17, '64
1 Aggregate deposits (net)	2620.67	2604.13	2561.67	2308.22
Demand (net)	1246.95	1242.71	1214.12	1075,93
Time (net)	1373.73	1361.42	1347.55	1232.29
2 Cash in hand	75.40	67.04	70.04	60.57
3 Balance with Reserve Bank	98.08	96.15	92.82	82.38
4 (2)+(3) as % of (1)	6.62	6.27	6.36	6,19
5 Borrowings from Reserve Bank	128.10	136.62	153.90	66.16
(a) Against usance bills and/or promissory notes	48.03	58.98	50.91	25.82
(b) Others	80.06	77.63	103.00	40.34
6 Advances	1726.15	1718.10	1691.55	1546,23
(a) State Bank	423.52	425.77	420.39	358.85
(b) Others	1302.60	1292.33	1271.16	1187.38
7 Bills discounted				
(a) Inland	288.14	278.60	260.99	230.86
(b) Foreign	75.08	75.70	75.04	66.63
(c) Total	363.22	354.30	336.03	297.49
(i) State Bank	58.20	51.66	46.71	21,60
(ii) Others	305.02	302.64	289.32	275.89
8 (6)+(7) as % of (1)	79.73	79.58	79.15	79.88
9 Investments in Govt Securities	717.77	718.67	718.25	624.65
10 (9) as % of (1)	27.39	27.60	28.04	27.06

Bombay Money Rates

	Apr 16	Apr 9	Mar 19	Apr 17, '64
	(Per cent per annum)			
Call money from Banks	7.63	8.36	7.85	6.08
Deposits				
14 days	—	8.50	8.00	—
Three months	5.00	5,00	5.00	—
Six months	5.50	5.50	5.50	3.75

Index Number of Wholesale Prices

(Base: 1952-53=100)

Group and Sub-Group	3-4-65	27-3-65	Week 6-3-65	Ending 4-4-64
Food Articles	*154.1*	*153.7*	*156.8*	*141.2*
Cereals	139.7	140.3	140.0	121.6
Pulses	150.6	152.2	170.5	130.1
Fruits & Vegetables	153.1	155.4	159.1	171.8
Milk & Ghee	151.1	150.8	149.7	134.6
Edible Oils	189.2	185.4	192.8	162.9
Fish, Eggs and Meat	181.9	175.6	183.4	155.1
Sugar and Gur	155.4	154.7	161.8	166.2
Others	174.7	172.1	173.2	174.0
Liquor and Tobacco	*138.3*	*138.3*	*138.8*	*118.9*
Fuel, Power, Light and Lubricants	*146.4*	*146.6*	*146.5*	*142.4*
Industrial Raw Materials	*167.0*	*163.5*	*166.9*	*145.5*
Manufactures	*141.5*	*141.2*	*140.7*	*132.8*
Intermediate Products	*157.6*	*157.5*	*155.2*	*144.1*
Finished Products	*138.8*	*138.6*	*138.3*	*131.0*
Textiles	137.7	136.8	136.7	128.4
Metal Products	174.9	174.6	174.6	166.0
Chemicals	124.8	124.7	125.5	120.6
Oil Cakes	204.1	204.5	203.4	176.3
Machinery & Transport Equipment		131.7	130.6	125.8
Others	126.4	128.4	128.1	127.7
All Commodities	*151.9*	*151.1*	*153.0*	*139.0*

All-India and State Linear Rates of Growth

Area Under Crops, Agricultural Production and Productivity

1952-53 to 1961-62, All Crops

(Average 1952-53 *to* 1954-55-100)

State	Production (Per cent)	Area (Per cent)	Productivity (Per cent)
1 Punjab	5.62	2.56	2.55
2 Madras	4.93	0.74	3.98
3 Himachal Pradesh	3.83	0.84	2.82
4 Madhya Pradesh	3.64	1.37	2.05
5 Mysore	3.56	1.25	2.12
6 Maharashtra	3.53	0.49	2.89
7 Bihar	3.40	1.08	2.16
ALL-INDIA	3.23	1.31	1.76
8 Rajasthan	2.92	3.90	(—) 0.76
9 Kerala	2.44	1.15	1.18
10 Gujarat*	2.22 (2.57)	0.68 (0.27)	1.50 (2.30)
11 Uttar Pradesh	2.06	0.85	1.13
12 Andhra Pradesh	1.91	(—) 0.07	1.99
13 Assam	1.34	1.55	(—) 0.20
14 Orissa	1.18	0.52	0.66
15 West Bengal	0.89 (3.13)	0.18 (0.71)	0.51 (2.04)

* In the case of Gujarat and West Bengal, the first two years of the period under consideration were somewhat abnormal; leaving out these two years, the growth rates for the period 1954-55 to 1961-62 with average of 1954-55 to 1956-57 as 100, are given in brackets.

All-India Linear Rates of Growth

Agricultural Production, Area Under Crops, and Agricultural Productivity

Different Crops, 1952-53 to 1961-62

(Average: 1952-53 *to* 1954-55—100)

Crop/Group	Production (Per cent)	Area (Per cent)	Productivity (Per cent)
Rice	3.29	1.49	1.63
Jowar	1.55	0.16	1.40
Bajra	(—) 0.27	(—) 0.60	0.42
Maize	2.74	2.88	(—) 0.07
Wheat	4.24	3.07	0.94
Cereals	2.79	0.91	1.77
Gram	3.04	2.47	0.50
Pulses	1.75	1.96	(—) 0.17
Foodgrains	2.66	1.10	1.45
Groundnut	4.91	5.05	(—) 0.25
Rapeseed & Mustard	4.67	3.56	0.97
Oilseeds	3.29	2.78	0.46
Cotton	1.87	0.72	1.02
Jute	4.82	3.74	0.88
Fibres	3.17	1.09	1.79
Tea	2.41	0.78	1.57
Coffee	15.15	3.71	9.04
Sugarcane	8.56	6.16	1.66
Tobacco	2.58	1.39	1.05
Non-Foodgrains	4.40	2.38	1.74
All Crops	3.23	1.31	1.76

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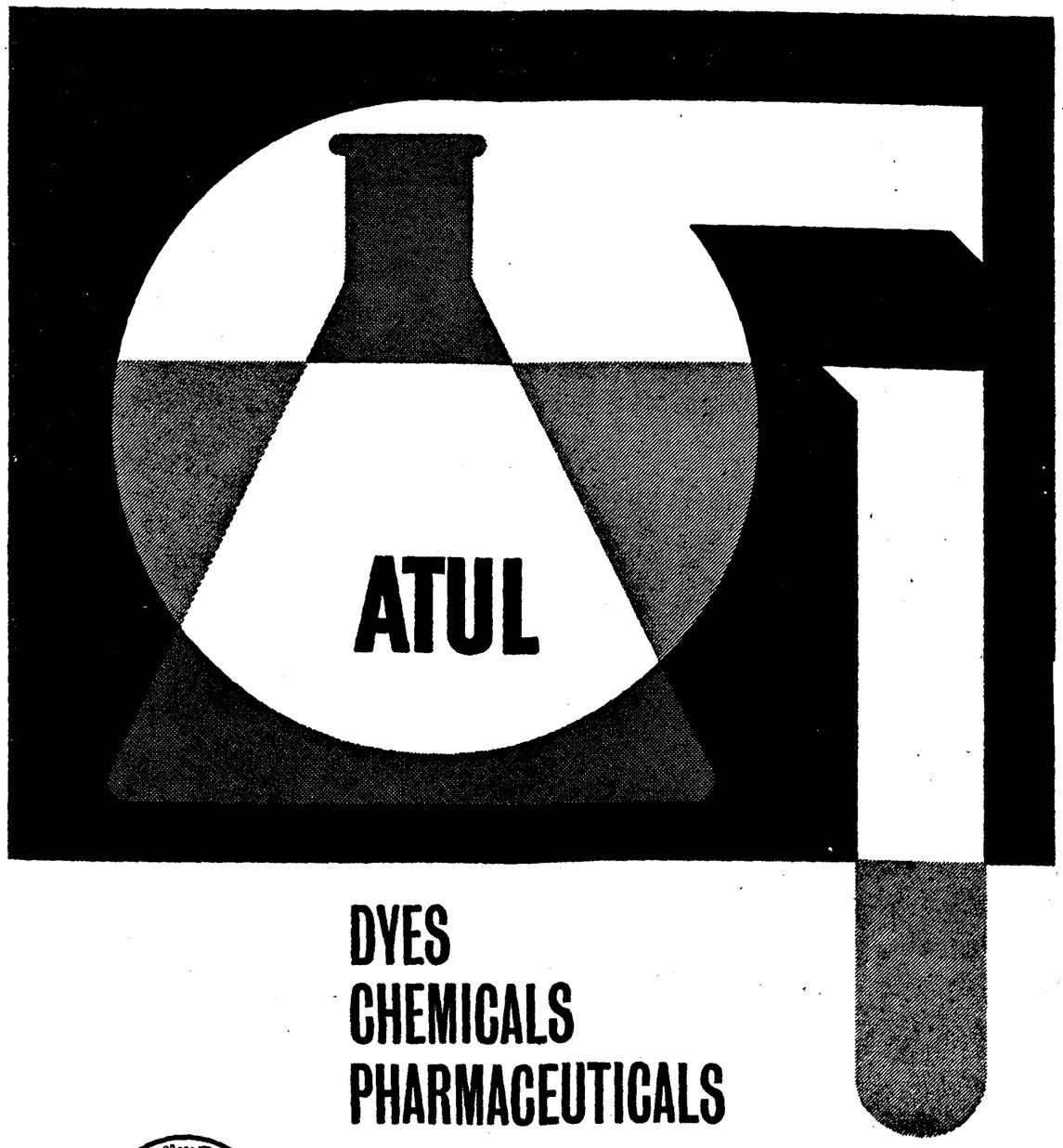
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STATE INSURANCE RESERVES

VOLUME XVII NO 19 MAY 8, 1965 SEVENTY-FIVE PAISE

RECORD YEAR

1963		1964
Rs. 72.48 CRORES	DEPOSITS	Rs. 88.24 CRORES
Rs. 1 CRORE	PAID-UP CAPITAL	Rs. 1 CRORE
Rs. 1.11 CRORES	RESERVES	Rs. 1.23 CRORES
Rs. 20.63 CRORES	INVESTMENTS	Rs. 22.28 CRORES
Rs. 42.27 CRORES	ADVANCES	Rs. 58.59 CRORES
Rs. 75.56 CRORES	WORKING FUNDS	Rs. 92.48 CRORES
Rs. 24.12 LAKHS	NETT PROFITS	Rs. 34.66 LAKHS

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After Kutch

THE disengagement on the Kutch border has taken on all the appearances of a *de facto* cease-fire. Both India and Pakistan ordered general mobilisation of the armed forces and threatened preparedness for full hostilities, knowing well that a massive escalation of the conflict would be *mutually ruinous*; both now seem to have come to an understanding with Britain not to cause any provocation to the other. British mediation seeks to provide, initially, for a cease-fire and, later, reference of the matter to an impartial body like the International Court of Justice. The U S keeps mum while the Pakistan Chief of Staff boasts of a momentum adequate to carry him through Punjab, but sends its officers to check on alleged Indian use of U S arms. Traditionally friendly British journals ooze sympathy for India's awkward tactical position and advise acceptance of what to them appears as no more than cartographic pollution. How do we now seize the diplomatic, if not military, initiative and, besides, negotiate on the terms suggested by Britain?

Whether the immediate cause of friction is Kashmir, canal waters, Dahagram, Rann of Kutch, or any other, we must settle down with the full implications of Pakistan as a running sore. Against China, we can count on a limited degree of support from U S and U K but in matters relating to Pakistan, these two countries will at best remain on the sidelines. Our pathetic cries of distress against the use of U S aid arms by Pakistan ignore the obvious fact that Pakistan has after all been (and still is) a U S ally in SEATO (like recalcitrant France in NATO) and that India gets military aid from U S only on sufferance. Attempts to influence Washington may be good propaganda: they are no substitute for a policy because Washington will refuse to be bothered with anything less than a conflagration. Pakistan has safeguarded its backdoor by making friends with China and felt this the proper time to administer pinpricks, for New Delhi has been in disarray and the picking up of economic growth has still to make an impact on public discontent. Defence and development have not been going too well together but now that good crops could make a substantial difference, was the time for Pakistan to strike. We must now do something more than assert the historical and ethical sanctity of our maps.

Though, in the ultimate analysis, we have to depend on our own economic and military strength, as at present and in the interregnum there is need for understandings and arrangements which would restore the balance of power in our favour. Whatever official spokesmen might say, we are isolated diplomatically, while Pakistan is friendly with both U S and China and through the latter with Indonesia. Our interest lies in moving closer to USSR and developing relations with France. That France is trying to put a foot in a slit in the Chinese door need not disconcert us for USSR is more valuable to France than China (or US for that matter). If Pakistan can enter into an open liaison with China and other anti-American countries without disturbing the massive inflow of aid (at least till the Johnson Doctrine is given a new turn), India can take the safer risk of leaning more heavily upon USSR, particularly for naval and air force equipment and facilities for their production

The increased frequency of border skirmishes in the East and continued infiltration of Pakistanis into Assam need to be dealt with firmly, the firmer the better. A US foreign policy adviser was once heard to remark in New Delhi that it was inhuman on India's part to drive back Pakistani Muslims from their historical immigration grounds in Assam. How many Mexicans, one would like to know, are allowed to infiltrate and settle down in US? For reasons of security, it is necessary to clear the Eastern border of subversive elements. In north-west Gujarat, too, events in Kutch have confirmed the existence of a network which involves espionage besides smuggling of gold.

Evacuation of some posts, cease-fire and arbitration are, though immediate, relatively minor issues. The army has done well not to be caught, under

political pressure as in NEFA, in an indefensible position. The aggressor in a border skirmish of its own choosing has an inevitable advantage. If this offers the Pakistan army some consolation for what it considers as its humiliating inactivity when India was alleged to be committing aggression on Junagadh, Kashmir, Hyderabad and Goa, we need not grudge them the momentary satisfaction.

An official cease-fire which does not involve Pakistani withdrawal to positions at the end of 1964 will not be acceptable to India. If Pakistan does not come round, we will be free to seek other remedies, defined to exclude reminders to Washington of its promises and recalling of British memories of the border between Sind and the princely State of Kutch. We cannot afford to rely once again (though we have much better reason to) on maps, past correspondence, and other legal technicalities. Shastri, unlike Ayub and much more than Nehru, is responsible to a freely elected Parliament and to autonomous States. Mild though he is on the surface and hedged in by lobbies, he cannot be pressurised beyond public and army patience.

As for juridical arbitration, it is unexceptionable in principle, once Pakistan withdraws its troops out of the Rann. We have a case strong enough to stand international legal scrutiny but it must be quite clear that the issue at stake is demarcation of the border, not disposition of territory. There can be no objection to a give or take in drawing the boundary line to make it viable but the whole territory cannot be the subject of reference.

Pre-Shrunk Monetary Base

MONEY, according to people who should know, has never been so tight in recent years as it is now. The blame is put on bank credit restrictions and practical stoppage of *hundi* business. Unaccounted money is said to have almost disappeared though the Finance Minister disclaims the receipt of any large hoards. Cotton mills are burdened with accumulations of cloth and yarn which traders are unwilling to stock as before. None of the affected parties, all of whom are on record as being opposed to public deficit financing, has so far cared to point out that the cure for inflation which they had been prescribing all along has now been accepted with a slight modification, namely, that the same medicine is being administered to the private sector also. The cries of anguish will not die away in the near future. Painful days lie ahead. Borrowers will have to ease their stringency by quicker turnover of goods at lower prices and narrower margins and by cutting down bloated inventories, all of which is hard exercise after the cozy times left behind. Some relief was expected with the onset of the slack season but the Reserve Bank has clamped down again.

In a discussion with bankers, which is reported to have left them overawed, the Governor advised that the entire anticipated gross inflow of Rs 400 crores during the slack season (Rs 200 crores of fresh deposits and Rs 200 crores of seasonal repayments) should be sterilised: Rs 120 crores to be repaid to the Reserve Bank, Rs 80 crores absorbed in government securities, and the remaining Rs 200 crores should be put away in special fixed interest Treasury Bills. In other words aggregate bank credit shall be frozen at last year's level. Any readjustments are to be made within this ceiling. Loans to industry will no longer be a holy cow; borrowers must be compelled to improve their inventory management and economise the use of bank credit. Public sector enterprises are not to be spared in this process; their inventories, in fact, need special attention.

Assuming that this policy succeeds (bankers being dedicated to inventory values rather than turnround makes one rather skeptical), the pre-shrunk monetary base will have to be counteracted by a higher velocity of money. By strict economic calculation, this should help offset the reduced availability of money but higher money velocity also implies a quicker turnover of goods and correspondingly less hoarding.

The situation has its dangers. Monetary stringency has always claimed its first victim in the Punjab wheat farmer who is confronted with a steep decline in prices and a Government dragging its feet on open market purchases. Small industry and trade are in a tight corner for, pious advice notwithstanding, bankers are apt when hard pressed to favour the large borrowers. Leaving aside these and other sectoral problems, the fact is that, in both 1963-64 and 1964-65, the growth of national income has picked up impressively. Something like a 7 per cent increase in two consecutive years and the fiscal and monetary taps turned off can lead to a price disinflation out of proportion to requirements and have a traditionally greater impact on agricultural prices. Monetary policy will need careful watching in the next few months. Slimming down has its side effects.

Marine Diplomacy

HISPANIOLA is a 29,000 square mile island in the Central Carribean. A narrow forty mile stretch of sea water separates it from Cuba. The island is divided between Haiti and the Dominican Republic; the latter occupies the eastern portion of the island. On April 28, 556 Marines from the appropriately named aircraft carrier *Boxer* landed on the outskirts of Santo Domingo, capital of the Dominican Republic, ostensibly to protect American lives, though none was lost before or has been since. With the landing of 2,500 more troops in the early hours of April 30, it became clear that the United States was determined to prevent a sovereign nation from becoming another Cuba and was, paradoxically, pushing it towards Cuba at the same time.

The sequence of events started with the assassination of Trujillo in May 1961. El Jeffe, as he liked to be called, had ruled the country unperturbed since 1930 through a startlingly efficient and callous system of blood-letting, bribes and family oligarchy. His son was soon overthrown by a combination of liberal and progressive parties. In December 1962, the first free elections for 38 years were held. The Partido Revolucionario Dominicana (P R D) gained sixty per cent of the votes, a convincing majority considering that the rest of the vote was divided between six parties. Juan Bosch, poet-leader of P R D became President, and set out to remedy the typical Latin American problems of feudal land tenure, a self-serving business oligarchy, a politically inclined and privileged army elite and over-dependence on foreign, namely, American, capital. Inevitably, he came into conflict with these powerful groups. In September 1963, Bosch was overthrown by a bloodless military coup. Had Bosch been politically more astute and alert, he might possibly have lasted longer. Since his overthrow, there have been several governments, coups and counter-coups, the armed forces as usual holding the balance of power.

The catalytic event last month was a revolt, which found the army violently divided, seeking to restore Bosch. President Johnson smelled a nascent Cuba and decided to nip it in time. Latest reports indicate that the Marines have taken over street fighting in the name of protecting American lives. Casualties have been heavy: 1,000 dead and 12,000 injured. The Organisation of American States which ordinarily acts under U S pressure has refused to succumb this time; it is unable to fit this intervention in the Alliance for Progress. The leader of the revolt, Colonel Deno, who has been sworn in as provisional President in spite of American intervention, is reported to have said that American troops had better leave before Dominican nationalism turns anti-American. This is an under-statement. The Johnson Doctrine is claiming its victims in more than one continent.

Weekly Notes

More Priority Labels

THE marginal concessions announced by the Finance Minister run true to his earlier statement that there would be no going back on his Budget proposals but he would be prepared to make some relaxations for promotion of 'compulsory' savings and for investment in selected directions. As he indicated earlier, the straight deduction of one-half of the eligible life insurance and provident fund contribution from taxable personal income has been raised to 60 per cent for the first Rs 5,000 of such savings. The tax credits for subscription to new equity issues of public companies will be extended to purchase from underwriters instead of being restricted to direct absorption of first public issues.

Some degree of uniformity is sought to be effected in the lists of industries which qualify for a 10 per cent rebate in corporation tax, 20 per cent rebate in surtax and 25 per cent development rebate (instead of the new standard rate of 15 per cent after March 1967). The high priority rate of development rebate will now also apply to mining other than coal, mineral oil, machine tool attachments, agricultural implements, trucks and buses and automatic ancillaries, refractories, soda ash, pesticides, seamless tubes, gears, bearings and cottonseed oil. It has been clarified that the scheme of excise duty concessions will exclude the effect of changes in the rates of duty, and that the tax saved can be utilised for financing expansion besides repayment of loans. The Minister has also announced that this incentive to increase production will be granted to priority industries in which substantial expansion of capacity is envisaged and which do not rely heavily on imports of raw materials and components.

The stock exchanges may refuse to be impressed but the fact is that the Budget is loaded for growth. True, it requires a fair lot of home work to assess its impact on individual companies and projects and takes some effort to move in the directions favoured by the new fiscal policy. While personal taxation has been greatly simplified and also considerably reduced, the new schemes of company taxation, complicated as they are, do represent some fresh and original thinking in North Block for the first time and that, too, without the benefit of British and American precedents. The export performance tax credit of 15 per cent maximum. excise duty concession on additional production of 25 per cent maximum, and 10 per cent maximum relief against company tax and surtax, together with the higher development rebate of 25 per cent for priority industries, all add up to very substantial incentives for investment, production, *lower costs* and exports. The incentives reward performance and enterprise; they do not promise a straight and easy increase in take-home profits. It is a legitimate complaint, however, that these concessions have still to be spelt out, in the absence of which their precise implications cannot be appraised. One also hopes that the priority lists would not be enlarged further to such an extent as to render them futile.

Responsive Non-Co-operation

A Correspondent writes:

EVER since Manubhai Shah mooted it, the question of producing a small car has become a subject of heated controversy and considerable business manoeuvering. Its ghost refuses to be exorcised, such is the inexorable logic of the question.

The Jha Committee examined the question in detail, but failed to work out the only logical solution, namely a co-operative pooling of the resources of existing manufacturers to produce the small car, mainly because of their refusal to co-operate. Later, the attempt to produce a small car in the public sector in collaboration with Renaults, as negotiated by another Government-appointed Committee, was successfully torpedoed by the vested interests.

Now the lengthening of the delivery periods—and the reported chicanery in the allocations—has again brought the car in the orbit of a feasibility study, and a reluctant minister, who as a planner had opposed the idea earlier, makes a public show of examining the position dispassionately. In the meanwhile, the existing producers, as shown by the address of Keshub Mahindra to the Association of Indian Automobile Manufacturers, remain wedded to the theory of responsive non-co-operation to the project.

The small car episode illustrates most of the ills of the Indian economy. As has been asserted in this journal (April 30, 1960, pp 680-684), the Government was initially wrong in accepting the need for manufacture of passenger cars, and, what is more, even then, failed to obtain the adherence of the producers to that policy. Only a couple of years back, Subramaniam insisted on automobile producers achieving 90 per cent indigenous content; so far, only one producer claims to have reached that figure.

Private enterprise refuses to look beyond its nose. The present scarcity so suits its purpose that it has not taken any steps to remove it. It was left to Manubhai Shah to initiate the move for raising automobile production. Moreover, the existing producers have failed to develop any design facilities to be able to become independent of their collaborators in any foreseeable time, or to be able to co-operate in meeting the increasing demand for cars. And it is left to a foreign-owned company, Gabriel, to make the most effective case for road transport through its advertisements.

Resources for Small Car

ONE fails to recognise the logic of price control in a semi-luxury industry with long waiting periods for delivery. It deprives the manufacturer and the Government of much-needed revenues. At the same time, it gives an undeserved gain to the consumer who is able to sell his old (or the newly allotted) car at high premium. The case for a swingling excise duty, till such time as supply catches up with demand, remains to be answered.

Besides the normal Governmental red tape, the small car has also got enmeshed in a wrangle about priorities under the plans, in which, in addition to Indian puritans, true believers in free enterprise like ambassadors and international civil servants have freely participated. Two of the major deficiencies of Indian planning are a lack of desire to meet the known demands and endless delays in arriving at decisions. The small car illustrates these most effectively.

In the meanwhile, Government servants have managed to insulate themselves from the consequences of their policies by having a fixed quota for car allocations and by arrangements with STC for allocation of diplomats' cars to public sector undertakings. And, if they manage to get themselves a foreign assignment, they can always bring back a car, to facilitate which the rate of import duty was specially brought down last year from 150 per cent to 60 per cent.

Clearly, there is need for urgent decision and action on the small car project. On the basis of past record, Telco or Mahindra and Mahindra in the private sector is most suited to carry out the project, unless all automobile producers combine to take up the job. If not, for no virtue of its own, the project should go to the public sector. In any case, the project must start with the maximum indigenous content.

An incidental problem is the raising of rupee resources for the project. In view of the long waiting lists, why should not a person placing an order be required to deposit the full price of the car on the basis of a fixed delivery schedule? This would make available all the local currency resources required for the project. This technique, first used by the late Kidwai, could also be revived for telephones and other public utility services in short supply, whose development is hindered by lack of budgetary resources. Further, to keep the distribution cost low, initial sales should be made on the basis of non-exclusive franchises given to existing distributors. This will at once make available to the project at a low margin, the large network of distribution already in existence.

British Credit Squeeze

THE latest credit controls introduced by the Bank of England have taken economic commentators as well as British industry and trade by surprise. English clearing banks have been asked to deposit one per cent of their deposits with the Bank of England while Scottish clearing banks are let off with ½ per cent. The time limit stipulated for compliance with the new directive is short: half the amount is to be deposited on or before May 19 and the remainder by June 19. Contrary to expectations, bank rate has not been lowered simultaneously. A moderate reduction was believed imminent after Wilson's eloquent intention, expressed in the United States, to give "a bloody nose" to speculators against sterling and Callaghan's fiscal prescription for relieving distension in the British economy.

The ostensible reason for the impounding is that the advance-deposit ratio (the definition is not the same as in India) of banks has reached the disturbing level of 55 per cent. But the question that needs to be answered is whether this move was necessary after a severely anti-inflationary budget. When the Labour Government came to power, it was determined to undo the 'stop and go' policies of its predecessors, since it attributed the crawling pace of the economy in the last thirteen years to those policies. Its own performance since the confrontation with the sudden and frightening run on sterling, however, appears different only in the sense that the 'go' signal has yet to be uncovered. A stiff budget and some respite on what is described here as the foreign exchange front would have justified, if not a slightly liberalised credit policy, at least the leaving alone of bank reserves. As the fiscal reins continue tight, a somewhat easier monetary policy could rescue the economy from stagnation. This is a prescription which Japan has successfully followed in the last few years.

It could be argued that the latest credit squeeze is being experimented with as an alternative to bank rate. If this be so, one should expect, in the not too distant future, some token reduction in the bank rate, now that the speculative onslaught on sterling has moderated of late.

Higher Rate of Growth

THE provisional estimates of national income for 1963-64 put out by the Central Statistical Organisation present a somewhat refreshing picture of the economy. After the hesitant and sluggish pace of growth during the first two years of the Third Plan, an advance of nearly 11.7 per cent (at current prices) over the year is quite encouraging. According to the provisional estimates, net national output at factor cost rose to Rs 17,200 crores in 1963-64 from Rs 15,400 crores in 1962-63, both at current prices. Even

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Performance and Prospects

by

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in terms of constant 1948-49 prices, there is a noticeable stepping up of the pace of growth. The index number of net output (1948-49=100) moved up from 151 in 1961-62 and 154 in 1962-63 to 161 in 1963-64. The per capita net output at current prices was Rs 371 in 1963-64 against Rs 339 in the previous year.

The breakdown of national income by industrial origin presents certain interesting features. Contrary to what was anticipated, agriculture, animal husbandry and other ancillary activities have contributed in fair measure to the higher rate of growth; income originating in the sector rose to Rs 8,100 crores from Rs 7,000 crores in 1962-63 and Rs 6,960 crores in 1961-62. However, the performance of agriculture in terms of total farm output produced was not any better than in 1960-61. The sudden increase in agricultural prices seems to have been responsible for the inflated contribution of the sector. This is also evident when the income originating in the sector is reckoned in terms of constant prices. Even though the income originating in this sector (at constant prices) in prices) in 1963-64 shows a considerable improvement over the previous year, increasing from Rs 5,790 crores to 5,900 crores, it is slightly below that observed in 1960-61.

National Income By Industrial Origin (in Rs abja)

	1950-51	1955-56	1960-61	1961-62	1962-63	1963-64*
1 Agriculture, animal husbandry and ancillary activities						
(a) At current prices	48.9 *(51.3)*	45.2 *(45.3)*	68.9 *(48.7)*	69.6 *(47.0)*	70.0 *(45.4)*	81.0 *(47.1)*
(b) At 1948-49 prices	43.4 *(49.0)*	50.2 *(47.9)*	59.0 *(46.4)*	59.1 *(45.3)*	57.9 *(43.5)*	59.0 *(42.4)*
2 Mining, Manufacturing and small enterprises						
(a) At current prices	15.3 *(16.1)*	18.5 *(18.5)*	26.0 *(18.4)*	28.8 *(19.5)*	30.8 *(20.0)*	33.9 *(19.7)*
(b) At 1948-49 prices	14.8 *(16.7)*	17.6 *(16.8)*	21.1 *(16.6)*	22.1 *(16.9)*	23.0 *(17.3)*	24.4 *(17.5)*
3 Commerce, transport and communication						
(a) At current prices	16.9 *(17.7)*	18.8 *(18.9)*	23.4 *(16.6)*	24.8 *(16.8)*	26.5 *(17.2)*	27.9 *(16.2)*
(b) At 1948-49 prices	16.6 *(18.8)*	19.7 *(18.8)*	24.6 *(19.3)*	25.4 *(19.4)*	26.4 *(19.8)*	27.7 *(19.9)*
4 Other Services						
(a) At current prices	14.4 *(15.1)*	17.3 *(17.3)*	23.6 *(16.7)*	25.5 *(17.2)*	27.5 *(17.9)*	30.1 *(17.5)*
(b) At 1948-49 prices	13.9 *(15.7)*	17.3 *(16.5)*	23.1 *(18.1)*	24.7 *(18.9)*	26.6 *(20.0)*	28.9 *(20.8)*
5 Net domestic product at factor cost						
(a) At current prices	95.5 *(100.2)*	99.8 *(100.0)*	141.9 *(100.4)*	148.7 *(100.4)*	154.8 *(100.5)*	172.9 *(100.5)*
(b) At 1948-49 prices	88.7 *(100.2)*	104.8 *(100.0)*	127.8 *(100.4)*	131.3 *(100.5)*	133.9 *(100.6)*	140.0 *(100.6)*
6 Net earned income from abroad	—0.2	0.0	—0.5	—0.7	—0.8	—0.9
7 Net national output at factor cost=national income						
(a) At current prices	95.3 *(100.0)*	99.8 *(100.0)*	141.4 *(100.0)*	148.0 *(100.0)*	154.0 *(100.0)*	172.0 *(100.0)*
(b) At 1948-49 prices	88.5 *(100.0)*	104.8 *(100.0)*	127.3 *(100.0)*	130.6 *(100.0)*	133.1 *(100.0)*	139.1 *(100.0)*

* Provisional.
Figures in brackets indicate the percentage distribution of national income by industrial origin.

The impact of relative price movements as between the different industrial sectors is brought out also by the differences in the percentage distribution of national income by industrial origin, when the two types of price weights, constant and current prices, are adopted. The percentage share of income originating in the sector rose from 45.4 in 1962-63 to 47.1 per cent in 1963-64 when computed in terms of current prices but fell from 43.5 to 42.4 per cent when constant prices were used.

Mining, manufacturing and small enterprises also indicated a slightly higher rate of growth over the previous year than was observed in 1962-63. The contribution of this sector to national income at current prices has moved downwards. In terms of constant prices, however, the share improved, again bringing out the impact of relative price changes. There are reasons to suspect that the income from small enterprises is understimated; deficiency of coverage and inadequacy of operational statistics defeat efforts to improve the estimation of their income; the estimates of income originating in commerce, transport, communication and other services are built up, in most part, from indirect and secondary sources and rough rules of thumb are generally used; one need not be surprised, therefore, at the smooth and consistent trends in the estimates over time.

Shifting Sands of Methodology

A FEW changes in methodology have been adopted in the estimates for 1963-64. The estimates of value of

agricultural output have been considered on all India level instead of at the State level as hitherto. The all India average rise observed in the wholesale prices of certain individual crops during the peak marketing period, over the year, was used as a basis for projecting the 1963-64 prices from 1962-63 prices. The ratio between value of net output to that of gross output observed in 1962-63 was assumed to prevail also in 1963-64. In the case of the animal husbandry sector, estimates were worked out on the basis of all India level rather than at the State level. The 1962-63 prices of individual livestock products were projected to 1963-64 on the basis of the Economic Adviser's Index of Wholesale Prices instead of State-wise prices obtained from the Directorate of Marketing and Inspection. In the case of forestry, the estimates for 1963-64 were obtained by projecting the 1962-63 gross and net output figures on the basis of the trend of Government receipts from forests as recorded in their budget documents.

It is not possible to detect the extent to which these changes in methodology affect the estimates. Though, not an argument against improving the methodological base, this is a handicap since frequent changes in methodology vitiate intertemporal comparability of estimates. Unless one has at least a broad idea of the range of variations arising due to methodological changes alone, any comparison of statistics over time becomes very shaky. The C S O would do well to give parallel estimates — based on the old as well as new methodology — whenever important changes are involved.

LETTER TO EDITOR

A Minister's Statistics

MY attention has been drawn to the Weekly Notes of your issue dated the 20th March, 1965, under the caption 'A Minister's Statistics'. I have been accused of misquoting statistics in my last month's speech on the Central Budget in the Rajya Sabha to show that the targetted increase in national income during the Third Plan would be almost reached and that additional tax revenues had gone to finance investment in industry and elsewhere. The fact, however, is that the fault lies at your end because your comments are based on wrong reporting of my speech.

As for the first point I would do no better than to quote from my speech as published on page 316 of the official proceedings of the Rajya Sabha on March 15, 1965:

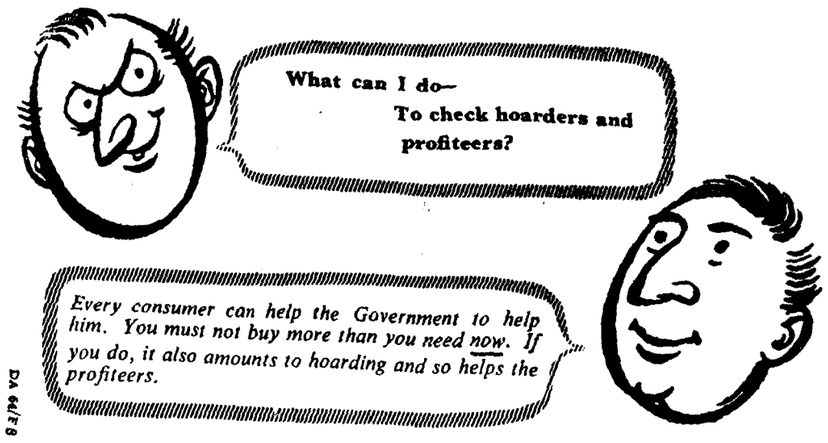
> "At one time, a year ago we thought that the picture was darker. Today the picture is not that much dark. I think we will end up with anything between 23 and 24 per cent growth over the Third Plan period....On the basis of the physical inputs in agriculture I think the 5 per cent average rate of growth that we expect in the Fourth Plan will be realised together with self-reliance in the economy as a result of diversifying and improvement of the industrial sector..."

Even you have accepted that aggregate increase can go upto 22 per cent, nowhere did I mention that the targetted increase in the Third Plan was 25 per cent.

With regard to your second point about additional tax revenue having gone to finance investment in industry and elsewhere I wish to point out that never did I deny what you have said "that a good part of the proceeds of additional taxation has been diverted into current non-investment expenditure". What I said was that Government was trying its utmost to bring down the expenditure on non-developmental activities year after year, but at the same time there were certain inescapable items like defence, rehabilitation, servicing of public debts, subsidising foodgrains distribution, etc, which pushed up such expenditure.

In fairness, therefore, you will agree that it was not my so-called 'careless statistics' that is to blame but unfortunately the inaccurate publicity that it got in certain newspapers.

New Delhi,
April 28. B R BHAGAT



CAPITAL VIEW

Ugly, Quiet and Frustrated

Romesh Thapar

THIS place smells of ugly Americans, quiet Englishmen and frustrated Indians. The local Punjabis, with a penchant for earthy comment, have stopped joking about the Pakistani infatuation with the 'Rann' of Kutch and 'Kanjar' kot.* There is anger in the air. Anger that we have permitted the Pakistanis to get away with what they can tom-tom as a victory. Anger that we tolerate the Americans who are reluctant to curb the Pakistani army which they have equipped and trained. Anger that we are so considerate of the British who are for ever justifying Pakistani blackmail. What political brew this mass of anger will create is anybody's guess.

Frankly, I think it's about time that we stopped expending all our energy on being angry — unless, of course, the anger clears the muck that fogs our vision. So far, only Indira Gandhi has spoken her mind. She has flogged U S. policy in this region, called on the people to learn the bitter lesson of dependence on so-called 'friendly' powers and foreign aid, and urged self-reliance. Others will no doubt follow this lead, but it will take time to shed illusions. But for how long will the people have to wait for action?

Soviet Alliance

With ugly Americans insisting on a visit to the Kutch front to see that no U S equipment is being employed by the Indian army, although they have shown no such anxiety on the Pakistan side, and with quiet Englishmen trying their damned best to persuade the 'bloody Indians' to agree to a compromising compromise, despite the detailed knowledge they possess of the actual border in Kutch, there is little surprise these days when psychopathic anti-communists call for a full commitment to a Soviet alliance. Indeed with western diplomacy sowing the seed of deep antagonisms in the sub-continent Prime Minister Lal Bahadur may well decide to become the instrument for a full fledged alignment with the Soviet Union.

It is known in inner circles that the Prime Minister has been ruminating on some such plans. And with every new pontification by well-known British commentators on the subject of the clash in Kutch, these thoughts on a Soviet alliance are becoming fairly general. It's a pity that we are so fuddled that only a kick in the pants (or pyjamas!) shakes us out of our confusions and delusions. But, judging from what has been happening over the past week, we will not need many more kicks to be roused. Then, God help our ugly and quiet friends. They'll have to keep out of reach.

These are strange emotions for a proverbially placid Capital, but it would be a mistake to ignore them. They might well be the fertilising force of a militant nationalism with all its dangerous propensities. They might also be the corrective to years of 'turning the other cheek', that is, if the leadership is strong enough to discipline these new emotions. I say 'new', because we have lost touch with them for some eighteen years. And for this reason, too, they will emerge many times stronger than before, sharpened by the failure to win respect through civilised postures.

War or Peace

I can see the ugly and the quiet smiling as they scan these comments and other similar statements. Their counter-parts did likewise in not-so-different situations. These political morons, who despatch their troops, their navies and their war planes to any part of the world where their miserable interests are threatened, imagine that India's leadership can always be pummelled into accepting a blackmail peace. So confidently do they go about this degrading job that they have managed to convey the same impression to short-sighted Arab, African and Asian Opinion—that India is about to go to sleep again. Only the really perceptive can cut through the present stalemate to realise that, war or peace, the repercussions of the confrontation in Kutch will be deep, very deep.

I say war or peace, because even though we are again becoming the victims of indecision, with pro-western elements urging caution against Pakistan in the interests of consolidation against China, the sentiment is general that we will have to do some solid thinking about the dangers of relying too heavily on western sources of military hardware and economic aid. This reliance has weakened our resolve to defend our vital interests and is now sapping the strength of our polity. It has also created markedly pro-western factions in the apparatus of government, factions which use all manner of dubious argument to splinter our will to act in our interest.

Anyone who has witnessed the play of politics in the Capital during the past week, and been buffetted by a veritable avalanche of rumours about the condition of our army, the dissensions within the Cabinet, the weaknesses of our commanders and the opportunism of leading elements in our public life, cannot help but conclude that only a massive purge of political, military and administrative personnel can restore the health of this nation. Excellent material is available at every level to stop the rot, but it is being suppressed, side tracked and made impotent.

The *de facto* cease-fire in the Rann of Kutch, and the continued presence of Pakistan soldiery on Indian soil, has brought this septic focus to a head. Prime Minister Lal Bahadur cannot pretend that he is unaware of this condition. It is common talk that we are at the mercy of fairly active bureaucratic elements who, given the chance, would be prepared to make this country an appendage of the USA because they believe this is the only way in which to preserve their present system of privilege and profit. Only a surgical operation can rid us of the septic focus. This realisation will grow whatever the outcome of the present confabulations on Pakistan's aggression in Kutch.

Pro-Western Lobbyists

In passing, it is interesting to compare the kind of reactions which were generated by the Chinese attack in 1962 as against those visible today with Pakistan on the rampage. Either we have become surprisingly mature, and are now able to view these crises as persistent and something to live with, or much of the commotion in 1962 was deliberately sparked by interested, western-oriented lobbyists against the controversial V K Krishna Menon and his supposed influence on Jawaharlal Nehru. Defence Minister

* In colloquial Punjabi, 'Rann' means wife and 'Kanjar' a courtesan.—*Ed.*

Chavan seems to be secure in his silence, although it must be admitted that there is widespread regret that his dynamic predecessor's undoubted talents continue to be neglected.

Obviously, the organised lobbyists in the Capital are almost entirely western-oriented. At the moment, they are making polite noises about Pakistan very similar to those made by demented, sectarian communists at the time of the Chinese attack. There has so far been no hysterical reaction even from Jan Sanghi elements; perhaps, the hysterical among them are aware that any escalation of the conflict might wreck their dreams of a military commitment to the USA. All these lobbyists must be putting in extra time somehow to again deflect national attention to the Chinese threat.

Whatever finally emerges from the debate joined in the Cabinet, in Parliament and in the Congress Party, the fact remains that those who would attempt to conciliate Pakistan will see that they have no audience to preach to. Indeed, militancy shows signs of rapid growth in India. Many an old slogan is likely to be revived, including the demand for a nuclear programme. Opinion which makes political policy is now oppressed by what looks like a continuing threat from China and Pakistan — and feels that it must free itself by striking new precise and militant postures.

Who will lead this opinion? Who will discipline it? Who will plan its perspectives? These are some of the questions which will recur again and again during the coming months.

LETTER FROM SOUTH

Communists: Impasse and Unity

AFTER the election frenzy and the rush with which President's Rule was imposed have spent themselves, Kerala has reverted back to shapelessness. There is no sense of relaxation, of ease after strenuous accomplishment, but rather a fetid dropping down after an exercise in futility. The protest meetings against the imposition of President's rule, jointly called by all the Left Opposition parties, proved to be a very poor show, indeed. In towns where lakhs had voted for these parties, only a few hundreds turned up to hear the speeches of the Left leaders and hoist a few black flags. From this one could draw the conclusion that democracy has lost its attraction in Kerala.

It would be more correct, however, to attribute this apathy to a mood of defeat, an acceptance of the inevitable since there is no viable, invigorating alternative. If this alternative takes too long in coming then, certainly, the sense of defeat would convert itself into a basic quarrel with the concept of the utility of democracy. And, in the present situation, two years would be too long. The alternative has to take shape within the next few months. There are, fortunately, some indications that this may fructify, and in time.

Contrary to what many observers expected, the results of the elections have helped to bring the two Communist Parties in Kerala closer. At any rate, the gulf has not widened and the relations have not been further embittered. The recent demonstrations against President's rule may have flopped but one useful result was the fact that the leaders of the two CPs spoke from the same platform. Nor was this a mere flash in the pan. The statements of E M S Namboodiripad indicate that he has a perspective of united action on a number of issues. His condemnation of the Pakistani push and sharp criticism of the Chinese connivance at this latest anti-India manoeuvre has certainly helped the process of moving towards joint action.

Similarly, the C P I leaders have sharpened the edge of their attack against Government policies, and signalled a warning about the very real danger of their turn to the Right all along the line. They have taken greater pains to explain that the C P I stands for the replacement of the present Congress regime by a democratic alternative, in which democratic Congressmen would also find a place. They emphasise that to realise such an objective the unity of the democratic opposition, particularly of the two CPs, is essential not only for electoral purposes but even more for sweeping mass movements.

Defending Democracy

At present the point of unity is greatest on the question of the release of the Left C P detenus and the abrogation of the DIR. A very commendable initiative was taken by the convention for the defence of democracy in Hyderabad in which the two CPs, the SSP and other leading personalities of the city participated. This initiative was a follow-up of the talks for united action between the two CPs begun at Calcutta. It is quite evident that such a campaign for the defence of democracy has no possibility of gathering any kind of momentum unless the two CPs unite in a spirit of earnestness.

It is equally evident that both in Kerala and in Andhra any prospect of presenting a Left challenge to the Congress also depends on such unity.

The split in the C P I has led to the formation of two clearly-defined sets of Party cadres with widely varying degrees of personal influence and worth. Two trends of Communist political thought in the country have crystallised, which will have very far-reaching consequences in the coming decade. But by and large the traditional following of the C P I, or what can be broadly called the Communist movement, has not split. It may go in the direction of a particular leader who may happen to belong to one of the CPs but it would far rather prefer to move in the direction of unity. In Andhra and Kerala this traditional Communist base is, on a conservative reckoning, about one-third of the electorate and far more in terms of the striking power of mass movements for certain concrete demands. This is a powerful lever for building democratic unity if singly applied.

While any advance, since it needs independent strength, depends on such unity, the prospect of moving out of the impasse depends on a broader system of alliances and adjustments. And it is precisely here that the maximum discord prevails—who are to be approached for alliance and for what?

Take Kerala. There is now a good chance of the consolidation of the alliance between the rebel Kerala Congress and the Muslim League. The S S P may well incline towards this alliance or, at the least, maintain extremely cordial relations with it. Kamaraj's plan for the Congress in the State would give it a different type of mass base—among the more oppressed Ezhava community—and open the possibility of a different type of orientation. Yet this would be a Congress fully integrated with all the ramified power structure in the country as a whole.

It can be facilely argued that the proper attitude for the two CPs would be to proclaim a plague on both the houses and go ahead on their own. In reality this will not be possible either in the sphere of electoral activity or on the question of specific mass demands. It would be possible to attempt to unite impartially with either, depending on location and issue, only for a very restricted period of time and on very few issues. At the same time, it would be wrong to ally with the rebel Congress-Muslim League alliance in the name of pulling down the Congress, since this alliance represents a concentration of reaction. It would also be wrong to ally with the official Congress in the name of a united front against reaction, since the corrupt and the guilty and the Right are also within it.

Take Andhra. In some of the districts of this State, especially in the delta region and in Rayalaseema, it is quite likely that the Swatantra will emerge as a formidable contender for seats against both the Congress as well as the two CPs, even if the latter united. It is difficult to estimate who would suffer or gain the most from triangular contests. And when it comes to mass movements among the peasants, the social base of the mass following of both the Congress and the Swatantra is essential to impart sweep and strength to them. Congress factions have not reached the stage of open quarrels and splits in this State on any significant scale, but there is every likelihood of their accentuation as the General Elections draw nearer. Once again the complex problem of choice would be complicated still further.

It would appear that the way out of the impasse is the projection of a minimum platform of action. As against customary Communist practice, it would be essential for this platform to be made up of a very few selected items chosen for their practicality, i e, the possibility of their implementation through determined mass action over a definite period of time. The stress would have to be placed on economic demands and the appeal made along class lines, especially in the rural areas. Despite the heavy pressure of caste, it remains true that economic issues and class alignments around them are meaningful factors in the Indian village and far more so, of course, in the towns and cities. The fact is that this approach has not been given a sufficient chance to prove itself, thanks to the short-term outlook of the Left parties since Independence. Where it has been tried consistently, as in the trade union field, it has paid good dividends. A determined offensive along these lines alone would induce a measure of polarisation among the various other parties and factions. Only when such polarisation proceeds to a certain point will the complexity of choice be reduced to the level of rational alternatives. And only then will the core of Left unity find it possible to build up a significant system of alliances.

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A Non-Capital View

INTROSPECTION is not Delhi's strongest point. With all those ruins of Delhi's dead all over the place, Delhi does contemplate history after its fashion. Bombay or Calcutta has not a hundredth of that muck called history; but New Delhi has too many conferences to address and too many cocktail parties to dress for and there is simply not the time for quiet thought. Calcutta, on the other hand, is all the time looking inward, with a combination of impotent indignation and intense self-pity which is almost pathetic. (Not tragic, as Nirad C Chaudhuri has resumed reminding us in a continuing series of lashing articles in an odd variety of unlike journals.) It can, therefore, be argued that New Delhi is in somewhat greater need of the as-others-see-us view from time to time than a withering city like Calcutta; and of recent weeks Calcutta has had several looks at Delhi and not liked the sight.

Perhaps it is a pity that most of the seeing is done through the dark glasses of Atulya Ghosh; but he is a man who matters in West Bengal today, for good or ill; and his view may have considerable relevance also in the national context. New Delhi had better be told right at the outset that what Calcutta now thinks of New Delhi is well summed up in two words: Not much. The recent attempts by Gulzarilal Nanda, S K Patil and Satya Narain Sinha to fraternise with big business were not well received, and even the severest critics of Atulya Ghosh were moved to praise him when he openly criticised the effort. To Prafulla Sen was attributed the sentiment that Lal Bahadur Shastri would be wise to remember that he was no Jawaharlal Nehru.

Needless Reminder

Calcutta, of course, did not need to be reminded that Atulya Ghosh was no Subhas Bose any more than Prafulla Sen was Dr B C Roy. But it is another key, another scale, all over the country; and in that changed context West Bengal's current mood of limited revolt certainly has enough ephemeral significance to make an impression on the capital. Stripped of polite verbiage, the West Bengal view seems to be that Delhi today is not much of a capital. Delhi has critics enough; Romesh Thapar has been writing so often about Delhi Drift that in the next edition of Materia Medica it may find itself listed like Bengal Rot, an identifiable disease. But when the same notion percolates through the various State capitals, some unpleasant political processes may already be in incubation.

To name these processes and spell them out is to invite that which one is most anxious to avert: the ancient dilemma of the commentator. There ought, however, to be some, never many, people in Delhi who can read, with aid from astrologers, not only what the stars foretell for individual careers, but also what the States tell for the career of the nation. Through Atulya Ghosh and Prafulla Sen West Bengal has said several things since the "Little A I C C" at Ranchi; there is less evidence that Delhi has heard them or digested their possible meaning. What is here referred to is not an event but a tendency.

The Two Borders

Not everyone in the country may be aware that, eighteen years after Partition and intermittent hostility of considerable military proportions, to say nothing of the ceaseless "backlash" of everything India and Pakistan have done, there is no demarcated boundary in many places. Nor is there, in India, a unified force to guard the border; nor even two forces, police or para-military, to safeguard the two borders, east and west. When the Army was ordered to move into the Rann of Kutch, obviously because existing agencies had proved inadequate, not a few Bengali breasts registered a rise of several centimetres at the thought that comparable trouble in Cooch Behar had been more than adequately taken care of by the State's own border police force. The contrast made an impression on a city and a State not easily impressed, without improving the "image" of Delhi.

Not long after came the report of a "rift" in the Central Cabinet over cease-fire proposals in the Rann of Kutch, with the British and the Americans as very audible prompters in the wings. Shastri and T T K, it was said, favoured a soft line; Chavan and Nanda a less soft. The truth may never be known. (Everyone knew when to put the subsequent denials). It has to be recorded still that the report did not enhance West Bengal's respect for the Centre, whose peaceableness seems weakness and whose strong words seem petulance; there is published comment on the two views. One writer reprimanded official spokesmen for taking talk of war blandly; another summoned his best Churchillian prose to exhort the civilian population to come to the aid of the armed forces which may be called upon to meet a challenge from Pakistan with which there might before long be "a major clash". The latter added, "This I know is war talk".

Red Herrings

It may not be true of Pakistan alone that it engineers crises abroad to divert popular attention from internal embarrassments or crises. Where the reputation of the Government of India has slumped the most is in the direction of leadership; this perhaps for the reason that the people know that Shastri is not Nehru but want another Nehru and feel that Shastri can neither fill the bill nor cut it. The countdown in Indian politics is thus painfully slow and seldom painless. A plentitude of aspirins, from Sadachar to Handloom Week, makes the scene bearable only up to a point.

Nine hundred and twelve railway miles away from Delhi, we in Calcutta are perhaps insufficiently appreciative of the political strains and pressures that go into every administrative decision now emanating from Delhi, although some of these pressures may well be West Bengal's. The time may yet be approaching when Delhi must regain its realisation that its primacy is administrative—not political; politics in India are worked out in the quasi-religious ashrams at Sabarmati, Wardha or Sodepur; a modern equivalent may be the India Exchange. New Delhi cannot altogether escape the influences of all these agencies of God and Mammon; but until administrative decisions from the capital are firm and clear again, the States will go their wayward ways and India will never look like one country. West Bengal's recent waywardness was only a straw in the wind, others may be making bricks without straw. Bricks hurt and mortar may follow.

— Flibbertigibbet

The New Village—IV

Factors Behind Technological Change

V Nath

This paper has been concerned primarily with describing technological change in agriculture. Certain other aspects of change, e g in levels of living, education, health and attitudes of people, have also been described briefly, mainly with a view to seeing the relation between them and changes in agriculture.

Perhaps the most significant conclusion is that change in agricultural techniques is part of a larger change process which affects many aspects of the life of the villager. Change in agriculture is but one aspect of the process of economic growth in Central Punjab.

Further, what has been described here is the beginning of a process of technological change. It should gather momentum in the future and produce larger and more important changes — intensive use of chemical fertilisers and pesticides, use of small tractors, increasing emphasis on specialised farming, change in attitudes towards the role of agriculture. These changes can be seen already among the more progressive farmers.

This descriptive paper throws up many questions relating to analysis of change, e g, the role of innovators, channels of communication within the village, reasons for the acceptance or rejection of specific practices, the contribution of Sikh religion, better nutrition or health to enterprise and vigour.

These and other questions are being investigated currently by a number of investigators working in different parts of India. It is hoped that similar studies will be made of villages in other regions so that we can have a better understanding of the process described in this paper.

The Man

THE Jat generally, and the Sikh Jat particularly, is known to be a good cultivator, combining hard work with intelligent use of resources. This fact has been repeatedly stressed by administrators, agricultural officers and others who have had occasion to work with Jat cultivators. In the canal colonies of West Punjab, Sikh Jats proved to be particularly adept at intelligent use of irrigation waters, and some of the highest standards of farm husbandry, yields per acre and agricultural incomes to be found anywhere in the country were reached on their farms. The refugee cultivators from the canal colonies are among the most progressive cultivators in this area, and their presence has made a major contribution to Jitpur's agricultural progress, as explained below. Already the standard of farm husbandry in this area was fairly good in pre-Independence years. Cultivation was intensive and crop yields were moderately high. The average yield of sugarcane in 1951-52, just before the opening of the C D block, was 40 to 45 kg (of *gur)* per acre, as compared with 55 kg per acre today. The standard of livestock husbandry was also high, as evidenced by the fairly high yields of milch animals.

Agricultural extension work was well organised in pre-Partition Punjab, its Department of Agriculture being among the best in the country. Several important improved practices such as use of C-591 wheat, and CO-312 sugarcane, growing of *berseem* as green fodder and use of improved implements like iron ploughs, iron persian wheels, chaff cutters and improved sugarcane presses, had become universally accepted in this area by the time of Independence. The people of Jitpur mentioned in particular the work of a Deputy Director of Agriculture who had in the 1930's, taught them the improved method of making *khandsari* sugar which they are following to this day.

But, rapid advance in techniques and agricultural productivity, with which we are concerned in this study, has occurred only after Independence, and the explanation for it must be sought in the factors operating in this period. A number of factors have been operating simultaneously, and we shall content ourselves with listing the most important among them.

The Influence of the Refugee Cultivators

After the partition of the Punjab, large numbers of cultivators from the canal colonies came to East Punjab to their ancestral villages from which they had emigrated 30 or 40 years earlier, or to other villages in which they had been allotted lands. The canal colonists, as stated earlier, had attained high standards of farm husbandry and agricultural incomes in West Punjab and were used to improved methods of farming advocated by the Department of Agriculture. When they came to East Punjab and were given holdings which were much smaller than those they had left behind, their first endeavour was to re-attain the standard of agricultural income which they had enjoyed earlier. They started building up their new holdings through methods which had given good results in the canal colonies — use of improved seed, use of iron ploughs and other implements, thorough preparation of land, and last, but most important, intensive irrigation. From these practices they soon went on to new practices which were necessary for obtaining higher per acre yields from their smaller holdings. Thus, they were in the fore-front of the movement for irrigation by pumping sets, because they realised that irrigation was the key to intensive farming and that the only way to increase water supplies in this area was through the use of mechanical power for lifting water from wells.

Besides generally stimulating the movement towards more progressive, intensive agriculture the refugee cultivators were responsible for popularising several specific improvements. The rapid spread of American cotton in East Punjab in the early 1950s was due mainly to their influence. They started growing American cotton which they used to grow in the canal colonies, and the local cultivators followed their example. The large price difference between American and *desi* cotton in the early 1950s aided this movement and growing of American cotton became universal in several districts of the Punjab within a few years.* The rapid increase in popula-

* The Programme Evaluation Organisation of the Planning Commission made a study of the spread of American cotton in certain community development blocks of PEPSU in 1954. It was found in this study that 70 to 90 per cent of the cultivators were growing American cotton and that the example of the refugee cultivators who had brought American cotton with them was a major factor in its spread — "Cotton Extension in PEPSU," 1955, P E O, Planning Commission.

rity of the fodder crop, *berseem*, was also because they preferred *berseem* to other fodder crops. Some of the prosperous refugee cultivators, who had owned citrus orchards in the canal colonies, started planting orchards. The Punjab government encouraged the practice by establishing planned garden colonies, in which besides specialised advice, liberal *taccavi* loans and other facilities were also given to the planters.

Of course, the refugee cultivators were not successful in everything they introduced. Citrus orchards were not successful, because the climate and soils of the Central Punjab districts are different from those of the West Punjab canal colonies. We saw an instance of failure of citrus plantation in the garden colony, located in this block, at a distance of about ten miles from Jitpur. The colonists had all planted citrus orchards in the early 1950s; but they had to give up later when they found that the trees did not survive after two or three years, partly because of the presence of a "hard pan" in the sub-soil. The American cotton was also not without its defects. It was more susceptible to diseases like jessids and boll-worm. As a result, after the first wave of spread of American cotton, the *desi* variety staged a come-back. Many agricultural officers now feel that the area is more suitable for *desi* than American cotton.

But the idea of intensive agriculture, use of improved methods and following the advice of extension workers received a definite stimulus from the example of the refugee cultivators. We have described earlier about the leadership provided by a refugee cultivator in the village with the co-operative milk producers' society. The garden colony people, though unsuccessful at planting orchards, have nevertheless attained a high standard of cultivation. They are acknowledged to be the best cultivators in the block and are frequently held up by the extension workers as models for other cultivators. In all our discussions, with the extension staff at the block and the district level, and even with specialists at the Ludhiana Agricultural University, the role of refugee cultivators in providing a stimulus to the movement towards improved agriculture was emphasised.

Ex-Servicemen and Educated Cultivators

Two other groups whose presence has had a significant influence on technological and economic progress in the area are ex-servicemen and educated cultivators. The major contribution of the ex-servicemen has been in spreading the idea of better living — better and cleaner homes, cleaner villages, use of modern medicine, modern-type consumer goods, etc. The block staff and the village leaders said that ex-servicemen were particularly enthusiastic about building *pucca* or semi-*pucca* houses and installing electricity and handpumps in houses. They also took active interest in village sanitation programmes. The spread of the tea-drinking habit after World War II was also attributed to them. Several ex-servicemen were also active in popular institutions like the co-operatives and the panchayats and rose to positions of leadership in them. The extension staff thought that they were good at working the co-operatives because they understood the 'co-operative principle' and were more honest; but they were not particularly successful in the panchayats. Several ex-servicemen, when elected to panchayats, proved unpopular and lost in the subsequent elections. The explanation given for this was that 'they were too strict in the observance of principles'.

But the role of ex-servicemen in the improvement of agriculture was somewhat limited. They undoubtedly influenced technological change, because they were familiar with modern technology and were anxious to adopt labour saving devices. They were among the first to install electric motors on wells, and to adopt innovations like power or bullock-driven chaff-cutters, sugarcane crushers, in this and the neighbouring villages. But their influence in adoption of other improvements has not been much, because the average cultivator feels that they are not willing to do hard labour and are not particularly good cultivators. This impression is based on the fact that many ex-servicemen were not really interested in agriculture. They drifted to non-agricultural jobs after a period of stay on the farms, and those who did stay back were not happy at doing hard manual labour.

As for educated people, few persons with education above the middle standard stay in agriculture. They are after non-agricultural employment, and leave cultivation as soon as they get suitable jobs. But to the extent that they do stay in agriculture, they are an influence for progress. Some of them, like the garden colonists and the chairman of the milk producers' society, are good cultivators. Moreover, like the ex-servicemen, they are anxious to adopt new techniques, especially new implements and other labour-saving devices; and for the same reasons. They have also shown a noteworthy aptitude for taking up new, remunerative types of farm production. The new commercial poultry production is entirely in the hands of educated men. They do not have the prejudice against keeping poultry which the average cultivator still has. They also have the added advantage of understanding and following the rigorous routine which commercial poultry production requires.

The Environment of Progress

But the most significant influence of the post-Independence years has been the environment of progress. A number of factors, ranging from steady and high prices of agricultural produce and interest shown by government in improvement of agriculture, to the growing inter-action between the town and the village, have gone into the making of this environment. Since prices of agricultural produce have remained high, and the government has been making propaganda and giving various incentives and facilities for increasing production, the cultivators feel that increasing agricultural production is profitable and is likely to remain so for a long time. The various steps taken by the government to increase production have also had their direct effects. It has been explained that in this village, consolidation, digging of new wells and electrification laid the basis of a more progressive agriculture. The work of the extension organisation has also been a constant influence for progress. Currently, the propaganda for use of chemical fertilisers, backed by readily available *taccavi* loans, is a major factor in rapid increase in the use of chemical fertilisers.

Increasingly, these influences have operated on a peasantry which was rising above the subsistence level, was becoming less subject to tradition, and was, therefore, more responsive and better able to benefit from them. The size of holdings in the area is such

that with the improved methods of resource use — possible after consolidation and electrification of wells — the average cultivator could raise himself substantially above the subsistence level. As this happened, he acquired not only a desire for a higher standard of living, but also a confidence in his ability to attain it. Eradication of malaria removed a major impediment to economic efficiency — a cause of chronic lassitude and lack of ambition. Spread of education meant penetration of new ideas, decline in influence of tradition and growth of new aspirations, especially among the young who form a steadily more influential section of the population. Even though large numbers of educated young men have gone out after receiving education, the ones who have stayed behind have been on the look-out for improvements which lighten the burden of work or increase incomes. And as they succeed in their efforts, their influence increases.

Town and Village Brought Nearer

Finally, rapid growth of transport and communications has effectively linked the villages with the towns, and made the village people an integral part of contemporary culture and aspirations. Reference was made in the beginning to the ease and rapidity with which the people of Jitpur can travel to the neighbouring town and other places. The material advantages of this which have a direct influence on agricultural improvement are, facility and low expense of taking produce to the market, buying implements, equipment and consumer goods at lower prices and getting repairs and replacement of parts done quickly and cheaply. But the non-material advantages are of equal, if not greater, importance. The average resident of Jitpur today is a full participant in the news, ideas and social currents of contemporary society. Any news or new idea can reach him just as quickly as it reaches a person in the neighbouring town. To an extent he is better informed than the latter, because the channels of informal communication and discussion are much better preserved in the village. Moreover, with his present income and the network of social services available to him, he has a standard of living which is comparable, if not superior in many respects, to that of the resident of the town. All this means that the villager and the town-dweller are part of the same culture and share its values and aspirations. This constant inter-action between town and village and the establishment of a cultural continuum extending from the large city to the village is a most important influence for economic progress. The distinction between the town and the village—in food, dress, housing conditions, modes of economic activity, patterns of social relation and values — which is still pronounced in many parts of India has almost disappeared in the Punjab.

Simultaneous development of small-scale industry in the towns and technological change in agriculture in the villages is only another aspect of this cultural continuity. The two developments are related in many ways, starting from a common dependence on cheap electricity and mechanical aptitude and skills of the Punjab artisans. Within the village, the relationship between them is expressed in two ways: facility in adoption of new agricultural implements by cultivators because of existence of facilities for repair and manufacture of these in the neighbouring towns; and opportunities for young men of the village for employment in small-scale industry in the towns. An investigation of the relations between the two developments is a fascinating subject for further research.

Emotional Identification

One result of establishment of this cultural continuum is seen in the mental make-up of the extension workers. The extension agency has here, as in other States, its problems of administrative co-ordination, supplies, credit, etc. But what impresses one here is the *lack of distance* — social, economic and psychological — between the agricultural extension workers and the cultivators. The Village Level Workers and even the block and district level Extension Officers speak the language of the cultivators. They have an understanding of their problems and an emotional identification with their interests, which is not found among extension workers in many parts of the country. One reason for this is that most of them come from cultivators' families. But an even more important reason is the fact that levels of living, awareness and income of the average cultivator are comparable to those of the average extension worker. As a result, the extension worker considers the cultivators to be his social and economic equals: he does not think that by joining government service he has become superior to them. Moreover, most extension workers realise that they will have to settle down and work on farms after retiring from service. And since cultivation is profitable, they look forward to it. It may be of interest to mention that many highly paid government officers, especially of the Department of Agriculture, have settled down after retirement, on 15-20 acre farms, and are quite happy with the income and living conditions which these farms provide. This aspiration to return to agriculture, even more than the farm background, is responsible for ready and sympathetic appreciation of the problems of the cultivators. When both the cultivator and the extension worker feel that they have not merely a common past but also a common future, mental reservations disappear and a community of interest is established, which is rarely established otherwise.

The Role of Emigration

It has been explained earlier that the area has a tradition of emigration. The effect of the recent economic and social changes, has been to accelerate the rate at which aspirations for non-agricultural employment and emigration grow. It is true that two reasons for emigration of educated young men from the village in the past — low productivity in agriculture and unattractiveness of village life — no longer operate. A 10-acre holding now offers a similar or higher income than clerical or skilled jobs in town. Secondly, life in the village after coming of electricity, hand-pumps, roads and bus transport is not unattractive. But these changes cannot check growth of off-farm employment and emigration, because continued advances in agriculture and levels of living are themselves dependent upon a continuing exodus of workers from the village.

Let us analyse this separately for each of the principal castes. Among the Jat cultivating owners, continued agricultural progress and prosperity are dependent upon the size of holding not falling much below the present level. This means that a certain proportion of young men must continuously go out. The Mahajans already have a limited economic role in the village. They depend mainly upon income originating from outside and their position cannot change significantly unless some manufacturing industry or

urban-oriented commercial activity, in which a large number can get employment, is established in the village. As for the Mistries, technological change has undoubtedly opened opportunities for work within and near the village. But as explained above, even they have found employment outside the village more attractive. Increasing numbers of Mistri young men are either going out of the village or are working outside while living in the village. Emigration and work outside the village have been the least among the Harijans and 'other artisans', who are the poorest and most backward people in the village.

The much repeated argument that emigration of its educated and most intelligent people robs the village of its best talent and slows down economic and social progress has no relevance in this situation. As stated earlier the major role of emigration has been to provide opportunities for gainful employment to people who had only a limited role in the economic system of the village and to bring into the village money, new ideas, new techniques and higher aspirations. This contribution of emigration has been far more significant than any loss caused to the village by migration of its educated young men.

Gains of Progress and the Weaker Sections

It has been explained above that the gains of recent economic progress have not been shared eqally by all sections of the village community and that the Harijans and other artisans in particular have not benefited adequately from such progress. These groups have made some economic gains undoubtedly, but they are much smaller than those made by the Jat cultivators and the Mistris. The different levels of living of the different castes and groups in the village is much larger today than it was a generation ago, simply because conveniences like electricity and hand-pumps in the homes or durable consumer goods like bicycles and sewing machines which the Jats and the Mistris have in considerable numbers and which the Harijans do not have, were not available earlier. Moreover, from the (limited) data on earnings of Harijans given earlier, it would appear that increase in agricultural productivity has not been accompanied by a proportionate increase in earnings of agricultural labourers. The result is that the difference between owners of land and their labourers has increased.

But the Harijans cannot obtain a significantly higher income within the economic framework of the village. (Revitalisation of their traditional crafts offers no solution to their economic problem, because the economic changes of recent years have accelerated the decline of these crafts.) They can achieve it only through greater participation in the economy of the area, the State and the country. In other words they must do what the Mahajans and the Mistris (and to a lesser extent the Jats) have done before them. They must take up white collar and skilled labour jobs in increasing numbers. The process has begun already — recent increase in the number of Harijan young men going into the armed forces is an indicator — and will gather momentum as education spreads among the Harijans. Already, the more advanced and prosperous families among Harijans are those in which skilled work or white collar service, or other non-agricultural pursuits, is an important source of contribution. As the number of such families increases, the economic and social levels of the group will rise.

Conclusion

This paper has been concerned primarily with *describing* technological change in agriculture. Certain other aspects of change, e g in levels of living, education, health and attitudes of people, have also been described briefly, primarily with a view to seeing the relation between them and change in agriculture. Perhaps the most significant conclusion emerging from the paper is that change in agricultural techniques is part of a larger change process, which affects many aspects of the life of the villager, and also the entire region. Change in agriculture is but one aspect of the process of economic growth in Central Punjab. Further, it is necessary to mention that what we have described here is the *beginning* of a process of technological change. It should gather momentum in future and produce larger and more important changes — intensive use of chemical fertilisers and pesticides, use of small tractors, increasing emphasis on specialised farming (poultry keeping, dairying, horticulture), and change in attitudes towards the role of agriculture. These changes can be seen already among the more progressive farmers like the dairy farmer and the garden colonists.

This descriptive paper throws up many questions relating to the analysis of change, e g the role of innovators, channels of communication within the village, reasons for acceptance or rejection of specific practices, and the contribution of Sikh religion, better nutrition or health to the enterprise and vigour. These and other questions are being investigated currently by a number of investigators working in different parts of India. We hope that before long similar studies will be made in villages of these areas so that we can have a better understanding of the process described in this paper.

(Concluded)

Fertiliser Corporation

WITH the completion of four fertilizer projects, which are at present under implementation, the Fertilizer Corporation of India is likely to develop in another three years an overall production capacity of 637,000 tonnes of nitrogen and 153,500 tonnes of phosphate. The Corporation has now under it two operating units, namely, the Sindri fertilizer factory in Bihar and the Nangal fertilizer factory in the Punjab. The four fertilizer projects under implementation are at Trombay in Maharashtra, Namrup in Assam, Gorakhpur in Uttar Pradesh and Durgapur in West Bengal.

The production of the Sindri fertilizer factory is to be stepped up by installation of additional lean gas generators for which orders have been placed and by procurement of better grade gypsum. The total production of ammonium sulphate of this factory during April-December, 1964 was 223,960 tonnes. The expansion plants produced during April-December, 1964, 33,593 tonnes of double salt and 12,682 tonnes of urea.

During the period April to December, 1964, the Nangal factory produced 282,319 tonnes of calcium ammonium nitrate against 280,435 tonnes during the corresponding period in the previous year. The production of heavy water in the factory was 8,421 kg during the period. For the fourth year in succession, this factory is expected to exceed its production target.

India's External Debt

The Repayment Problem Examined

G C da Costa

An attempt is made here to examine the composition of India's external debt with regard to amortisation period and interest rate with a view to determining the debt-service burden.

The burden of servicing external debt has a short-term as well as a long-term aspect. In the short-term the burden may be measured by the proportion of export earnings absorbed by service payments.In the long-run of a decade or longer it has to be considered in the context of growth of income, savings and external receipts.

India's debt-service burden is here considered from both these viewpoints.

THE last decade has witnessed a substantial flow of foreign aid to the developing countries. The extent to which India has benefited from this flow can be seen from the data in Table 1. During the First Plan we received authorisations for a total of Rs 381.80 crores of foreign aid. For the Second Plan, the total size of the foreign aid authorisation was Rs 2,539.95 crores. It will be seen that while the ratio of loans to total borrowings to be repaid in foreign currencies registered a fair decline, in the case of loans to be repaid in rupees the ratio rose from 3.83 to 9.07 per cent; in respect of grants there was a steep fall in the ratio from the rather impressive level of 36.13 per cent to a meagre 4.77 per cent. However, if we add the grant of Rs 375.33 crores included in P L 480 aid, the ratio rises to 19.54 per cent, mitigating to some extent the degree of the fall. In the aid authorised for the two and a half years of the Third Plan, loans repayable in foreign currencies have registered a very steep increase to 82.43 per cent; loans repayable in rupees a further decline to 2.43 per cent; and grants a further fall.

Wide Gap in Balance of Payments

The Planning Commission had estimated a gap in the balance of payments during the Third Plan period of Rs 2,600 crores. Inclusive of P L 480 imports the net requirement of foreign assistance works out to Rs 3,200 crores. The authorisations to date already exceed that figure.[1] It would thus seem that our foreign assistance requirements have been met. However, as the gap is likely to be much larger due, on the one hand, to underestimation of the capital costs of our projects, and, on the other, to the increase in maintenance imports our requirements of foreign assistance will be much higher.

We have seen that a part of India's external debt is repayable in rupees. There certainly is an advantage in this form of repayment especially in the short period when exchange earnings are inelastic. Unfortunately, the proportion of loans that are repayable in rupees has decreased between the Second and the Third Plan periods. However, it is essential to remember that even in respect of loans that are repayable in rupees the fundamental nature of the repayment problem, viz the transfer of resources, remains. The main merit of this form of repayment is that no scarce foreign exchange reserves need be surrendered.

Average Ratio

External debt servicing has both a short-term as well as a long-term aspect. In the short-term we measure the burden by the percentage share of external earnings absorbed by service payments.[2] In the long run of a decade or more, however, we would have to consider "the rate of growth of income, savings and external receipts remaining available after service payments has proceeded *pari passu* with a strengthening of the long-run economic position of debtor countries".[3] We shall consider the debt-service burden from both these aspects.

The Planning Commission had estimated foreign exchange needs over the Third Plan period on account of interest on and repayment of loans, which had been contracted during the two earlier plans, to be of the order of Rs 500 crores, giving an annual average of Rs 100 crores. In fact, the figure works out higher at Rs 584.5 crores. Capital repayments account for Rs 338.2 crores and interest payments for the balance of Rs 246.3 crores. Assuming that the export target of Rs 3,800 crores for the Third Plan is reached, the annual average ratio of service charges to export earnings works out to about 15.38 per cent. Details of the ratios of service charges to export earnings and the magnitude and composition of annual payments for the Third Plan period are given in Table 2.

The ratio is affected by two variables: one, the size of export earnings; and two, the size of the foreign loans and their composition. It is the former that is causing us a great deal of anxiety. Export earnings must rise not only to finance service payments and make possible the purchase of essen-

Table 1: Foreign Aid Authorisation

(*Rs crores*)

	First Plan		Second Plan		Third Plan (upto 30-9-1964)	
	Total	Percentage	Total	Percentage	Total	Percentage
(a) Loans and credits to be repaid in foreign currency	212.29	*55.61*	1057.69	*41.64*	1684.83	*82.43*
(b) Loans and credits to be repaid in rupees	14.63	*3.83*	230.42	*9.07*	49.59	*2.43*
(c) Grants (excluding those under U S Public Laws)	137.96	*36.13*	121.11	*4.77*	49.56	*2.42*
(d) U S Assistance under PL 480 and PL 665	16.92	*4.43*	1130.73	*44.52*	259.92	*12.72*
Total	381.80	*100.00*	2539.95	*100.00*	2043.90	*100.00*

Source: "Economic Survey," 1964-65, Government of India.

tial import requirements, but also to enable us to replenish our depleted foreign exchange reserves. The share of our exports in world markets has steadily declined, the figures for 1948, 1956 and 1962 being 2.5 per cent, 1.4 per cent and 1.1 per cent respectively. Again, the ratio of exports to the national income has declined from 7.3 per cent in 1951-52 to 4.7 per cent in 1963-64. The ratio of export earnings to imports fell from 88 per cent in 1953-55 to 64.4 in 1962-63. This decline has taken place in the face of stringent control over imports. However, in view of the high import content of the Plan projects imports in the future will certainly rise and unless exports are sufficiently buoyant the trade gap will widen. It is encouraging, however, to note that the export sector is displaying increasing dynamism at present.

It will be of interest to recollect that during the inter-war period despite much lower export earnings we were able to maintain a fairly steady outward payment of more than Rs 50 crores per annum exclusive of repayments of capital and the 'home' charges. The magnitude of that burden can well be imagined when we recall the level of prices that prevailed during that period. There were, however, two redeeming features: (1) service charges absorbed only about 15 per cent of the export earnings of the period; and (2) we enjoyed a four-sized trade surplus during that period. Between the inter-war years while the aggregate service charges were about Rs 905 crores, the trade balance was of the order of Rs 1489.05 crores—i.e., service charges accounted for about 60.78 per cent of the trade balance.[4] It is this trade surplus that enabled us to service our external debt comfortably despite the large outflows by way of service payments. What has created our present problem is not the level of the ratio of service charges to export earnings, which cannot be considered as unduly high, but of the large deficits in our trade balance. It is plausible to argue that had our exports performed more satisfactorily the ratio of service charges to export earnings would have appeared more favourable. As things are at the moment, we have to depend almost entirely on new external assistance to service our foreign obligations. We may, however, derive some consolation from the fact that other developed countries, had similar experiences during their period of development. For instance, between 1874 and 1897 the magnitude of foreign borrowing by the United States was so large that the current trade surpluses were inadequate to service the debt and she had to rely on the new loans to service the old ones. Canada too found herself in a similar position from 1900 to 1913 and again from 1920 to 1929—the two phases of her rapid industrial growth.[5] In both these cases, the continuity of foreign assistance enabled the two countries to maintain a steady rate of industrial growth.

Table 2: External Debt Service and Current Foreign Exchange Earnings, 1961-62 to 1965-66.

(*Rs crores*)

	(1)	(2)	(3)	(4)	(5)
	Export Earnings	Interest On External Debt	Amortization of External Debt	Total External Debt Service (2+3)	(4) as per centage of (1)
1961-62	668.3	35.0	58.8	93.8	*14.04*
1962-63	682.2	40.1	50.3	90.4	*13.25*
1963-64	801.7	45.1	50.4	95.5	*11.91*
1964-65	800.00*	56.7*	83.3*	140.0*	*17.50*
1965-66	850.00*	69.4*	95.4*	164.8*	19.38

*Estimates

Source: 'Economic Survey, 1964-65', Government of India

Table 3A: Distribution of Loans by Interest Rate

(*Loans repayable in both rupees and foreign currencies, authorised upto December 31, 1963*)

(*Rs crores*)

Interest Rates	Weighted Average Interest Rate (per cent)	Amount	Per cent of Total
I Low interest		1066.02	*39.60*
Below 1 per cent	0.75	(539.00)	*(20.02)*
From 1 per cent to 2½ per cent	2.50	(527.02)	*(19.58)*
II Medium interest			
From 3 to 5 per cent	3.59	285.31	*(10.60)*
III High interest		1213.52	*45.08*
From 5 1/8 to 6 per cent	5.69	(918.02)	*(34.10)*
Above 6 per cent	6.39	(295.50)	*(10.98)*
IV Unspecified	—	127.21	*4.72*
Total		2692.06	*100.00*

'high' interest categories while loans repayable only in rupees are concentrated in the 'medium' and 'high' interest category. Had we included the PL 480 loans which are repayable in rupees and belong to the 'medium' interest category the position would have been somewhat different. In Table 4A we have the composition of loans repayable in both rupees and foreign currencies, on the basis of amortization period while Tables 4B and 4C include only those loans that are repayable in foreign currencies and rupees respectively. In all cases we have a fair concentration of medium and long-term loans.

Liberalisation of Terms

We would certainly benefit both from a lowering of the interest rate structure and from an extension of the maturity period. It is indeed encouraging to note that there is to-day a definite trend towards the liberalization of aid on both these counts. The necessity for such liberalisation is reinforced by the consideration that grants now form a relatively smaller proportion of the international assistance we are receiving. Several instances of the improved terms on which aid is being given may be cited: loans from A I D are repayable over a period of 30 years with a 10 year grace period. No interest is charged except a credit fee of ¾ of 1 per cent on the outstanding amount. Loans from the I D A are repayable over a period of 40 years with a ten-year grace period. Again, there is no interest levied except a service charge of ¾ of 1 per cent per annum to meet the administrative expenses. Assistance from the Soviet Union although for a twelve year period, carries a relatively low rate of interest of 2½ per cent. Loans on conventional terms come from the Western European countries. But even here we find evidence of the desire of these countries to liberalise both the cost as well as the period of repayment of loans to India. Even financially conservative West Germany has decided to toe the line of liberalisation: whereas formerly her loans carried an interest rate of 6 per cent, the bulk of the loan assistance authorised in 1962-63 carries a rate of interest of 3 per cent with the repayment of principal spread over 20 years. The U K has waived interest during the first seven years in her loans from 1963-64. Despite the fact that grants continue to dominate Canadian assistance to us, her loans in recent years are on softer terms.

In the long run a country's ability to service its external debt depends on the state of the economy. Both savings and national income should show a satisfactory rising trend, for the service charges have to come out of the savings of the community and the volume of savings depends on the level of national income. Savings are a function of the price level. Where inflationary pressures exist they exert a downward pressure on aggregate savings and reduce a country's ability to service foreign debt. Finally, the conversion of domestic savings into foreign exchange implies that exports should grow fast enough to provide the external earnings necessary for meeting payments obligations. All these factors are inter-related and represent different facets of the same problem. As D Avramovic points out: "Growth in income and savings and growth in transfer capacity are interdependent in the long-run and represent only different aspects of the process of economic growth although the degree of interdependence will not be the same in all cases".[7]

Pattern of Repayment

Increases in the per capita income of a country is one of the primary requisites for the successful servicing of its external debt. Where the per capita income fails to respond sufficiently, the conflicting objectives of savings and consumption will hinder the process of transfer. While this is true of any country it is more so of an underdeveloped country because of the extremely low per capita income. The rate of growth of our national income in the last decade was around 3.3 per cent and the per capita income increased by about 1.3 per cent per annum. These figures are even lower for the Third Plan period. This is very disappointing even by standards of under-

Table 3B: Distribution of Loans by Interest Rate

(*Loans repayable in foreign currencies, authorised upto December 31, 1963*)

(*Rs crores*)

Interest Rates	Weighted Average Interest Rate (per cent)	Amount	Per cent of Total
I Low interest		1066.02	*44.50*
Below 1 per cent	0 75	(539.00)	*(22.50)*
From 1 per cent to 2½ per cent	2.50	(527.02)	*(22.00)*
II Medium interest			
From 3 to 5 per cent	3.55	131.43	*5.49*
III High interest		1121.93	*46.83*
From 5 1/8 to 6 per cent	5.69	(826.43)	*(34.50)*
Above 6 per cent	6.39	(295.50)	*(12.33)*
IV Unspecified	—	76.24	*3.18*
Total		2395.62	*100.00*

Table 3C: Distribution of External Loans by Interest Rate

(*Loans repayable in rupees, authorised upto December 31, 1963*)

(*Rs crores*)

Interest Rates	Weighted Average Interest Rate (*per cent*)	Amount	Per cent of Total
I Low interest			
Below 1 per cent	—	Nil	Nil
From 1 per cent to 2½ per cent	—	Nil	Nil
II Medium interest		153.88	*51.91*
At 3½ per cent	3.50	(141.04)	*(47.58)*
At 5 per cent	5.00	(12.84)	*(4.33)*
III High interest			
From 5 1/8 to 5 3/4 per cent	5.63	91.95	*30.90*
IV Unspecified	—	50.97	*17.19*
Total		296.44	*100.00*

Table 4A: Distribution of Loans by Amortisation Periods

(Loans repayable in both rupees and foreign currencies, authorised upto December 31, 1963)

(Rs crores)

Amortization Period	Weighted Average Amortization Period (years)	Amount	Per cent of Total
I Short-Term			
Upto 5 years	3.15	127.18	*4.72*
II Medium Term		875.95	*32.53*
From 5.1 to 7 years	5.26	(44.25)	*(1.64)*
From 7.1 to 10 years	9.11	(277.70)	*(10.31)*
From 10.1 to 14.5 years	12.15	(554.00)	*(20.58)*
III Long-Term		1542.07	*57.29*
From 15 to 20 years	18.04	(760.55)	*(28.26)*
From 20.1 to 30.5 years	28.24	(548.37)	*(20.37)*
Above 30.5 years	46.13	(233.15)	*(8.66)*
IV Unspecified	—	146.86	*5.46*
Total		2692.06	*100.00*

Table 4B: Distribution of Loans by Amortisation Period

(Loans repayable in foreign currencies authorised upto December 31, 1963)

(Rs crores)

Amortization Period	Weighted Average Amortization Period (years)	Amount	Per cent of Total
I Short-Term			
Upto 5 years	3.15	120.94	*5.05*
II Medium Term		811.38	*33.87*
From 5.1 to 7 years	5.26	(44.25)	*(1.85)*
From 7.1 to 10 years	9.05	(252.90)	*(10.55)*
From 10.1 to 14.5 years	11.98	(514.23)	*(21.47)*
III Long-Term		1367.41	57.08
From 15 to 20 years	17.86	(585.89)	*(24.46)*
From 20.1 to 30.5 years	28.40	(548.37)	*(22.89)*
Above 30.5 years	46.13	(233.15)	*(9.73)*
IV Unspecified	—	95.89	*4.00*
Total		2395.62	*100.00*

Table 4C: Distribution of Loans by Amortisation Period

(Loans repayable in rupees, authorised upto December 31, 1963)

(Rs crores)

Amortization Period	Weighted Average Amortization Period (years)	Amount	Per cent of Total
Short-Term			
Upto 5 years	4.50	6.24	*2.10*
II Medium-Term		64.57	*21.79*
From 5.1 to 7 years	—	Nil	Nil
From 7.1 to 10 years	9.66	(24.80)	*(8.37)*
From 10.1 to 14.5 years	14.30	(39.77)	*(13.42)*
III Long-Term		174.66	*58.92*
From 15 to 20 years	16.97	(174.66)	*(58.92)*
From 20.1 to 30.5 years	—	Nil	Nil
Above 30.5 years	—	Nil	Nil
IV Unspecified	—	50.97	17.19
Total		296.44	*100.00*

developed countries. Nor is the situation better in respect of prices (wholesale) which registered an increase of 9.1 per cent in 1963-64 and 14 per cent for the first 10 months of 1964-65. It is to be hoped that these are short-term difficulties and that the success in resource mobilisation and in export performance will continue and be extended to the other departments.

Before we conclude, it would be worthwhile to have a brief idea of the repayment pattern during the Fourth and Fifth Plans of loans received upto the end of 1963. The details are found in Table 5. The repayment problem will not be as acute in the years ahead. For loans outstanding on Dec 31, '63 the repayments decrease not only absolutely but also relatively to our export earnings. This implies that we are in a position to absorb more external assistance with long maturities and low interest rates.

Conclusion

From our study several conclusions emerge. First, that both from the short-term as well as the long-term point of view, the trends in the key variables of our economy have not particularly enhanced our capacity to meet our service commitments. Increase in the capacity to repay is possible only when national income, savings and export earnings all exhibit a healthy buoyancy. To ensure this it is essential that economic development be promoted under conditions of price stability and that investment should be export-oriented and to the extent

Table 5: External Debt Service during 1966-67 to 1975-76 for Loans Authorised upto December 31, 1963

(Rs crores)

	(1) Total Debt Service	(2) Projected Current Exchange Earnings*	(3) (1) as percentage of (2)
1966-67	168.9	892.5	*18.9*
1967-68	169.1	937.1	*18.0*
1968-69	171.0	983.9	*17.4*
1969-70	162.9	1033.2	*15.8*
1970-71	154.7	1084.8	*14.3*
1971-72	145.0	1149.9	*12.6*
1972-73	135.2	1218.9	*11.1*
1973-74	130.6	1292.0	*10.1*
1974-75	118.1	1369.5	*8.6*
1975-76	107.4	1451.7	*7.4*

* Projected from the estimate of Rs 850 crores in 1965-66 at an increase of 5 per cent per year during the Fourth Plan period and 6 per cent per year during the Fifth Plan period.

possible import competing. This is not to say that our ratios of service charges to export earnings are unduly high. Many countries have had large ratios during their process of growth. For example, for the two periods of rapid economic expansion (1900-13 and 1920-29) Canada had average ratios of 19.1 and 17 per cent respectively. The United States has had one of the lowest ratios, the maximum being 14.2 per cent in 1869.[8] The experience of the developed countries shows that in each of them the ratio was fairly large in the initial stages of development and that it eventually declined to insignificant levels. Moreover, as against our experience, the case of certain Latin American countries may be mentioned. Colombia had a ratio of 29 and 26 per cent in 1958 and 1959 respectively. Chile had a ratio of 12 per cent in 1950-56, 17 per cent in 1957, 22 per cent in 1958, 36 per cent in 1959, 43 per cent in 1961 and 50 per cent in 1963.[9] Such ratios are extremely high for a developing country to bear for any extended period of time.

Secondly, it is necessary that the external assistance coming into the country should maintain its continuity. This is essential in view of our heavy reliance on external finance to meet our service commitments. The prevailing mood in the developed countries and the establishment of the Aid-India Consortium seem to ensure this at least for the foreseable future. At the same time excessive reliance on external assistance to finance economic development should be eschewed; foreign aid must remain what it essentially is—a complement and not a substitute to domestic efforts.

Finally, while recognising the importance of external aid steps should be taken to divert part of the stream of private international capital to India. True, between 1948 and 1963 private international investment in India increased from Rs 255.8 crores to Rs 668.77 crores—an increase of 160 per cent. And yet, in aggregate terms, the record is quite unsatisfactory. Much more needs to be done in this field.

Notes

1 Reserve Bank of India, "Report on Currency and Finance", 1963-64, p 21.

2 Dragoslav Averamovic and Ravi Gulhati: "Debt Servicing Problems of Low Income Countries, 1956-58".

3 *Ibid*, p 47.

4 Arun K Banerji "India's Balance of Payments", Asia Publishing House, 1963, p 89.

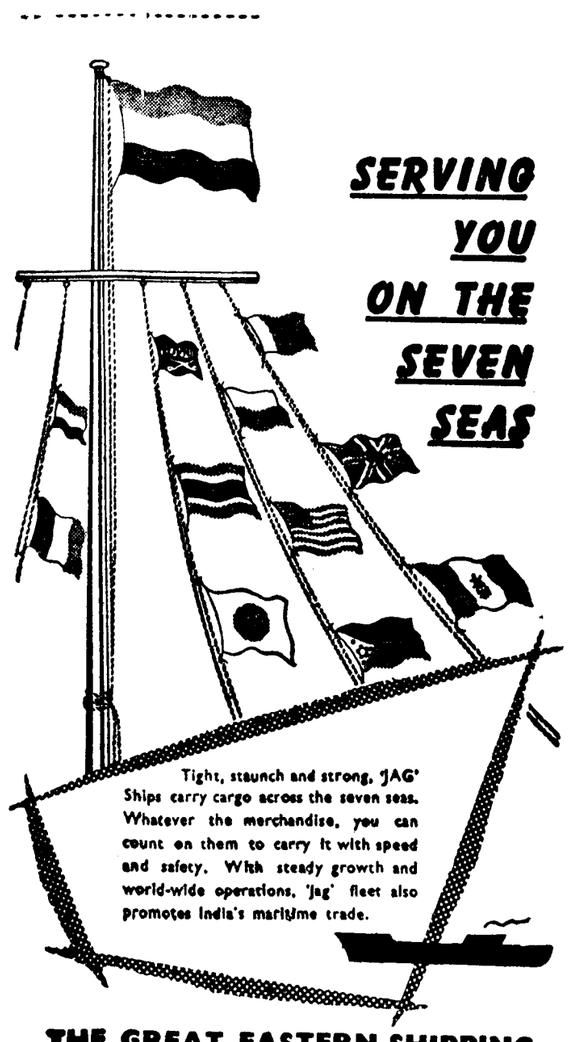
5 United Nations, "Industrialization and Foreign Trade," p 81.

6 Data used from "External Assistance", 1963, Ministry of Finance, Government of India. We have excluded from our calculation loans under the U S Public Laws and I B R D loans to the Private Sector.

7 Dragoslav Avramovic: "Debt Servicing Capacity and Post-War Growth of International Indebtedness", 1958, p 58.

8 David Finch, "Investment Service of Underdeveloped countries", I M F Staff Papers, 1951-52, pp 74 and 77.

9 Colombia University School of Law, "Public International Development Financing", Report No 6 on Colombia and No 8 on Chile.



Employees' State Insurance Scheme

A Critique of the Utilisation of Reserves

V Jagannadham

K S R N Sarma

This article reviews some aspects of the utilisation of reserves under the ESI Scheme in the context of the implicit objectives of a social security scheme.

The scheme is at present administered with extreme caution in financing and conservatism in implementation. It lacks the imagination necessary to attract the workers.

A shift in emphasis from calculated conservatism to liberal humanism need not necessarily spell disaster to the financial soundness of the scheme.

It is suggested here that the policy regarding accumulation of reserves should be changed and the excess incomes should be spent on additional social benefits.

THE Employees' State Insurance Scheme that came into operation in 1951-52 under an Act of the Parliament in 1948, is intended to provide a sense of security to certain classes of workers. The Scheme at present is confined to the workers in factories using power and employing 20 persons or more and whose monthly remuneration is Rs 400 or below. The benefits provided include, medical care and treatment, cash benefit for sickness, maternity, disablement and for the surviving dependants in case the insured dies of employment injury. The Act also provides for extending, in due course of time, the coverage under the scheme to workers in other organised sectors such as mines, plantations and shops and establishment.

The 'Contribution' Approach

The building up of reserves against the liability undertaken in the case of future benefits and the investment of these reserves is a characteristic problem in social security schemes based on 'contribution approach', as under the Employees' State Insurance Scheme. Under the 'contributions' or 'insurance' approach, the premium is determined in respect of each risk in such a manner that it is sufficient to cover the estimated expenditure on that risk irrespective of whether the risk is of short term or of long term duration. This practice gives rise to the phenomenon of accumulation of reserves as under the E S I and E P F Schemes. Here the contributions made by the insured are allowed to accumulate before he could finally begin to realise the benefits. Another possibility under the contributory system is, for funds called "excess incomes" to get accumulated when the expenditure in any year on a particular benefit is less than that was provided in the calculation of its premium. In a social security scheme based on taxation or 'pay as you go' approach, large funds are not accumulated. Only relatively small reserves are kept to provide for variations in expenditure from year to year. This is because government would guarantee the payment of future benefits as it does in the case of public debt. The controversy as to the building up of reserves or otherwise as between the tax and contributory systems need not detain us here. We are interested in the ways in which the reserves accumulated in a social insurance programme can be best utilised. This problem is of considerable importance in countries like India which wish to develop the social security schemes acceptable to people from out of scarce and competing resources.

Three Basic Requirements

Different types of reserves funds lend themselves to different forms of utilisation. Some need short term planning and some long-term planning depending upon the benefits with which they are associated. The I L O publication entitled "The Investment of the Funds of Social Insurance Institutions" made a detailed study of this problem. According to this publication, whatever may be the type of reserve fund, the securities in which it is invested should satisfy the following conditions viz.

(1) *Safety:* Safety is the primary consideration to be satisfied by the securities chosen for investment of social security funds. Safety implies not only the guarantee as regards the repayment of capital and the interest at the agreed rate but also the provision for the maintenance of the purchasing value of the returns thus planned against possible devaluation etc.

(2) *Yield:* Investment of social security funds need not generally fulfil any special conditions as regards the yield except in the case of reserves built up against the future liabilities wherein the yield should not be less than the rate assumed in the actuarial calculations. It is sufficient if the average yield from all the investment is not less than that is generally obtained by similarly placed funds. However, a lower rate could be justified in the case of investments which procure some advantages for the insured persons.

(3) *Liquidity:* Liquidity of an investment may be taken to mean its potentiality to get realised in money terms at any moment or at a particular date fixed in advance. The first kind of liquidity is of capital importance to the contingency reserve funds. The second kind of liquidity is the one that is sought in the case of actuarial reserves for the provision of future benefits.

The Adarkar Report

Among the securities that satisfy these three basic requirements of safety, yield and liquidity, preference should be given to those which have an economic and social purpose to serve the community at large.

Under the E S I Scheme the benefits that necessitate the building up of reserves are only the permanent disablement benefit and the dependants benefit. The expenditure on the other benefits namely, medical, sickness, maternity and temporary disablement benefits, is of current nature and has to be provided for during the statutory benefit period.[3] There is no future liability in the case of these benefits, and as such there is no need to build up reserves.

The Adarkar Report which[4] formed a prelude to the E S I Act, recommended the establishment of two more reserve funds under the scheme viz, a contingency reserve fund to meet any sudden and excess rise in the claims, and an epidemic reserve fund to meet epidemics in particular areas or years.

Adarkar's view was not shared by the I L O experts Rao and Stack[5] who reviewed the above mentioned Report at the request of the Government of India for the following reasons:

(1) There will be a time gap of about six months between the payment of contributions and the payment of cash benefits in the case of sickness and maternity; and

(2) the contemplated provision of medical care to the families of the insured takes some time to materialise.

The experts therefore, believed that there would be a large possibility of getting sufficient excess incomes under the scheme and consequently there is no need to set aside a portion of the reserves specially for the purpose of accumulation of the two reserves advocated by the Adarkar Report. Further they said that if unexpected increases occur in the incidence rates of sickness or employment injuries in a particular area or year, they can be met through "subsidiary levies" by the State governments concerned.

More Benefits for the Insured

However, both reports agreed that if a substantial amount of excess income becomes a regular feature under the scheme, they should be utilised for an improvement in the benefits for the insured under the scheme.[6] This suggestion was incorporated in Sec 99 of the E S I Act. It says that "At any time when its funds so permit, the (E S I) Corporation may enhance the scale of any benefit admissible under this Act and the period for which such benefit may be given and provide or contribute towards the cost of medical care for the families of the insured persons." The Act does not, however, spell out in detail the pattern of investment to be adopted with regard to both, namely, excess incomes and "other reserves". Attention however, may be drawn to Section 29 of the Act in which it is stated that the details of the policy in the above matters would be prescribed from time to time by the Central Government. Clause (1) of Rule 27, for example, mentions the various items for investment.[7] According to this clause "All moneys belonging to the (E S I) Fund which are not immediately required for expenses properly defrayable under the Act, may, subject to the approval of the Standing Committee, be invested by the Director-General (i) in Government securities including Treasury Deposit Receipts or (ii) in securities mentioned or referred to in clauses (a) to (b) of sec 20 of the Indian Trusts Act 1882 (ii of 1882); or (iii) as fixed deposit in the Reserve Bank or the Imperial (State) Bank of India."

E S I Corporation

An idea of the build-up of reserves during the past twelve years under various heads of the scheme could be obtained from an observation of the balance sheet of the E S I Corporation. This shows that annual additions to assets under E S I Scheme are broadly under two categories, viz (i) those which have a corresponding account in the same name on the liability side of the balance sheet and (ii) those which do not have such liability item attached. The former category includes (a) Permanent Disablement Reserve Fund, (b) Dependents' Benefit Reserve Fund, (c) Depreciation Reserve Fund of buildings for the offices of the Corporation, (d) Repairs and Maintenance Reserve Fund of buildings for the offices of the Corporation, (e) Employees' State Insurance Corporation Provident Fund, (f) Depreciation Reserve Fund for equipment in Hospitals and Examination Centres, (g) Depreciation Reserve Fund for Hospitals and (h) Depreciation Reserve Fund for Staff Cars. The second category of additions to assets include (a) Investment in the construction of hospitals etc or advances for that purpose to the State Governments, (b) Advances or loans etc to the staff of the E S I Corporation and working cash balances and (c) Funds in the account of "general cash balances". The data regarding this second category of assets (investments) and the 'excess incomes' from which these are mostly met, are given in the Table on page 788.

In every organisation the provision for items mentioned in category 2(b) namely advances or loans to the staff and the general working cash balances is an administrative necessity and therefore cannot be dispensed with. However, as can be observed from the data given in the Table, the amounts that may be required annually for these purposes are very small when compared with the funds available under the E S I Scheme. It was therefore rightly decided in October 1954[8] to give priority in the utilisation of the 'excess incomes' under the E S I Scheme to construct hospitals etc, under category 2(a). But because of some administrative difficulties such as the difficulties of the State Governments to procure land for the E S I Corporation to construct hospitals etc, much progress could not be made in that direction. Meanwhile large funds from the annual excess incomes were allowed to accumulate, under the account "general cash balances" (category 2(c) of investments). Since 1960, however, the construction of hospitals has gathered momentum. In order to finance the commitments made under the programme of construction of hospitals etc, some withdrawals have been made in each succeeding year (since 1962) from the reserves under "general cash balances" account in addition to the utilisation of annual excess incomes. The reserve funds built up under the General Cash Balances account, as on March, 1964 are still substantially very high.

Choice of Investment Restricted

As regards the problem of utlisation of investible funds with the E S I Scheme, the Corporation has freedom of choice in the selection of securities except in the case of the working balances and advances to the staff (which are an administrative necessity and are of small proportion to the total) and except as regards the commitments already made such as investment in the construction of hospitals etc. But by clause (i) of the rule 27 (see footnote 7) this freedom is restricted as these investments are to be made in the securities of the government or its banks. This operates as a limitation on the autonomy of the Corporation in the choice of the fields of investment. However clause (2) of the same rule provides for alternative channels of investment with the prior approval of the Central Government. This concession was not utilised and so far no investments have been made any where else than in those mentioned in clause 1 of the above rule. We are of the opinion that the Corporation should obtain the necessary freedom to invest under clause 2.

When such freedom is obtained, the Corporation has a two-fold choice: either to invest in commercial securities which yield more profit but have an element of risk in them, or to invest in channels that promote the social and economic objectives of the scheme. The first method is not generally favoured and therefore, the Corporation should search for channels of investment that promote the second objective. We suggest that some portion of the funds under the E S I may be used for the promotion of house construction for the insured employees

on easy terms of mortgage loans. The need for a proper housing programme to secure better results under the E S I Scheme was emphasised by the Mudaliar Committee in its report in 1960. Another possibility which would be worth exploring is to use the funds under the scheme through appropriate grants or loans to the State Governments for the specific purpose of getting the required number of medical personnel trained exclusively for the use of the E S I Scheme. The shortage of medical personnel is the Achilles heel in the speedy implementation of the scheme. The E S I Corporation has, in our view, the necessary power under Sections 28, 58 and 59 of the Act[9] to take steps to meet the above shortage. The experience during the last 11 or 12 years, resulting in slow implementation and not so high standard of medical service, dictates the necessity to adopt a dynamic approach in securing the medical and paramedical personnel for effective and rapid extension under the scheme.

Better Medical Services

Further, the choice of investment by the Corporation must be exercised with considerable imagination so as to promote the "social objectives" of the scheme. These objectives may be furthered by (a) giving better satisfaction under the present benefits, (b) by enhancing the scale and period of the existing benefits (c) by the adoption of new measures permissible under law and (d) by the introduction of new benefits. A few illustrations are given below.

The area studies[10] and special review reports have brought to light many shortcomings in the administration of medical service and cash benefits. The Mudaliar Committee Report suggested many improvements in the provision of medical services under the Panel and Service systems which await action.[11] Their suggestion about the establishment of polyclinics and cottage type dispensaries is worth implementation. The employment of sick visitors under Regulation 101 still remains ineffective.[12] Though not connected with investment, the simplification of existing procedures add to a greater satisfaction of the present benefits. Some of the amendments suggested by the Corporation are helpful in this direction.[13] These suggestions may mean an effective reorganisation of the way the medical benefit is administered. The dual responsibility for medical benefit, under which the Corporation provides the bulk of the finances and the States provide the services is a statutory impediment for any effective reorganisation of medical benefit. This subject of elimination or minimisation of the impediments arising out of dual responsibility deserves a thorough review by a competent Committee and quick action by Parliament. These changes, both in the content of services and in procedures in administration may involve additional administrative costs which are worth incurring for providing better satisfaction under the present Scheme.

The scale and period of benefits as fixed under the Act no longer serve the initially conceived purpose owing to the spiral rise in prices. Extended sickness benefit rates have been revised periodically but the other benefits have not received the same attention. The amendments proposed by the Corporation contain some suggestions on these aspects. These deserve implementation. The relationship between wages, contributions and benefits do not in any way affect the validity of this suggestion because of the very conservative approach in the initial fixation of benefit rates.

The law permits the adoption of preventive measures against accidents, sickness etc. As a result of a decade of experience in the provision of medical benefit, considerable data on morbidity and sickness has been collected and classified by the Corporation. A more detailed analysis of this data may provide clues regarding the appropriate preventive measures for the improvement of the health and welfare of the insured as contemplated under sub section XI of section 28.[14] Without amending the Act it may also be possible to provide loans, on appropriate guarantees, for higher educational purposes for the children of the insured persons. Such measures as these cumulatively enhance satisfaction with the Scheme and help to promote a feeling of security in other areas than mere cash benefit.

Table: Particulars of Investments of Category 2 under the ESI Scheme

(Rs Lakhs

	Excess of Income over Expenditure (From the Revenue Ac)	(a) Investments in buildings, etc		(b) Investments Which are of an Administrative nature	(c) Investment (at cost) under Ac "General cash balances"	
		(i) Net Additions to Buildings, etc in the Year	(ii) Suspense Account (Advance to the State Govt for Construction of Hospitals, etc)		(i) Total Reserves as on March 31 of the Accounting Year	(ii) Net Addition during the Year to Column 6.
1	2	3	4	5	6	7
(March 56	305.80	0.45	.....	37.45	795.63	300.42
March 57	325.44	.....	2.86	65.64	1101.54	305.90
March 58	229.12	1.18	3.29	61.89	1335.11	233.57
March 59	234.91	4.01	3.02	75.14	1570.02	234.91
March 60	170.91	3.79	20.60	73.22	1730.72	160.70
March 61	277.27	4.48	72.85	75.97	1918.33	187.60
March 62	177.27	7.50	267.03	70.39	1905.51	—128.15
March 63	206.91	52.31	426.15	125.00	1807.82	—97.69
March 64	320.30	40.12	758.64	166.11	1713.10	—94.73

New Benefits

The Corporation has recommended the introduction of funeral benefit not exceeding Rs 100 by amending the Act. We suggest a benefit which is similar but slightly different. Our suggestion is as follows: To grant, on the death of an insured person, whatever are the reasons for the death, for the insured person's family a lump-sum of Rs 100 to tide over the immediate liabilities. This suggestion is the same as that of the Corporation's but not necessarily tagged on to funeral expenses. In addition, we also suggest the children of such deceased persons should be declared eligible for financial assistance for continuing their education on the same conditions as are available under the dependants benefit scheme on account of death due to employment injury. The condition as to the insured status of the deceased person applies in this as in other case. We suggest this educational benefit for two reasons. The investment on education is in the national interests. It is part of an overall national social policy. Secondly, the educational benefit to the dependent children only of workers whose death is caused by the technical phrase "employment injury" is unfair because it acts more as a penalty upon the children than a drain upon the resources of the Corporation. If funds permit, the amount of hundred rupees may be raised gradually so as to enable quick rehabilitation of the family to the circumstances after the death of the breadwinner.

All these would no doubt involve some additional expenditure. Fears might be expressed about using either the 'excess incomes' or the 'excess income reserve funds' for the following reasons: (1) The commitment to construct separate hospitals for providing better medical service as well as the liabilities arising out of the extension of medical care to the families of the insured are likely to create unforeseen financial burdens on the present reserves. (ii) The rate of growth in reserves may not be enough to meet these mounting liabilities.

These fears find expression in the Report of the Study Team in 1958 and also in the First and Second quinquinnial Valuation reports. These fears are genuine but they have to be considered in the whole context of the objectives of an overall social security scheme. The following points deserve consideration here:

(1) The full rate of contribution from the employers is yet to be realised.

(2) The motivation to opt voluntarily for the scheme on account of satisfaction derived from the old and new benefits, could not be calculated in financial terms but contributes to a smooth functioning of the scheme and its expansion.

(3) The rates of contribution initially fixed are high enough to ensure financial solvency when it is extended to the workers in all organised industries.

(4) The table 25 of the Second Quinquenial Report indicates the possibility of surpluses of income over expenditure on benefits when the full rates are collected.

The proposals made here for improvement in the existing benefits or the creation of new benefits, would, in our view, not be such as to lead to a financial breakdown of the Corporation. The details, however, have to be worked out.

The social insurance scheme is at present administered with extreme caution in financing and conservatism in implementation. It lacks the necessary imagination to attract the workers wholeheartedly into the scheme because of the absence of a heavy dose of "social" spirit in the whole scheme. The shift in emphasis from the present bias of calculated conservatism to liberal humanism need not necessarily spell disaster to the financial soundness of the scheme. We, therefore, suggest a revision in the accumulation policy of reserves and an imaginative expenditure of excess incomes upon additional social or fringe benefits. These suggestions are made with a view to render the scheme attractive to the workers, beneficial to the employers and ideologically satisfactory for the nation committed to the development of a social order based on concepts of social justice and welfare state.

Notes

1 E S I Act 1948, Sub-Section (5) of Section 1.

2 "The Investment of the Funds of Social Insurance Institutions", International Labour Office; Studies and Reports Series M (Social Insurance) No 16, Geneva, 1939. pp 20—64.

3 An insured person will be entitled to the benefits under sickness and maternity for a period of about 6 months called benefit period for the contribution paid in the corresponding contribution period of about 6 months that precedes it irrespective of whether he is in employment or not.

4 "Report on Health Insurance for Industrial Workers" by B P Adarkar, Labour Department, Government of India, 1944, pp 60.

5 "Health Insurance" a note on the Report by B P Adarkar on a scheme of health insurance for industrial workers by M Stack and R Rao of the International Labour Office.

6 Adarkar's Report page 62; Rao and Stack Note page 6.

7 Employees' State Insurance (Central) Rules, 1950.

8 Employees State Insurance Corporation—Summary of important decisions of the E S I Corporation and its standing committee upto August 15, 1957. Issued by The Director General, E S I Corporation, New Delhi, p 33.

9 Sub-section iv, Section 28 describes the purposes for which E S I Fund may be spent. These include establishment and maintenance of hospitals, dispensaries and other institutions and the provision of medical and other ancillary services for the benefit of insured persons and where the medical benefit is extended to the families, their families. Sub-section 4 of Section 58 says, "In default of agreement between the corporation and any State Government, the nature and extent of medical treatment to be provided by the State Government and the proportion in which the cost thereof...shall be determined by an arbitrator. Sub-section 1 of Section 59 says "the corporation may, with the approval of the State Government, establish, and maintain in a State such hospitals, dispensaries, and other medical and surgical services as it may think fit for the benefit of the insured persons and (where such medical benefit is extended to their families) their families".

10 Reports of the General Purposes Sub-Committee on the Working of the ESI Scheme at Bombay, Kanpur, Delhi and Amritsar (ap-

pointed in February 1955); Nagpur, Hyderabad and Coimbatore (appointed in December 1955); Calcutta and Howrah, Assam, Madras, Madurai and Bangalore (appointed in July 1959). All issued by the Director General, Employees' State Insurance Corporation, New Delhi.

11 "Report on Employees State Insurance Scheme" by A L Mudaliar 1960. Government of India, Ministry of Labour and Employment.

12 Employees' State Insurance (General) Regulations notification No R S 5/48, New Delhi, October 17 1950.

13 Questionnaire on the Employees State Insurance Scheme. Government of India Ministry of Labour and Employment. E S I Scheme Review committee 1964. Annexture II, page 34.

14 Sub-section XI, of Section 28 says: The E S I Fund may be expended for "defraying expenditure within the limits prescribed, on measures for the improvement of the health and welfare of insured persons and for the rehabilitation of and re-employment of insured persons who have been disabled or injured".

FROM THE LONDON END

Renationalisation of Steel

THE publication of the Steel Nationalisation White Paper (which will be fiercely debated in Parliament) is a clear indication that despite its slender majority of four, the Labour Government has the courage and determination to push ahead with one of the most controversial items in the Labour manifesto. Ever since his election, Wilson has held that the Government had been a mandate to govern which they proposed to exercise. Accordingly, with great political courage, no important issue has been baulked despite the fact that it might have been electorally less dangerous to compromise on controversial issues. The determination to proceed with the Bill inspite of the hesitations within the Labour Party where two members — Woodrow Wyatt and Desmond Donnelly may register their discontent by either voting against the Government's Steel White Paper or abstaining in the debate and thereby reducing the already slender majority, are certainly creditable. Indeed, they give evidence of what Britain has been most in need of, particularly during the last years of the Conservative regime—a firm Government.

In contrast with the 1949 Steel Nationalisation Act, where the take over was to cover a large range of firms, the present White Paper proposes to restrict itself to the main firms in the industry. In 1949 all companies with production over a given tonnage of pig iron, ingot steel, or hot rolled steel, were nationalised, together with their subsidiaries, regardless of activity. Thus, the Act transferred nearly 250 companies to the Iron and Steel Corporation.

The present White Paper merely proposes to take over 14 large companies, i e those that produced more than 475,000 tons of crude steel in the twelve months from July 1963 to June 1964. The securities of these companies, or in some instances the securities of the relevant holding companies will be vested in a new National Steel Corporation. Remembering the speed with which the Tories denationalised steel when they were returned to power, the present Bill proposes a public steel corporation which would have its own single marketing organisation and powers equivalent to those of the Electricity Board, which in effect, would make it very difficult to unscramble the steel firms and return them to private ownership. Acordingly, no loopholes or ambiguities are being left in this field. The National Steel Corporation will have considerably wider and more unitary powers than those of the Iron and Steel Corporation set up by Strauss in 1950. At that time the commercial and managerial functions of the separate steel companies were left to men who were relying on the fact that they would be denationalised once the Tories took power: the Iron and Steel Corporation's main function was to act as a holding company. The National Steel Corporation, on the other hand, while permitting the individual companies in the first phase to retain their names and separate identities, will see to it that these will gradually be merged in the process of rationalisation which will make any future unscreambling very difficult indeed.

Control of "Commanding Heights"

The 14 companies that are to be taken over—Colvilles Ltd., Consett Iron Co Ltd., Dorman, Long and Co Ltd., English Steel Corporation Ltd., G K N Steel Co Ltd., John Summers and Sons Ltd, The Lancashire Steel Corporation Limited, The Park Gate Iron and Steel Co Ltd, South Durham Steel and Iron Co Ltd., Steel Company of Wales Ltd., Stewarts and Lloyds Ltd., United Steel Companies Ltd., and Richard Thomas and Baldwins Ltd., which is already nationalised, account for the lion's share of the industry, producing 90 per cent of British steel. They own or control all the 22 integrated iron and steel works in the United Kingdom, and 42 other iron and steel works; they control about 60 per cent of known reserves of iron ore in the U K and they employ about 70 per cent of the total manpower of the iron and steel industry. The private sector will consist of about 210 companies with an annual output valued at about £200 million, employing nearly 100,000 people. The private sector will still have an important role to play, particularly in specialised finishing operations on the borderline between steel and engineering industries. In introducing the White Paper at a press conference, the Minister Lee said: "We want to see a viable and thrusting private sector"

There is no doubt that in taking over so large and important an industry as steel, the Labour Party has now achieved control over the "commanding heights" of the economy, and the fact that the National Steel Corporation, through taking over, for example, Dorman Long, will engage itself in important engineering interests, makes this even more significant, particularly, as under the Bill it will be free to diversify its activities outside the field of steel with the consent of the Government.

The Government's case for nationalisation rests on the basic argument that the British steel industry is split into too many units to be efficient. Existing private steel firms are just not big enough to compete with overseas rivals. The new Government proposal will create a single unit of more than 30 million tons capacity a year—comparable in size to the mammoth concerns in the Continent and the U S.

Further support is given to the case for nationalisation as a considerable degree of public control and finance already exists, and it would, therefore, be only sensible to go all the way and take the industry into public ownership. This would allow a more positive rationalisation policy to be carried out: obsolescent units could be cut out and the most modern computer techniques for plant management and process control could be introduced. Other arguments include the inadequacy of the powers exercised by the Iron and Steel Board, the difficulties in financing expansion projects, and the absence of price competition.

One of the aspects of the White Paper which has caused the greatest surprise is the generous compensation terms that have been offered. The plan will cost a total of £660 million—£550 million worth of Government stock to be exchanged for the holdings of shareholders plus £110 million compensation for stock which has no market price. The Government has thus wrested the initiative from the Opposition who cannot now assert that the industry is being expropriated by ruthless socialists. Everyone has admitted that the basis chosen for compensating shareholders is very fair. By choosing a long period of market prices as the basis of valuation—either the 61 months from October 1959 to October 1964 which reflects all degrees of political and trading conditions, or the period from May to October 1964 whichever is the higher, the Government has been extremely generous.

Fierce Batle Ahead

The steel White Paper will be fiercely opposed in Parliament both by the Conservatives and by the Liberals. The main arguments which are being used are that in Britain's present position, nationalisation is completely irrelevant. No proof has been provided, according to Mr Macleod, that nationalisation is more efficient than private enterprise. The Liberal Party spokesman on steel said: "This is an old-fashioned takeover bid giving the blankest of blank cheques to the new National Steel Corporation and compensation that will cost more than £600 million which is the equivalent in capital provision of 200,000 new houses or 1,200 new schools at £500,000 each".

Some critics claim that Wilson has pushed ahead with the Steel Bill in order to placate the Left Wing elements in his Party who are incensed at the Government's attitude towards the fighting in Vietnam. Many anti-nationalisation critics hope and believe that by pushing through steel nationalisation, Mr Wilson will be in a position to forget about Clause 4 completely and that no more nationalisation will appear on the Party's programme.

Bitter battles lie ahead for Parliament and the Tories believe that with the steel White Paper and the Finance Bill they can really begin to act as an effective Opposition. No holds will be barred to try and defeat the Government. As for the Steel Bill itself, the changes contemplated cannot take effect until about mid-1966 at the earliest since vesting date cannot be until 36 weeks after royal assent. The Tories are gambling on the hope that even if there is no election this year, there is a strong chance that a General Election will be held before all the stages of steel nationalisation are complete.

AROUND BOMBAY MARKETS

Political Uncertainty Tells

Wednesday, Morning

IT was an altogether unexciting week for the stock market. The turnover was almost at its lowest and even the popular speculative counters drifted idly in a narrow range. Though the market managed to keep a little over the previous week's low registered on April 26, the general tone continued to be subdued. The corporate news was excellent but it brought little cheer to the market, oppressed all the time by political uncertainties. And tax concessions announced by Finance Minister Krishnamachari actually caused some disappointment. The extension of the higher development rebate at 25 per cent to 21 more industries, the five-year exemption from wealth tax on investments in equities of new companies with retrospective effect from March 31, 1964, the increase in the rate of deduction against life insurance from 50 to 60 per cent on the first Rs 5,000 paid in premiums annually, the extension of tax rebate on profits to more industries—all these concessions, welcome as they were, had no significant impact on the state of the capital market. Hopes that the Finance Minister might modify the provisions relating to the dividend tax and the capital gains tax on bonus shares have been frustrated. T T K's promise to simplify the corporate tax structure in the next Budget has failed to impress.

If the recent massive support by the Life Insurance Corporation and the almost uninterrupted flow of encouraging corporate news have failed to impart any strength to the stock market, it is mainly because the market is very much worried over the deteriorating political situation as a result of the mounting tension on the borders. Investors' confidence which had been at an extremely low ebb since long has been further undermined by the disturbing political developments. Prospects of a recovery in equity prices which had never appeared to be promising in view of the upward revision of the interest rate structure have receded further on account of the adverse political situation.

In an otherwise extremely uncertain situation, investors could, however, draw some comfort from the improved performance of the corporate sector. According to the *Economic Times* study based on the published accounts of 106 large and medium-sized units, industrial profits showed a substantial improvement in 1964-65 over the previous year's level. The increase in profits was more than the increase in owned funds and total employed funds indicating improved profitability. Dividend rates also showed some improvement though they were not commensurate with the rise in profits. The pre-tax profits of 106 companies recorded an increase of about 19 per cent from Rs 50.8 crores to Rs 60.4 crores. As tax provision absorbed a somewhat lower proportion of pre-tax profits in 1964-65, the net profits increased substantially from Rs 23.3 crores to Rs 29.7 crores. Distribution by way of equity dividends by these companies amounted to Rs 17.6 crores against Rs 15.9 crores in 1963-64 and retained profits rose sharply from Rs 6.6 crores to Rs 11.2 crores

OILSEEDS

Firm Tendency

OILSEED prices did not strike any new highs last week. But this

hardly indicated any change in the market's assessment of the near-term prospects for oil prices following the move for tightening of margin rules against bull speculators and the Government's permission to the vanaspati industry to use up to 50 per cent of soyabean oil in the manufacture of vegetable oil products. The market, it appears, merely chose to mark time before pushing its way further up since oilseed prices had been moving higher and higher, week after week for a long while. After registering a small setback earlier in the week, the market turned firm again near the week-end and made good nearly all the earlier losses. Groundnut oil ready which had receded from Rs 24 to Rs 23.40 (per 10 kg) recovered to Rs 24.20. After easing from Rs 20 to Rs 19.50, linseed oil ready was up again around Rs 20 at the week-end. Castor oil Commercial held steady around Rs 17.25 throughout the week.

Activity in futures was somewhat restricted as linseed June was quoted above the weekly prescribed limit most of the time. After receding from Rs 98.10 to Rs 96.50, linseed June firmed up to be quoted around Rs 99 on May 4. Castor June which had been marked down from Rs 82 to Rs 79.50 rallied to around Rs 80.80 (per 100 kg). The Bombay Oilseeds and Oils Exchange is still awaiting the Forward Markets Commission's approval of its proposals for tightening the margin rules against bulls. Could it be that the Commission has sensed that the margins are being tightened to protect the bearish interests of the governing body rather than to hold prices in check?

The rising trend in oilseed prices despite substantially improved supply is attributable, partly, to the general inflationary psychology in commodity markets and, partly, to the growing internal consumption of vegetable oils in the country of which no statistics are available. At a time when the Exchange itself is feeling uneasy over the price trends and has thought it necessary to tighten the margin rules, it seems rather odd that Shri Ramdas Kilachand, president of the Exchange, should be pleading for resumption of futures dealings in groundnut, groundnut oilcake and cottonseed. No less intriguing is the Forward Markets Commission's own attitude towards forward trading. How can one rationally explain why hedge trading is banned in mustard and rapeseed when it is permitted in castorseed and linseed?

COTTON

Dull But Steady

THROUGHOUT last week, the August hedge contract fluctuated between Rs 768.75 and Rs 766 per 3 quintals which depicted quite vividly not only the conditions prevailing in the futures market but also the situation obtaining in the spot market. Spot activity was restricted partly due to holidays. Spinner inquiry was virtually confined to 197/3, Digvijay and L 147, Spot prices were more or less steady around the previous week-end levels. It is quite normal for activity to shrink appreciably at the time of the year when the cotton season is 8 months through.

Thanks to the accumulation of fairly large stocks of both cloth and yarn with mills and continuing financial stringency which appears to have been aggravated by the partial withdrawal of unaccounted money, spot cotton prices have continued to remain a little below the ceilings for quite some time. Market sentiment recently seems to have been influenced by the upward revision of crop estimates. On the basis of the latest pressing figures, the 1964-65 cotton crop is now estimated around 59 lakhs instead of 56/57 lakh bales.

With the current season already 8 months through, interest has naturally shifted to the cotton policy for the new season which is due to be announced any time. The general feeling is that though the price caontrol over cotton is nothing but a farce, the Government is unlikely to abolish it but it would probably step up the ceilings which would minimise the need for enforcing price control. Since the Government has never really been able to administer price control over cotton, the control had better be abolished if only to expose the popular plea that controls have been hampering cotton production.

BUSINESS NOTES

Century Spinning

THERE was a reduction of five to eight per cent in prices of most of the controlled varieties of cloth following the imposition of statutory control from October 20 last year. Besides the off-take of rayon yarn was extremely poor almost throughout the year and consequently prices had to be lowered. Considering these circumstances the 1964 results of Century Spinning and Manufacturing Company look excellent indeed, more so because there was a continuous increase in the cost of production. What helped the company achieve impressive results were, first, improved efficiency and maintenance of the general level of production in all its units; and, second, the benefit of the tyre-cord plant's working throughout the year at full capacity. What is more important is that the company is now selling the product to all leading tyre manufacturers in the country, and the quality is highly appreciated by them. Earlier in the year, there was accumulation of stock but, with restricted imports, the company has been able to sell its production and stocks have come to normal.

The company has also reported encouraging progress in its programme of expansion and development of all its units. A new completely modernised weaving shed containing 240 Cimmco Sakamoto autolooms was started during 1964. The company holds permission to instal 14,578 spindles and 362 looms, and a scheme is being prepared for their installation. In the rayon unit, 18 spinning machines are under erection which are expected to go into production in about two months. The company has been assured of the necessary foreign exchange for import of machinery for expanding the production capacity of the rayon tyre-cord plant from five million to 15 million lbs a year. The scheme will be implemented in two stages: the first stage is expected to go into production after about a couple of years, and the second within about three years. The entire scheme is estimated to cost Rs 9 crores. The caustic soda plant started production in August last year, but the plant could not be worked at its full capacity due to shortage of power supply. The company is in touch with the authorities concerned, and it is expected that it would get its full requirements of power towards the middle of this year. Efforts are also being made by the management to secure import licence for mercury, which is one of the essential requirements for the manufacture of caustic soda and is in short supply.

The present working of the plant indicates that there will be no difficulty in achieving full rated production subject to the availability of power and mercury.

During the year to December 1964, the company's sales advanced about 15 per cent from Rs 22.25 crores to Rs 25.50 crores, and gross profit, too, rose in the same proportion from Rs 4.35 crores to Rs 5 crores. The advance has, however, been considerably reduced at the after-tax level, since both depreciation and taxation have syphoned off higher amounts: the former taking up Rs 208.38 lakhs (Rs 177.24 lakhs) and the latter Rs 137 lakhs (Rs 112 lakhs). Development rebate reserve is allocated a lower amount of Rs 35.17 lakhs (Rs 57.85 lakhs). After providing Rs 11.61 lakhs for preferential dividend, there remains a higher surplus of Rs 107.80 lakhs compared to Rs 77.37 lakhs a year ago. Of this, the total dividend, as stepped up by Rs 5 to Rs 35 a share, requires Rs 89.22 lakhs against Rs 76.47 lakhs, indicating that the cover for the increased dividend distribution has been strengthened.

Union Carbide

DURING the year to December 25, 1964, Union Carbide recorded an increase of 11 per cent in sales at Rs 15.95 crores and of 12 per cent in net profit before tax at Rs 3.01 crores. These improved results were achieved by the company due to the expanding demand for its plastic and chemical products as well as increased sales of batteries and zinc products. Sales by the consumer products division were again higher than for 1963, although some major adjustments in product mix were necessary to suit market requirements. The demand for batteries for transistor radios increased substantially at the expense of those for valve-type sets. A further rise was recorded in the sales of organic chemicals and polyethylene resins during the year. Defence and agricultural application were among the vital uses of the company's polyethylene film. Zinc products sales to customers increased slightly, although not to the full extent of production capabilities. The company's sales of zinc plate were held down, because substantial imports of photoengraving plate were permitted in 1964. Curtailment of the import of zinc plate is, however, likely in the future. Continuing emphasis upon export sales resulted in a further increase in this business during 1964, when the company extended activities into several new markets.

During 1964, total capital expenditure amounted to Rs 3.06 crores as compared with Rs 27.80 lakhs in the previous year. A major share of the 1964 expenditure was incurred in expanding chemicals and plastic capacities at Trombay, plus the installation of naphtha cracking facilities. The latter will reduce dependence upon industrial alcohol as a raw material. The construction of a cinema arc carbon and midget electrode plant was virtually completed during 1964.

Paint Industry

ALTHOUGH the paint industry maintained the upward trend of production in 1964, this was done in spite of significant difficulties which it had to face continuously for many previous years. Among these may be mentioned the severe shortage of imported raw materials which impedes a healthy development pattern, and often deprives other industries of the surface coatings they need to proceed with their own plans. In spite of what has been done so far to make available indigenous products, we have not yet reached the point where all currently imported materials are available in India. The reasons are in many cases economic in that the industry's offtake of certain materials, which to them are essential, is so small that there is not yet scope for establishing an indigenous industry for their manufacture or processing.

One unfortunate result of the lack of adequate actual users licences to paint manufacturers is the necessity forced upon them to purchase such materials in the open market where prices that were paid previously for those enjoyed by normal import. Also, the prices of many of the raw materials now manufactured in the country are very much higher than the prices that were paid previously for their imported counterparts. As a result, the cost structure of the industry has been affected adversely and, coupled with the high incidence of excise on paint products, prices have had to rise.

R A Godwin, President of the Indian Paint Association, in his speech at the fourth annual general meeting of the Association held some time ago, stated that one of the most serious repercussions of the increase in price structure is the effect this has upon the ability of the industry to export its goods to those countries where price increases have been much lower. He warned that unless some positive and immediate steps were taken by the Government to arrest the raw material shortage, the high indigenous price and the heavy incidence of not only direct excise on paints but also excise on intermediates, it would be increasingly difficult to fulfil the export targets required of the industry.

Hukamchand Mills

THE half-a-century old Hukamchand Mills has been pursuing a renovation programme for some time past. As part of this programme, the company installed and commissioned additional 4,872 spindles during 1964 In the current year, 2,088 spindles were erected, and 5,568 more spindles are under erection. With the installation of all these spindles, the total installed capacity of the mill will be nearly 56,000 spindles. The renovation scheme has already stood the company in good stead in offsetting the pressure on margins the textile industry as a whole had to experience during 1964.

The company's financial results for the year to December 1964 show that though sales and processing charges brought in a lower amount of Rs 3.63 crores compared to Rs 3.83 crores a year ago, the gross profit was sizably higher at Rs 40.17 lakhs against Rs 28.55 lakhs. The advance has, however, been more than negatived at the net-profit level, partly because of higher provision of Rs 19 lakhs (Rs 15.44 lakhs) for depreciation and Rs 8.55 lakhs (nil) for the tax charge. Development rebate claims a lower amount of Rs 3.83 lakhs (Rs 5.07 lakhs), with the result that the equity profit of Rs 8.87 lakhs is a little more than last year's Rs 8.44 lakhs. Of this, the dividend raised by 2.5 per cent to 12.5 per cent demands Rs 7.56 lakhs (Rs 6.05 lakhs). The surplus sum of Rs 6.68 lakhs is carried forward, after bringing in Rs 5.36 lakhs from the previous year's account.

As a measure to meet the power shortage, the company has staggered the weekly holidays to workers with effect from February 21, 1965. The power shortage, which is expected to continue upto July-August this year, is likely to have an adverse effect on production and working results. The company is completing its 50th year of existence in the middle of May this year. The management has decided to celebrate the golden jubilee in a fitting manner.

WIMCO

THE demand for matches is on the rise, and the mechanised sector of the match industry has made representations to the government to allow it to expand its manufacturing capacity. But there has been no response from the authorities so far, according to the directors of Western India Match Company. They add that during the wet season last year there was a severe shortage of matches which the cottage industry could not make good despite the incentive of lower excise duties enjoyed by it. Wimco's output is now running at its peak, but its profits have contracted for the second year in succession, because it cannot increase its output while costs of raw materials (particularly timber) and labour charges have continued to rise.

The company's 1964 results show that whereas sales were only a shade lower at Rs 19.52 crores than last year's Rs 19.75 crores, gross profits declined to Rs 1.14 crores from Rs 1.41 crores. Profit margins have thus shrunk from 7.14 per cent to 5.86 per cent. The directors have provided Rs 23.72 lakhs (Rs 22.51 lakhs) for depreciation, Rs 50.30 lakhs (Rs 65.75 lakhs) for taxation and Rs 1.53 lakhs (Rs 1.99 lakhs) for development rebate. For purposes of paying the unchanged dividend of 16 per cent, a sum of Rs 5.04 lakhs is to be transferred back from super profits tax reserve.

For more than a year the salt project has been in operation on a pilot basis, and during 1964 considerable quantities of salt were formed in the pans. But the major portion of this harvest was washed away by unexpected rains. The company has added the manufacture of sodium chlorate and pottassium perchlorate to its existing potassium chlorate production. The paper mill, which continues to work on imported pulp, suffered some stoppages in 1965 because of inadequate and untimely import licensing. The company has now made firm arrangements with a pulp manufacturing concern to be established in Gujarat for the supply of most of its requirements indigenously in three or four years' time.

Shreeniwas Cotton

CONSIDERING the various difficulties the cotton textile industry had to contend with during 1964, Shreeniwas Cotton Mills' results are indeed good. Though net sales declined perceptibly from Rs 5.14 crores to Rs 4.73 crores, gross profits increased from Rs 82 lakhs to a new high mark of Rs 85.44 lakhs reflecting a two-point rise in gross margins in relation to sales. The provision for depreciation has taken away Rs 41.12 lakhs (Rs 26.72 lakhs), that for tax Rs 18 lakhs (Rs 24.34 lakhs) and development rebate reserve Rs 5.50 lakhs (same). But last year Rs 6.23 lakhs were required for earlier years' bonus for which no provision is necessary now. After providing Rs 0.25 lakh (same) for preferential dividend, the disposable profit is moderately higher at Rs 20.57 lakhs compared to Rs 18.96 lakhs previously. Of this, the dividend as raised by one per cent to 17 per cent requires Rs 17 lakhs (Rs 16 lakhs).

During the year, the company continued its expansion and modernisation programme, and incurred an expenditure of Rs 37 lakhs on this account. Among the items added were 40 additional automatic looms and a compressing shrinking machine. Besides, a screen printing machine and two sets of automatic winding and warping machines have been ordered. The benefits of modernisation and expansion apart, the current year holds promise of good results also because the company is "favourably covered" for its requirements of long-staple cotton which has been in scarce supply and its prices have recorded sizable rises. Shree Madhusudan Mills and Shree Gopal Industries, the two subsidiaries of the company, are also faring well and their expansion programmes are progressing as scheduled.

Central Bank

THE comprehensive credit control measures set in motion during the past few months have severely restricted the capacity of banks to borrow from the Reserve Bank in order to meet the legitimate credit requirements of their customers, according to Sir Homi Mody, Chairman of the Central Bank of India. The net liquidity formula, he says, is onerous in many respects. For determining net liquidity, all amounts borrowed in whatever shape or form, and whether from Reserve Bank or from I D B, are required to be deducted from the borrowing bank's eligible assets. Thus, even the amounts obtained by a scheduled bank by way of re-finance from the Reserve Bank or I D B for discharging those very obligations which the government had been repeatedly exhorting commercial banks to undertake, such as granting of medium-term loans to industry for expansion or rehabilitation, the financing of small-scale industries and the extension of export credits, come within the mischief of the formula. Secondly, the penal rate of interest, which becomes operative the moment a bank's net liquidity ratio drops below the prescribed minimum, is applicable not to the residual excess but to the totality of the bank's borrowings from the Reserve Bank. Another provision laid down is that even when the decline in the net liquidity position is just a fraction of one per cent, the borrowing bank is compelled to pay the penal interest, calculated at the full rate of ½ per cent over the Bank Rate for every drop of one per cent or fraction thereof. Finally, the Reserve Bank has recently further raised the net liquidity ratio from 28 per cent to 30 per cent.

Referring to the slackening in the pace of growth of bank deposits in the past few months, Sir Homi says that owing to an all-round increase in inventory costs, demand for bank credit for genuine productive purposes had become more keen, with the result that there is an unprecedented tightness in the money market, as evidenced by the fact that inter-bank call money rate has touched an all-time record of 8½ per cent.

Jaya Shree Textiles

THE combined effect of increased wages, higher interest charges and enhanced prices of raw materials, stores etc, is reflected in the financial results of Jaya Shree Textiles for the year 1964. Although during the year sales rose by Rs 65 lakhs to Rs 3.62 crores, gross profits could advance by only Rs 7.36 lakhs to Rs 60.81 lakhs. Depreciation charge has taken away more at Rs 13.79 lakhs (9.49 lakhs) but the tax liability is substantially lower at Rs 10.90 lakhs (20 lakhs), after taking credit of Rs 3.50 lakhs (0.75 lakh) being excess provision of previous years, and the directors are left with a disposable surplus of Rs 32.62 lakhs (23,22 lakhs). Out of this, development rebate reserve gets Rs 6.60 lakhs (2.69 lakhs) and general reserve Rs 16 lakhs (13.25 lakhs). Equity dividend raised by 25 P to Rs 1.25 per share requires Rs 9.22 lakhs (7.38 lakhs) and preference dividend Rs 0.12 lakh (nil). A part of the dividend is expected to be exempt from tax.

The flax unit is proposed to be modernised. In the weaving section 16 new cotton looms have been installed. The construction of buildings for the insulator project is making satisfactory progress, but the scheme will not be implemented before early 1966.

FROM THE CHAIR

Mahindra & Mahindra Limited

Speech of the Chairman, Shri Keshub Mahindra

THE following is the Speech delivered by the Chairman, Mr Keshub Mahindra, at the 19th Annual General Meeting of the Shareholders of Mahindra & Mahindra Ltd, held in Bombay on 30th April, 1965.

LADIES AND GENTLEMEN,

This is the first time we are meeting after the sad and untimely death of our late beloved Prime Minister. Pandit Jawaharlal Nehru's loss came as a personal shock to us all and I am afraid no words of mine could possibly do justice to his greatness. I shall, therefore, request you to join me in standing in silence to honour his memory.

Higher Turnover

It is my privilege to welcome you to the 19th Annual General Meeting of the Company. The balance sheet incorporating the Report of your Directors has been in your hands for some time. As compared to the year before, there was an increase in the turnover by approximately 30%. The effect of this increase is reflected in the profit for the year. In spite of the higher provision for depreciation, development rebate and an appreciable increase in the provision for taxation, the total available for disposal was considerably greater than that of last year. These results have enabled your Directors to recommend a little higher dividend and enabled them to plough back a larger amount by way of general reserve.

During the year under review, the Management of your Company has been able to improve the extent of control over the operations by utilising more sophisticated and scientific techniques. This process is really evolutionary. As an organisation gathers more experience it is better able to know which areas require closer control. There is a genuine awareness at all levels of our Management of the importance and need for system and methods, and the role these play as indicators of our efficiency. The never ending problem of rising costs has been to some extent off-set by greater efficiency of operations but it should be obvious, that unless basic costs of materials and wages are kept under control, it will be extremely difficult to maintain this delicate balance.

In pursuance of our growth policy, the Management of your Company has been engaged in exploring ways to bring about rational expansion. In December of last year, a public issue was made by the International Tractor Co of India Ltd. At the time of this public issue, a private offer was made to the shareholders and employees of your Company. Although the response from the public was not unsatisfactory, the applications received from the shareholders and employees were discouraging. It is still however the intention of your Directors to continue following this policy — as long as circumstances and the Government permit it.

While attempting to combine consolidation of existing operations with future expansion, it sometimes happens that particular endeavours fall short of expectations. One such example is the Indian National Diesel Engine Co Ltd. Your Directors have explained at some length the reasons why this Company is showing considerable losses. I am, however, happy to report that the results for the first six months of the current year show a satisfactory improvement and in fact, we have every reason to expect that this Company will make a profit for the first time. Additional steps are being taken to increase the production of air-cooled engines which have found ready acceptance in the market.

Union Budget

It is usually expected that some observations should be made by me on the provisions of the recent Union Budget and the effect that it might have on our future operations. I have no quarrel with the Government in their attempt to mobilise the resources they require — but the provision in respect of reducing the development rebate to 15% in April 1967 will affect us, particularly, as we are on the threshold of large expenditure on capital account. It is to be hoped that the Government will accept the plea of the automobile industry for inclusion in the list of basic industries specified eligible for tax concessions. This will be of considerable benefit to your Company.

The fact of planning in our national life has assumed a certain significance. The debate is no longer on the wisdom of planning; there is wide acceptance that the broad rationale of the country's development programme makes good sense. Rather, the issue is sometimes joined on the programming technique, and the matching of needs and resources.

From time to time, I have looked hard at our national accounting as revealed in the Union Budgets every year. It strikes me that both in the matter of revenue and expenditure, certain rigidities have crept in, thereby causing inelasticity in certain resource areas.

The expenditure on Defence and Civil Administration is roughly 11-12% of our Gross National Product. While one could question the validity of a rigid pattern on civil expenditure, no one can question that the expenditure on defence must not only remain, but may even go higher.

On the investment front, a minimum of 15% of our Gross National Product is necessary, if we are to ensure an annual growth rate of 5% — (Assuming a 3 : 1 capital/output ratio) which is the very soul of our Plan! Altogether about 25-27% are required by the State, if it is to meet the cost of current administration, satisfy defence requirements, and pursue our growth targets.

The latest Union Budget shows that approximately 24% of our Gross National Product is being made available to the Government. In spite of these resources, experience over the last three years shows, that we have not achieved a 5% rate of growth. I have heard it said that our assumptions regarding the efficiency of our investments are faulty. If this is so, then the implication is that the volume of investments will have to be increased in order to obtain the above growth, But as I have observed earlier, most of the areas from where further resources can be mobilised will remain fairly inelastic for many years to come, thereby making it difficult to increase our investments. To me, the answer to our present problems lies in productivity, with the objective of immediate improvement in the efficiency of our capital investments.

Productivity is not merely increasing production, it is an attitude of mind and a way of life. In the context of our difficult resource position, the narrower definition of productivity assumes great significance in our industrial operations. While the mathematical definition of productivity would be the ratio of output to input, productivity in industry means obtaining maximum results from available resources by reduction or elimination of wastage in all forms. Higher productivity would mean usage of less resources, like money, material, machinery, man-power and management for a given production or using the same resources for a greater production. It implies the fullest exploitation of all available resources efficiently and economically.

Scientific Management

Production is never an individual effort. It is the combined effort of management and workers; in our society, the Government has also a most important role to play.

The importance of technology, and the need for managers and workers to be professionally trained needs to be emphasised over and over again. Budgetary techniques used for controls, analysis and forward planning are basic essentials in the running of an industrial enterprise. Scientific methods of detection, analysis and feed-back information of a product in process, commends the use of the Total Quality Control approach to operations. The use of control charts based on statistical probabilities in process control helps to navigate production and forecast sufficiently ahead, possible deviations and defects. Industrial engineering analyzes, measures and improves the methods of performing tasks and is a continuous process of study and evaluation of results. Through its work-study techniques, it gets to the root of the problem of productivity. Standardisation and variety reduction, bring about larger production runs, save time on machine settings and improve plant utilisation. An efficient plant maintenance, built-in training programmes for workers, use of Operational Research and PERT are all tools available to Management for obtaining higher productivity.

One of the major factors which contributes to higher productivity is the attitude of the workers. An organised wage structure, grievance procedure with easy communication methods, joint consultations, welfare facilities, training, selections and opportunities for promotions, job evaluations and specifications etc all help to give stability to labour — which is of prime importance in our country. Perhaps of equal value to Labour Productivity is the imparting of a feeling of fair play and justice.

An increase in Labour Productivity does not mean "harder work", at the best it means "more effective work". Work is a group activity and a healthy co-existence between workers, supervisors and all levels of management is essential if one is to aim at higher productivity.

In our planned economy where the share of the State in the capital investment is on the increase, there is the need to recognise that resources can only be put to best use by trained men. Ownership of capital does not necessarily imply that it also possesses management skills. While the recent announcement of the setting up of the Planning Council is to be welcomed, I venture to say that greater emphasis should be placed on implementation. It is my plea that while planning of our economy is very much the duty of the Government, industrial enterprises should be entrusted to men who have the knowledge and experience to operate them — the professional managers and technicians.

I crave your indulgence for embarking on a subject which might appear to have no relationship with the affairs of your Company. But this is not so. Your Management believes in the philosophy of higher productivity and is constantly receptive to new ideas and techniques.

New Companies

Your Directors have generally reported to you the expansion plans before them. The largest expansion envisaged is in the automobile division, increasing capacity from the present level of 10,000 units to 25,000 vehicles per annum. In addition there will be diversification in the form of new product lines. Large funds are necessary for this expansion. Our application for a loan of Rs 5 crores has been filed with the Government for transmission to A I D. This will cover the foreign exchange requirements for the expansion programme. Your Directors are presently studying the estimates of rupee finances required. As soon as these are finalised they will be made public.

In addition to expansions of existing Companies, we have concluded negotiations for which three new Companies are being formed. The first one is in association with Vickers-Sperry Rand Incorporated, U S A for the manufacture of Hydraulic Control Gears with a wide application, raising from machine tools to aircraft. The second one is in collaboration with Van Wijk & Visser of Holland for the production of Current Limiters, Automatic and Voltage Regulators, Manually Operated Circuit Breakers and Starters. Arrangements have also been concluded with Natvar Corporation of U S A for the manufacture of High Temperature Synthetic Flexible Electrical Insulations. It is anticipated that an offer will be made to the public for subscription in these three new Companies, sometime at the end of this year or early next year.

In conclusion, I am sure you would like me to thank all the employees of your Company for their loyalty and devotion to work.

Note: This does not purport to be the record of the proceedings of the 19th Annual General Meeting.

NOW

A Political and Cultural Weekly

Some Contributors to Oct. 1964 — March 1965 issues:

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CURRENT STATISTICS

Output of Minerals

Mineral	Unit of quantity	1962-63	1963-64	April 1963 to February 1964	April 1964 to February 1965
(1)	(2)	(3)	(4)	(5)	(6)
Iron ore	'000 tonnes	19,730	20,315	16,962	17,037
Manganese ore	Do	1,635	1,235	1,074	1,181
Copper Ore	Do	494	472	434	438
Lead concentrates	Tonnes	7,358	5,165	4,713	5,736
Zinc concentrates	Do	11,031	9,900	9,047	10,011
Gold	Kilograms	4,837	4,336	3,930	4,230

Source : Annual Report, Ministry of Steel and Mines, Government of India.

Imports of Non-Ferrous Metals 1960-64
(Imports on all accounts)

Qty In Tonnes
Value in Lakhs of Rs

	1960-61		1961-62		1962-63		1963-64	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
Aluminium	19,997	549	20,264	563	31,998	789	19,860	474
Copper	62,710	2,190	65,086	2,020	69,056	2,199	69,407	2,380
Zinc	72,156	919	65,377	703	85,192	860	84,208	968
Lead	24,636	247	28,227	249	33,619	263	36,531	327
Tin	3,610	379	4,917	566	4,269	507	5,054	618
Nickel	1,056	109	2,337	119	1,325	122	1,690	147

Source : Ministry of Steel and Mines, Government of India.

Production of Metal Industries, 1964-65

Name of Industry	Accounting unit	No. of units	Installed capacity	Estimated Production
(1)	(2)	(3)	(4)	(5)
(a) Virgin Metal				
Aluminium	Tonnes	4	53,000	54,294
Antimony	Do	1	1,000	846
Copper	Do		7,500	670
Lead	Do	1	6,000	3,160
(b) Semi-manufactures				
Aluminium Foils	Do	1	3,000	2,550
Aluminium Rods, Section Extruded	Do	1	3,756	3,618
Aluminium Sheet/ Circles	Do	11	21,600	21,845
Aluminium wire Rods for A C S R	Do	6	29,400	21,630
Brass/Copper Pipes & Tubes	Do	3	4,920	3,771
Brass/Copper Rods, Section, Bars etc (Extruded) including Arsenical Copper Rods	Do	4	5,616	4,704
Brass/Copper Sheets and Circles	Do	24	48,000	23,010
Brass/Copper Wire for non-electrical purposes	Do	5	2,000	Not available
Electrolytic Copper wire Rods	Do	3	30,000	20,970
Lead Pipes & Tubes	Do	2	2,000	665
Lead Sheets	Do	3	3,000	760
Zinc Sheet/Strips	Do	1	4,800	4,526
(c) Non-ferrous Alloys— Non-ferrous Alloys such as Antifriction Bearing Metals, Ball Metals, Bronze, Gun Metals, Solder etc	Do	15	69,000	33,000

Foreign Exchange Released for Commercial Imports of Metals

(Rs in lakhs)

	Free	Aid	Rupees	Col. Plan	Total
Aluminium					
April '62-March '63	—	262	100	258	620
April '63-March '64	40	80	50	140	130
April '64-March '65	80	200	—	132	412
Copper					
April '62-March '63	22	1,570	—	381	1,973
April '63-March '64	—	1,878	—	144	2,022
April '64-March '65	40	1,959	—	132	2,131
Zinc					
April '62-March '63	102	284	66	—	678
April '63-March '64	270	166	159	95	690
April '64-March '65	652	——	75	138	865
Tin					
April '62-March '63	282	138	—	—	420
April '63-March '64	445	35	—	—	480
April '64-March '65	509	120	—	—	629
Lead					
April '62-March '63	166	—	40	—	206
April '63-March '64	192	—	38	—	230
April '64-March '65	210	—	47	88	345
Nickel					
April '62-March '63	—	—	—	44	44
April '63-March '64	—	—	—	44	44
April '64-March '65	—	—	—	42	42

Source: Ministry of Steel and Mines, Govt of India.

BANKING RETURNS

(Rs crores)

Reserve Bank	April 30	April 23	April 2	May 1, '64
1 Note circulation	2708.19	2712.70	2640.49	2533.43
2 Rupee coin	97.06	96.57	97.75	105.26
3 Deposits				
(a) Central Govt	53.60	49.52	62.54	49.34
(b) Other Govts	12.38	16.40	24.27	14.22
(c) Banks	96.45	97.96	98.84	93.45
(d) Others	180.67	168.14	170.50	159.44
4 Foreign securities	72.46	72.46	77.46	103.46
5 Balance abroad	10.90	6.75	14.69	9.56
6 Rupee securities	2441.10	2441.15	2367.69	2227.39
7 Investments	131.02	133.05	70.51	186.26
8 Loans and advances to Govts	75.83	83.41	81.87	55.65
9 Other loans and advances	289.65	283.36	314.10	185.95

Scheduled Banks	April 23	April 16	April 2	April 24, '64
1 Aggregate deposits (net)	2634.10	2620.67	2615.04	2320.26
Demand (net)	1259.82	1246.95	1260.34	1077.26
Time (net)	1374.28	1373.73	1354.70	1243.00
2 Cash in hand	71.68	75.40	67.40	62.59
3 Balance with Reserve Bank	103.87	98.08	92.76	79.46
4 (2)+(3) as % of (1)	6.66	6.62	6.12	6.12
5 Borrowings from Reserve Bank	120.55	128.10	161.36	45.02
(a) Against usance bills and/or promissory notes	49.43	48.03	58.45	20.39
(b) Others	71.12	80.06	102.91	24.63
6 Advances	—	—	—	—
(a) State Bank	425.97	424.81	425.77	355.03
(b) Others	—	—	—	—
7 Bills discounted				
(a) Inland	283.36	288.14	273.29	229.97
(b) Foreign	75.86	75.08	75.44	68.29
(c) Total	359.22	363.22	348.73	298.26
(i) State Bank	56.28	58.20	51.66	22.22
(ii) Others	302.94	305.02	297.07	276.04
8 (6)+(7) as % of (1)	79.49	78.86	79.73	79.33
9 Investments in Govt Securities	718.70	717.77	778.27	614.98
10 (9) as % of (1)	27.28	27.39	27.47	26.50

BOMBAY MONEY RATES

(Per cent per annum)

	Apr 23	Apr 16	Apr 2	Apr 24, '64
Call money from Banks	7.26	7.63	8.40	5.61
Deposits				
Seven days	—	—	—	—
Three months	5.00	5.00	5.00	—
Six months	5.52	5.50	5.50	3.75

INDEX NUMBER OF WHOLESALE PRICES

(Base: 1952-53=100)

Group and Sub-Group	WEEK ENDING 10-4-65	3-4-65	13-3-65	11-4-64
Food Articles	*156.6*	*154.3*	*154.6*	*142.5*
Cereals	140.9	139.7	138.7	122.2
Pulses	157.5	150.6	157.7	129.9
Fruits & Vegetables	158.1	156.9	161.1	170.7
Milk & Ghee	151.6	151.1	154.5	139.6
Edible Oils	193.2	189.2	187.3	164.5
Fish, eggs & meat	182.3	181.9	179.1	150.8
Sugar & Gur	161.6	155.4	151.5	167.3
Others	175.5	174.7	174.0	175.8
Liquor & Tobacco	*138.3*	*138.3*	*138.8*	*118.9*
Tobacco	136.4	136.4	137.0	115.9
Fuel, Power, Light & Lubricants	*146.4*	*146.4*	*146.4*	*142.4*
Industrial Raw Materials	*168.9*	*167.1*	*162.8*	*145.6*
Fibres	151.5	149.9	147.4	137.0
Oilseeds	204.0	201.0	192.6	167.1
Minerals	129.3	129.3	129.3	102.1
Others	138.5	138.5	137.9	129.2
Manufactures	*142.3*	*141.5*	*140.9*	*132.2*
Intermediate Products	*158.6*	*157.6*	*155.8*	*144.7*
Finished Products	*139.6*	*138.8*	*138.5*	*130.2*
Textiles	138.7	137.7	136.5	127.2
Cotton manufactures	138.7	138.7	139.0	134.8
Jute manufactures	135.0	130.8	125.2	98.9
Woollen manufactures	170.3	170.3	170.3	162.5
Silk & Rayon manufactures	140.0	140.0	140.3	141.3
Metal Products	174.9	174.9	174.6	166.0
Chemicals	124.4	124.8	124.8	120.3
Oil Cakes	104.1	204.1	205.9	172.9
Machinery & Transport Equipment	131.7	131.7	131.9	125.9
Others	126.3	126.3	128.4	127.7
All Commodities	*153.7*	*152.0*	*151.3*	*139.6*

Estimated Expenditure on Family Planning

(Rupees in Lakhs)

	1961-62	1962-63	1963-64	1964-65 Budget
Service	23.28	45.86	60.58	51.78
Training	5.22	7.53	7.66	21.25
Education	4.33	9.37	20.12	31.41
Research	10.20	10.46	13.63	13.33
Organisation	3.46	3.06	3.41	7.23
Grants to States	68.24	164.09	186.90	300.00
Total	114.73	240.73	300.30	425.00
Expenditure by				
State Govts	22.59	25.15	36.82	148.11
Union Territory	1.03	2.58	2.59	6.38
Other Ministries of the Govt of India	—	—	6.99	12.97
Indian Council of Medical Research	—	—	3.49	5.71
Foreign Exchange	—	—	43.08	NA
DAVP	—	—	4.05	6.85
Total	138.35	268.46	397.32	605.02

Source: Ministry of Health, Annual Report, 1964-65.

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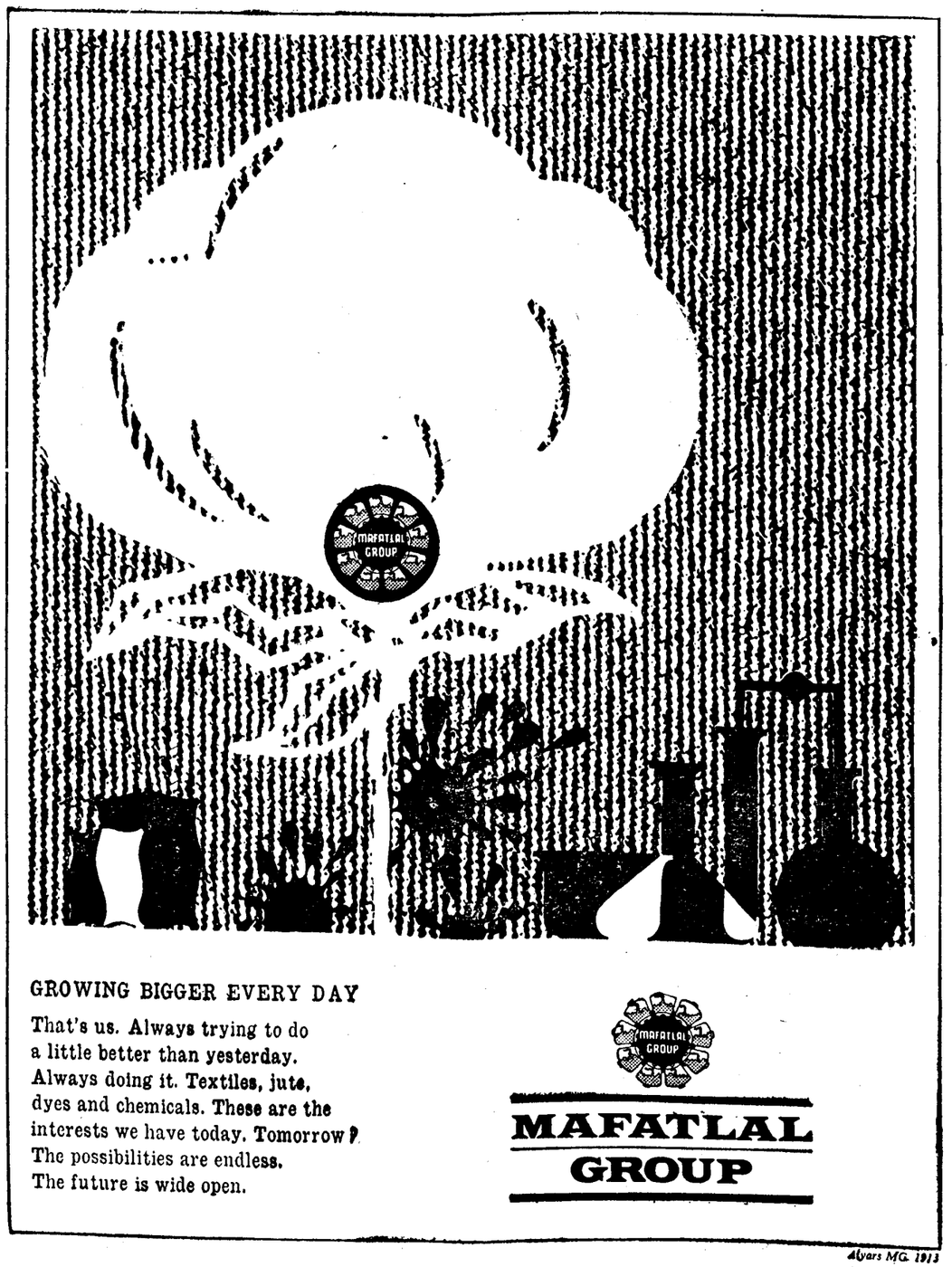
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The Season That Was

THE 1964-65 busy season came to a close (in the Reserve Bank's reckoning) on April 30, with a total credit expansion of Rs 413 crores, which is a record. This is somewhat larger in absolute terms than the previous record of Rs 377 crores set last year, though in terms of the rate of increase this season was perhaps no busier than the last. What is surprising at first sight, however, is that the credit expansion in the season just ended should have taken place against the background of a credit policy which had a marked restrictionist bias. Does it mean that the credit squeeze was phoney or that, though intended to be effective, it failed?

The stringency in the inter-bank call market should set at rest any doubt about the reality of the squeeze. The market is acutely aware of the difficulty of raising funds and complaints have poured in from business interests of the dearth of adequate finance. Further, the absolute figure of credit expansion cannot be taken to indicate that the Reserve Bank's policy has failed; the monetary authorities had all along emphasised that it was their aim to raise the cost of credit and quicken its turnover to promote more efficient use of finance rather than to restrict availability of credit to the point of hurting genuine seasonal needs. It is known, for instance, that sugar production this season bids fair to be perhaps the highest on record and the credit needs of a highly seasonal industry like this tend to be concentrated in a short period. Less defensible is the locking up of bank finance in stocks of cotton textiles which are becoming embarrassingly large; if credit curbs induce their unloading, the effect cannot be regarded as other than salutary. There are also the needs for food procurement which the banking system has been asked to finance.

If these special factors are taken into account, on top of the substantially higher production both on the farms and in the factories and the higher value of inventories due to price increases, the seemingly large seasonal expansion of credit gets into clearer focus. Indeed, one must be thankful that the authorities did not panic into a further dose of restriction; the February measures were tough enough and a further tightening of the monetary screw to please the IMF and its like would have done more harm than good. As was argued on an earlier occasion in these columns, to starve the genuine monetary requirements of this year is no answer to the excessive monetary expansion of last year. This is the pitfall of a purist monetarist approach; the Reserve Bank has not fallen into it.

It is significant in this context that credit expansion this season has been financed to a greater degree by borrowing from the Reserve Bank. In fact, many accusing fingers have been pointed at the level of the Reserve Bank's advances to banks. These advances, it is true, were generally much higher than last year but it is equally significant that the variations in the amounts were quite sizable over the period, indicating the quickening of turnover. The penal rates paid by many banks in combination with the ceiling on advance rates could hardly be expected to have had any different result.

Not only has the total figure of Central Bank credit been assailed but the large share of the State Bank in this has been invested by critics with the sinister implication that the credit policy has been worked to the advantage of a public sector institution. The State Bank's figures are published weekly; those of the other banks are not, but it would be interesting to know how the other banks fared in this respect. The net liquidity ratio principle favours banks with conservative investment portfolios and has no relevance to whether a bank is in the private or public sector. That this is a more scientific formula is apparently now recognised; then why this pother? Or is any stick good enough to beat the public sector with?

The busy season has ended but bankers' worries do not seem to have. It is reported that the Governor of the Reserve Bank has advised banks not to utilise the funds accruing to them from credit contraction and increase

in deposits to keep up the high credit levels but instead to put them in Special Treasury Bills. It is not known what the Special Treasury Bills are or at what rates they are to be issued. Various guesses have been made but the authorities have been in no hurry to show their hand, though, if reports are to be believed, the Governor seems to have coupled his 'advice' with an 'or else' threat!

It is not clear what the intentions of the authorities are. Immediately the objective may be to dampen pressures arising out of credit extension to the private sector, but investment in Treasury Bills will add to bank credit to the public sector (unless one assumes that this will replace Reserve Bank credit to Government in the same period). Banks have apparently been advised that this will stand them in good stead during the next busy season, but will it matter very much even otherwise, for under the present system if banks continue to be overextended, they will have to pay penal rates much earlier in the busy season next year than they had to this year? Whatever the next busy season may have in store for them, bankers are promised a tight slack season.

New Turn in Kashmir

SHEIKH ABDULLAH's internment in Ooty on return from his foreign travels caused little surprise in New Delhi, according to newspaper reports. It is not likely to have come as a total surprise to Abdullah himself either. The angry, almost frenzied, reaction of the Government and Parliament to his alleged activities when abroad must have been known to him and should have warned him that he could hardly expect red carpet treatment when he landed at Palam on May 8. Indeed he must have had a good idea of what was in store for him. The fact that in spite of this he chose to come back within the time-limit set by the Government of India is significant. Some of the wilder charges which were levelled against him when the storm broke in Parliament over his meeting with Chou en-lai (one member of the Lok Sabha actually claimed to have intelligence of a diabolic scheme of Sheikh's to set up an emigre government in Sinkiang!) were really baseless, it is now clear.

The Sheikh did meet the leaders of the countries he visited. In Algiers he also met Chou en-lai though, according to him, only to discuss the implications of Pakistan's border agreement with China which covers parts of Kashmir. He has claimed that in his meetings with leaders and at his press conferences he said nothing that he had not said earlier in this country. It is unnecessary to disbelieve this claim, for the simple reason that Abdullah has stated his position on Kashmir—rejecting the State's accession to India and asserting the right of self-determination of the people of the State—unequivocally enough on numerous occasions since the right of free speech was restored to him last year. It is unlikely that he needed to add anything to this in his talks abroad. Naturally he sought to enlist sympathy and support for his case, but what else did the Government of India expect him to do when it gave him permission to go abroad?

The official press note issued in New Delhi on Saturday explaining the Sheikh's internment tries to maintain the fiction that the Government's permission was only for a pilgrimage though the passport on which the Sheikh went abroad had been endorsed for Saudi Arabia, Iran, Iraq, Jordan, the UAR, Aden, Lebanon, Afghanistan, Algeria and all countries of Europe including the U K, Turkey and the USSR and excluding only Portugal. It is clear enough, therefore, that the question of the Sheikh having abused the purpose of his journey abroad does not arise since this purpose was evidently never stated as being only the pilgrimage to Mecca.

But the merits of the grounds for Abdullah's internment are of little consequence since the country seems prepared to accept the Government's action without question. Indeed the only criticism one heard in Parliament was that he had been merely interned, and that too in some comfort, and not put behind bars straightaway. Given the mood of Parliament, the Home Minister had no difficulty in brushing aside the stray voices of protest like that of Jaya Prakash Narayan who felt that nothing that had so far been said by the Government against Sheikh Abdullah's activities abroad justified the action against him and pleaded that an opportunity should be given to the Sheikh to answer the charges against him. And as for non-observance of democratic proprieties in connection with the internment, it was too much to expect Parliament to protest. Apart from the fact that Parliament is, if anything, more convinced than the Government of the Sheikh's crimes, with about a thousand left communists and scores of others in prison indefinitely without trial, this country has got rather used to such things. Only in Kashmir have there been outbursts of protest but these have been subdued for the time being with sundry loss of life and another hundred or so arrests under the DIR.

Kashmir politics have thus moved a full circle since April last year when Abdullah was released after ten years in prison. His release made sense only on one of two assumptions—either the Government was confident of check-mating Abdullah on the political plane or, alternatively, Abdullah was henceforth to be closely associated with the Government's Kashmir policy. Such association, it was clear enough, would have had to be largely on his terms and, therefore, with a policy different in essentials from the one pursued during the years of his imprisonment. In the first heady months after his release which saw the rapprochement between him and Pandit Nehru and culminated in his visit to Pakistan with Nehru's blessings in search of Indo-Pak unity, there were hopes that an important role for Abdullah in Kashmir was intended. But these hopes died with Pandit Nehru and the Sheikh's estrangement with the Shastri Government grew and the emphasis of official policy shifted to meeting the Sheikh's challenge politically..

In this there has been conspicuously little success, and not surprisingly. A strong movement opposed to the accession of Kashmir to India has emerged. Though formally Sheikh Abdullah is associated with only a part of this movement, the Plebiscite Front, he remains its tallest leader. In these circumstances the formal administrative measures aimed at closer integration of the State with India by extension of Articles 356 and 357 of the Constitution and further erosion of the provisions of Article 370 which confers a special status on the State have had the effect of strengthening rather than weakening the anti-accession movement.

Thus neither of the two bases of official policy which dictated Sheikh Abdullah's release last year has endured. No rapprochement between him and the Government of India has been possible; at the same time, the opposition movement in Kashmir inspired by him has gained in strength. These facts rather than his alleged misdemeanours while abroad are at the bottom of the new turn in the Government of India's Kashmir policy marked by Abdullah's internment far away from Kashmir, the arrest of a large number of his political sympathisers and the banning of that section of the press in the State which has supported him. Unmistakably, Kashmir is moving back to the days of the Bakshi Government which took over after Sheikh Abdullah's fall from grace and ruled the State for a decade—how and with what consequences it is well known.

Weekly Notes

More Indo-Soviet 'Traid'

ONE of the more fruitful areas of Indo-Soviet co-operation in recent years has been economic relations and the current negotiations in Moscow between Asoka Mehta's team and its Soviet counterpart on Soviet assistance for the Fourth Plan will be watched with much interest. It is perhaps more than a coincidence that these discussions are proceeding against the background of a broader review of Indo-Soviet relations by Lal Bahadur Shastri and the Russian leadership.

Soviet assistance to India in the recent past has primarily been in the sphere of basic industry, mining and power; some 'maintenance' help in the form of oil imports has also been made available. The assistance has come in crucial sectors which are important for the realisation of the objective of a self-reliant economy. It is to be expected that Soviet assistance for the Fourth Plan will also be largely confined to the basic and heavy sectors. Apart from Bokaro for which Soviet assistance has been committed in principle, the Indian request is in respect of over 40 projects totalling Rs 400 crores and for non-project assistance of Rs 200 crores. This last item must be regarded as the new feature in the Indian request to the USSR though it fits in with our general preference for non-project aid in our dealings with the Aid-India Consortium.

One of the features that have marked Soviet aid in the past is the slow rate of disbursement, largely because of its project-tied character and technical limitations delaying the completion of projects, apart from bureaucratic delays at both ends. It is to be hoped that in the discussions in Moscow means would be explored for reducing these dalays.

Soviet assistance to India is fruitful not only in terms of its immediate contribution to our development but in the manner in which provision is made for the debt liability to be extinguished. Soviet aid has been generally In the form of 12-year loans—a relatively short period as development aid goes—but the fact that an export expansion is built into the agreement must be regarded as easing the debt service burden. Thus Indian exports to the Soviet Union have risen substantially in the past few years and a wide range of consumer and light engineering goods have been reaching the Russian market at a time when the market itself is being opened up to these goods. Indian tea and jute exports to the USSR are largely additional to what was exported to the traditional markets and the numerous non-traditional exports to the USSR have contributed to a healthy broadening of the commodity composition of our exports.

It is here that the existence of bilateral payments agreements have proved advantageous, irrespective of the canonical objections which the IMF theologians may have to these arrangements. The Western countries who dominate the IMF are quick to condemn these arrangements but do not realise that their own "aid" which is often project-tied and now invariably country-tied also breaches the multilateral principle. It is only when developing countries wish to tie trade expansion to aid receipts that cries are raised in holy horror against denting the multilateral principle. India's export expansion to the Soviet Union is a healthy example of how aid can be both self-respecting and economically meaningful to both the giver and the taker. It is, to use the currently fashionable phrase, a fine example of "traid".

Blackmarket in College Seats

AS the month of May progresses and the results of various University examinations are announced, there will start a frantic struggle on the part of young men and women for admission to educational institutions. The struggle will be the severest for those who aim to be doctors and engineers, despite the substantial increase in the number of medical and engineering colleges (and of annual admissions to each) during the past decade and a half.

The demand for seats in medical and engineering colleges far outstrips the supply and, inevitably, these seats command a premium. The well-to-do are only too willing to pay this premium in the form of capitation fees to make good the deficiency of their wards in terms of academic merit. Speaking in the Rajya Sabha in September 1964 the Union Education Minister had condemned the levy of capitation fees in "certain technical institutions" as "the most scandalous blackmarketing". But the institutions depending on capitation fees continue to thrive, particularly in the field of medical education.

At the last session of the Maharashtra Assembly, the State Health Minister reported a proposal from the Chhatrapati Shivaji Co-operative Education Society of Kolhapur to start a medical college with 100 seats to be financed by a capitation fee of Rs 7,000 per student. Similarly, a medical college is being started in June 1965 in Davanagere, a town of about 78,000 in the Chitradurga district of Mysore, which will charge a capitation fee of Rs 3,000 for local students and Rs 6,000 for others. Last year a medical college in Sholapur financed itself by charging capitation fees at the rate of Rs 8,000 per student—and there was actually a rush for admissions!

Ingenious promoters of institutions levying capitation fees take full advantage of the situation. This is illustrated by a medical college in the South Kanara district of Mysore, associated with the name of Kasturba Gandhi, which charges a capitation fee of Rs 3,000 and annual tuition and special fees of Rs 1,250 and Rs 270, respectively. (The tuition fees in medical colleges in Bombay city are around Rs 350 per year, with special fees amounting to between 15 and 100 rupees). What is more interesting, the payment of the capitation fee in 1964 makes possible reservation *(sic !)* of a seat only for the year 1972; and a waiting list fee of Rs 100 per year, adding up to Rs 800, is collected with the application. But if an

applicant, unable to secure admission in 1964 and placed in the waiting list, subsequently cancels his reservation for a 1972 seat, he forfeits nearly Rs 1,100 from a total of Rs 5,050 paid with the application. Of course, an offer, made in good time, of a 'donation' of Rs 10 or 11 thousands is reported to ensure immediate admission to the college.

The prospectus of this medical college in South Kanara reports, with due quotations, the blessings of the ex-Chairman of the UGC and of a former Union Health Minister. Further, while the present Education Minister last year expressed his determination not to let "even one anna of Government revenue" go to institutions levying capitation fees, the Union Government has in fact reserved 15 seats in the college by making three *ad hoc* grants of Rs 5 lakhs each. Of course, medical colleges are under the jurisdiction of the Health Ministry, but it is surprising to say the least that grants to such institutions go unnoticed by the Members of Parliament or the Public Accounts Committee.

Thanks probably to the initiative of the Education Minister, the Central Advisory Board of Education recommended last year that in future all medical and technical colleges should be started only by the Government. Only two States—interestingly enough, Mysore and Maharashtra—had some reservations about this. But there have been vociferous protests from the vested interests—including the All-India Conference of Headmasters of Schools early this year. One hopes that the Union Education Minister will stick to his stand and ensure that the principle of equality of opportunity in education is not made a mockery of by permitting educational institutions to discriminate in favour of those born with silver spoons in their mouths. Energetic action in this direction should not be held up because of the specious arguments of vested interests that capitation fees are a way of making costly medical or technical education "self-financing", or that the self-relying private colleges lighten the burden on the public exchequer. After all, the quality of education in colleges depending on capitation fees is, generally speaking, sub-standard; and some at least of these colleges will need to be taken over by the Government after a few years. The levy of capitation fees should be made a criminal offence and Universities should be directed to withhold or cancel recognition to institutions charging such fees.

Uninformed Criticism of IFC

THE 36th Report of the Estimates Committee had made some damaging remarks on the operations of the Industrial Finance Corporation, particularly its underwriting activities. Now the Finance Ministry in its explanation to the Public Undertakings Committee of the Parliament has sought to re-affirm the validity of the IFC practices.

This perhaps is inadequate, for, in their origin, the remarks of the Estimates Committee, to say the least, were misconceived. Underwriting, being a riskier form of operation, is also lucrative, as the operations of ICICI, which has always considered this to be one of its primary functions, show. Unfortunately for IFC, it entered this business in the downward phase of the capital market when the public got disenchanted with ordinary shares. The consequences of this slump for IFC as for other underwriters have been terrible. However, given the state of the capital market an underwriter did not need any special expertise or lack of it to be landed with a large percentage of the shares underwritten—or, to use the pompous phrase of the Estimates Committee, to find that a large proportion of the shares it had underwritten had "devolved upon it" (committee reports in India would provide excellent research material for Sir Ernest Gowers!).

However, what is the function of an underwriter but to be available to bear the risk in difficult capital market conditions? And would not promoters seek their services more readily in such times? It would have been surprising to see an underwriter who always managed to pocket the underwriting commission without being called upon to take up any shares. What is responsible for the underwriters having to take up almost the whole amount underwritten is, of course, the general depression on the capital market. The setting up of the Industrial Development Bank is recognition by the Government of this fact as also of the inadequacy of underwriting facilities on the Indian capital market.

The remedy for the present situation is not for IFC to withdraw from the underwriting field as is implied in the Finance Ministry explanation but to remove the special disability which prevents IFC (and also SFCs) from holding shares for more than seven years; after all, IDB, which is Government-owned at only one remove, is not subject to this limitation. Because of its late entry in the underwriting field, IFC missed the 1960-62 boom and the profits available in that period; the consequences are most clearly seen in the relatively unprosperous accounts of IFC.

The Estimates Committee also had something to say about the geographical distribution of IFC's assistance. Here again a finance institution like IFC operates within a given framework —the choice of location is that of the entrepreneur, subject in India to the Government's approval under licensing procedures. IFC's portfolio does show a comparative weightage in favour of underdeveloped States. If further weightage is to be given—though one is not sure of its desirability—a beginning would need to be made with Government's licensing policies.

The Committee's Report raises one more question: the limits of its own competence. While it is a watchdog for the Parliament and the demands for grants sanctioned by it, the Estimates Committee often tends to go into policy issues, and blithely makes criticisms and suggests policies, a task which had better be left to expert committees. Some of these criticisms, as in the case of IFC, are wholly unjustified, but the damage done to the institution sticks. Restraint in recognising the true limits of its functions would earn the reports of the Estimates Committee more attention.

Japan and Viet Nam

A Correspondent writes from Tokyo:

AMERICAN prestige and popularity in Japan are just now at their lowest ebb since the riots against the US-Japan Security Treaty in 1960. Japanese reaction against US Viet Nam policy has been sharp. Even leading Liberal-Democratic (conservative) politicians have been urging the United States in private to stop the bombing raids on North Vietnam. The entire intellectual community, almost without exception, is against American policy, and the Socialist Party and its affiliated trade union federation have been particularly vociferous in opposition.

There have been a spate of demonstrations against the US. The largest of these demonstrations, which included a massive rally and a march to the American Embassy, brought more than 60,000 people into the streets under the leadership of the Japan Socialist Party. The militant Zengakuren (National Federation of Students) participated in these demonstrations. The students have been aiming their attacks both at the United States and at the Japanese government of Prime Minister Sato, which Zengakuren accuses of being servile to the Americans.

In addition to the organisations which can usually be counted on to participate in anti-American demonstrations, the Vietnam issue has involved many independent intellectuals. In a public meeting addressed by several respected writers and the Saigon correspondent of the *Ashai Shimbun*, Japan's leading newspaper, several intellectuals called for a peaceful solution of the Vietnamese issue. One official of the American Embassy in Tokyo afterwards admitted privately that US popularity seemed to have dropped very low in Japan.

In Japan there seems to be some racial feeling connected with the Vietnamese issue, since many Japanese recall that the atomic bombs which were used against Japan were aimed at Asians, and that similarly the chemicals now being used in Vietnam are aimed at Asians. Primarily, however, the Japanese are against the war in Vietnam and generally fear further escalation. They are less concerned about the exact political solution of the problem. The demonstrations, and most of the discussion of the problem as well, have a strong emotional strain.

The Japanese Government, in the meanwhile, has continued to tacitly support the American policy, though with scarcely veiled discontent. It is unlikely that the ruling conservative Government will make any sharp break with the United States, particularly at a time of negotiations with the United States over fishing rights. Nevertheless, it is clear that politically aware Japanese of almost every colour are very much against United States policy in Vietnam, and that the Americans have lost much of the goodwill built up in Japan so carefully since the political crisis of 1960.

Tourism: Costs and Benefits

INCREASING affluence and easier travel have helped to send larger numbers of North American and European pleasure travellers to the Orient, and India has had a share in this expanding tourist traffic, though this share is just under half per cent. A lakh and half foreign visitors came to this country in 1964, a year when world tourist trade touched its highest level. There has been an upward trend in our tourist traffic — in the last seven years it has increased by more than 300 per cent and stands today as our fifth most important foreign exchange earner. It is natural, therefore, that the potential for growth in this sector should have received much attention. The Jha Committee made a detailed study of the problem and made many useful recommendations — most of which have been accepted and are being implemented.

The Indian Travel Congress which held a four-day session at Srinagar last month focussed attention once again on the problem, but its recommendations and suggestions added very little to what is common knowledge. Voicing the private sector's apprehensions over the encroachment of the public sector in the commercial activities connected with development of tourism, the Congress predictably enough opposed the two proposed new Corporations — the Indian Tourism Hotel Corporation and the Indian Tourism Transport Undertaking. It also came out against the proposal to invite foreign collaboration in the hotel-trade. Instead, it pleaded for liberalising imports and asked for the establishment of a high powered body to lay down policies.

Is the problem mainly one of inadequate implementation and lack of coordinated effort as the deliberations of the Travel Congress and discussions in the press seem to imply? The achievements of the Department of Tourism, while not spectacular, are not insignificant. The Centre and the States have assumed greater responsibility for increasing the availability of accommodation, and much has been done by the Tourist Development Council to lessen irksome formalities. The coupon scheme introduced in 1960 which enables a tourist to buy films, tobacco, alcoholic drinks, etc; the endorsement of visas for liquor by our foreign consular offices; the opening of duty-free shops at important airports for tourists; the relaxation and simplification of customs formalities; the proposed creation of a special customs officers' pool to deal with tourists; and the curbs proposed to be put on the activities of unrecognised travel agencies — all these are steps in the right direction. There has been some activity on the publicity side too. True, not all the Third Plan targets relating to the development of tourism are likely to be fulfilled and there will be a large shortfall in outlay, but still a beginning has been made. The existing agencies, viz, the Tourism Development Council and its zonal committees, the Standing Committee and the Coordination Committee can well handle the problem. The need for another super body as proposed by the Travel Congress does not appear to be urgent. Similarly, the public sector's entry into the hotel trade is unavoidable; the private sector has been unable to reach its targets and the extent of the effort needed can be judged from the estimate that by 1968 we would need an additional 9,000 beds to keep up with the growth in tourist traffic.

More Information Needed

AS an important foreign exchange earner, development of tourism should receive high priority but it can be hardly considered in isolation from the development of the economy as a whole. It is pertinent to consider, for instance, how the development of tourism would affect domestic priorities. Building materials and transport equipment may be urgently needed elsewhere. The opening of duty-free shops, imports of articles like films, cigarettes and air-conditioned coaches and promotional activities abroad involve expenditure of scarce foreign exchange and the question naturally arises; what is the benefit? Is it likely that in the short-run these expenditures will yield spectacular gains, as is often claimed? In other words, it is necessary to lay down a rational plan for the development of tourism on a cost-benefit basis. The Department of Tourism did undertake such a survey in 1962 but the results have not been published and many important questions remain unanswered. Take the current controversy over the luxury-hotels scheme. Much of the talk is based on casual impressions and none of the relevant data needed for a decision are available. If indeed it were true that a large proportion of our tourists belong to the high spending category, there would be a case for wooing them by providing for their needs at the level they expect. Yet it is often mentioned (with how much truth we don't know) that the luxury-hotels cater mainly to the wealthy among the indigenous population. Do we have any information to indicate the type of accommodation preferred by the majority of the tourists? If what most of the visitors ask for is only reasonable efficiency and general cleanliness, it is certainly a waste of resources to give them luxury, unasked for.

There are other problems too. Even assuming that visitors are pleased by our ostentatious display of luxury, these islands of cleanliness and of

high standards of comfort can have little impact for the growth of tourism in surroundings of general squalor and poverty. We come back to the problem that the process of developing tourism must inevitably be a part of general economic and social development. There is some truth in the sceptical remark that more hotels, more roads and extraordinary courtesy can act only negatively: in not discouraging the prospective visitor. What matters is whether the visitor thinks the country is worth a visit.

That some thinking has been done on tourism cannot be denied. Some efforts have also been made to maximise returns from use of scarce resources as is evident from one or two instances. The decision to select a few centres of tourist attraction and concentrate on their intensive development is one such. The Indo-Japan agreement to exchange publicity and to form travel deals on a package basis are other examples. What we need is an integrated overall plan along these lines, keeping in view the inevitable limits of an economy like ours.

LETTER TO EDITOR

Foreigners, the Only Experts

PLEASE transmit to Romesh Thapar belated congratulations from one so-called "foreign expert" on his satirical "Foreigners, the Only Experts" (*The Economic Weekly*, March 20).

An autobiographical anecdote will illustrate my, and also his, point. Negotiations were commenced to bring me to India as a visiting economist a few years ago. I visited India to look the situation over. I found literally dozens of brilliant young Indian economists, who were my equals or superiors in economic and statistical expertise, who could be employed far more cheaply than I, and who in addition knew something about India.

The funds involved in hiring me would have been 95 per cent wasted. The talents of my younger Indian colleagues would likewise have been 95 per cent wasted—waiting for their seniors to retire, I'm afraid.

And yet, when I broke off negotiations and suggested employment of Indians in my stead, my motives were apparently interpreted (from the Indian side, mind you!) as expressions of anti-Indian prejudice. I didn't appreciate India, and so I wouldn't come.

Incidentally, what is said here of India is true of many other countries. Neither in India nor elsewhere, in my view, is it entirely the foreigners who spread the view that they are "the only experts."

May 5. FOREIGN EXPERT

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CAPITAL VIEW

Why We Did Not Hit Back in Kutch

Romesh Thapar

A RATHER tense and anxious Lal Bahadur left for the Soviet Union. All kinds of ill-founded statements are circulating about his role at the height of the Kutch crisis, statements which suggest that he alone is responsible for the GOI's failure to act in the face of Pakistani aggression. Certain well-known 'get-tough' elements in the ruling party are also playing with the idea of a possible change in the leadership in the coming months. Intelligence reports point to a sharp decline in the prestige of the Centre throughout the country, more serious than in 1962. Indeed, it looks as if powerful influences are at work somehow to pillory the political leadership for the failures of the past few weeks.

Who Was Curbing Whom?

All this needs honest and careful study. Actually, when not muddled and confused by the very selective and angled briefing of his Secretary, L K Jha, who is now tempted to play a role beyond the once-strict limits prescribed for a bureaucrat, Prime Minister Lal Bahadur has measured up to the crisis. From what I can gather, the inaction was dictated by an army staff which sought to rationalise its lack of preparedness by a continuous harping on the dangerous side-effects of a confrontation. In fact, ballots of a kind were conducted at Army Headquarters to locate the 'hawks' and to persuade them to become 'doves'!

The first indication received of something amiss in the calculations of observers was when it was learned that there had been separate briefings by Army Headquarters for foreign and Indian correspondents. In private, the foreigners were told that the army was curbing the politicians. The Indians came away with the 'news' that the politicians were curbing the army. The provocative nature of the briefings gave birth to the story that army resignations were in the offing, including that of the still passive Defence Minister.

Next, we were given what sounded like a very logical army point of view —that there should be no political pressure to compel the army to fight in the Kutch 'trap', that the army be free to choose its point of counter-attack. This, too, seemed reasonable; although some of the more knowledgeable did argue that the army should punish the Pakistanis only on the Kutch front and then withdraw during the monsoon months to a proper defensive line, for to hit the enemy elsewhere would mean a general conflagration. Yes, there's no denying that there was ample time to do the punishing before the Rann of Kutch became impassable.

It was at this stage that the Prime Minister took the decision to permit the army the freedom to decide its course of action. Once this was made known in Parliament, the U S military mission in India got to work. The 'considered view' was expressed that the Indian army would be 'licked' if it sought battle with the Pakistanis, that it was wrong of the politicians to push the army into such a situation. There was, moreover, complete silence on the use of U S equipment by the Pakistanis. It was made apparent to our army staff that western sympathies were willy nilly with Pakistan and that the consequences of an Indian counter-attack would be far-reaching.

Paralysis at Army Headquarters

The growing paralysis at Army Headquarters—heightened by an inexplicable interest in the transfer and retirement of senior officers—was reflected on the Kutch front. A group of correspondents visiting the area were told by the local commander that air cover was being denied, that tanks were withheld from the front and that forward strikes had been prohibited. A defensive strategy was being adopted on the plea that the topography of the Rann of Kutch favoured the Pakistanis, although the local command refused to accept this very limited view. This part of the story was published piecemeal, both here and abroad. But, and here's the rub, the responsibility for inaction was placed on the politicians at the Centre!

Time was running out for a punishing counter-attack in Kutch. At this point, the army staff, sensing the angry mood within Parliament and the defence services, began to ask the loaded question whether the country was for 'total' war or not. The projection of a choice of this kind was obviously intended to reinforce the *status quo* even at India's expense. The country had demanded earlier that the armed forces punish the Pakistanis on the Kutch front, for such punishment was *least likely* to lead to an escalation of the conflict. The army staff demanded freedom to hit elsewhere. This freedom was granted. Now the army staff warned against a 'total' war and its consequences. The implications were clear—and now there is little to stop the gossip in the living rooms of Delhi.

The timing of this complicated tactical and strategic chatter in the Capital became most significant when British Prime Minister Harold Wilson launched his peace moves. The political leadership knew that it had been cornered by the cautious argumentation of the army staff. There seemed no alternative except to work out the details of an honourable disengagement irrespective of criticism from within the ruling party and without. But again, the GOI showed firmness in resisting a blackmail peace so persistently urged upon it by certain civil and military careerists who reflect the thinking of various active Western-oriented lobbies in the Capital.

PM Must Correct Wrong Impression

It is comparatively easy to smear the political leadership of the country with the failures of the services, civil or military, and it has become a popular pastime in certain circles. For this same reason, the Prime Minister needs to correct the false impression so assiduously publicised that he prevented the punishment of Pakistan. This would have an important bearing on the morale of the nation and its armed forces. Once again, we find ourselves urging that the lessons of this unhappy experience be digested. But on this occasion, as against 1962, we must go beyond mere urging and demand action to cure the sickness which saps our strength.

The sickness is our lack of self-reliance, our increasing dependence on nations who in moments of crisis are always found wanting. Once the attack is launched on this sickness, we will find that it is of paramount importance to purge our ministerial and administrative set-up of all those elements who stand in the way of a full mobilisation of our resources and manpower and the full assertion of our sovereign rights. The story of these last few weeks—or 'Operation Poppycock' as it could be dubbed—should

unite wide sections of our people for a hard-hitting programme of national revival. To be satisfied with anything less is to invite the destruction of our political institutions and perspectives, even the unity of this sub-continent.

There may be a great deal in the argument that the politicians have failed to apply their energies to the business of demarcating and guaranteeing our borders, that great strains have been placed on the civil and military services in the course of these last few years, but the fact remains that the temper and fibre of these services no longer reflect the aspirations of our people. Over the years, a new, insensitive caste of civil and military bureaucrats has grown up, interested only in its self-preservation and unmindful of national interests. We have tolerated these elements, for until recently no real threat developed to challenge the future of this country. This is no longer true. We need men of a different mould to shoulder the grave tasks of the critical period which is now unfolding and to inspire the people.

The present political leadership is not unable to perceive the need for a drastic overhaul of the present system of running the State, an archaic system left behind by the British with a heap of irrelevant rules and regulations which destroy dynamism at every level, but there is confusion as to how this system has to be reorganised. Confusion will persist, so long as efforts are not made to initiate changes. It is possible to move from one level to another to show the incongruity of it all. It is for the ruling party to constitute a body which will begin this reorganisation, which will modernise the rules and regulations governing administration, which will open the way for the recruitment of experts for specific jobs, which will free the initiative and spirit of the administrator who has become over the years an unthinking, mechanical robot.

A people cannot be galvanised by talk alone. They must be able to get a glimpse of what the future holds and be inspired by the firm belief that nothing will be permitted to dim that future. If 'Operation Poppycock' does not open our eyes, possibly nothing will. But maybe, Lal Bhahadur's eyes have been opened. Maybe, on his return from the Soviet Union, he will launch this long-awaited quiet revolution—a revolution which will convince us that it is better to die on our feet than to live on our knees.

How Not to Set up and Run a Project

Arthagnani

THE Sixth Report of the Committee on Public Undertakings on the Fertiliser Corporation of India is an interesting treatise on the methods of working of a public corporation, and, for any protagonist of socialism through public sector undertakings, makes sorry reading. For here are collected, in the short space of 100 pages (the rest are annexures and summary of findings and recommendations), perhaps all the follies that can be committed in setting up and running an industrial enterprise—wrong location (Namrup), underestimation of capital cost (all the individual projects under FCI), delays (Nangal and Trombay), lack of inventory control (Sindri, Nangal); the list can be continued *ad infinitum*. This is particularly distressing as Sindri Fertilisers, which provided the nucleus for the subsequently formed Fertiliser Corporation of India, is the oldest modern industrial undertaking set up by the Government.

The Fertiliser Corporation has under control six undertakings: Sindri and Nangal (in operation), Trombay (almost completed) and Namrup, Gorakhpur and Korba (under planning). It is interesting to examine the performance of FCI in respect of these projects under the following heads:

Land: Evidently, all the projects have been lavish with the use of land (p 85). At Sindri there is one house constructed per acre of land, the argument being that land is cheap. Even at Trombay, FCI thinks it necessary to provide housing to 96.9 per cent of its workers. The cost of township formed 12.6 per cent of the total cost of project at Sindri, and 12 per cent at Nangal. Surely this must be a civil contractors' paradise.

Construction Period: From the conception stage to completion, Sindri and Nangal took considerable time. The periods envisaged for Trombay, Namrup and Gorakhpur are about 5½ years (p 46). The Committee cites the estimate of the UN Fertiliser Team that a fertiliser project in India should take 35-47 months to complete. It does not cite the fact that in advanced economies the actual time is much smaller, less than two-thirds of this. Apparently, almost each decision in India gets bogged down by delays in administrative procedures and sanctions.

Capital Cost: The capital cost of all the projects has been high, higher than original estimates (pp 44, 45) and higher than the recent estimates submitted by Bechtel Corporation. The costs have been inflated by the large element of township costs and by administrative delays and consequent rise in overheads.

Staffing and Inventories: This waste of capital is most clearly noticeable in staffing and in inventory holding practices. The number of personnel employed at Sindri was 8,103 and at Nangal 3,429; even Trombay which is still to go into production has already on its roll 1,543 persons against a total strength of 1,803. In this, of course, FCI is not unique. Visiting the Heavy Engineering Corporation, one can see people sitting idle or loafing about. This not only increases the running cost of the projects, but, when one relates it to the housing policy of FCI, also the capital cost—and the real resources which go to constitute this capital cost.

Inventory control is apparently something which a civil servant does not understand. There are instances given in the report of stocks not being properly accounted for (p 12). And inventory norms are not maintained so that there is unnecessary accumulation of stores and spares much of it imported. The Committee cites an instance where for fear of the generator at Sindri giving way, huge supplies of spares were ordered—and continue to be held (p 16). To a civil servant, evidently safety of maintaining huge stores is more important than economy.

Other Matters: There are a host of other instances of what in business parlance would be called pure and simple mismanagement. There are references to supplies being obtained without contracts being finalised for gypsum for Sindri; rise in electricity rates at Namrup and Trombay from those envisaged at negotiation stage; and the inter-ministry squabble over the transfer of Rourkela fertiliser to FCI. Civil servants apparently are more adept at standing on their rights and dignity than in managing an industrial enterprise.

Wider Issues

The Report also throws up issues which are of wider significance, relating to the role of public sector in economic development. These relate to (a) production planning and designing facilities, (b) management of public sector enterprises, and (c) their contribution to plan financing.

(a) Sindri is the oldest of the modern public sector units, and with an experience of almost fifteen years, could have been expected to act as a nucleus for the country's fertiliser programme. FCI has a Planning and Development Division under a general manager (that is, at the same level as the general managers of the production units), and spends annually Rs 37 lacs on this Division (p 62). However, apparently so far there has been little return from this Division, considering the fact that Trombay was wholly foreign designed and financed. And it was left to a foreign consulting firm to suggest a large fertiliser programme and to undertake its designing. This lack of initiative is also evidenced by the fact that the development of indigenous manufacturing capacity for fertiliser plants has been small (in contrast, one can refer to the fact that sulphuric acid and super-phosphate plants are almost wholly fabricated in India.)

(b) After almost 15 years of planning, we do not seem to have solved the problem of a proper management pattern for public sector undertakings. The Committee refers to the fact that the present managing director of FCI was given extension as no suitable replacement was available (p 52) and that the general manager of Gorakhpur reverted to civil service where his prospects improved with the extension of the retiring age (p 66).

The only systematic study of management staffing of public sector undertakings done is that of H K Paranjape —apart from forays by civil servants like Khera into the field, which have little value. It is unfortunate that Paranjape recommended the disbandment of Industrial Management Pool. Evidently, we still seem to believe that civil servants are omniscient and can do any job. In contrary evidence, the Report on FCI provides enough material. Civil servants like to play safe (example: huge inventories), lack initiative (example: the state of the fertiliser programme) and show little responsibility (examples: all the explanations offered for the shortcomings found out).

Apart from this, the practice of inter-change between civil servants and managers of public undertakings also sets up certain inherent counter-pulls which make for inefficient and stagnant management. A civil servant in a managerial position is constantly watching over his prospects in the civil service, and he, therefore, becomes a convenient tool in the hands of superior civil servants whose hold on the management of the undertakings is considerably increased. It is, therefore, necessary that a complete division be enforced between the two, and that a manager in a public sector undertaking should look for prospects only in the management field (either in the public or the private sector). It would then be possible to judge his ability by management criteria and not subservience to departmental fiat.

So also there is need to re-examine the constitution of Boards of Directors of these undertakings. Despite the recommendation of the Krishna Menon Committee, secretaries manage to get themselves placed on these Boards, and, being wholly innocent of management standards and busy with departmental functions, fail to do the job well.

(c) Given the lack of financial management, it is not surprising to note that the planners had failed to consult the managing director of FCI before setting up a target for FCI's contribution for plan financing through public enterprise surplus. After all, this has to be taken as a norm (though one would certainly like to know how the planners went about setting it). FCI claims that against the planned Rs 33 crores, the actual surplus would be Rs 41.32 crores for the Third Plan period.

Conclusion

However, the point is not that the norm was exceeded but that in fact there have been considerable waste of capital (townships), delays and increases in construction costs and additional drawal of funds for financing expansion. One has only to examine the case of Hindustan Aluminium, an initial Rs 20-crore project, which is able to double its capacity by taking an additional outside loan of US $11 million.

If public sector enterprise is to be run efficiently it would be necessary to set various norms—capital cost, inventory control, production cost, personnel policy—to which its managers should be made subject. After all, excluding management staffing, none of the problems of FCI, mentioned in the Report, are specific to public sector; private sector faces these problems—delays in sanctions, rise in costs—with equal intensity, and without the direct lines to Government machinery which administrative camaraderie makes possible for managers of public sector enterprises. What these managers lack is commitment to the job. However, having been so inefficient in the jobs entrusted to it, does not prevent FCI from wanting to take up distribution itself; evidently this sort of bureaucratic empire-building is what our civil servants are very good at.

The Report, while it brings out the deficiencies in FCI, is itself not well-organised, loses itself in petty details, lacks perspective, and does not provide a constructive base for proper management. Its suggestions, to say the least, are puerile, and it abounds in platitudes.

Two further points naturally suggest themselves from a perusal of the Report: First, at present, with quantitative restrictions providing a natural protection to industry and price decontrol making price-fixation unnecessary, the Tariff Commission has not many rational jobs to do. It would be good to bring all public sector enterprises under the Tariff Commission's scrutiny; it has excellent costing staff and procedures, which would help to make a thorough analysis of the efficiency of these units. This could help to establish the norms for the units examined and for the units to be established. Second, it is necessary that the Reports of the Committee be studied, say, in the Planning Commission so that a list of common deficiencies be established, and action taken to remove them.

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How to Remember Tagore

PERHAPS it says something for Bengal that, 104 years after his birth and 24 after his death, Rabindranath Tagore should be elaborately remembered in every centre in the State with any pretension to culture. In Calcutta last week there were special numbers of weeklies and supplements to dailies; all about Tagore. The ritual has come to wear a routine appearance, admittedly; but those who care for Tagore music — and, very important, can follow the words — the 25th of *Vaisakh* is never like any other day. Amatory, hortatory, religious, now specific and then gossamer-like, Tagore's songs to Bengalis have for years now been aphrodysiacs, tranquilisers and temporary excitants, all rolled into one. On Saturday last week, Calcutta's most cosmopolitan part, with the Bengalis in a minority, heard a fair number of these songs which they could not follow; and there was a reason for it.

It had been decided that the Tagore birth centenary year would produce a Tagore theatre in every State capital. With customary efficiency in the administration, the project was delayed just about everywhere. In West Bengal, Tagore's home state, Rabindra Smarani was not ready full four years after the centenary year. The Government, therefore, decided that the auditorium could not be used for celebrations this year. The engineers were probably right in not letting the stage under construction being used. The protestors, who included Satyajit Ray and others of considerable local fame, were perhaps equally right to hold their celebrations on a lorry parked on Cathedral Road. The presence of a few female film stars helped the show.

Above Politics

There is no question about it that some people wanted to make political capital out of the row over the Tagore theatre. The parties, one suspects, included the Congress and its Government. The thesis of this piece is that Tagore was not above politics, never. Nobody could be, in those days; and it is quite unnecessary to refer to Tagore's renunciation of the knighthood. That was the least of his political acts. Where he was culpably political, from the British point of view, was when he questioned the very basis of Western civilisation, when he rejected the need for English as a medium for education in this country. (Little did he know what seeds he was sowing.) His rejection of an urban, industrial civilisation was as sentimental, although we are only now beginning to discover the primacy of agriculture in the Indian economy. It is of a piece that he was the first to see a Mahatma through the rustic exterior of Gandhi and yet ruthlessly to criticise the anti-art, anti-life aspects of Gandhism.

In "The Crisis of Civilisation", Tagore's last testament, there remains the severest indictment of British rule in India; yet the two phenomena, ruling and being ruled, are seen in the world perspective. Africa is brought in. Then there is that prophetic reference to the debris that imperialism would leave behind; for the former rulers and the lately emancipated, it was a crisis in civilisation; for the ruled and lately freed, it was going to be a crisis of character.

The Controversialist

The story is told of two relatively young disciples of Tagore who were once found walking slowly with a stoop much like the ageing Poet's. Tagore sent for them and admonished them for imitating the postures age had inflicted on him against his will and native character. This may well be symbolic of all that has been seen in Bengal in its recent decades of decadence. Albeit in his measured, elegant and sophisticated manner, Tagore participated in every major debate in his lifetime; Mrs Eleanor Rathbone's sole title to immortality may be that Tagore found the time to reply to her denigration of India. As a young and ardent Brahmo, and a secretary of the Samaj, Tagore was tireless in arguing the toss with neo-Hindu obscurantists, not excluding Bankim Chandra Chatterji. To have turned this rebel into a saint, aloof and apart from the living world, interested only in ethereal poesy, may well have been the worst disservice at once to Bengal and to Tagore.

Against this background it was good to see last week some of Bengal's foremost writers, directors and actors and actresses come out into the open in protest against a senseless bureaucratic measure affecting the arts. Satyajit Ray's politics have never been easy to identify; Premendra Mitra was never known as a leftist, though Utpal Dutt is; Manmatha Ray was for years a Government servant. Yet they all joined the demonstration on Cathedral Road; and the unity made one think of an artistic I N A against the insensitive Establishment we have today.

Banner of Revolt

Tagore never went to gaol, except once or twice to administer orange juice to a fasting Gandhi; nor were there any arrests on Saturday by the police, who only wanted to stop the procession going to the unfinished Rabindra Smarani. Yet a confrontation there was, between a fading and distorted memory of greatness and a growing and increasingly more arrogant distortion of what freedom was meant to be. The hot May sun did not prevent the artistes from gathering on the maidan; the trees provided the shade. This combination of grace and strength was perhaps the essence of Tagore's life; and it was good to be reminded on Saturday morning that the two could happily co-exist in a single man. Indeed, perhaps the two could not exist in separation.

It may seem idle to some to hear of the strength of Tagore, who never lived to see India free. Free he was because of his inner strength which no extraneous force could daunt or dim. It was this very personal self-confidence and self-respect which Tagore wanted each of us to cultivate in preference to collective assertiveness. Thence also came the grace, for collective assertiveness is frequently a coarse display, besides being often an indication of individual inadequacy. On Saturday the writers and others collected all right on the *maidan;* their separateness remained obvious. Ironically, as the police were preventing the artistes from entering Rabindra Smarani, Sinha the Education Minister and Atulya Ghosh the party boss were speaking at functions celebrating Tagore's birth anniversary. It is not true that the Organisation Men's do's were more successful.

—Flibbertigibbet

What to Do with Sheikh Abdullah

Balraj Puri

This article was written before Sheikh Abdullah was interned at Ooty, but the internment does not answer the question: what are we going to do with Sheikh Abdullah and with the forces represented by him?

The Sheikh has evidently grown less amenable and manageable since his release from jail a year ago. At the same time, let it not be forgotten that the gap between him and the rest of the country was not always so wide. Nor was his political position in the Valley always so well consolidated.

This is, in fact, an occasion to look back over the years to discover which of the lost opportunities are not irretrievable.

ONLY in May last year Sheikh Abdullah had expressed the conviction that a basis existed in India for the kind of settlement of the Kashmir problem that he was working for. There was, he had said publicly, no basic difference between him and Prime Minister Nehru—"the differences existed only in the imagination of some people". The formula that he took to Pakistan had obviously the blessing of Nehru.

Nehru-Abdullah Entente

It is not difficult to surmise the possible basis of settlement that Abdullah had discovered in New Delhi. On May 11, 1964 he had declared that in spite of 11 years of incarceration, he stood by every commitment and agreement made by him until the evening before his arrest, viz, August 9, 1953. Taking note of this offer, Nehru, in the last Press Conference of his life, reminded his listeners that "before his arrest, accession of Kashmir to India had been more or less completed". At the ideological level also Nehru found common ground with Sheikh Abdullah when he acknowledged, while addressing the AICC session in Bombay, that the Sheikh "is wedded to the principles of secularism and does not wish anything to be done to vitiate these in any way. He does not believe in the two-nation theory which was the basis for formation of Pakistan".

On their attitude towards Pakistan the two leaders seemed to have a broad measure of agreement. Abdullah had endorsed Nehru's plea for a coming closer of India and Pakistan "even constitutionally". "If Sheikh Abdullah", Nehru had said in his AICC speech, "can help in bringing this about, he will have done a great service to both the countries. We will have to help him in this attempt". Apart from agreement—however broad—on the "basis of settlement", on ideology and approach to Pakistan, the warm emotional rapport that the two leaders had re-established was of crucial importance.

All this seemed—more so in retrospect now—too good to be true. The difficulties in the way of a final settlement were indeed formidable. But there was reason to hope that tensions would be further reduced and the area of agreement would be gradually enlarged, and would remain in any case larger than what Kashmiri leaders could discover across the border.

Within a month of the death of Nehru, Abdullah declared at a public meeting in Srinagar that "India has dug its own grave in Kashmir". Though after another round of talks in New Delhi he felt that the "climate for the Indo-Pak amity mission was good" and was happy "that things are going satisfactorily", frustration was not long in coming. "It was futile", he soon said in Srinagar, "to expect anything from the rulers of Delhi or to appeal to them on the grounds of justice, humanity or morality. Time for such things has passed".

Why Liberalisation Failed

Politically and ideologically Sheikh Abdullah now moved away from India. On the plea that only those countries were friends of Kashmir that supported its right of self-determination, he moved closer to Pakistan and eventually to China. When he started addressing his political appeals exclusively to Kashmiri Muslims, he also made a significant departure from his earlier secular stand.

Is it just that Abdullah has finally come out in his true colours? If so, why had he assumed "false" colours in the first place? Or has he cut his nose to spite India?

There may still be some in India who regret that Sheikh Abdullah has not been tackled properly. Others, far more numerous and vocal, feel that appeasement has gone too far. Yet the two viewpoints need not be exactly contradictory, for appeasement is hardly the best way to tackle an honourable man. The fact remains that Abdullah is still a problem. He has neither been won over nor rendered politically ineffective. And the fate of the last one year's experiment in what has been called the policy of liberalisation has damaged the prospects for a third course besides appeasement and suppression. But was this policy really foredoomed to failure? And can it not still be rescued?

The year 1964 does mark the freest year of Kashmiri politics. But if it could be said during the Bakshi regime that people were not to be satisfied "by bread alone", it can be said now that they are not to be satisfied "by freedom alone" either. Why did freedom fail to satisfy and what supplementary measures are needed to make it satisfying?

If the people did not feel obliged to be grateful to the new regime in Kashmir, it was because it could hardly dispel their impression that they had earned their freedom through the grace of the holy relic (the loss of which had occasioned a massive upheaval in the valley) and as a result of demonstration of their strength and the exigencies of the international situation. The party in power, in fact, did not get an opportunity to claim credit for the liberalisation policy, for the opportunities offered by greater freedom of the press and speech were almost entirely monopolised by Abdullah and other opposition elements. Abdullah was released at a time when the only political force that had been allowed to exist during his absence under the command of Bakshi Ghulam Mohammed had been disarmed. The political machinery at Sadiq's disposal was either paralysed or owed allegiance to its creator, the Bakshi.

Abdullah's Problems

The situation, however, had its own compulsions for the Sheikh also. He had to lead the crowds which, after being embittered by the masterly mishandling of the relic agitation in the preceding months, had been told to believe that India was fast retreating. Having fitted into their mood, he could neither meet their demands nor keep them at the high pitch of excitement. For a while illusions of some progress were kept up. Afzal Beg confidently predicted plebiscite within a year. Soon disillusionment started. The same

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speeches with the same arguments by the same persons could not hold popular interest at the same level. Controversy also started about the objectives of the movement. Those who did not want to completely antagonise India became lukewarm. A more serious challenge to Abdullah's supremacy was, however, posed by Maulvi Farooq, who wanted the options at a plebiscite to be confined to accession to India or Pakistan, ruling out independence that is supposed to be Abdullah's objective. Violent clashes between the two factions exhausted some of their energy and provided an opportunity to G M Sadiq's Government to assert itself. Abdullah made a desperate bid to steal the thunder of Farooq. In his assured and confident moments he is an excellent exponent of secularism and Gandhian ideals. But when in a tight corner, he does not hesitate to fall back upon Kashmiri chauvinism, religion and sectarianism.

Further, through the understanding and friendship that he was able to revive with Nehru, during the latter's last days Abdullah could, for a while, aspire to a wider role for himself and his people. He failed to set up a similar rapport with the new rulers in New Delhi. The only role he got outside the valley was membership of the 100-man Nehru Memorial Committee, which was arranged by some of his friends. But he was not given any assignment on any of its numerous subcommittees. He then exclusively concentrated on the valley to regain his political importance. When he found challenges to his position in the Valley also, he did not hesitate to manoeuvre —politically and ideologically—to conquer his opponents. The nature of the manoeuvres was determined by the direction from which he received the most serious challenge and there was as yet no political challenge or even noticeable political activity by the ruling party in the Valley.

Part of the Sheikh's difficulties were due to his peculiar political position. Broadly speaking, he seemed to rule out an exclusive relationship for Kashmir with either India or Pakistan. But he led a much wider and precarious coalition of forces whose cohesion is seriously strained whenever loyalties to India and Pakistan tend to divide the politics of the State.

Two factors enabled Abdullah to weather the storm. First, Pakistan could not afford to disown a leader of such stature and to disrupt the united front against India. Second, some steps by India unintentionally helped to cement the front that was visibly cracking. The series of measures, avowedly meant to integrate the State with the Union, provoked a fresh upsurge of popular resentment. For the people saw in them a threat to the separate existence of Kashmir. Beg described them as a prelude to the eventual merger of the State with the neighbouring, exclusively Hindu, State of Himachal Pradesh (for which a demand had already been made in Jammu). The "new danger" made an important contribution in forcing a unity on the warring leaders and reviving the flaggnig tempo of the movement.

Dissatisfaction in Kashmir Not Abdullah's Creation

It should be recognised that the reactions of Kashmir—after allowing for the element of exaggeration by politicians—are in no way dissimilar to those of any other State when some of its powers are taken over by the Centre. Even if the so-called integration were good for Kashmir and the rest of India, the citizens of every State have the right to hold a different view and strive for any other relationship between their State and the Union. Views on the degree of central control over Kashmir—or any other State—should not be the sole measure of the patriotism of its people.

Those who who are piqued that the people and leaders of Kashmir have not appreciated the Government's gesture in restoring their liberties should not forget that to-make people free when they are angry and to make them angry when they are free is the surest way to alienate them. Liberties were not restored in Kashmir till the relic agitation had been forced to take an angry turn. Integration measures waited till repression had been completely withdrawn. When steps are taken in utter disregard of the freely expresed opinion of the people and in the teeth of opposition, the only use to which freedom can appropriately be put is to oppose the regime more openly and effectively.

Another danger of posing the integration debate as being between pro-Indians and anti-Indians is that it disguises and inflates the actual strength of the Pakistani sentiment while isolating and shrinking the potential loyalty to India in Kashmir. What sustains Abdullah apart from his personal halo is thus not merely the support of Pakistan but also a sense of Kashmiri pride, Muslim fears and administrative grievances. Recently the Action Committee, which owes allegiance to him, observed an antiprice rise day also.

By simplifying all causes of dissatisfaction (regional, communal, administrative and economic) in Kasnmir into one represented by Sheikh Abdullah, much thinking effort is avoided but the problem is not faced. Abdullah does not create all the dissatisfaction. He only symbolises or articulates most of them. All discordant voices that had been stilled—by means far from fair —all these years now add the most vocal notes to the orchestra we call Abdullah. The only sensible course is to discern the notes that are intolerable, tolerable and pleasant. But who is to decide and on what criteria?

The interests of the ruling party—or faction—has always determined the Government's attitude towards the opposition in the State. The present regime, which is otherwise far more liberal than its predecessor, has been extremely reluctant to associate opposition elements with any of the official activities, as is often done in the rest of the country. The only opposition party that has any representation on official committees is the Jana Sangh which is hardly likely to satisfy the Muslim majority of the State. Even in purely religious conferences abroad, the delegations do not include anybody —political or non-political—from outside the ruling faction.

The Kashmir Government can certainly count upon the goodwill and support of the whole nation in its defence of national interests. The ruling party has also a right to fight against its political and ideological opponents. But the fight should not be waged by the Government nor on behalf of the rest of the nation.

The challenge in Kashmir cannot be met by administrative and economic measures alone, though they are admittedly useful—first, because there is yet no fool-proof administrative and economic system which causes no dissatisfaction and, second, because regional and religious aspirations, as we should know from experience in other parts of the country, often have a more powerful appeal. Regional and religious aspirations—not to speak of administrative and economic ones—are by no means more aggressive in Kashmir than elsewhere in the country. But elsewhere non-secessionist avenues

of protest are available (even the Muslim League and the D M K have opted for them). In Kashmir where all avenues were suppressed as a matter of "national policy", now Abdullah is unwilling to be merely such an avenue nor does his charismatic umbrella leave much room for other avenues. So long as it is not possible (either due to official policy or other reasons or due to Abdullah's spell) to provide in Kashmir avenues of expression of protest that the rest of the country can tolerate and appreciate, a discriminating attitude to the powerful opposition movement and its leader is called for. This requires much more firmness and clarity in New Delhi than shown so far.

It is not sufficiently realised either in New Delhi or Srinagar that the current tension is far in excess of what objective conditions should permit. It should certainly be possible for India, consistent with her self-interest, to go a longer way to meet the demands of Kashmir and its leaders. Likewise, Abdullah can hardly afford to completely antagonise India if he has any ambition left of making Kashmir a bridge between India and Pakistan.

The current moods on either side do not permit bridging the entire gap between the demands of Kashmir and the rest of India. But it should be possible to shift the debate from the level of abstract and provocative slogans to concrete proposals. Thus delimited, the differences could then be set in the perspective of two facts. First, Kashmir shares the common and precious heritage of political values evolved under the leadership of Gandhi and Nehru, which it can throw away only at its own peril. Second, the gap between the interests of Pakistan and Kashmir, clouded by negative common demands against India, has always been and will remain very large. It was this perspective in which the Nehru-Abdullah talks were held last year.

There are obvious difficulties in picking up the threads at this stage. But the difficulties are not all due to political differences which, too, can be kept within limits. The limits of national interest may not as such bind Sheikh Abdullah, but the Kashmir leader may be compelled to take up positions far more extreme than those necessary to safeguard the interests of his people by the incompetence, confusion and panick of those who claim to be his opponents. While it will need statesmanship of a very high order (which is not visible on either side at the moment) to revive the dialogue between Abdullah and the Indian leaders and while the decision to write him off is likely to harden in India, it is not yet too late to prevent the authorities from writing off all the forces he represents.



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Women in the New Village

Kamla Nath

In the last four issues were serialised a study of change in Jitpur, a village in Central Punjab. This paper describes how the changes—technological and economic—described therein are affecting the women.

It describes the pattern of work, practices relating to home making, treatment of disease, maternity and child care and attitudes towards education of girls among women of Jat cultivator households of a small village about 3 miles from Jitpur.

THE agricultural economy and techniques in this village are very similar to those described for Jitpur. It received electricity at about the same time: the bulk of the cropped area is irrigated, and the majority of irrigation wells are fitted with electric motors. The cropping pattern and use of improved practices (chemical fertilisers, improved seeds, improved implements) are also similar to Jitpur. I selected this village in preference to Jitpur, because it is a small village of Jat cultivators, and it was much easier for me to know the women. Besides, the extremely co-operative attitude of women of the family of the Sarpanch (father) and the President of the dairy co-operative (son) enabled me to know the women of the village. The educated young wife of the President is much respected in the village for her family background—she comes from a well known Jat family of the district—education and competence in managing the home. She introduced me to the village women, helped explain the object of my work, and was always available for any assistance that I might need. I found discussions with her and the older women of the family, an interesting supplement to data collected through the sample survey. The *dai* of the village, a Chamar woman, assisted me as a companion and interpreter, and also gave useful information on local customs and practices. I am grateful to these women for their assistance.

The village has a total of 104 households and a population of 626 (1961). There are 76 households of Jats, but only 36 of them are cultivators. In the remaining households, the small holding is given out for cultivation on *batai* (crop sharing), and work outside the village, army pensions or remittances from sons or nephews working outside are the principal sources of income. This study was confined to the Jat cultivators. A sample survey of 18 households (50 per cent of the total) was undertaken, with a view primarily to meeting and knowing a sufficiently large number of women. Emigration and dependence upon outside income is rather more in this village than in Jitpur. The Jats of the village have been prominent in military service. Several men received awards for valour in World Wars I and II. A *pucca* well, situated at the entrance to the village, was built by the District Board in 1937 in recognition of the services rendered by men of the village in World War I.

The 18 households have 123 persons, an average of 6.8 persons per household. The comparatively large size of households is due to the strength of the institution of joint family. As many as 10 households consist of joint families—7 are two-unit families, while the remaining 3 are three-unit families. The number of males is much larger than that of females (68 males and 55 females). The excess of males creates a serious problem of finding wives for men, which is discussed at the end.

Pattern of Work

The women's pattern of work has been described first, because of its influence on home-making, child care, personal hygiene and even attitude towards education of girls. Most women of the sample households reported that they did not do any work in the fields. One of them, to emphasise her point said, "We do not go out even to pick *sag* (green leaves of mustard, turnips etc, used as a vegetable)". Only two women said that they went to the fields to pick cotton or to supervise the work of hired labourers, during peak periods of agricultural work.

Women in the villages of this area probably never worked in the fields in the way in which women of some other cultivating groups in North India do. [1] But the trend towards women not doing any work in the fields is recent. The change has occurred only during the last 15-20 years and is related to agricultural prosperity, increase in education and in urban influence. The older women in several households said that earlier they used to go to the fields to pick cotton, bring fuel and vegetables for the home and fodder for the livestock. One woman regretting the change said, "The young women do not do hard work now. They do not work in the fields, and they do not have to grind corn on the *chakki* (hand mill) or to fetch water from the wells, as we had to do. This is why they cannot deliver their babies easily." Domestic work for the women has also become much lighter. Since hand pumps have been installed in most homes, the women do not need to bring water from the village wells. Grinding corn on the *chakki* is no longer necessary, because there is a flour mill in the village. This work, which was generally entrusted to the young daughter-in-law, was often the cause of quarrels in the joint family. Its elimination has been welcomed particularly by the younger women.

The main work of the women now, besides looking after the home, is care of the livestock. This takes a lot of their time, because the animals are kept within the houses at night and also for part of the day. Indeed, they go out to the fields mainly for exercise. The women feed and look after the animals and milk the buffaloes and cows. But they will not clean the cattle shed. Cleaning the cattle shed and carrying refuse to the compost pit are the jobs of the sweeper women. The women do not mind looking after the animals—indeed they are proud of it, because presence of milch animals in the house has always been considered a sign of prosperity in Punjab villages. Even the educated wife of the President of the dairy co-operative spent a lot of time attending to her milch animals and disposing of the milk.

Poultry farming is now becoming popular in this area. In this village, one young man is keeping about 400 birds in a part of his house. His mother and wife do all the work—feeding the birds, collecting the eggs, cleaning the bird house periodically. Two other men have also started keeping a few birds each. One of them is thinking of setting up a big, modern poultry farm. But the attitude of women towards this work is not favourable. In some of my group interviews, the women jeered at the mother of the young poultry farmer

and showed pity for the young wife. "Chicken are dirty", they said, "and looking after them is the job of the sweeper women. Besides, what is the use of keeping poultry, when we can get the same income from one buffalo as from a hundred chicken". These attitudes may change, if poultry farming continues to be as profitable as it has been during the last few years, and the movement towards establishing poultry farms continues among the educated farmers.

Elimination of farm work and lighter domestic work have given the women lot of time, which they are devoting to cooking, better care of the homes, the children and themselves, practising traditional crafts such as *durry* making, and learning new ones such as knitting and sewing.

The women devote much more time to cooking than do women who work in the fields. Two full meals (sometimes three) are cooked daily[2] and the food is substantial and adequate.[3] They are also becoming increasingly conscious of personal hygiene and their own appearance. They bathe much more frequently than they did in the past. A daily bath is now the rule in the summer; but in the winter, they bathe only once in two or three days. Presence of hand pumps in the houses encourages frequent bathing. A number of women use cheap face cream or talcum powder. The wife of the President of the dairy co-operative was using face cream, face powder and lipstick of well known brands. All the younger women said that they used toilet soap and applied oil to the hair. But some of the older women continue the old practice of applying *ghee* to the hair. None of the women, young or old, had ever used mud for washing their hair, which the Meena women of Sawai Madhopur use. The children too were clean and well clothed. Most women possess quite a few changes of clothes. Every time the family goes to town, new clothes and some times new shoes, are bought for one or the other member. Silk or rayon clothes are bought for festive occasions, woollens are bought for winter. All men, women and children were wearing some woollen garments at the time of this study which was conducted during December. Some men possess western style woollen suits, and the women have woollen *salwar-kameez* suits. These are worn on special occasions—visiting the town to see a 'high officer', or visiting a prosperous relative. A large proportion of the cash income of the families is spent on clothing. It is interesting to note that with somewhat higher incomes, the trend among the Meenas of Sawai Madhopur is to spend more on silver ornaments; but in this group the emphasis is *now* on clothing. That they have gone through the stage of spending more on ornaments, was clear from the remarks of the 90-year old mother of the Sarpanch. She said, "I have seen three ages *(zamana)* in my life. First, there was the 'silver age' when all of us wore silver ornaments. Then there was the 'gold age'; now it is the 'cloth age'." The women do have gold and silver ornaments; but they were not wearing any ornaments at all. This is a significant trend, for it shows that in course of time possession of ornaments may not remain what value it is today with villagers in most parts of India.

Washing of clothes is almost a daily routine. Frequent washing of clothes is necessary because of the preference for higher shades of colours in clothes, in contrast to the dark colours worn in Rajasthan. Ordinary washing soap, Surf and even Lux flakes are used.

Houses and Household Goods

Most of the houses (16 out of 18 among the sample households) are *pucca*. All houses have hand pumps, nearly two-thirds are fitted with electricity. Electricity is used mainly for lighting: only 5 households possess radios and 5 have electric fans. However, 13 households possess bicycles, 11 own sewing machines and 9 have kerosene stoves or electric heaters. In the house of the President of the dairy co-operative, the drawing room was furnished with a cane sofa set (without cushions), chairs, a dressing table, a bedstead and curtains. There was some modern furniture in his father's house also. But this family is clearly an exception. The other households cannot set apart a room, in their small, crowded homes as a drawing room. The only 'modern' furniture seen in their homes were a few chairs. However, old style bedsteads (called *palangs)* of good workmanship were seen in a number of homes.

There is a definite trend towards modernising the home and buying new, durable consumer goods. Several women showed me their radios, sewing machines and other possessions with obvious pride. In most cases, the articles had been brought by the daughter-in-law married to the educated son (employed in the town) in her dowry.

But most of the houses are congested and are not very clean. This is due partly to the large size of families and partly to the practice of keeping animals within the houses. Moreover, installation of hand pumps has made the houses damp—a portion of the courtyard always remains wet. It has also made the lanes outside the houses wet and dirty, and given the village pond a permanent existence. Most of the women did not show any concern about the insanitary conditions of the streets of the congestion and damp within the houses. This lack of concern may be due partly to the feeling that nothing can be done about these things. Tightly clustered houses, narrow, dirty lanes, lack of drainage and presence of stagnant water at various places are common features of villages (and most towns) in North India, and are accepted. But some of the younger men and women are thinking of getting away from it all, by building their new houses in the fields.

The need for additional space felt by these families has been met (in the recent past), by construction of one or more rooms on the first floor. These rooms are well-lighted and are of relatively modern design. They are generally used either by the young educated daughter-in-law (if she is staying with the family) or are reserved for guests, such as the son-in-law.[4] But addition of rooms on the first floor has cut off sunlight from the ground floor rooms and has made the principal living quarters of the people darker and more dingy.

Women in the two households having *kutcha* houses said that they had not made their houses *pucca* because they were thinking of building new houses outside the village. But the movement towards living outside the village has not yet started. So far, only the Sarpanch, a refugee from the West Punjab canal colonies, has built a house on the outskirts of the village. His house, with its enormous courtyard *(ahata)*, cattle sheds and feeding stalls, well separated from the living rooms, is patterned after houses in the canal colonies. It presented a pleasant contrast to the other houses. But no other family has followed his example so far.

Health

Modern facilities for treatment of disease, maternity and child care are within easy reach of the village, and are being used by the people. There is a good hospital at the block headquarters town, Samrala. Besides, there are three sub-centres each under the charge of a trained nurse-midwife, which provide assistance for maternity and family planning. The village is in the area of the sub-centre located in the next village, a mile away. The village *dai* is undergoing training at the sub-centre. She assists the nurse-midwife in conducting delivery cases, and will be 'authorised' to handle these cases on her own, after she has completed the one-year training course. According to an order of the Punjab Health Department, no untrained *dai* can handle delivery cases on her own. I did not have the opportunity to investigate how strictly this order was actually being followed.

All the women reported that for all ailments, major or minor, they consulted a doctor, the qualified private medical practitioner at Samrala. He lives in the next village and can make the rounds of this village on his way to and from the town. They said that they went to the Government hospital only when this doctor was not available. Cases of serious sickness or serious injury are taken to one of the hospitals at Ludhiana. The city has a number of good hospitals including one attached to the Medical College. In half of the sample households, the women reported that they kept medicines such as Anacin, tincture iodine, Amritdhara and brandy at home, and used them for minor ailments. Women in the other households also knew about these medicines, but they were not keeping them. Resort to the doctor is so common that one woman said, "We go to the doctor, even when a thorn pricks us."

All pregnant women are expected to be registered with the sub-centre and visit it regularly for getting ante-natal advice. The nurse-midwife is also expected to conduct house-to-house surveys periodically, in order to make sure that all pregnant women are contacted. But she is confronted with an interesting problem arising from the practice (in this area, as in many others in India) of women going to their parents' homes for childbirth. She explained that a number of women for whom she starts maintaining ante-natal records go away for their deliveries to their parents' homes, while she has to conduct delivery cases of many women for whom she has no records!

The sub-centre also provides advice and assistance on family planning. Of the 32 women in the sample households, 3, all below age 35, were using family planning devices. Two more showed interest, but were not using any device. One woman, who complained about having a large number of children, was hesitant about using any family planning devices. Most women knew about family planning practices but were not unwilling to talk about them; some expressed a desire for a birth control pill. The lady doctor at Samrala hospital mentioned that some men of the village had had vasectomies done. But no such case was mentioned among the sample households.

Education

All the girls of primary school age, i e, 6-11 years, are going to the village school. Half a dozen of the older girls go to higher secondary schools in Samrala. I used to meet these girls, going to school or returning, on their bicycles, on my way to or from the village. They all rode gents' bicycles: the families could not perhaps afford to buy separate ladies' bicycles. This phenomenon—young girls going out on bicycles—would have been unthinkable a generation earlier, when a girl was not allowed to go out of the village unescorted. Girls from some of the more prosperous and progressive families are receiving education in colleges (or other training institutions) in towns. They stay in hostels. Two daughters of the President of the dairy co-operative are studying outside the village—one is in a college at Ludhiana, while the other is in the higher secondary school at Samrala. The daughter in another household is receiving the Physical Training Instructors' training at Patiala. In another household, the daughter is receiving the basic teacher's training. Another girl (not in one of the sample households) is studying for the B T diploma. A sister of this girl had recently flown to Canada to get married to a man (of the caste) settled in Canada. The village women were referring to this as an example of the 'forwardness' of the family. There was no hint of disapproval, or of embarrassment that such a thing should have happened in their village.

Education of girls has become a thing of value with the group. All families are sending their girls to school, and the more progressive ones are sending them to institutions of training which will equip them for careers. Some young women from the village have already taken up jobs. The Deputy Inspectress of Schools at Samrala is the daughter-in-law in one of the sample households. Both the women teachers in the village school are women of the village. This preference for 'career training' to getting a university degree, is significant. Some of the women said that they would like to see their daughters equipped for a career in time of need.

But education of girls is a recent phenomenon. This is brought out very well by data on the number of educated females of different age groups presented in the table. It will be seen that all the 14 women above age 35 are illiterate: among those below 35 more than half are educated, but all the girls of school-going age are going to school. It may be noted also that all the daughters-in-law living outside the village are educated. These women, married to educated men—their husbands are all in white collar or military service—had to be educated to get married to educated men. This shows a pattern of selectivity in emigration, and also provides a clue to the motivation for education of girls. Girls are being educated because educated men, who are in service and who are the prized grooms, want educated wives. The changed work pattern of the women—their being at home all the time and having adequate time for household work and child care—also helps education of girls. Older girls are not needed in the house to look after younger brothers and sisters or to help the mothers with household tasks.

But this trend towards education of girls, with a view to marrying them to educated young men in service, is creating an interesting situation within

Table: Number of Educated Women of Different Age Groups

No of households			18
	Total	*Educated*	*Illiterate*
No of women above age 35	14	—	14
No of women below age 35	22	12	10
Daughters-in-law of households living outside the village	10	10	—
	Going to School		*Not going to School*
No of girls of school age (6-14 years)	18	18	—

the group. On the one hand, the problems of finding suitable grooms for educated girls and giving an adequate dowry—problems characteristic of the urban middle class—are appearing. The recent journey of a girl to Canada shows how far the families are prepared to go to meet these problems. At the same time, it is becoming increasingly difficult for illiterate, or barely literate, young men who remain in the village and work on the farm to get married. This difficulty, caused by the absolute shortage of women referred to earlier, has always been there; but it is accentuated by the tendency to educate girls and marry them to educated young men in service. The gravity of the problem will be appreciated from the fact that among the 43 males, above age 18, in the sample households, as many as 15 are unmarried. Reference was made to this problem by the women in 3 households. In one household, that of a small farmer with a holding of only 6 acres, four unmarried young sons were living with their aged father and mother. They had no hope of getting married because their holding is so small. In another household, only one of the three sons was married. Their father said, "The Jats will not give their daughters to us, because our holding is small, and we are not prepared to buy women from outside. It is a lucky father, who can marry all his sons!"

The difficulty of finding wives is met to some extent by buying women from outside the State. These women, usually from poor families of low castes are brought from U P, West Bengal or the South. There were no such women among the sample households; but there were three in the village. I could meet all these women and listen to their interesting life histories. I met some of them in the neighbouring village, of the sub-centre, also. The men of that village are well known in the area for bringing women from outside, and there were about a dozen such women in that village.

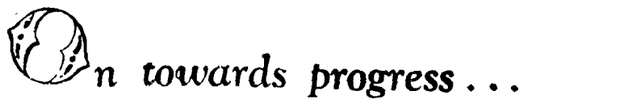
Notes

1 The Meena women of Sawai Madhopur district of Rajasthan, among whom I had conducted a similar study earlier, do all agricultural work except ploughing. In fact, from an analysis of farm work in this area, I came to the conclusion that they do more work than their men.

2 The Meena women of Sawai Madhopur would finish most of their cooking for the day in the morning, before leaving for the fields, and would cook only hot *chapatties* in the evening.

I did not collect any data on food consumption. But use of plenty of milk and ghee and vegetables (especially green leafy *'sag'*) was so evident.

The women used the Punjabi word for guest *(paraohna)* also for son-in-law. Obviously, sons-in-law are the most frequent or the most honoured guests.



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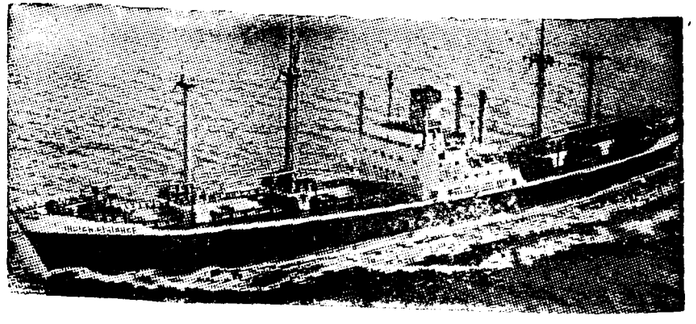
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I S Gulati

What is the rationale of fiscal curbs on advertising?

This is a question well worth asking at this juncture, when, on the one hand, the Government of India proposes to put a curb on advertising expenditure and, on the other hand, strong and vocal opinions are determined to thwart any attempt on the part of the Government to restrict the freedom of businesses to spend as much as they like on advertising.

IS not the basic objective of advertising to inform? Information is no doubt the main purpose with which a businessman advertises. He wants people to know what he produces, how and from where his products can be obtained, and at what price. The wider the area covered by one's advertising, the more extensive ordinarily is the market for one's product. If advertising pushes leftwards the cost curve, it is supposed to be more than compensated by the rightward shift of the demand curve, i e, the rightward shift in the demand curve is relatively larger, such that the quantity sold is greater in spite of the increase in price. To put it in still more sophisticated terminology, the advertising expense is incurred with a view to gaining additional demand for one's product and rational calculation would suggest that a businessman would call a stop to advertising at the point where the last unit spent on advertising is just about offset by the excess of the price charged over the cost incurred on the production of the additional unit of output.

The question arises: If this is how a businessman ought to be behaving if he wants to maximise his profits, why at all should the Government contemplate a curb on the businessman? It is to the advantage of the Government, insofar as it claims a proportion of business profits as tax, to permit, indeed to encourage, the businessmen to maximise their profits. And if advertising helps towards this objective, why at all put a curb on it? Is not all advertising, therefore, a legitimate charge on the gross receipts of a business before calculating its taxable profits?

Creation of Synthetic Demands

Before we attempt to answer these questions regarding the rationale of Government curb on advertising, let us be clear about the purposes other than to inform, for which advertising might be used. As against genuine information, for which advertising might be used, advertising might be resorted to for deliberate mis-information. This should not be taken to suggest that advertising that does not inform belongs entirely to the other extreme and necessarily mis-informs. The truth in most cases may be somewhere in between.[1]

The point is that in actual practice, most advertising does not content itself with informing. In fact, as is well known, the most advanced techniques of advertising are directed less at supply of information or, for that matter, even mis-information, than towards the creation of new demands. Techniques have been evolved whereby the consumers' minds are constantly trained to make particular demands. Readers of John Kenneth Galbraith's "The Affluent Society" will recall how he bemoans the fact that in America it is the chief preoccupation of advertising to create 'synthetic demands'.[2] And massive advertisement outlay every year is defended on the ground that it sustains total demand at or near the full-employment level.

Economics of Advertising

Whether advertising informs or mis-informs, whether it subserves genuinely felt or synthetic demands, the economics of advertising, it might well be argued, remains as before — a business man will still equate his costs and gains at the margin and decide where to stop in his advertising campaign. Thus, it might be argued, there is still no rationale in economics at least for a Government curb on advertising, even though on social grounds a case could be made for regulation of advertising.

The logic of the above argument is not unassailable, however. Even on economic grounds, one could argue for regulation of advertising. First, in aggregate or macroterms, the case for unregulated or unrestricted advertising becomes very weak if we accept Galbraith's argument that outlays on 'public'[3] projects are remunerative, economically as well as socially. Thus, a crore of rupees gained in aggregate demand through advertising and consequential increase in total demand is to be compared with the same amount gained in aggregate demand through outlay on 'public' projects. For a developing economy, more than for highly developed economy, the calculation of economic gains secured through these alternative methods of raising aggregate demand, is very important because, if Galbraith is right, spending on advertisement rather than on 'public' projects should retard the pace of economic growth.

Second, the presumption of profit maximising behaviour is, as even undergraduate students of economics know, subject to several qualifications. Moreover, whatever else one might say regarding high rates of income and profit taxation (and personally I have always expressed myself against very high rates of taxation), it will be difficult to dismiss the argument that when a businessman pays in tax as much as two-thirds to three-fourths of additional income or profit, the urge to economise (and thereby to maximise profit) cannot be anything but weak. And the urge might be in the opposite direction when avenues are open whereby a part of taxable profits can be shown as expense incurred for the purposes of business. Let it be added at once that this applies to all expense, be it on advertising, entertainment or even on items supposedly much more essential to the very process of production, involved in the generation of any income. It is interesting that the Government notification laying down limits and conditions for allowance of expenditure dealt with expenditure not only on advertisement but also on guest houses and travelling, including maintenance and running of motor cars for the purposes of business.

Impact of Curb

Also, when a Government levies high rates of tax on income and profit the stake of revenue in the profit of business is also correspondingly high and it is only natural for the Government to be anxious that only genuinely necessary expense is charged against gross receipts of business. No doubt, the income tax law already provides that expenses wholly and exclusively incurred for the purpose of business

are deductible, but this has been very narrowly interpreted by the courts. The tax authority is precluded from disallowing an item because it is unreasonably high. Strict government check and even regulation of business expenses are necessary concomitants of high rates of profit taxation.

Advertising is an important item of expenditure. As a recent study by *The Economic Times* shows, in the case of some important companies advertising expense may be as high as 20 to 30 per cent.[4] Even if the company profits are taxed at the rate of 50 per cent, the stake of the Government in advertising expense is evidently high in the case of such companies.

From the point of view of revenue, if the estimate of *The Economic Times* based on the study of 111 companies is correct, the corporate sector will have to cut down under the proposed rates advertising expenditure by more than Rs 30 crores. This should mean that the net gain to revenue, assuming of course, that taxable profits would go up by the full amount of saving effected in advertising expenditure, should amount to at least Rs 15 crores a year. But *The Economic Times* estimate is most probably on the high side. If one applies the same ratio of advertising expenditure to turnover as obtains for 111 companies (i e, 0.7 per cent) to the entire corporate sector, the total advertising expenditure for the year 1962-63 could not be above Rs 35 crores. Therefore, the reduction in advertising expenditure even at the estimated rate of 63 per cent[5] would work out to Rs 22 crores. My suspicion, however, is that the advertising expenditure of the entire corporate sector might have been even lower than Rs 35 crores. The ratio of advertising expenditure to turnover for the entire corporate sector is unlikely to be 0.7 per cent. Assuming that the corporate sector's advertising expenditure is around Rs 30 crores, the maximum reduction that could have been secured under the proposed rules would be Rs 19 crores.

Advertising and Sales

It might be objected that the very assumption that the taxable profits of the corporate sector will go up by the full amount of the savings effected in advertising expenditure is not correct. Will not curtailment of advertising cause a reduction in sales and therefore in profits? This, no doubt, is an important question. If sales went down, not only will there be a fall in profits, there will also follow accumulation of unsold stocks, excess capacity and unemployment.

In fact, the question posed above is basically a question of aggregate demand which among other things advertising is supposed to maintain. But the basic principles of Indian economy, unlike those of the Western economic systems, especially the American economy, stem not from a tendency of aggregate demand to lag behind the total supply but from the difficulties of matching total supply to the aggregate demand. To put it very simply, deficiency of demand is not the problem we face in India. Our problem is of raising adequate output to meet demand. In such an economy, advertising does not have to raise the level of total demand. In fact, too much of advertising might be harmful in an economy of this time. It exercises an inflationary influence in an already extended economy. There is, to say the least, little weight in the question posed above, insofar as the Indian economy is concerned. In all likelihood, the reduction in advertising expenditure should be reflected, more or less, fully in the increase in taxable profits and consequently in Government revenue.

The Press

Let us at this point take note of another argument against curbs on advertising, viz, its indirect financing of the newspaper industry. In point of fact, this seems to have been the weightiest of argument that possibly prevailed upon the Government to rescind the part of the Notification prescribing limits on advertising expenditure.[6]

There is no denying the fact that advertisement revenue is the most important source of income for our newspapers and magazines. If therefore business advertising were curtailed, it will certainly hit the newspapers and magazines. Further, while the major portion of advertising revenue is bagged by a few newspaper and magazines with very large circulations, the worst sufferers in consequence of any curtailment in advertising will be the smaller newspapers and magazines. Advertisements to these small newspapers and magazine will most likely be slashed first and far more drastically than those to bigger newspaper and magazines.[7] No wonder then that the whole press, big and small has most vociferously backed the advertising industry's case against any curb.

But let these small papers and their sympathisers and supporters (I am one of them) ask themselves the question: do they want these papers to subsist on the crumbs previously doled out to them through business advertisements or would they rather that they subsist on the strength of their quality? If quality papers and magazines have to be sustained by society, let us devise more honourable ways of supporting and subsidizing them instead of throwing them to the uncertain mercies of business advertising.

It will be worthwhile noting also that advertising involves foreign exchange. A glance at an Indian daily in which anything up to 50 or sometimes even more of the space is taken up by advertisements will convince anyone that of the current annual import of newsprint to the tune of Rs 8 crores a major portion can be set against advertising.

Conclusion

In conclusion, it must be added that while there is a good case for the tax authorities to exercise some sort of check on the advertising expenditures of businesses (as also on other items of expenditure not wholly and exclusively incurred *for the generation of income*), there might still be considerable room for argument regarding the manner and extent of curbs to be imposed. In principle, the idea of (a) relating admissible advertising expense to the value of turnover and (b) progressively reducing the proportion admissible as the value of turnover increases, as embodied in the Government Notification, is sound. Maybe the proportion allowed by way of advertising expense is rather small for all slabs of turnover. Maybe, the progressive declines in the proportion allowed is too sharp. These questions cannot be definitely answered, at this stage at least.[8] But the basic idea ought not to be given up

Notes

1 It is not generally realised how much of advertising, especially with regard to consumer items is mis-leading. Take the case of common analgesics which are advertised under various names but are no better than pure aspirin. And how much more does one have to pay for a branded product compared to aspirin? I am afraid Subrata Banerji over-emphasises the virtues of branded articles (*The Economic Weekly*, April 17, 1965).

2 See pages 121 and 123 (British edition published by Hamish Hamilton, London, 1958).

3 I am deliberately using quotes to signify that the term is employed after Galbraith's usage.

4 In 1963 Hindustan Lever made a taxable profit of Rs 447 lakhs after providing for advertising expenditure of Rs 120 lakhs. From its pre-tax profit, the company provided 64 per cent for taxation. See *The Economic Times* of March 28, 1965.

5 The rate of 63 per cent is worked out for 111 companies. It might well be objected that this rate will not apply to the entire corporate sector, if the advertising expenditure incurred by other companies is, as a proportion of value of their respective turnover, closer, or equal to or also lower than the prescribed limit.

6 It is a sad commentary on the political courage of our Central Government, and especially of the Finance Minister, that a measure like this was withdrawn the moment the Press raised a howl. Why at all was it introduced if the Minister was so uncertain of its merits?

7 For the purely economic reason that the contribution of these small papers to the furtherance of the objectives of advertising will be minimal.

8 I must add here that in its pre-occupation with the rules regarding advertising, the Press has completely overlooked the rules regarding other expenses laid down in the same Government Notification. For instance, the rule regarding foreign travel on business appears to me to be unduly restricted. Why must the admissible expense on foreign travel be confined to that proportion of the total expense abroad (i e the foreign exchange allowed) as the number of days of travel required by reasonably direct routes bears to the total number of days spent abroad? One is not detailed abroad on business to go and touch a place and get back. In any case is the rule intended to suggest that the Government can in the matter of business trips abroad afford to be more generous in sanctioning foreign exchange than in allowing deduction of the connected expenses for income tax purposes?

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Marketable Surplus Function for a Subsistence Crop

Further Comments

I Manoranjan Majumdar

Raj Krishna (The Economic Weekly, Annual Number, February 1965) finds that in the case of most of the sample data he studied the amount of marketable surplus is a linear function of farm output.

Such being the nature of the marketable surplus function, Raj Krishna concludes, the usual arguments for discrimination in favour of large farms to increase the marketable surplus do not hold. Even with farm size structure remaining what it is, output increase will lead to more than proportionate increase in marketable surplus without any discriminatory or coercive Government policy.

The object of this note is to set out some consequences of the linearity hypothesis in the present context — consequences which seem to be at variance with some of our common beliefs as to the nature of marketable surplus.

IN his article Raj Krishna examines the nature of the marketable surplus function for rice and wheat on the basis of some Indian cross-section data. On the simplifying assumption that the amount of farm output which is not retained for consumption is 'marketable', he proceeds to examine three hypotheses :

(i) The marketable surplus (M) is linearly related to the level of farm output (Q), i.e.

$$M = a + bQ \qquad (1)$$

(ii) The relationship is quadratic, i.e.

$$M = a + bQ + cQ^2 \qquad (2)$$

(iii) M is a joint linear function of income (Y) of the farm or the total acreage cultivated (A) by the farm and the family size (F) — all in the logarithmic scale.

Raj Krishna finds that in the case of most of the sample data he studied the amount of marketable surplus is a linear function of farm output (his first hypothesis). 'In very poor, and the very rich, areas it is likely to be non-linear' (the second hypothesis); while the third hypothesis — especially with the acreage cultivated as one of the explanatory variables — gives 'unsatisfactory' results in all the samples. The obvious policy implication of this law of linearity is, therefore: "It is best for Governments to concentrate on inducing increase in farm output without any special discrimination in favour of small or large farms. The nature of the marketable surplus function is such, in most areas, that the usual arguments for discrimination in favour of large farms do not hold. Even with the farm size structure remaining what it is, output increases will lead to more than proportionate increases in marketable surplus without a discriminatory or coercive policy".

The object of this note is to set out some consequences of the linearity hypothesis in the present context — consequences which seem to be at variance with some of our common beliefs as to the nature of marketable surplus.

Viewed from cross-sectional analysis, the most unsatisfactory feature of a straight line is the constancy of its slope, which in the present context gives the measure of what Raj Krishna calls the "marginal propensity to sell" on the part of the farm. If the straight line is accepted as a description of the farm's behaviour as regards its marketable surplus, then assuming, for example, that $b = 0.75$ in (1) above, this will mean that as the farm's output increases by an additional kilogram (say), it will always bring in 750 grams of marketable surplus whatever may be the size of the farm as measured by the level of total production. For instance, consider two farms A and B — A with an average annual output of 100 kg of wheat and B with 1,000 kg. Suppose in a particular year the production of A increases by 10 kg but that of B decreases by the same 10 kg, so that the total production of the two farms taken together remains the same, then in the frame-work of the linearity hypothesis, the resulting increase in marketable surplus by 7.50 kg in the case of the low-output farm A will be exactly equal to the decrease of marketable surplus due to the fall in production in the high-output farm B. Thus a relative change in the level of output in between the farms will not affect the volume of marketable surplus. In other words, the only factor which will determine the volume of marketable surplus is total production of the agricultural sector. The relative position of the different farms in the output-scale will not come into the picture.

This is clearly an incredible state of affairs at least over a wide range of output. On the contrary, there is every reason to think that as the level of output increases, the "marginal propensity to sell" out of the farm's produce also increases, so that even when the production of a high output farm increases by the same amount as that of a low-output farm, the increase in the marketable surplus of the former will be greater rather than be equal to that of the latter.

It should be noted that in principle, at least, Raj Krishna accepts this fact. This he does when he comes to consider the nature of a "general marketable surplus function" (p 313). In fact, his brief outline of this "general function" is based on the postulate that "after a certain level of income is reached the cultivation of the subsistence crop becomes highly commercial and the marginal propensity to sell rises with output" (pp 311-313). However, he does not take up the implication of this postulate in the empirical part of his analysis. Instead he places the weight of his judgement in favour of a linear marketable surplus function and makes policy recommendations entirely on this basis.

It is significant that in all the samples examined by him the elasticity of marketable surplus with respect to output is greater than unity and decreases towards unity as output increases (see his Table 2, p 313). This is a direct consequence of the negative value of the intercept, a, in his estimated linear functions. It is a well-known property of the linear function that whenever the intercept is negative, the resulting elasticity expression decreases from a high value towards unity as the value of the explanatory variable increases (which, in the present case, is the level of farm output). Now, writing E_{MQ} for the output elasticity of marketable surplus and E_{CQ} for the elasticity of consumption with respect to output, one gets, from his definition of the marketable surplus,

$$\frac{M}{Q} E_{MQ} = 1 - \frac{C}{Q} E_{CQ} \qquad (3)$$

Expressed otherwise, this means that the weighted sum of the output elasticity of marketable surplus and the output elasticity of consumption equals unity — the weights being the proportion of output 'marketable' and that 'retained for consumption', respectively.[2]

Thus, if the output elasticity of marketable surplus is decreasing as the linearity hypothesis would have us believe, then it follows that the output elasticity of consumption increases from a low level to a high level as the level of output increases. But since, farm income is an increasing function of farm output, this is the same as saying that the income elasticity of consumption increases with a rise in income. I think few will be ready to accept this result. On the contrary, there is every presumption to argue and the evidence of all consumption studies shows, that the income elasticity of consumption which measures the proportionate increase in consumption due to a proportionate increase in income, actually declines as the level of income increases. Thus the linearity hypothesis in marketable surplus analysis comes upon a result which is just opposite to what is generally held to be true. The Table below is a reproduction of Raj Krishna's Table 2 (p 313) for the first set of his samples — except for columns (3′) and (5′) where we present the estimates of output elasticity of consumption, E_{CQ}, along with those of the output elasticity marketable surplus, E_{MQ}, both at low and high level of output. These estimates of E_{CQ} are computed by using the relation (4) above directly from Raj Krishna's fitted functions (his Table 1, p 310). Columns (3′) and (5′) of the table presented here clearly show how as a result of the linearity hypothesis we are led to an unreasonable situation where the elasticity of consumption increases as the farm passes from a low to a high level of output.

In this connection it may be mentioned that unlike that of the linearity postulate, the output elasticity of marketable surplus which follows from his second postulate of a quadratic function is indeed a rising function of output. This is because with both b and c positive — as is evident from his table 4 (p 315) — the "marginal propensity to sell" in the case of a quadratic function always increases with the level of output. [This can also be seen from his Table 6 (p 316) where he presents the numerical values of the "marginal propensity to sell" estimated from his fitted quadratic function.] In an increasing range of the "marginal propensity to sell", the "average sales ratio" (M/Q) also increases, but still remains below the former. As a result, the output elasticity of marketable surplus defined as the ratio between these two increases with the level of output. However, while presenting the estimates of the increasing "marginal propensity to sell" from the quadratic function, Raj Krishna does not examine its implication for the nature of the elasticity of marketable surplus. But it is rather easy to see that the elasticity estimates obtained in this way are more in line with common experience than what is suggested by the linearity hypothesis.

All this, however, does not mean that we are putting up a case in favour of his second hypothesis. The quadratic function it may be noted is not meaningful as a marketable surplus function for a wide range of output. Instead, it may be worthwhile to follow up the implication of the "general marketable surplus function" outlined by him and tentatively suggest an alegebraic form of this function along the line of our above reasoning.

For this purpose we may begin with the postulate that the marketable surplus is a function of farm output such that the slope of the function increases as the level of output increases. As we have seen, this implies an increasing elasticity of marketable surplus with respect to the level of output. Let us specify that this elasticity expression varies proportionately with output. Thus we write

$$E_{MQ} = bQ \qquad (4)$$

where, as earlier, E_{MQ} stands for the output elasticity of marketable surplus, Q, the level of output and b, the proportionate factor. Remembering the definition of elasticity, (4) is then seen to be contained in the following differential equation:

$$\frac{dM}{M} = b\, dQ \qquad (5)$$

with the obvious interpretation that a small relative increase in marketable surplus is proportionate to a small increase in the level of output. Solving (5) we, therefore, get the following relation:

$$\log M = a + bQ \qquad (6)$$

where a is the constant of integration. Expresed otherwise, (6) means that at a given level of farm output the amount of marketable surplus tends to increase in geometric progression as the level of output increases in arithmetic progression.

Now it is obvious that a farm will be able to produce marketable surplus only when its scale of production reaches a critical level of output, say, Qo. Below Qo the output of the farm will be barely sufficient for its consumption needs, though it may not be unreasonable to think that such a low output farm may still bring some portion of its produce to the market to meet its cash requirements. In any case, it will be more realistic to say that the relationship (6) will hold only when the output is above Qo. We may, therefore, require (6) as

$$\log M = a + b\,(Q - Qo) \qquad (7)$$

where, $Q \geq Qo$. When plotted in terms of Q and M, the function (7) will have the form shown in the diagram on p 822.

It may be seen that for this function the value of marketable surplus is non-negative. In particular, when the farm is at the "critical" output level, Qo, it will bring ea amount to the market where e is the base of na-

Table: Output of Elasticity of Marketable Surplus (E_{MQ}) and of Consumption (E_{CQ})

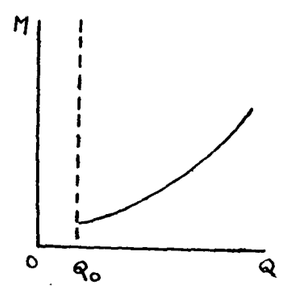
Equation Symbol	Low Output (mds)	E_{MQ}	E_{CQ}	High Output	E_{MQ}	E_{CQ}
(1)	(2)	(3)	(3′)	(4)	(5)	(5′
PB-51	25	4.47	0.18	200	1.11	0.21
PB-53	25	8.58	0.10	200	1.12	0.47
PB-55	25	3.01	0.16	200	1.09	0.62
PB-57	60	1.70	0.09	200	1.14	0.25
PB-59	25	4.84	0.16	200	1.11	0.60

tural logarithm. In all probability a will be negative when fitted to the cross-section data on marketable surplus, so that the numerical value of e^a will be very small. The slope of the function will vary proportionately with M such that in the neighbourhood of Qo, the increase in the "marginal propensity to sell" will be slow. But to the extent output moves away from Qo, increase in the "marginal propensity to sell" will become rapid.

It is not proposed here to give an empirical application of this marketable surplus function. But experience shows that empirical performance of (7) is likely to be satisfactory when compared to that of the straight line model (1). In that event the policy implication derived from (1) will also change — in particular, an increase in aggregate output will then not be the only determinant of an additional quantity of marketable surplus, the latter will also depend on the existing size distribution of the farms. As for statistical estimation of the function, the obvious procedure will be as follows:

Given a set of cross-section data one can tentatively choose several alternative values of Qo equi-distant from each other from graphical plotting and obtain the corresponding estimates of the parameters, a and b by least square regression. Then the final choice will be that value of Qo and the associated estimates of a and b which will give the minimum value of the sum of squares of deviation of the estimated M from the observed M.

However, the pertinent question is whether it is realistic to analyse marketable surplus in a single-equation model like the above one where the output of the farm is treated as an exogeneous variable. In a truly general model, both the production function and the marketable surplus function will enter as the essential elements of a complete system, so that, given the relevant technological ratios and the necessary inputs, the output and the marketable surplus will be simultaneously determined within the system. An analysis of this kind is overdue in this country.



Notes

1 As he works with cross-section data related to a single period of time, variation in prices does not, in principle, affect his analysis.

2 This can be derived as follows:

We have, $M = Q - C$

Where, as before, M stands for marketable surplus, Q, for farm output, and C for consumption. Now differentiating with respect to Q, we get

$$\frac{dM}{dQ} = 1 - \frac{dc}{dQ}$$

$$\text{or } \frac{Q}{M}\frac{dM}{dQ} = \frac{Q}{M} - \frac{C}{M}\frac{Q}{c}\frac{dc}{dQ}$$

$$\text{or } E_{MQ} = \frac{Q}{M} - \frac{C}{M}E_{CQ}$$

$$\text{Hence, } \frac{M}{Q}E_{MQ} = 1 - \frac{C}{Q}E_{CQ}$$

II Brahmanand Prasad

THE findings of Raj Krishna's study are that in general the elasticity of sales with respect to output, above the subsistence output, is greater than unity. Therefore, his policy pronouncement is that there is no case for adopting a discriminatory policy in favour of larger farms for increasing the marketable surplus of foodgrains.

Apart from methodological error in selecting his samples, the reader is left with the feeling that the arguments advanced by the author suffer from constant failure to clarify assumptions, and a tendency to treat assumption as having demonstrated relevance, which frequently they do not have. These defects in his analysis are examined here.

The Sample

(1) A sample which could have an all-India relevance must satisfy the following norms:

(a) the samples must be selected without bias or prejudice;

(b) there should be no underlying differences between areas from which data are selected; and,

(c) conditions must be the same for all items in the sample.

In the study under reference the method adopted for selecting the samples is arbitrary and far from scientific. Out of 23 samples selected, 9 are purposive samples, 12 are census samples and the remaining 2 are random samples. By any statistical norm, they can hardly be described as samples. Moreover the samples give weightage to surplus food producing areas like Punjab and western U P. Out of the 23 samples, as many as 12 are from these zones. Samples of other areas suffer from underweightage. There are only 2 samples from Madras, 3 from Madhya Pradesh, 1 from Delhi, 1 from Orissa, 2 from Maharashtra and 2 from Andhra Pradesh. Raj Krishna has avoided selecting samples from subsistence regions and states like Eastern UP, Bihar, Orissa, parts of MP, Rajasthan and West Bengal. It is, therefore, no accident that deviation from linearity is found in random or census samples.

Raj Krishna further points out that four out of the 10 non-linear village samples are characterised by very low mean income or mean holdings or mean output of the subsistence crop. I wonder if he is suggesting that it is far from the general characteristic of Indian farming units. According to current estimates about 75 percent of the holdings are small in size and a majority of them have marginal or no economic viability.

(2) In choosing purposive samples, Raj Krishna selects four villages which include "big" as well as "medium" and "small" farms. It is not clear why such a procedure should have been adopted when his preoccupation is with analysing the marketable surplus function of subsistence farms. These samples would certainly inflate the mean and would give a distorted picture of the subsistence farms. Or, does he mean to suggest that these four samples are sufficient to draw any conclusion about the marketable surplus function of medium and large farms. Either way, the method is of questionable validity.

What Is the Subsistence Level?

(3) Raj Krishna says that, "in the areas covered by these samples the marginal *propensity to sell* out of the output of a subsistence crop is constant over a wide range of output above the *minimum subsistence output*". This inocuous statement has a big catch in the words "above the minimum subsistence output". According to his own admission, the proportion of farmers producing less than the minimum subsistence output varied widely from 5 to 46 per cent in the various samples. If the samples had covered the heavily populated deficit or subsistence States of the country, these proportions would have certainly gone up. Moreover, when the vast majority of the rural population is underfed, the subsistence level of food intake is likely to fluctuate with the growth of income of the farmers. In another study on an identical subject, it has rightly been pointed out that small farmers are forced to make "distress" sales of their output to meet their money needs like rent, servicing of debt, and to purchase other necessaries of life as salt, kerosene and clothing and are forced to live on less than subsistence diet. In a period of relatively high prices, the producers' real burden is reduced and the favourable circumstances enable them to retain all they need. When prices rise, they are able to increase their cereal intake,[1] as has been the case since 1943. In other words, windfall gains in income through higher produce prices increase the reservation demand of the producers, reducing the marketable supply of foodgrains.

According to the study by Dharm Narain referred to above 26 per cent of the marketable surplus is accounted for by holdings of the sizes below 5 acres. Holdings of sizes between 5 to 10 acres account for another 20.5 per cent of the total marketable surplus.[2] That is, holdings of sizes upto 10 acres are responsible for contributing the major portion (46.5 per cent) of the marketable surplus and are operationally more significant. Historically also, the findings of the latter study have been vindicated. During the Great Depression the Indian cultivator actually fed the people at ridiculously low prices, starving himself and his family.[3] Even in the contemporary situation most of the indebted cultivators, who account for 60 to 80 per cent of all cultivators, are forced to sell their produce to the moneylender-cum-trader at less than the market price. The pre-determined low price of their produce forces them to sell the output they actually need for their own consumption. Under the circumstances, it does not appeal to commonsense that farmers who are forced to part with a major part of their produce under "money" pressure would continue to sell the same proportion of the additional output and continue to subsist on below normal food intake.

Price Changes Ignored

(4) Raj Krishna does not take into consideration changes in foodgrains prices because time series data are not available. It needs a stout heart to make a general policy pronouncement without taking into consideration the effects of such an important variable on which the quantum of marketable surplus has been observed recently to depend. Inflationary rise in prices on the one hand raises the real income of the farmers because they can meet their money need by selling a small part of their produce and on the other encourages them to hold back a greater part of the produce from the market in the expectation of getting a more favourable price in the future.

Under the circumstances the applicability of the findings of Raj Krishna's study for the country as a whole is questionable and the policy prescription advanced by him is of doubtful validity.

Incidently, those who favour consolidation of holdings rather than fragmentation through ceiling on land holdings base their conviction on the following grounds. The small size of the holdings and very low real income of farmers are impediments to the introduction of tractor-farming, technological innovations, or other methods of improving agricultural production. Small and fragmentary holdings are also responsible for waste in human energy and material resources. Due to the small size of the holdings, the cost of making improvements like wells, terracing or improving the drainage system become prohibitive in terms of per unit of produce.

Worst of all, much land is wasted in establishing boundaries and paths between the fields of different proprietors. Scattered plots of land over a large area also involve considerable waste of time, energy and manure. Some plots are too small to cultivate. The low productivity of land, due to the small size of holdings and the absence of any improvement in the technique of production, makes cultivation in such cases uneconomic. Many people continue to be agriculturists partly due to their love of land and partly due to the absence of alternative occupations in the villages. The implicit assumption underlying these arguments is that when small farm units are consolidated, the chances of introducing technological innovations are increased. And unless changes are brought about, output cannot be increased, be it on small or big farm units.

Notes

1 Dharm Narain: "Distribution of Marketed Surplus of Agricultural Produce by Size-Levels of Holdings in India, 1950-51", Asia Publishing House, Bombay, 1961.

2 *Ibid* p 35.

3 Baljit Singh: "Population and Food Planning in India", Hind Kitabs, Bombay, 1947 pp 39-40.

INDIAN ECONOMIC GROWTH

Performance and Prospects

by

K N RAJ

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Equities Drift Lower

Wednesday, Morning

THE corporate news was certainly encouraging. Dharamsi Chemical, Texmaco, Digvijay Cement, Dalmia Cement and Hindustan Aluminium — to mention a few important names — reported considerably improved results for 1964 and dividends have also been stepped up in some cases. And though India and Pakistan have yet to agree to a negotiated settlement of the border dispute, there has been a lull for quite some time in fighting on the Kutch border. No major border clashes were reported last week from other places. But all this brought little relief to the market which continued to have a very uneasy time. In extremely restricted dealings—activity appeared to be almost at a standstill quite often — equity prices gradually drifted lower and moved very near to the year's low point recorded on March 26. A few counters like Tata Locomotive, Voltas and Standard Mills made new lows for the year.

Apart from the frustration caused by the tax concessions allowed by the Finance Minister, the market sentiment last week was affected in no small measure by the rise in the call money rate to a record high of 9 per cent and by the prospect of continuing financial stringency even during the slack season following the Reserve Bank's advice to the member banks to divert their 'surplus' resources into short-term treasury bills. While the interest rate structure has brought about a significant change in the basic outlook for equities, mounting tension on borders has further undermined investors' confidence which had already been at an extremely low ebb.

That equity prices should continue to seek lower levels despite the recent massive support from the Life Insurance Corporation underlines the serious nature of the 'crisis of confidence' in the capital market. With financial institutions unable to dispose of the shares, underwritten by them, the situation in the capital market is likely to become still worse if the growth of investible funds with the financial institutions does not keep pace with the demand for underwriting facilities. The Industrial Finance Corporation has already let it be known that it will be restricting its underwriting activity as it cannot afford to have its funds locked up for too long and there seems no prospect of the shares, underwritten by it, being disposed of at a profit.

The volume of business put through on the stock market has declined to such proportions that not many stockbrokers are able to meet their normal office expenses. The market authorities are naturally very much exercised over the situation. With a view to stimulating activity on the stock exchanges, the standing committee of the presidents of recognised stock exchanges, which recently met in Madras, has suggested that at least 10 per cent of the investible resources of provident funds should be allowed to be invested in industrial securities listed on the stock exchanges and that the Indian Trust Act and the Employees Provident Fund Act should be suitably amended for this purpose. The committee is also reported to have suggested that the brokers should be asked to step up the rates of brokerage. But with brokers competing for a share in the declining turnover, it is doubtful whether they will find it easy to raise the rates which are known to be much below the prescribed rates.

COTTON

Dull Trading

IT has been yet another week of agonising dullness for the cotton market. Business was restricted both in ready and futures. The August hedge contract moved between Rs 767.25 and Rs 765 throughout the week. Against a normal turnover of 10,000 to 15,000 bales, the daily turnover in cotton futures in Bombay has shrunk barely to 1,000/2,000 bales. Considering the very low commission that is charged for speculative transactions in cotton, one wonders how cotton brokers manage to stay in business at all.

According to the Forward Markets' Commission, the monthly volume of business in cotton futures in India which was around 36 lakhs bales in October 1964 declined to merely 3.67 lakh bales in March. The decline in turnover has been attributed to late commencement of forward trading, tight money conditions and strict survey results. But this can be only a part of the explanation. The main reason is that with spot prices quoted near the ceiling most of the time, speculation has lost most of its charm, particularly when there exists a lower arbitrary ceiling for the hedge contract during the pre-delivery period. Yet another important reason why speculators are reluctant to take a very active interest in cotton futures, as also in other commodity futures, is the unpredictable attitude of the Forward Markets' Commission. Strange as it might appear, illegal trading has increased very considerably whereas there has been a marked decline in speculative business in the recognised forward markets. Neither the Government of India nor the Forward Markets' Commission is unaware of this. And, in a way, it is the Commission which has been responsible for this situation. Activity on recognised exchange has shrunk due to the arbitrary manner in which the Commission has been acting from time to time to regulate trading in the name of safeguarding the general public interest.

Of course, nobody need really regret the decline in the volume of speculative activity because the utility of hedge trading in a planned economy predominated by chronic shortages can be seriously exaggerated. No one can seriously say that the decline in the volume of hedge trading has in any way affected the marketing of crops or the return to growers. When arbitrary ceilings, unjudicious margins and the peculiar structure of the hedge contract tend to perpetuate the disparity between ready and forward prices, hedge trading becomes a pure gamble and renders no useful economic purpose.

OILSEEDS

Prices Recede

OILSEEDS prices suffered an all-round setback last week. Castor June receded from Rs 80.70 to Rs 78.80 and linseed June from Rs 98.50 to Rs 96.50 (per 100 kgs). In ready, linseed oil eased from Rs 19.75 to Rs 19.30, castor oil from Rs 17.25 to Rs 16.85 and groundnut oil from Rs 24.35 to Rs 25 (all per 10 kgs). In futures, upcountry was reported an important seller, presumably because mustardseed and mustard oil prices have been reluctant to move up for quite some time. It is tempting to explain, as some have tried to do, the setback in linseed futures as due to the tightening of the margin rules by the Forward Markets' Commission even though the margin will become operative only when the hedge contract rises beyond Rs 100 (per 100 kgs) — the plea made by the Bombay Oilseeds and Oils Exchange for making margin operative at Rs 96 has been turned down by the Commission. But the setback is not such as to call for any special explanation. It is quite normal for a rising market to pause and even react from time to time for necessary technical adjustments.

The decline in prices is really welcome because prices had been rising almost continuously for a long time. That oilseeds prices should be quoted substantially higher than prices prevailing at this time last year has intrigued many observers because the overall supply position is considerably better this season. The rising trend in prices of oilseeds, as also so many other commodities, cannot be adequately explained in terms of physical shortages, though offerings have continued to be rather poor in relation to the size of the harvests. Bullish psychology in commodity market has received considerable impetus from the rise in bullion prices which have been making new highs month after month. Many factors seem to have contributed to the rising trend in bullion prices and weakening confidence in the currency is by no means a small factor.

Despite the arrival of a fairly large quantity of soyabean oil and the Government's permission allowing vanaspati manufacturers to use up to 50 per cent of soyabean oil in the manufacture of vegetable oil products, there has been no noticeable decline in the demand for groundnut oil which has continued to hold relatively steady as compared with other oils. Besides, offerings of groundnut oil have not been such as to cause any pressure on the market. Since there is no real shortage of edible oils this season, it is quite likely that prices will not rise to anywhere near the fantastically high levels reached towards the end of last season, particularly if the monsoon is timely and its progress is satisfactory.

Philips India

INTEGRATION is a practical idea for Philips India. For more than a quarter of a century the management has been striving to make the company an integral part of the Indian industrial and economic scene. Several aspects of this philosophy of integration are manifest in the company's operation. There has been, for instance, a progressive and continuing integration of manufacturing; today Philips India is the leader in the race towards the manufacture of the first all-Indian radio. And at the new plant at Kalwa, near Bombay, the company will soon make almost every component for incandescent and fluorescent lamps. The company helps small independent manufacturers with designs, production techniques, supervision and quality control. They make many essential components for Philips products, and every single component is of a high enough standard to carry the Philips name and guarantee. By imparting information on the one hand and insisting on quality standards on the other, Philips India is helping to develop a host of ancillary industries. Endeavours made in the past years towards accelerating the programme of vertical integration and developing local sources of supplies have resulted in steadily decreasing the requirements of maintenance imports for each unit manufactured by the company. In this regard the company has been receiving valuable assistance from the parent company, N V Philips' Gloeilampenfabrieken of Holland.

The company has reported good progress during the past year. The production of tungsten and molybdenum wire and tungsten coils was begun at the Bombay factory. These are vital components for electric lamps and were hitherto imported. The volume of manufacture of fluorescent lamp starters and burners for gaseous discharge lamps in this unit was larger in 1964 than in the previous year. A similar trend was recorded in respect of production of fluorescent lamp fittings and various accessories thereto by the Calcutta factory. A satisfactory level of production of G L S lamps was maintained in the Bombay factory. The construction work at the Kalwa showed rapid progress, and the building for starting the first phase of manufacturing activity, namely, bulb blowing, is expected to be ready in the course of this year.

There was a notable rise in the production of radio components at the factory at Loni where construction of additional buildings was undertaken to facilitate further expansion of component activities. Production of radio sets in the Loni and Calcutta factories developed satisfactorily. The new unit started in Bombay for the production of electronic servicing and industrial process control instruments was able to increase production during the year. There are plans to expand its manufacturing capacity as also to set up a development laboratory. Steps were taken to implement by early 1965 the phased manufacture of fully transistorised portable wireless communication sets at the factory in Calcutta for defence purposes.

The financial results for the year to December last show rise in sales from Rs 10.63 crores to Rs 11.39 crores. The increase would have been higher but for the stocks destroyed by fire in the company's stores in Bombay. Taking into account the insurance claim in respect of the stocks lost in fire amounting to Rs 53.08 lakhs, the company earned a pre-tax profit of Rs 2.24 crores against Rs 1.66 crores previously, after providing Rs 33.07 lakhs (Rs 25.22 lakhs) for depreciation. The tax liability demands Rs 1.60 crores (Rs 1.17 crores). General reserve gets Rs 20 lakhs (Rs 11.04 lakhs) and development rebate reserve Rs 11.20 lakhs (Rs 5.50 lakhs). The proposed dividend of 18 per cent should absorb Rs 39.60 lakhs (Rs 33 lakhs). After bringing in the excess provision for previous year's liabilities amounting to Rs 8.26 lakhs, the surplus of Rs 2.15 lakhs is carried forward.

Amar Dye—Chem

SATISFACTORY progress has been reported by Amar Dye-Chem in implementing its expansion programme. The expansion of reactive dyes plant has been undertaken, as the demand is rising and the company is the only producer in the country. The Controller of Patents has granted five patents to the company. Extension of the optical whiteners plant has also been undertaken to meet the increased home demand and export requirements. The reduction unit for manufacturing toludines and anisidines is only partly completed, as the company has still not received the necessary import licence for which it had applied in 1962. The building for the TPM second phase expansion is complete, and equipments for most of the projects are on site. It is expected to be in production in the second half of this year. During 1964, the company added quite a few items to its selling range, like an expanded range of reactive dyes, an almost full range of basic dyes and a couple of items in the range of pigment colours.

The results for the year show marked improvement, with sales at Rs 2 crores against Rs 1.50 crores and pretax profit at Rs 13.82 lakhs against Rs 8.67 lakhs, after providing for depreciation Rs 39.03 lakhs (Rs 23.11 lakhs). A sum of Rs 10.96 lakhs (Rs 6.62 lakhs) is transferred to development rebate reserve. The equity dividend is raised to Rs 10 per share for payment of dividends requiring Rs 13.71 lakhs (Rs 8.91 lakhs) Rs 10.80 lakhs are withdrawn from general reserve, while last year Rs 6.60 lakhs were withdrawn from development reserve. The results would have been better but for a labour strike that lasted for about three weeks and boiler failure for about a month; both these factors affected production during the year.

Escorts

ESCORTS is acquiring management and control of a running concern of Bombay known as Bahri Automobile which owns a specialised factory for the manufacture of transmission gears of all types for passenger cars, trucks and heavy earth moving equipment. It also manufactures axle shafts, crown wheel and pinion king pins, rear king pins, etc. These items are needed by Escorts for the manufacture of its agricultural tractors. In fact, Escorts had planned to establish a factory of its own for the manufacture of transmission parts for its tractors similar to those being produced by Bahri Automobile. By acquiring controlling interest of this firm, Escorts will be able to advance its plans for the manufacture of parts for tractors by at least two years by saving the time required in obtaining import licences for machinery and raw materials and for getting the machinery installed and buildings completed. Besides, it will reduce its requirements of investments which otherwise would be required for putting up a completely new workshop.

It is proposed to make Bahri Automobile a subsidiary of Escorts by owning majority share capital of this firm. Shares of the value of Rs three lakhs out of the total paid-up capital of Rs 30.21 lakhs have already been purchased by Escorts from the existing shareholders. The directors of Bahri Automobiles have decided to issue further equity capital of Rs 25 lakhs and to allot these shares to Escorts. The proposed fresh investment will be made by Escorts after obtaining sanction of shareholders. Meanwhile, it has been appointed sole selling agent for the entire range of production. There is already a good market for these products and, if necessary, Escorts will arrange technical know how from foreign countries with a view to enabling this unit to further improve its quality.

Escorts also proposes to appoint Commercial and Industrial Exports, a Tata group organisation, as sole exporter to export products manufactured or supplied by it to all countries except Iran and Afghanistan where it has already appointed distributors for agricultural equipment.

Ultramarine and Pigments

DURING the past several months, demand for indigenous ultramarine blue has been rising as is evident from the latest annual report of Ultramarine and Pigments. The company was able to sell its entire production during the year to December 1964. From the beginning of this year, demand has been more buoyant, with orders coming in faster than the company can execute and both production and sales have been to the full capacity. With a view to raising the production capacity, the company has already taken in hand the work of expansion. For this purpose additional land has been purchased, and new machinery and equipment are being installed. It is proposed to double the manufacturing capacity to 1,200 tons per year by the end of this year.

The company has produced pleasing results for the year 1964, with sales rising more than four times to Rs 33.86 lakhs and gross profits at Rs 12 lakhs nearly seven times the 1963 level. After providing Rs 5.48 lakhs (Rs 3.38 lakhs) for depreciation, Rs 0.89 lakh (Rs 2.53 lakh) for development rebate and Rs 0.35 lakh (nil) for taxation, there is a net profit of Rs 5.28 lakhs compared to a deficit of Rs 4.10 lakhs a year ago which has now been wiped off. The directors have proposed payment of a maiden dividend of seven per cent, free of tax.

With the improvement in the company's financial position, borrowings have been reduced considerably. As at the end of December 1964, the company owed to ICICI only Rs 6.25 lakhs against Rs 11.30 lakhs a year before, and a further sum of Rs 2.69 lakhs was repaid this year.

Investa Machine

INVESTA Machine Tools and Engineering Company has achieved a steady improvement in the rate of production and is engaged in extending the range of its products. It has planned to have a regular production of four models of PD-25 drill in the second half of this year. Steps are being taken to develop a bigger model of PD-40 drill and LEA type heavy lathes and SM type shapers. The last two items are to be manufactured with the help of Japanese technicians. The formalities connected with the import of a few machines have been completed, and a technical collaboration agreement is being finalised with Okuma Machinery Works of Japan. The company's chairman, K C Bakhle, is hopeful of better prospects for the current year, with a turnover of about Rs one crore compared to Rs 77.26 lakhs in 1964 and Rs 63.40 lakhs in 1963.

During the year to December last, the company sold 513 machines as against 431 machines sold a year before. Despite a higher provision for depreciation and a much bigger interest charge, the results showed a net profit of Rs 6,775 against a loss of Rs 1.25 lakhs incurred previously. The dividends are once again skipped. The liability for the accumulated preference dividend now amounts to Rs 9.36 lakhs.

Mahindra and Mahindra

WITH a view to further widening the field of its activities, Mahindra and Mahindra proposes to form three new companies in collaboration with foreign concerns for undertaking the manufacture of several new products. Addressing the shareholders at their annual general meeting held in Bombay some days ago, Keshub Mahindra, Chairman, stated that one of these companies would manufacture, in collaboration with Vickers-Sperry Rand of the US, hydraulic control gears which have wide applications ranging from machine tools to aircraft. Another company will specialise in the manufacture of current limiters, automatic and voltage regulators, manually-operated circuit breakers and starters in collaboration with Van Wijk and Visser of Holland. In collaboration with Natvar Corporation of the US, another company will undertake the manufacture of high temperature synthetic flexible electrical insulations. The public would be invited to participate in the capital of these three new companies.

Mahindra also told shareholders that the company's scheme of expansion aimed at raising the production from 10,000 to 25,000 vehicles per year would involve an estimated outlay of Rs 10 crores, half of which would be in foreign exchange. The company had already applied to the Government for permission for negotiating a loan of Rs 5 crores from AID for this expansion.

FROM THE CHAIR

Mahindra Ugine Steel Company Limited

Speech of the Chairman, Shri Harish Mahindra

THE following is the speech delivered by the Chairman, Mr. Harish Mahindra at the Second Annual General Meeting of the Share-holders of Mahindra Ugine Steel Company Limited held in Bombay on Eleventh May, 1965.

Ladies and Gentlemen,

I deem it a privilege to extend to you all a warm welcome to the Second Annual General Meeting of the Company.

It is sad to recall that last year, on this occasion, we had paid silent homage to our beloved leader, Pandit Jawaharlal Nehru. The first anniversary of his death falls on the 27th of this month. I am sure I am echoing your thoughts if I say that time has not diminished our deep sense of this loss.

The Directors' Report and the audited Balance Sheet are with you for some time, and with your permission, I will take them as read. In the year under review, your Company earned interest on short-term deposits. We have, however, been advised to make a provision of Rs 1,00,750 for meeting our tax liability. This has resulted in a loss of Rs 3,586.

The Directors have reported to you in detail the progress registered on the Project. The construction activity is proceeding satisfactorily at the site despite certain hindrances of which I shall speak presently.

All of you are aware that the establishment of Alloy Steel Plants has been accorded the highest priority by the Government. Accordingly, our steel requirements for construction of shop buildings have been planned on producers on a 'first priority' basis. Nevertheless, procurement of matching steel has posed serious problems with the result that the fabrication programme as originally scheduled could not be implemented. I am glad to say that most of the critical items have since been received and the fabrication of steelwork for Roling Mill and Shipping Shops has now commenced. Unfortunately, however, in the case of cement, Steel Industry has been assigned a lower place in the order of priorities. As a consequence, we are experiencing difficulty in maintaining the construction activity in full swing, but, it is hoped that our recent representation to the sponsoring authorities, i. e. the Ministry of Steel, for expediting physical deliveries of cement for our project, will yield satisfactory results.

The site today presents an interesting panorama of about 600 labourers working under the supervision of foreign and Indian engineers. The existing tempo will unfortunately slow down during the rains and civil work may have to be suspended during the peak monsoon period. The erection of fabricated structures at site is expected to commence immediately after the monsoon

Contracts Finalised

I would like to make a reference to the contracts concluded with the suppliers of major items of capital plant and equipment. We have been able to finalise the contracts in respect of both technical and commercial conditions, on terms satisfactory to your Company. Shipments of most of the major items of plant will be completed by last quarter of 1965, and subject to any unforeseen circumstances, we expect that trial runs of some of the units will begin during the latter half of 1966.

You are aware that in terms of the Industrial Licence granted to this Company, it was originally intended to produce 18,000 tonnes of finished steel per year during the first phase of its manufacturing programme. In the context of a rapidly increasing demand for alloy steels and the long gestation period involved in the establishment of alloy steel plants, Government welcomed proposals from those units in the private sector, which had made tangible progress in the implementation of their manufacturing programmes and were ready to expand their capacities to cope with the demand during the Fourth Plan period. I am happy to advise that we have since received the Letter of Intent from Government, permitting us to expand the rated installed capacity of our plant to 31,000 tonnes of finished alloy steel per year. The plant is now being designed for an initial output of 24,000 tonnes of finished alloy steel per year, with suitable provisions in the works lay-out and plant and equipment for eventual expansion to 50,000 ingot tonnes per year at a minimum cost. To take care of the substantial increase in the rated capacity of the plant, the additional outlay is estimated at Rs 200 lacs, out of which Rs 150 lacs will be required by 1966 and the balance Rs 50 lacs, by 1967-68. Negotiations are already under-way with the Financial Institutions and we have received encouraging response to our request for additional long-term loans. Provisions made in the plans for built-in facilities to increase the output per annum will improve the earning potentials of your Company.

The making of alloy steel involves a very complex technique and know-how, proper assimilation of which by our Operating Personnel is essential for the successful operation of the plant. In recognition of this fact, an intensive training programme for the Operating and Maintenance Personnel has been formulated in conjunction with Ugine. We have plans for immediate deputation abroad of 5 technical personnel, who will be followed by another batch of 30 engineers towards the end of this year. One of the noteworthy features of our collaboration agreements with Ugine is that these personnel will be allowed to assume complete responsibility—though for a brief period—for operations in their respective fields at Ugine's plant, prior to their return. In this connection, I wish to acknowledge the co-operation extended by the French Trade Commissioners in New Delhi and Bombay and the Department of Economic Affairs in agreeing to include some of our personnel in the Indo-French Technical Assistance Programme. The benefit to be derived from the participation of our personnel in this scheme is expected to be substantial, as they will have the opportunity of undergoing an induction course in French language before they commence their training at Ugine.

Research Facilities

In order to assess the quantum of annual consumption for alloy steel by 1966-67 as well as by 1970-71, a comprehensive market survey, on our request, has been undertaken by our

Selling Agents Messrs Mahindra and Mahindra Limited. The basic objective of this study is to assess the pattern of future consumption of alloy steel—gradewise, sizewise and categorywise—to enable the Company to formulate its production programme in a manner which will reflect the basic needs of the market.

Commendable efforts are being made in this country to study the relationship between industry and technology. These studies are being carried out with the objective of attaining a proper comprehension of the role which can be played by technological innovations in accelerating the process of economic growth. The need for providing adequate research facilities in industrial units is being increasingly recognised by the Industry and in acknowledgment of our obligations in this respect, your Company proposes to have in due course built-in research facilities in its Laboratory.

Regulatory Customs Duty

The 10 per cent regulatory duty on all imports which preceded this year's budget was an unpleasant surprise. The impact of this regulatory duty on the financial resources of your Company has been very severe as it means that an additional sum of Rs 20 lacs will have to be expended on the import of capital plant and equipment. It is not my intention to question the necessity of an impost of this nature from the point of view of the economy as a whole, but, I feel that new manufacturing units engaged in key industries with high import-saving potentials should have been spared by the Government from the rigours of this impost. No such exemption has yet been granted, but, it is hoped that the frustrating effect of this duty on new capital intensive units, like alloy steel, fertiliser, etc, will be realised and the authorities will decide, before long, to exempt these new industries from the purview of this duty.

Compared with the other progressive countries of the world, our per capita consumption of steel remains at a lamentably low level. While it is acceptable that the country's immediate need is increased agricultural production, and a balanced growth of consumer goods, attention must be paid simultaneously to the progress of a well-co-ordinated Iron and Steel Industry. Only the development of the basic industries on predetermined lines can bring the nation to the take-off stage—any shift on emphasis is fraught with the possibility of a grave danger to the economy. The most heartening official pronouncement in this respect has come from the Finance Minister. After a comprehensive assessment of the nation's outlook since the 1963 Budget he has warned that it would be disastrous for India at this stage to slow down the development pace, and alter the present pattern of planning—either due to political pressure, or due to a misinterpretation of the present inflationary situation. He made out a strong case for ambitious investment planning aimed at rapid industrialisation. I have no doubt that rapid industrialisation necessarily includes establishment of heavy industries on proper foundations. Your Company expects to be a worthy unit of this phase in the economic development of the country.

I wish to express our gratitude to the Central and the Maharashtra State Governments and the Financial Institutions for their continued interest in our Project. I would like to commend the Maharashtra Government for drawing up the Master Plan for Khopoli, where a large industrial complex is growing up. I fervently hope that the Town Planning Scheme will be implemented with all speed. Khopoli is suffering from acute shortage of residential accommodation and I would once again revive the appeal I made to the Maharashtra Government to provide industrial housing at Khopoli on a priority basis.

I also wish to place on record our deep appreciation of the co-operation which is being extended to us by our French collaborators. The progress so far registered on your Project is also, in no small measure, due to the untiring efforts of the French and Indian Technical Consultants, viz. CETIG and KULJIANS. I am as always indebted to my colleagues on the Board for their continued counsel and guidance in managing the affairs of your Company. I would also like to thank Members of the Staff who have worked so well and whose loyalty and allegiance will contribute to the success and prosperity of your Company.

Thank you.

Note: This does not purport to be the record of the proceedings of the Second Annual General Meeting of the Company.

ECONOMIC AND SCIENTIFIC RESEARCH FOUNDATION

Federation House, New Delhi-1.

The Foundation invites applications for Senior and Junior Research Staff for work in the fields of Industrial Planning and Taxation.

1. *Senior Staff (3):*

Candidates should have a basic qualification, preferably a post-graduate degree with high rank, in economics, statistics, commerce, engineering or science with special interest and/or substantial research experience in any of the following fields: industrial finance, cost accounting, taxation, industrial and economic surveys, agricultural economics, techno-economic analysis for industrial projects, demand forecasts. They should have proven capacity for research work and be able to write clearly and succinctly. Experience of work in industry would be an advantage. Salary in the range of Rs. 900-1200 p m consolidated.

2. *Junior Staff (3):*

Candidates should have a post-graduate degree in economics, statistics or commerce and appropriate research or teaching experience. Salary in the range of Rs. 300-900 p m consolidated.

Candidates called for interview will be paid second-class return train fare to and from their place. Applications with detailed particulars of qualifications and experience together with copies of published papers and reports should reach the Deputy Director not later than 30th May 1965.

Production of Industries in 1963-64

Name of the Industry	Accounting Unit	1963 No of Units	1963 Installed Capacity	1963 Actual Production Ex-Factory Value	1964 No of Units	1964 Installed Capacity	1964 Estimated Production
1	2	3	4	5	6	7	8
A-Industrial Machinery							
Sugar Mill Machinery	Value in lakhs	16	Made to Order	578.18	17		714.88
Boilers & Mountings	,,	10	,,	289.31	11		442.42
Cement Mill Machinery	,,	5	,,	96.42	6		216.49
Conveyor	,,	22	,,	166.81	22		188.26
Drilling Equipment	,,	3	,,	75.65	5		131.28
Reduction Gears	,,	3	,,	87.74	6		131.52
Gas Cylinders	,,	2	,,	38.71	2		55.40
Printing Machinery	,,	4	,,	4.50	4		2.09
Tea Machinery	Rs in lakhs	10		166	12	200	131.29
Coal Mining & Coal Washery	,,	7	Made to Order	56	12	257	59.75
Metallurgical Machinery	,,	4	,,	18	7	200	21.03
Paper & Pulp Machinery	,,	14	,,	134	14	550	172.55
Chemical, Pharmaceutical and Solvent Extraction Plants	,,	52	,,	500	76	700	679.21
Rice, Dal & Flour Mill Machinery	,,	22	,,	35	18	44	41.36
Agricultural Machinery	Rs. in lakhs	26	Made to order	181	26	Made to order	226.68
Dairy Machinery	,,	4	187	47.00	4	187	61.47
Ceramic Machinery	,,	3	Made to order	5.50	3	Made to order	7.80
Machinery Unclassified	,,	16	,,	64.70	17	,,	118.23
B-Electrical and Other Engineering Industries							
Steel Pipes and Tubes	Tonnes	13	2,83,000	2,14,500	13	2,83,000	2,15,363
Bright Bars	,,	4	19,680	18,314	4	19,680	12,000
Railway Wagons	Nos	15	34,534	19,187	15	35,534	23,616
Wire Ropes	M Tonnes	3	6,360 Tons	7,045 Tons	6	18,600	9,778 Tons
Steel Structurals	,,	121	3.67 lacs	1.8 lacs estimated	176	5.75	3.00 lacs
Cranes	,,	16	14,000	6,000 estimated	20	17,000	10,000
Steel Castings	Tonnes	17	58,840	49,639	22	73,090	55,814
Steel Forgings	M Tonnes	38	55,594	55,800	46	73,410	55,600
Electric Motors	HP	27	11,36,040	11,83,901	27	13,90,000	13,18,200
Transformers	KVA	17	19,98,800	26,29,010	19	20,77,000	31,26,000
Motor Starters	Nos	15	2,00,516	1,86,933	15	2,00,516	2,12,000
C-Machine Tools							
Machine Tools	Rs lakhs	59	1,623.96	1,556.56	59	1,752.00	1822.5
Machine Tools Accessories	,,	9	45.50	43.77	9	51.50	49.0
Wood Working Machines	,,	1	5.00	1.27	3	20.00	2.52
Portable Tools	,,	6	102.00	83.84	6	102.00	132.85
Other Metal Farming Machines		1	6.00	5.60	3	31.00	29.24
Furnaces		8	255.00	130.22	11	372.00	179.09
Gas Welding & Cutting Equipment	,,	3	70.00	67.40	2	64.00	58.23
Electric Welding Machines							
Grinding Wheels	Kgs	7	31,80,000	27,91,413	7	31,80,000	30,35,276
Coated Abrasives	Reams	5	1,87,000	1,81,770	5	1,87,000	1,72,743
Steel Files	Nos	6	78,48,000	65,69,700		78,48,000	55,27,197
Twist Drills	Nos	6	40,44,000	46,80,605	6	40,44,000	67,00,375
Reamers	,,	9	1,24,350	97,841	8	1,23,650	1,15,164
Threading Tools (Tape Dies & Chasers)	,,	8	15,99,350	13,17,046	6	13,63,850	18,58,693

1	2	3	4	5	6	7	8
Milling Cutters	Nos	11	1,87,100	1,98,621	10	1,86,200	2,32,955
Bandsaw Blades	R Meters	4	21,66,158	4,97,896	4	21,66,158	2,05,601
Hacksaw Blades	Nos	4	4,49,28,000	2,15,13,000	6	5,02,08,000	2,96,79,312
Tungsten (Sintered)	Kgs	4	22,000	19,579	4	22,000	26,031
Lathe Tools (Tool Bits)	Nos	8	8,62,480	5,37,590	8	8,62,480	3,82,059
Diamond Drill Bits	Nos	4	24,000	16,603	4	24,000	20,775
D-Automobiles and Ancillaries							
Automobiles							
Com Veh	Nos	5	30,000	28,482	5		33,777
Cars	,,	3	20,200	15,711	3		21,637
Jeeps	,,	1	8,000	8,104	1		11,327
Scooters	,,	3	47,000	15,422	3		18,716
Motor Cycles	,,	3		9,456	3		12,316
Three-Wheelers	,,	3		1,701	3		3,958
Tractors (Agri)	,,	3	7,500	1,692	4		2,212
Diesel Engines (Veh)	,,	2	9,000	9,034	2		8,15
Diesel Engines (Stat)	,,	27	68,740	55,540	28		68,335
Petrol/Kerosene Engines	,,	3	29,000	2,493	5		6,420
Power Driven Pumps	,,	59	1,60,909	1,52,661	62		1,61,131
Petrol Dispensing Pumps	,,	3	2,670	2,297	3		1,863
Locomotive Diesel Shunters	,,	1	100	56	1		24
Gliders	,,	2	132	21	2		8
Air Compressors	,,	9	5,538	2,991	9		2,928
Road Rollers	,,	4	1,074	924	4		1,210
Fans & Blowers	,,	9	3,564	2,744	9		3,083
Fork Lift Trucks	Nos	2	250	166			150
Fuel Injection Equipment Pumps (Multi & Single Cylinder)	,,	2	1,68,000	97,398	2		1,16,135
Nozzles	,,	2	13,19,400	7,15,376	2		6,82,010
Nozzle Holders	,,	2	4,68,000	2,64,549	2		2,77,608
Pumps Elements	,,	2	11,52,000	8,79,744	2		9,80,541
Delivery Valves	,,	2	11,52,000	6,72,365	2		6,81,026
Filters, Oil & Air	,,	4	1,85,040	59,906	4		65,321
Trailers	,,	13	8,000	3,448	3		7,583
Thin Walled Bearings	,,	3	15,40,000	14,56,928	6		32,19,725
Radiators	,,	6	58,200	6,6581	4		71,806
Dynamos	,,	3	1,50,000	32,606	6		65,809
Electric Horns	,,	6	4,05,000	1,35,000	3		1,86,329
Gaskets	,,	3	8,20,00,000	1,97,16,723	3		2,80,48,520
Wheels & Rims	,,	3	4,85,000	3,34,231	3		3,81,717
Valves (Engines)	,,	3	16,40,000	11,76,171	5		16,72,982
Oil Seals	,,	4	25,72,000	21,31,798	2		20,78,735
Piston Rings	,,	2	1,20,00,000	92,95,122	4		90,57,228
Piston	,,	3	18,00,000	7,79,984	5		7,14,342
Shock Absorbers	Nos	5	12,10,520	2,89,218	2		5,06,964
Clutch Facings	,,	2	10,00,000	3,92,958	2		5,17,931
Brake Linings	Tons	3	2,810	86,354	3		9,133.32
Clutch Assembly — Driven Plate	,,	1	15,000	(a) 58,611	1		(a) 1,05,253
Cover Assy				(b) 26,242			(b) 32,193
Spark Plugs	Nos.	2	15,96,000	17,72,254	2		18,66,315
Starter Motors	,,	3	1,47,000	26,333	3		41,641
Gudgeon Pins	,,	1	16,55,000	4,75,686	2		4,88,760
Cylinder Liners	,,	3	4,98,000	1,54,285	3		1,44,857
Tractor Drawn Agri. Implement	,,	3	—	3,410			
Mobile Cranes	,,	1	60	40			50
Bulldozers	,,	2	60	37			2
Shovels/Excavators	,,	2	150	41			48
Scapers	,,	2	60	27			23

Source: **Annual Report 1964-65, Ministry of Industry and Supply, Government of India.**

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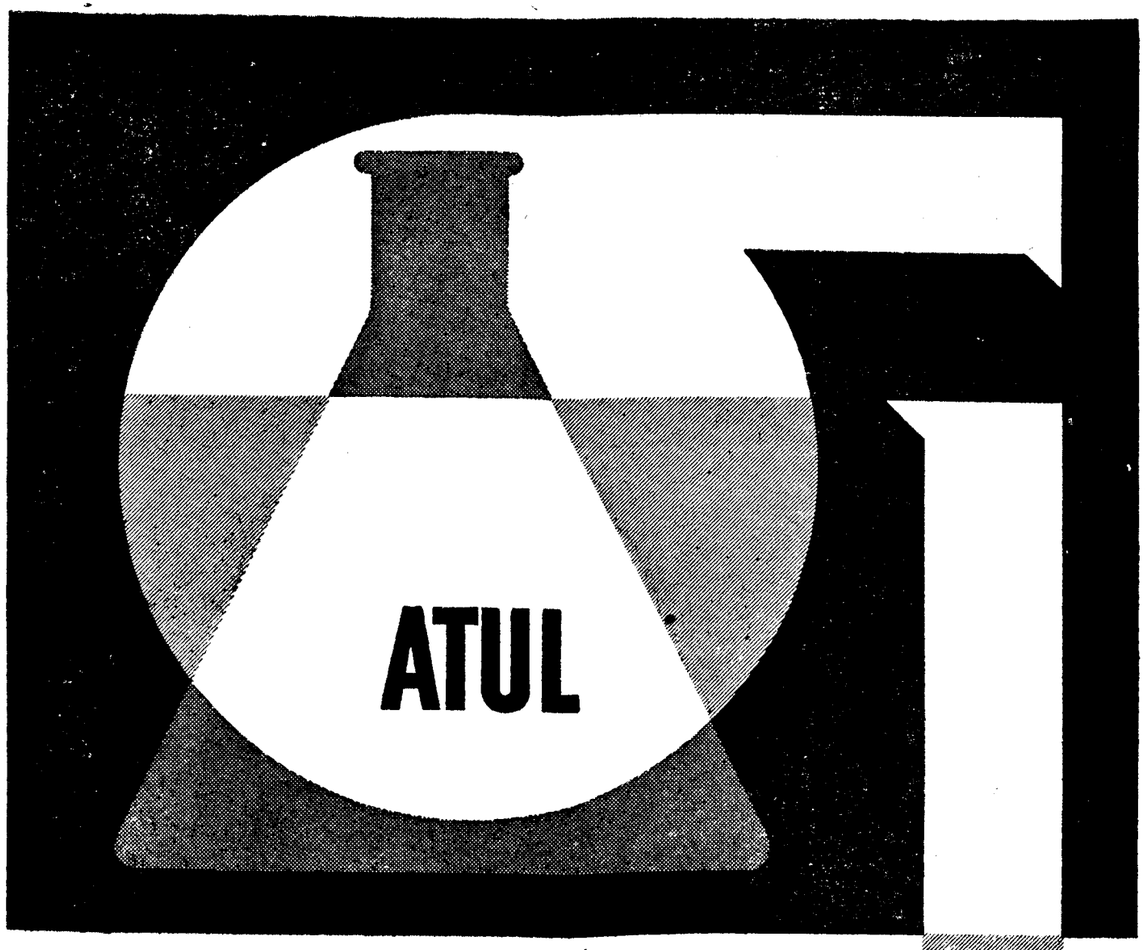
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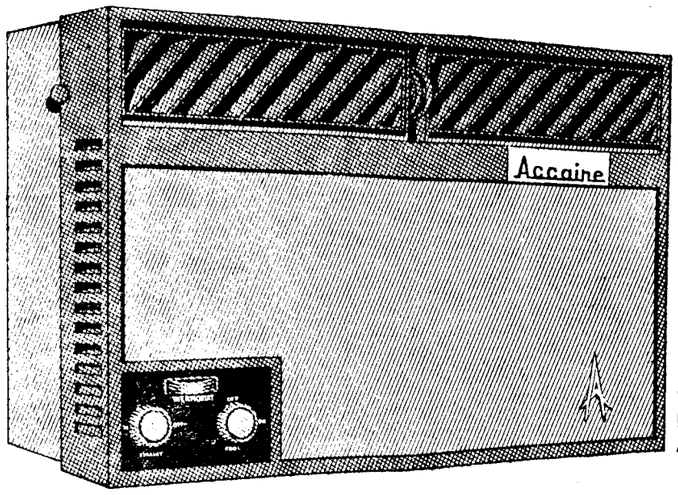
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THE ECONOMIC WEEKLY

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A Successful Visit

LAL Bahadur Shastri's first visit to the Soviet Union has taken place in circumstances very different from those in which Pandit Nehru went to that country for the last time in September 1961. Pandit Nehru went there after attending the neutral nations' conference at Belgrade, disappointed and dejected at the Soviet Union's action in breaking the moratorium on nuclear tests with a blast on the eve of the Belgrade conference. And if Nehru was shocked by the Soviet Union's action, his hosts in Moscow too had reason to be angry with him, for it was he who had taken the lead in bringing the subject of the Soviet nuclear test before the Belgrade conference and having it discussed there—in the course of which discussion almost every leader present condemned the Soviet action.

By contrast Prime Minister Shastri could not have gone to the Soviet Union in circumstances more propitious for the success of his visit. The developments which made this possible were all fortuitous and could not have been foreseen at the time when the invitation to Shastri was extended and accepted. The Soviet Union has been India's traditional "ally" against Pakistan. With the recent heightening of Indo-Pak hostility following the incidents on the eastern border and the major armed action in Kutch it was natural that India should turn to her "ally". The clear evidence of the use of U S arms by Pakistan in Kutch and the American Government's unwillingness to condemn this breach of the understanding on which the U S had supplied arms to Pakistan increased the pro-Soviet sentiment in this country. The other factor which helped was relatively trivial and passing in its impact. This was the brusque postponement by President Johnson of Shastri's visit to the U S. From the reaction of the Government and the Parliament as well as of other sections of Indian opinion, it was clear that the U S action had been taken very seriously indeed here. Along with these developments, the stepping up of the tempo of the bombing attacks on North Vietnam and the despatch of U S marines to suppress the popular uprising in the Dominican Republic produced sharply adverse reactions in India, even though the voice of the Government of India was all but muted.

In any but such specially favourable circumstances the fact that the Soviet Union has refused to support, even mildly, the Indian stand in Kutch and that the issue does not even find a mention in the joint communique issued at the end of Shastri's visit should have caused considerable disappointment. The disappointment would have been irrational, of course, since only the very naive could have seriously expected that the Soviet Union would want to take sides against Pakistan just when she is engaged in the exceedingly delicate double manoeuvre of weaning away that country from US-sponsored military alliances and preventing her from getting too entangled with China. It would have been even more silly to canvass support in Moscow for the Indian case in the border dispute with China. The Soviet Union has already gone as far as she can by not permitting the Sino-Indian conflict to influence her friendship with India or affect the flow of economic aid to this country. She has in addition given us just enough defence assistance to prevent our catapulting into an American arms embrace. It would have been wholly inconsistent with the current Soviet approach to the Sino-Soviet ideological conflict to have said anything on the Sino-Indian border dispute which might further offend China.

The genuine criteria by which Shastri's success in Moscow will be judged are different, foremost among these being the strengthening of Indo-Soviet relations and the expansion of economic co-operation between the two countries. The joint communique issued on Wednesday acclaims Shastri's visit as an important milestone in the development of friendly relations between India and the Soviet Union and lists the many areas of agreement between the two countries. It will be apparent that this is something more than an instance of the kind of euphoric expressions customary in such communi-

ques if it is considered that there are practically no conflicts of interests between the Soviet Union and India. In the economic field the Soviet Union will no doubt continue its assistance to India in the Fourth Plan. As in the Third Plan, the quantum of assistance for the entire Plan period may be announced in advance once agreement is reached on the major projects to be aided. No figures have been mentioned, of course, but the current expectation seems to be that Soviet assistance would be around Rs 600 crores, or more than her total aid for the Second and Third Plans. Consistent with aid of this magnitude, trade between the two countries will expand rapidly and the joint communique mentions the target of doubling the 1964 turnover of goods by 1970.

No less important are the consequences of Shastri's visit for the continuance and strengthening of India's policy of non-alignment. It is certain that his direct contacts with the Soviet leaders has led the Indian Prime Minister to a better appreciation of the rationale of non-alignment while at the same time they must have strengthened the Soviet Government's confidence in India's ability and determination to pursue this policy. This is a matter of some significance since as Shastri said in one of his first speeches in Moscow: "It is no exaggeration for me to say that our ability to pursue this policy (of non-alignment) has to a large measure been due to the understanding and support with which your Government has regarded this policy."

But non-alignment was never conceived of as a policy of equi-distance between the Soviet Union and the US. Now particularly, with the once-tight alliances of the cold war fast loosening, such a conception has lost all relevance. The joint communique itself mentions some of the areas of international conflict or disagreement where ultimate settlement may follow upon initiatives from the non-aligned. Immediately, of course, there is the war in Vietnam. In the joint communique India joins with the Soviet Union in demanding that the bombing of North Vietnam should stop immediately and in asserting that the solution of the problem of Vietnam can be found only within the framework of the Geneva Agreements of 1954. This is no doubt the right position for India to take but with articulating it alone her responsibility in the matter cannot be considered to have been discharged. Apart from her commitment to and interest in preventing an escalation of conflict in Asia, she is—though it seems to be forgotten almost—a chairman of the International Commission for the Supervision and Control of the Implementation of the Geneva agreement. In Vietnam, therefore, India has a double responsibility to act.

Bokaro over Again

WHATEVER the Steel Minister and his officials might say, the Ministry did not put up any kind of fight to secure for Indian engineers a worthwhile role in the preparation of the project report for the Bokaro steel plant. On the contrary, it was only too willing to hand over the task to the Russians lock, stock and barrel. The motive behind this apparently strange behaviour is also no secret: it was to facilitate the acceptance of an offer from an Anglo-US consortium to build the fifth steel plant on a turn-key basis, covering every stage from selection of the site to erection of the plant. The question of the extent of association of Indian engineers with the plant's operation when it is ready has not arisen yet, but judging from the attitude of the US consortium which was to build Bokaro originally, it is certain that the foreign collaborators in the fifth steel plant would expect to have controlling powers; equally likely they would be given them.

Commenting on the dissociation of Dasturco from Bokaro it was pointed out in an editorial some months ago ("Engineering for Bokaro", December 5 1964), that what was at stake was more than the future of one consultancy firm—important though even that was considering the care with which Dasturco had been built up and the quality of talent it had brought together. What was at stake was the development of Indian designing and engineering. Indian consultancy and designing, it was emphasised, "have to be built up and any backsliding, from this firm resolve would be too high a price to pay for aid, however attractive the latter might be otherwise". The apprehension was that Bokaro would set a pattern of backsliding and Indian designing and engineering would be cast aside for other projects too. Since that editorial was written the expected developments have taken place in relation to the fifth steel plant. The agreement with the Anglo-American consortium was signed on January 27 covering, to begin with, selection of two alternative sites for the plant and preparation of the project report. The other steps are expected to follow in due course. Within six months of the submission of the project report the consortium is to prepare the plan for financing the project after which the deal for building the plant would be concluded.

This abject dependence on the consortium for tasks which it is well within the competence of indigenous technical skill to perform the Steel Ministry defended on the ground that "the negotiations for the financing of the foreign exchange costs of the fifth steel plant.... can be brought to a speedier conclusion if the advice of the consortium is available on the merits and demerits of the respective sites". The specious argument was also advanced that the consortium had agreed to do the project report for Rs 46 lakhs while Dasturco had charged Rs 60 lakhs for the report on Bokaro, completely ignoring the fact that such comparison was meaningless since the consortium is obviously expecting to bag the steel plant project and is, therefore, looking to the returns to it from the deal as a whole. In any case, the additional expenditure of Rs 14 lakhs could hardly offset the case for encouraging Indian consultancy. The fact is that the consortium laid down the terms and the Steel Ministry bend over backwards to please —which was just what it had been preparing the ground for.

The rot has gone much deeper, however; it has affected the expansion of the existing steel plants at Durgapur and Rourkela. The expansion of both plants is to be completed in two stages—Rourkela from 1 mm tonnes to 1.8 mn tonnes first and then to 3/3.5 mn tonnes; Durgapur from 1 mn tonnes to 1.6 mn tonnes and then to 2.5 mn tonnes. The project reports for the first stage of expansion of the two plants were prepared by Hindustan Steel's Central Engineering and Design Bureau which has also been supervising the implementation of the expansion programmes. But now suddenly it has been discovered that the CEDB's handling of the first stage of expansion has not been satisfactory and on that ground the German and British consortiums which helped put up the Rourkela and Durgapur plants respectively are known to be pressing the Government of India to hand over the second stage of expansion to them on a turn-key basis, leaving out the CEDB altogether. Inspired reports have simultaneously appeared in the press suggesting the disbandment of the CEDB since, according to the reports, it has turned out to be a big liability which Hindustan Steel can ill afford!

To demand that these pressures must be firmly resisted is not to claim infallibility for the CEDB or to deny that it may have made mistakes—after all, the record of the German engineers at Rourkela is nothing much to write home about. But while the alleged failures must be investigated and corrected and steps should be taken to prevent their repetition, it must be made clear to our foreign collaborators that the CEDB is a vital link in our steel programme and that its functions and responsibilities must increase steadily as it gains in experience and as the technical resources at its command grow. Any other attitude on the part of the Government to the demands for more turn-key contracts will complete the elimination of Indian designing and consultancy begun by the present Steel Minister with the decision to leave Dasturco out of Bokaro. It is known that Dasturco's team of hand-picked engineers and experts had been substantially expanded for undertaking the massive task of drawing up the project report for Bokaro and in preparation for the designing, engineering and supervision of construction of the project itself, an agreement in respect of which had been initialled between it and the Government when C Subramaniam was the Steel Minister. But when the Steel Ministry under Sanjiva Reddy went back on its word, this team perforce broke up and some of its men drifted away, damaging the most outstanding achievement so far in designing and consultancy services in this country. Is a similar fate in store for Hindustan Steel's Engineering and Design Bureau which, according to the latest Steel Ministry report, has now been built up to a strength of 434, including 146 engineers?

Weekly Notes

The Rationale of 'Confrontasi'

PRESIDENT Sukarno's confrontation policy against Malaysia has been analysed from various angles; the largest common denominator of the explanations is that he needs an external adventure or at least a state of tension to divert his peoples' attention from the economic disarray in which his country finds itself. Until Irian Barat was ceded to Indonesia this issue was sufficient to whip up national hysteria. USDEK has now been succeeded by NASAKON as the struggle for Irian Barat has been followed by 'Confrontasi'. But is this sufficient explanation? How real is President Sukarno's fear that Malaysia represents an imperialist plot aimed at Indonesia. Observers have laughed away President Sukarno's fear of a nation of 10 million posing a threat to a country of 100 million. Enough attention has not been paid to the reality of the threat. It is not the British bases in Malaysia that present the threat to Indonesia. There are American bases in Philippines—as near a neighbour of Indonesia as Malaysia and in any event Australia, a strong western bastion, is another neighbour.

The reality of the threat of Malaysia to Indonesia is the result of the complex internal situation in Indonesia. Indonesia's unity is indeed kept together by the "Indonesian identity" which a charismatic leader has been striving to emphasise. The diversity of the peoples of the Republic has been suppressed through the institution of a unitary State (after a brief period of federalism), a common language, a common legacy of fighting the Dutch and emotional appeals to the heritage of Sri Vijaya and Madjapalit. The brave experiment of unifying the diverse peoples has not met with full success — the Javanese who form the vast majority of the nation's population are distrusted and suspect in Sumatra, Kalimantan and Sulawesi. The people of the Outer Islands have on more than one occasion rebelled against central, i e, Javanese, domination. It is not sufficiently realised that the only serious challenge to Sukarno's regime — the 1957-58 revolt—was more than a mere colonels' revolt. It is true that Colonels Simbolon and Lubis had an anti-Sukarno record but the intellectual and political leadership of the rebels was provided by Dr Shaifuddin Prawaranegara, the Governor of the Bank Indonesie and Dr Sumitro, perhaps the ablest finance minister Indonesia has had. It was a Sumatran-based revolt against Java, and reading the 1957 Annual Report of the Bank Indonesie one can see the depth of feeling against Java. Sumatra with its oil fields and religious and communal forces has never pulled together. It is more conservative and more Muslim-minded than Java, where Islam sits lightly on the people and communism has both an intellectual and economic appeal. The army leadership personified by Gen Nasution is Sumatran while the Communist cadres are strong in Java.

President Sukarno's exit from the scene, it is now recognised, will be the signal for a struggle for succession with the ambitious Dr Subandrio backed by the Communists and possibly Dr Saleh backed by the Army. It would be in the best traditions of Wayang Urang—the Indonesian shadow play—for the Army and Dr Aidit to remain in the background. The struggle for succession could lead to a civil war which soon would lead to a break up of the Republic. It is as unlikely for Java (apart from some area in the West) to come under a Muslim revivalist movement as it would be for Sumatra to vote for the communists. The more likely outcome would be for Sumatra to break loose and vote to join Malaysia with whom it has close ties of language, religion and race.

It is here that Malaysia presents a threat. The concept of Malaysia extending beyond the Malayan peninsula is thus a threat to the existence of Indonesia. If the old Dutch possessions of Sumatra and Kalimantan could join Java to form Indonesia, there is no reason why the former British territories of North Kalimantan could not join a British Malaya to form Malaysia. The peoples of North Kalimantan have as much (or as little) in common with Malayans as South Kalimantanese have with Javanese. In fact, they have more in common with each other. "Indo-

nesian identity" is thus in danger of subversion and the strong Malaysia for Malays streak in the ruling circles at Kuala Lumpur cannot but have appeal for the Sumatrans and other Outer Islanders, especially resentful of Java's hegemony.

The existence of Malaysia is thus seen to be a strong potential threat to the future unity of Indonesia, especially when in the grip of civil strife with regional and ideological undertones. It is perhaps this that explains the fury of President Sukarno and his desire to nip Malaysia in the bud for he perhaps knows that his successors will find it difficult to maintain the Archipelago Republic's unity in the turbulent times of the struggle for succession and the inevitable civil war.

Another Fund Mission

NEW DELHI's summer somnolence has been somewhat disturbed this year by the arrival of the IMF mission. The last IMF mission was here only in November 1963. The critical foreign exchange position then had driven the Government to the Fund for an emergency standby credit. It was granted, of course, and of the $200 million, a sum of $100 million has already been availed of. However, the help was not without conditions. The Fund theologians were mollified by the raising of the Bank Rate and the tightening of the credit screw.

The position since then has improved somewhat, the most heartening feature of the improvement being the marked expansion in agricultural output and, because of it, in national income. There is hope now that if the Government could make a successful assault on the psychology of the hoarders through skilful manipulation of what stocks it has, food price may come down during the slack season. All this points to the need to be chary of the Fund's unvarying advice on monetary and fiscal matters. When there is unmistakable proof of growth of output, credit restriction can be overdone and may have unpalatable consequences for the long-term rise of the investment rate.

This apart, internal inflationary pressures are only remotely connected with the balance of payments problem. Exports have actually risen beyond expectations and though there is some lag in receipt of export proceeds it is no more than temporary. What is really material from the point of view of the balance of payments in future is the growing dead-weight of repayment liabilities. Expansion of exports at this rate, at a rate fast enough to meet these liabilities, is unlikely without a basic change in the attitudes and policies of developed countries to exports from developing countries. This is an issue which the Government of India should boldly place before the IMF mission.

Multiple Exchange Rate Bogey

IMPORT entitlements are by no means the ideal export promotion device. Professor I S Gulati's close examination of the scheme elsewhere in this issue shows how in practice it may yield results exactly the opposite of those intended. But the IMF is reported to have objected to import entitlements on quite different grounds—that insofar as the entitlements are transferable they imply practice of multiple exchange rates. On this basis the IMF, according to newspaper reports, has persuaded the Government of India that raw materials which do not go into the manufacture of a particular export item should not be allowed to be imported under the incentive scheme.

Where import entitlements are saleable they do amount to a straight monetary subsidy to the exporter. But, then, it has been accepted by GATT as also by the developed countries that some subsidy is unavoidable if manufactured goods from a developing country like India are to find a market. In fact, the IMF itself has sometimes encouraged, overtly or covertly, the introduction of multiple exchange rates in this sense. The Export Bonus Scheme in Pakistan is an instance. The Fund has gone to the extent of even commending the Pakistan Government on the skill with which the scheme has been operated. Why, then, this lofty attitude when it comes to India? If the use of import entitlement for import of goods other than those used in the export item is taken exception to, the same objection would be valid against all export incentive schemes.

This raises another fundamental issue. Almost all the developing countries other than the oil-producing ones have an import surplus. Those who are schooled in monetary orthodoxy such as the Fund's might see in this conclusive proof of the over-valuation of the currencies of these countries. But in fact the currencies of these countries can be said to be over-valued only in terms of the cost of manufactured goods produced by them. Since export of primary commodities is not governed by cost considerations so much as by the demand for them, the Fund's standard prescription of revaluation suffers for being indiscriminating. Devices to increase the exchange earnings of developed countries from exports of manufactures have to be discriminating and if such devices amount in terms of a certain interpretation to a system of multiple exchange rates, certainly they cannot be dispensed with for that reason.

U S Education after Inter Science

A Correspondent writes:

A CURIOUS development of the past few years has been the marked increase in the number of students from Maharashtra going to the USA to study engineering after completing the Inter Science examination. The Reserve Bank grants foreign exchange to engineering students without much hesitation and therefore perhaps such increase could be a result of the rising enrolment in the science courses. But in fact like the capitation fees, this development seems to be a bye-product of the difficulties of getting admission in engineering colleges in the country.

Most of the students who go to the US after Inter Science are not the best in the academic sense. A large majority of them fail to get admission to an engineering college in this country and they seek the prestige-giving foreign education solely on the strength of the financial resources of their parents. Also, some lesser-known second or third class American colleges or universities are willing to admit students from abroad as an evidence of their interest in promoting international co-operation and goodwill, even on the strength of the SSC examination, not to speak of the Inter Science examination.

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The desire to go abroad to study engineering immediately after Inter Science has received an added impetus by two recent changes in Maharashtra. First, from the next academic year the duration of the course for a Bachelor's degree in engineering has been extended by one year to four years. Secondly, the Government of Maharashtra has prescribed a two-year post-degree period of compulsory government service for graduates of engineering colleges in the State. Thus a student will be free to take up a job of his own choice as an engineer only after a minimum of eight years after passing the SSC examination. If, on the other hand, he goes to the USA after passing Inter Science, he can normally get an MS (Master of Science) degree in engineering in less than four years. Further, if, he stays for two or three more years in that country, an easily-available well-paid job would permit him recover, more than fully, his investment in foreign education. In the process, he can escape the obligation to serve the Government.

The situation deserves the most careful consideration by the authorities because it inevitably creates frustration among those students, who, though brilliant, are not fortunate enough to be rich. The policy of granting foreign exchange to those who can afford to pay for foreign education, without regard to their academic merit, urgently demands a change. Ideally, if the country can spare a certain amount of foreign exchange for foreign education of its youth, should it not arrange for its equitable distribution among the most promising, on the sole criterion of merit, judged by special competitive examinations? Under such a scheme, those unable to pay from their present resources can be given loan scholorships. Or, at the very last, cannot the allocation of foreign exchange be restricted to those taking advantage of the available educational facilities and with a proof of their ability in their academic performance?

Also, if the inadequate supply of locally-trained engineers is to be corrected, the top students would prove better educators and researchers after their education abroad and could be called upon to man the new engineering colleges. The Government of Maharashtra also should consider whether its understandable and socially-justifiable prescription of compulsory government service is to desriminate, in effect, against those who cannot or would not escape it by going abroad or to other States in the country for engineering education. Without a well-co-ordinated approach by all the States and the Centre, the objectives of the policy adopted by Maharashtra are unlikely to be realised satisfactorily.

South Rhodesia: Deepening Crisis

THE result of the May 7 election in South Rhodesia was as expected; Ian Smith's Rhodesian Front won all 50 white seats, thus securing the necessary two-thirds majority to amend the 1961 constitution. The amendments envisaged are to remove African votes from the "A" poll in order to increase the number of European held seats, and to reduce the number of elected Africans, replacing them with chiefs who will toe the "white supremacy" line. Since the British Government (whose consent is necessary to amend the constitution) will not agree, Smith will then be forced into an illegal unilateral declaration of independence (UDI). If he gets away with it, it would be a tragic example of successful blackmail by a fascist-like white minority in Africa. Although constitutionally Smith's UDI would be illegal in the *ultimate* analysis, a constitutional provision can be only backed by physical force; would Britain be able to use physical force?

Britain in the recent past has not shown undue hesitation at armed intervention when she felt her interests were at stake. In the case of South Rhodesia, her *material* self-interest is less compelling; but justice demands that after 40 years of legal responsibility (however indifferently performed), she does not abandon the Africans of Rhodesia to as wretched a fate as that of their fellows in South Africa. And it must be said at once to Britain's credit that there must be plenty of people — in the present government, in the opposition party and among the public — who do not consider that what is at stake in South Rhodesia is any less important than the kind of interests for which Britain has militarily intervened abroad in the past. But the big question this time is, will a British Government that decides to intervene obtain the amount of support from its public which is essential for its survival? If in the attempt to intervene militarily, the Labour Government topples, then a new government may take measures against the Smith Government which are even weaker than those which the Labour Government can now take short of military intervention.

What are these measures? So far Britain has confined herself to some energetic sabre-rattling about economic sanctions against South Rhodesia in the event of UDI. Both within Rhodesia and outside opinion is divided on the possible effects on the economy of a boycott by Britain, Commonwealth and other Afro-Asian countries. Immediately prior to the May 7 election, the South Rhodesian Government issued a White Paper purporting to show that the threatened economic boycott would not cause undue harm. This view was vigorously refuted in a report issued by the Rhodesian Association of Industries and the Associated Chambers of Commerce. According to the report, after a year of independence coupled with economic sanction, the national income would drop 10 per cent, and 8,000 Europeans would be rendered jobless; moreover 25,000 of Rhodesians, 217,000 Europeans would be forced to leave. These estimates, described as "conservative" by the report, are dismissed as "the worst that could happen" by Smith.

Much emphasis has been placed on the harm that South Rhodesia could inflict on Malawi and particularly Zambia, in the event of an economic boycott. Since their exports have to be shipped via Beira in Mozambique (which as Portuguese territory is friendly to Smith's government) a new route will have to be forged through Tanzania (fortunately a sympathetic neighbour) to the port of Dar-es-Salaam. Further, three-fifths of Zambia's imports originate in South Africa and South Rhodesia from secondary industries, which will have to be built up in Zambia itself. On the credit side, Zambia has a surplus of roughly £25 million in the coming years. During Federation while Zambia banks were under-lent, their surplus funds went to Rhodesian banks which were over-lent. After June there will be restrictions on the free flow of money from Zambia to Rhodesia and Rhodesian tobacco farmers will be left without the easy bank loans they were used to for financing their crops. Furthermore, Rhodesia is hopeful of non-Commonwealth markets in France and Japan for her tobacco crop. It will make nonsense of economic sanctions if Britain cannot persuade them and America to participate in a boycott. If Britain decides only on an economic boycott, she will also have to give sufficient help to Zambia and Malawi to tide them over the effects of reprisals from Rhodesia.

Testing the Indo-Soviet Link

Romesh Thapar

AT a comic level Health Minister Sushila Nayyar (Gandhi's disciple!) and a veritable regiment of flunkeys (officials, to be precise!) might take time off to 'inaugurate' the Capital's first electric crematorium. Or Foreign Minister Swaran Singh (in distant Moscow) might startle his hosts by showing his total ignorance of Krupskaya (Lenin's wife). Or Home Minister Nanda might release that snooper Stacey (a correspondent!) early enough on Saturday to give him the opportunity to file 'his story' (of his arrest in Ooty) for his Sunday paper. But at least we are now beginning to realise, largely as a result of what's been going on during the past few weeks, that the basic domestic and foreign policies evolved over some seventeen years under Jawaharlal Nehru's stewardship were not the result of momentary hunches, personal whimsy and psychological maladjustment. This awakening to our national interests — for that is what it is — is assisted by several factors and forces now at play, but primarily by the extraordinary relevance which the Indo-Soviet link has come to assume in these days of our travail.

PM Forms His Own Views

I am not suggesting that some great change is about to take place within the next few days or weeks. Nor should one run away with the idea that India and the Soviet Union are again in full accord on the common problems which face them. Indeed, only the short-sighted could view Lal Bahadur's visit to the USSR as comparable to that triumphant journey which Jawaharlal Nehru made. However, a certain qualitative change has occurred.

Lal Bahadur is no longer luke-warm about the importance and value of Soviet friendship. He is also able to see through the confusions which his psychopathic, anti-communist advisers had sought to create. In order words, he has developed his own very definite opinions on the subject of the Indo-Soviet link—and these will most certainly influence the formulation of Indian policy in the coming months.

The more one probes these rather swift developments, the more one is convinced that Planning Chief Asoka Mehta, whether by design or otherwise, made the major contribution to clearing the suspicions which have inhibited Indo-Soviet friendship since the death of Jawaharlal Nehru. Asoka Mehta's bold initiative to establish a working relationship between Indian and Soviet planning, and the skill with which his negotiations in Moscow were conducted, obviously did much to re-establish the old *rapport* with regard to the fundamentally progressive and enlightened objectives guiding the policies of India.

Time to End Drift

Asoka Mehta's cautious posture on his return to India, despite the rather significant achievements of his mission, suggests that he too realises that although goodwill and cooperation has been restored much detailed work has yet to be done to implement and to extend substantially the collaboration projected in the economic field. And, what's more, several vital political moves, closely connected with the explosive situation in South-East Asia, will have to be carefully unfolded to restore India's much smeared image. This is not easy, for powerful groups exist within the GOI to urge that India became a faceless, amorphous thing in foreign affairs.

The Prime Minister will now have to assert himself in these matters. After all, he is only too conscious of the attempts that were made either to postpone or curtain his trip to the Soviet Union on the grounds that (in the absence of arrangements to visit the USA) it would appear as if India were again becoming 'aligned'. It was suggested that Indo-Pak tension could be used as an excuse. Only a Cabinet decision prevented another Himalayan blunder. Lal Bahadur's advisers know that he has a long memory.

There is no denying that of late in the maze of present day international diplomacy we have adopted the mannerisms of the bewildered orphan seeking the support of all passers-by. We like to describe this state as one of drift, of indecision, of amorphousness. In fact, it is nothing less than a crisis of character. We have been corrupted, made soft and easy-going. To emerge self-reliant, we will consciously have to take steps to break the vicious equation of aid and subservience, and to rekindle the spirit of former days.

The economic talks in Moscow seemed to have been motivated by some such desire. The emphasis on trade rather than aid is healthy, and there is no reason why we cannot devise the organisational measures to implement this programme. It would be a pointer to the seriousness with which we approach the problems of our independent development. If we are successful in this collaboration with the Soviet Union, it would be possible to follow up with similar collaboration in some other countries of Asia and Africa.

It is common knowledge that the USSR is reluctant to commit to projects on an *ad hoc* basis, because the suspicion persists that India tends to use these commitments only to extract more favourable terms from the West. This economic opportunism was tolerated in the fifties, but now it merely causes irritation. The sooner we abandon this approach, the better. On the other hand it would be politically puerile for us to neglect the task of developing independent economic relations with countries like Japan which has no desire to influence the internal or external direction of our policies. Such diversification must be attempted in a systematic way.

The greater India's self-reliance, the more we defend our sovereignty in matters economic and political, the surer will be the revival of national morale. The assets built up during these past eighteen years are not to be lightly dismissed. They can provide the basis for solid achievement in the course of the Fourth and Fifth Plans. But it is sheer opportunism to imagine, as do many economists and sociologists, that these results can be achieved without political mobilisation and sanctions. The failure on the political front lies at the root of our sent state of disarray.

From Moscow to Algiers

In many ways this is a testing time for India. Soon, the Prime Minister will be preparing for the Afro-Asian Conference at Algiers. His talks in the Soviet Union, to be summarised in a joint communique which will be released after these comments have been posted, together with the results achieved by the Asoka Mehta mission, will have far-reaching repercussions at Algiers. But we must not rest content with repercussions. We must move to carry forward those policies which reinforce and strengthen the initiatives for peace and development of the non-aligned against sectarian forces wherever they express themselves. Only in this broad movement can the adventurism of China and Pakistan finally be curbed and broken.

Maybe, by May 27, the first death anniversary of Jawaharlal Nehru, we will know broadly what is intended to be done to restore the direction of State policies. Maybe, we might even begin to discern the outlines of the perspectives we have been lacking these so many months. I say, 'may be', because a great deal of hard work has to be done to clear the way. Hard work—and a resolute will to pull this country out of its despair.

Policing the West Bengal Border

(Contributed)

THE recent border clashes between India and Pakistan have caused considerable rethinking on our method of policing the border and if and how we should reorganise it. This is natural enough, for the nature, the organisation and the armament of forces on a country's border merely reflect that country's relations with its neighbours. Between friendly countries a few customs men should be enough — and in the modern "Zollvereins" like the ECM even they can be done without. There are exceptions: USA needs border guards against a friendly Mexico merely to prevent the numerous friendly Mexicans from immigrating illegally. If Britain had with India and Pakistan a common border she would certainly have needed police patrols to keep out the infiltrating seekers of jobs. But she probably would not have needed what East Germany has on her non-Communist frontiers — helmetted guards with automatic weapons, alsatian dogs, barbed wire and flood lights. This is precisely the reason why there is so much talk about the need for a para military force on Indo-Pakistan border, for the relationship between the countries is far from friendly.

Improvement Unlikely

It is unlikely to improve either. Pakistan was born out of hatred and fear of India and Hindu domination. Communal carnage in either country has driven millions of refugees in the opposite directions and the memory lingers. And then there is Kashmir. There are many who believe that a solution of the Kashmir problem, if indeed it can be solved, will improve Indo-Pak relations and may even lead to friendship. But it is unlikely that the dispute over Kashmir will be resolved, for as a diehard Muslim Leaguer in East Pakistan recently said: "If Kashmir problem is solved, what remains between India and Pakistan?" China has failed to unite the two parts of the sub-continent, for to Ayub China is not now a common threat. It is at least Pakistan's calculation that Indo-Pak relations will for years to come continue to be unfriendly — and if Pakistan thinks so, India has to accept it. This will explain why Pakistan has put para military forces on her borders with India — Sind Rangers and West Punjab Rangers in the West and from 1958 East Pakistan Rifles in the East — in the same manner as Tochi and Chitral Scouts police in the North-west the turbulent tribals and as the Assam Rifles were used in the past for police action in North-East India.

II

Substituting the District Civil Police on East Pak border by the EPR was a major step in escalation, a step which India cannot ignore. It will be dangerous for India to have on the Eastern Borders any force to face the EPR without full parity with it. It will be equally dangerous for Pakistan. The argument is clear. If any inferior force is roughly handled by the Pak para military force the Indian army is bound to be called in, leading to a confrontation with the Pakistan Army, an eventuality which the Border Police Forces should strive to avoid. What is wanted on the border is an equilibrium based on equal strength. One does wish that Pakistan had struck to its pre-1958 border defence by the District Police. But the EPR had to be expanded in East Pakistan for political reasons—to assist the army in seeing to it that East Pakistan did not secede. And while not engaged in putting popular movements down the EPR had to do something. The Indo-Pakistan border which was too quiet for the politics at home had to be hotted up and hence the setting up of the EPR wings and sectors on the border, a huge organisation based in Dacca.

India's reaction was slow. In the west, the Rajasthan Armed Constabulary and the Punjab armed police were organised early. But Delhi has looked oftener to the threat from the west, traditionally and historically, until the Chinese invasion, and the East Pakistan border was taken little notice of. Yet in 1959 plans were made perhaps incompetently for a reorganised centralised police force for the border. The role and organisation of the EPR was not properly appreciated and in armament and organisation, the so-called armed police battalions were hardly superior to the civil armed police of West Bengal. In fact until 1962 these battalions of West Bengal were merely used as the law and order reserve. Even these inadequate plans remained long on paper. To the discredit of the Central Government of India and the State of West Bengal no steps were taken to implement even these half-hearted schemes until 1962. And in 1962 in trying stretch out along the 1,349 miles of the border, the arithmetic of the plans broke down and the battalions soon ran out of man power. Painfully and haltingly two more battalions were raised in the next couple of years time and so mumerically the organisation is now barely adequate to man the border. The gaps for infiltrating Pakistanis are wide. In the Punjab the strength of the Border police is 13 men per linear mile; in Rajasthan 7.5 men. And except in small pockets of Rajasthan these areas are absolutely clear of Muslims, marking Pakistani infiltration unlikely. In West Bengal where the numerical predominance of Muslim in the basda areas makes Pakistani infiltration easy, the strength of the Border police per linear mile is 3.6 men.

Civil Character Persists

The civil character of the organisation persists, the officers of middle ranks are promoted men of inadequate education, training and experience for the role they have to fill. The commandants are usually Superintendents of police—the entire cadre trained by tradition and regulation to avoid vio-

lence rather than face it—and facing a para military body like the EPR it is not easy to run away from occasional clashes. The force is poorly armed owing to the tardiness of military help and owing to lack of facilities. The police forces on the Gujarat and Assam borders are probably worse, a fact which need not cheer the West Bengal State.

There is no doubt that the unfriendly relations with Pakistan will continue making the need for a reorganised Border Force imperative. The model exists. The Assam Rifles are officered by the Army, the NCOs and JCOs rise from the ranks of riflemen forming a formidable para military body of troops of high tradition. It functions under the Civil Government, in the NEFA under the Governor through his special advisers, and elsewhere through the ordinary civil agencies. Some have argued for a centralised control of the Border Police Forces. That will be fatal. The Government of India is now crushed by a deadweight of bureaucracy and a day to day governance by it of anything, not to speak of the distant marches, would be impossible. The brain in the country often fails, but the limbs should be able to react locally to knocks and blows. The extraordinary suggestion that a strip of 10 miles should be carved out of border states is novel but unworkable. Unless a civil administration can be fashioned for these many thousands of square miles thus sliced off from the states. It will be adequate for the Centre to assist the border States with finance to remould into para military bodies the fat and flaccid civil police battalions now responsible for the security on the border. The State must control the force thus fashioned but the Centre through the Army may retain the right to inspect these battalions to ensure that the petty state bureaucrats do not retard or hamper their growth and efficiency—nor do the petty jealousies of the Civil Police who are frequently ignorant of para military problems can obstruct them. The Centre is paying and can call the tune; the State may well play it.

FROM THE LONDON END

The Lessons of the Local Elections

THE results of the local elections have come as a salutary shock for the Labour Government. While it had generally been expected that the unpopular measures which the Labour Government had been forced to take in its first six months in office were bound to be reflected in a swing away from Labour — particularly in local elections — the extent of the swing is a cause for grave concern.

As a result of these elections, the Conservatives gained 562 seats and obtained power in 20 more cities and towns, giving them complete control of 16. The table below sets out the gains and losses of the main Parties in the local elections:

	Gains	Loss	New Seats
Conservatives	562	10	13
Labour	45	419	19
Liberal	39	213	Nil
Independent	70	73	Nil
Communist	Nil	1	Nil

The Labour Party is naturally seeking to gain what comfort it can from the fact that swings of this type are more than natural, and that local elections are not necessarily a reliable guide to the movement of public opinion. It is, of course, also true that the general rise in rates has caused deep resentment, and this is naturally reflected in the local boroughs. Moreover, the decision on TSR2, which has led to a large number of retrenchments of workers in the aircraft industry who have not yet been resettled, has naturally caused disillusionment and concern.

According to George Brown, the real reason for Labour's setback in the local elections was that people have forgotten the mess the Tories left behind them. It is also true that Labour Ministers have been so busy getting on with the job, that little time has been spent on explaining to the electorate that if they are to proceed with the reforms they have in mind a difficult period lies ahead, and that long-term measures take time to show results.

Decline in Labour Popularity

While it is true that Labour inherited a very difficult situation from the Conservatives, it is difficult to attribute all of Labour's failures to the mess it inherited from the Conservatives, and even after all allowances are made, there is no doubt that there has been a swing away from Labour. This is particularly evident in the low poll at the local elections.

In general, many Labour supporters who were fed up and dissatisfied stayed away from the polls. This is very similar to what had happened in the 1962 elections when Labour gained over 200 additional seats because the electorate was dissatisfied with the Conservatives.

The swing revealed in the elections is approximately an average of 10 per cent compared with last May, or 7 per cent since the General Election. If local elections were representative of the national mood, this would mean a Conservative majority of about 230 seats but of course, local elections are not a reliable guide. Indeed, what is interesting is that they reveal a very different trend from that shown in the National Opinion Polls. The *Daily Mail* National Opinion Poll of May 13, gave Labour a 5 per cent lead indicating a Labour majority of 80, and the Gallup Poll on May 14 put the Conservatives only one point ahead, suggesting a parliamentary majority of 30. However, these same Opinion Polls also show that there has been a steady increase in the number of people dissatisfied with the way in which the Government is running the country.

According to the Gallup Poll of May 16, fewer people are satisfied with Wilson as Prime Minister than at any time since the General Election. Now, 56 per cent are satisfied, against 63 per cent last month. The Government's record is now approved by only 39 per cent and 45 per cent disapprove. This is the first time since the election that the disapprovers have outnumbered the approvers.

For the third month in succession, Gallup shows a fall in the number of people who expect their incomes to increase in the next twelve months. Pessimism about prices is expressed by 76 per cent and more people fear unemployment than before. Many people are dissatisfied with the line that the Labour Government has taken in backing American policy in Vietnam and

the Dominican Republic. Many Labour supporters also find it difficult to see much difference between Tory and Labour credit squeezes, high Bank Rate, increased prices and "stop-go" economic policies. Potential middle-class voters have been put off by rising rates, mortgage difficulties and shortages of houses. All this has built up a feeling of resentment, and the Labour Party is now placed in a rather more difficult position.

One thing is now abundantly clear, Wilson will not be seeking an early General Election. With the climate of the country as it is, it has become evident that an early election would not necessarily result in a much larger Government majority, and for the first time since the General Election, there is a chance that should such an electoin be held, the Conservatives could win. What is particularly ironic is that the Conservatives themselves have done nothing to gain this popularity; it has been caused entirely by dissatisfaction with Labour. Indeed, one of the amazing facts which are likely to get overlooked is the consummate parliamentary skill with which Harold Wilson has proceeded so far with his wafer-thin majority of four. In the circumstances it is hard to believe that with such a slender majority, he has had the courage to proceed with tough and unpopular items of legislation, despite the electoral risks involved. Now, however, he may well have to proceed more cautiously, and this places him in a dilemma, for if he is now seen to compromise for electoral reasons, the credit the Party has obtained for providing a firm Government in a difficult situation will disappear.

In the period that lies ahead, the Government will run the risk of defeat only on those few occasions when the Liberals choose to vote with the Conservatives on major confidence issues. These could well include the Finance Bill, where Grimmond recently announced his decision to vote against it, and of course, the Steel Bill.

Hitherto, the Conservatives have refrained from an all-out attack on the Labour Party because they feared that any early election would have brought Labour home with a much larger majority, and still divided over their own leadership problem, they felt this was something they were unprepared to tackle. Greatly heartened by the local election results, it can be expected that they will now attempt to be a really active Opposition, and the Bills that lie ahead, provide ample munition — the mammoth Finance Bill, which will be fought clause by clause, the Steel Bill and the Land Reform Bill.

From the Labour side, elections will mean that much more effort will now has to be directed to publicising and explaining the action that the Government is taking among the average voters. The likelihood of a June election has now definitely receded. As things stand, the earliest date for a General Election looks like October this year, but so many political considerations have to be taken into account before an election is held, that forecasts of a definite date are always risky.

OFFICIAL PAPER

Another Report on Urban Land Policy

IT does not require great imagination to appreciate the enormous social cost involved in the unplanned growth of towns. One has only to take a look at our metropolitan cities like Bombay or Calcutta, seventy-one per cent of whose houses have no more than a room; where nearly one-third live in "bustees" or slums and lakhs have no home other than the pavements. Apart from over-crowding, basic amenities of civilized existence are nowhere adequate—about a quarter of the population in our great urban centres have learned to live without them. If town planning has at last been recognised as an essential component of a national plan, the realisation has not come too early. In the coming years, with the present trends in population growth and rate of urbanisation, the urban sprawl will easily get out of control if planned action is not taken in time. If we remember that the rise in urban population is three times as fast as in the rural areas, it should be clear how soon the problem will reach unmanageable proportions.

The Town and Country Planning Organisation set up by the Central Government at New Delhi has done much useful work in offering technical assistance and training facilities to promote the town planning effort of the States. It has formulated some 'model' plans, and 'model' town-planning Acts which the States could use as guideposts. Yet the scheme has not gathered any momentum in the States, with the exception of a few like Maharashtra which has considerable experience of town-planning. The State Ministers' Conference every year meets dutifully, passes resolutions and returns again next year to note that little has been done. In the Fourth Plan all important towns in each State are expected to have comprehensive Master Plans and initiate suitable legislative amendments to implement them.

Central to the whole issue of town-planning is the extent of public responsibility for achieving a socially optimal use of urban land through public control over ownership and use of urban land. Hence the need for a clearly enunciated urban land policy has been felt for quite some time. The Central Town and Country Planning Organisation had presented a "Note on Urban Land Policy" and in September 1963, at the State Ministers' Conference a Committee on Urban Land Policy was set up to examine the problem and make recommendations in the light of this note. The report of this committee is now available. But if one opens the report hoping to find specific practical proposals one is certain to be disappointed. After lengthy pronouncements on the social objectives to be pursued the report skirts the fundamental issue of land-acquisition and speculative rise in land values and while admitting the total inadequacy of existing laws and tax measures, resigns itself helplessly to the observation that under the present political set up, no far-reaching measure like nationalisation of urban land or a right of pre-emption on the part of the State can be adopted. The Committee's emphasis on the fact that land policy is more than mere acquisition and that little attention has hitherto

been given to the need for proper land-disposal and land-use plans is unexceptionable, but surely, the pre-occupation with acquisition rights is only rational when without unified ownership no planning is possible and where widespread evasion of taxes makes curbs on speculation inoperative?

The existing Land Acquisition Acts are clearly dated, drawing their inspiration mainly from the Act of 1894. Of the 11 Central Acts and 21 States Acts only 4 were enacted afresh after 1954 and incorporate some of the town planning objectives. Even the restricted scope there is under the old Acts for compulsory acquisition of land has been never exploited, so shackled are these Acts with procedural formalities and compensation clauses favourable to the private owner and burdensome to the public authority. Compensation was fixed at the market value on the date of the preliminary notification by the public authority and thus included a large part of the unearned increment in land values.

To make matters worse, in all cases of acquisition a 15 per cent solatiun was legally necessary and whenever disputes over compensation awards arose, the courts generally favoured the retention of solatium. Even the Law Commission argued recently that the private owner's benefit from rising land values was more than offset by the rise in general price level and therefore payment of solatium was necessary to compensate this hardship. Rejecting this specious argument, the Committee pleads for the abolition of the unnecessarily generous provision. The rise in land values are not parallel to the rise in the price level — far from it; it is exhorbitant and speculative — land prices increased by about 127 per cent in 1950-60 in suburban Gauhati; in Delhi the price of suburban land increased over 145 per cent between 1955-58; in other bigger cities the increase was over 350 per cent in 4 to 5 years. The Committee recognises that pegging land values at the levels prevailing at an earlier date could minimise the financial burden of compensation. But actually it favours advance acquisition of land rather than ante-dating land values.

This does not solve the problem of evolving a policy, politically feasible and socially justifiable. The surplus value generated by rising land prices should rightfully accrue to the community insofar as a good deal of it arises from development activity, for which the individual owner is in no way responsible. The 'compensation' clause continues to be a major hurdle. Apart from the direct acquisition of land, means have to be found for mopping up the unearned increments in income that private owners of land (not intended to be taken over by the public authority) enjoy. The "Note on Urban Land Policy" had earlier recommended the levying of an annual tax on increments in urban property value, the basis being the capital value of the property. It is difficult to understand why this suggestion has been dropped and instead "suitable amendments" to the existing tax measures are advocated. None of the existing land taxes have even a marginal impact on mopping this surplus. An enhanced surcharge on Stamp Duty on the Transfers of Properties theoretically could be a useful device but with land mobility as low as it is and the temptation on the part of the owner to under-assess his property value, it cannot collect much. The Municipal Property Taxes, again, operate only where the augmented values are actually reflected in income and rent control can effectively conceal the increase.

By and large, the public authorities should not, the Committee feels, undertake development themselves in the underdeveloped areas. These should be given on lease to bonafide builders, preferably co-operatives. This policy has in fact been usually employed and co-operative housing in urban areas has been remarkably successful. The advantages of disposal on leasehold basis is that public control can be retained by stipulating the terms of the leasehold to conform to the social objectives.

So far, the local bodies have not demonstrated their capacity to undertake development schemes and the Committee's fears that town planning is more than what the local bodies can chew are justified. It recommends the setting up of a high-powered body capable of instituting and implementing planned development. Neither the Planning Commission nor the State Governments are likely to agree to this — they have been talking with undiminished faith about community participation through "plan-cells" and "citizens' councils".

In conclusion one may say the report presents much useful information on the problem but little by way of solution. Its recommendations are general and its observations are a repetition of the comments made by the "Note on Urban Land Policy", two years earlier.

LETTER FROM SOUTH

Kamaraj's Home Track

KAMARAJ has been stuck in his home State for some weeks now, undertaking a strenuous and intensive tour; neither the battle of the Rann nor the tussel for posts in the Congress Parliamentary party's executive impelled him Delhiwards. He kept going from one small town to another and trekking through a few villages as well. The crowds were up to the standard size and the general atmosphere was one of welcome to a local boy who had made good.

The main reason for this long stay is the run of troubles that the Tamilnad Congress is currently confronting. Four Congress MLAs have left the party to form the Toilers' Welfare Party. Actually this is not a new party but a revival of the Toilers' Party which had been formed prior to the first General Elections and won quite a few seats. At that time to ward off the possibility of a non-Congress Ministry being formed in the then composite Madras State, Rajaji had won them over with a few Ministerships and finally absorbed them in the Congress.

It is an unabashedly communal-caste party of the Vanniyas. This is a non-Brahmin caste which claims that it was far more oppressed and dominated by the Brahmins than the Mudaliars, whose cause Kamaraj espoused. The complaints of their leaders is that being anti-Brahmin is far from enough. They feel that this slogan has been used solely to push forward the claims of the advanced non-Brahmin castes. These castes are quite as bad as, if not worse than the Brahmins and have now to be displaced if the "toilers" (the Vanniyas are mainly agricultural labourers) are to make any substantial progress. Thus these leaders hope to hoist Kamaraj with his own petard, since the strategy of the Congress President has been to project his party as the representative of the oppressed castes. It is almost a consistent theory, i e, that in India the economic categories of haves and have-nots run along the frontiers of caste.

The desertion of prominent Vanniya leaders can have a considerable adverse effect on the position of the Congress. They are said to constitute the majority of the electorate in the districts of Arcot, Salem, Coimbatore and Trichy. It is also quite likely that the bulk of the caste will tend to follow their traditional leaders rather than retain their allegiance to the Congress.

In addition to this breakaway has come the critical statement of Periyar, the leader of the Dravida Kazhagam, who had been a pillar of support to the Congress when faced with the challenge from the DMK. It should not be forgotten that, despite all his eccentricity, Periyar had raised the banner of revolt against the Congress from an egalitarian angle. He was one of the first Indians to visit the Soviet Union in the late 1920s and returned with a burning enthusiasm for social justice. His hatred for the Brahmins, however, distorted itself into turning to the British for protection against the possibility of their caste domination. But he has remained committed, rather oddly it is true, to the cause of the uplift of the downtrodden and has believed for some years that the ascendance of Kamaraj to the position of the undisputed leader of the Congress in Tamilnad signified a revolution in the party. It could now become the instrument for social uplift on a mass scale.

Periyar is now, however, making rather gloomy forecasts about Congress prospects. He feels that the failure to implement its socialist slogans is certain to bring the ruling party to a disastrous end. At the same time, he feels that even a dozen Kamarajs cannot salvage the Congress nor even prevent it from becoming indistinguishable from the Swatantra. He feels perplexed and wonders what he should advise the people to do.

A serious situation is thus developing. A wide and heterogeneous anti-Congress coalition is quite on the cards in Tamilnad. The DMK is already powerful and there is little reason to believe that there has been any decline in its strength. It is already allied to the Swatantra and Muslim League, at least, for electoral purposes. The Left Communists are quite close to it, in the belief that it represents an essentially radical force, despite some unfortunate separatist overtones. It should not be very difficult for it to come to a working agreement with the Vanniya leaders as well as to utilise to the full the sense of disenchantment which now sits heavily upon Periyar. This formidable coalition could not only skilfully utilise all the discontent against the Congress but also project itself as a realistic alternative, as a possible ruling group, which would greatly enhance its chances.

It is against this background that Kamaraj's tour assumes some deeper meaning; it is certainly more than the expression of the desire of a home-spun man to go once again among his own people. The present leadership of the Congress in Tamilnad, particularly the Chief Minister, certainly cannot be entrusted with the task of projecting a radical image of the Congress. All the leaders are far too staid, far too caught up in the toils of routine administration to emerge as more than utter mediocrities and as committed to the maintenance of the *status quo*. And they have bungled badly in dealing both with the food problem as well as the anti-Hindi agitation, relying only on the bureaucracy and failing to take the people into confidence.

The Congress President is trying to redress the balance. The very fact of his political tour is a novelty. Congress leaders, as a general rule, never bother to take the trouble to launch any kind of political campaign except at the time of the General Elections. At best they might utter a few platitudes while opening hospitals or laying some foundation stone or the other. These are completely official affairs in which the general people feel quite out of place, though they are forced to attend so as to provide an audience. Kamaraj, following the Nehru tradition, is making an effort to take politics to the people, to make them aware of national issues. His speeches have dealt with a wide range of topics and have, on the whole, tended to emphasise the more progressive aspects of Congress policy.

He has spoken out rather sharply against the tendency to rely on outside help to defend India against aggression. In particular, he has assailed the pro-Americanism of what he has called the capitalist class of India. He has pointed out that recent events have shown how unreliable the US can be and the discourtesy it can display to persons who might disagree with it on one and another issue. He has had high praise for the way in which the Soviet Union has stood by India at moments of crisis, even when another Communist country was involved. At the same time, he has made it clear that he was not advocating any alignment with the Soviet Union. Nevertheless, it was quite a novel experience for the people who attend Congress meetings to hear a prominent leader with the courage to openly criticise the U S.

Another interesting feature of the speeches has been the sharp criticism of Congress policies which have failed to bridge the gulf between the rich and the poor. He quite agreed that the poor had ample reason to feel dissatisfied with the Congress but, at the same time, they should display initiative in correcting it and not despair by leaving it. He instructed Congressmen to take the lead in expressing the discontent of the people and organising them for a removal of their grievances. This should not become the monopoly of the opposition, most of whom had no real desire to serve the people. The tactic is the obvious one of outbidding the opposition and of creating the impression that the Congress has the capacity for self-correction. Some of the opposition parties, at any rate, should take the Congress President at his word and begin asking Congressmen to join demonstrations and strikes.

Kamaraj has combined this appeal to the poor to look upon the Congress as their own party with advice to the capitalists to do the same. In Trichy he said that the capitalists know very well that no other party has done or can do as much for them as the Congress. They should beware of what their fate would be if the Congress were really to go down. He added, of course, that the capitalists would have to adjust themselves to the fact that socialism was an inevitable destination for India. There could be no room for monopolies and glaring inequalities. These had to go and the capitalists must reconcile themselves to this fact.

It is too early to say what exactly this turn towards radical consistency denotes. It is not too early to know, however, what the radicals should do. They must work out a concrete, immediate programme on the basis of the general statements of Kamaraj and confront the Congress with it, compelling it to choose, and pulling into the orbit of struggle the huge mass who still cling to it.

Case for Foreign Collaboration in Advertising

(From a Correspondent)

THE Government was assailed in Parliament earlier this month for allowing foreign collaboration between Indian advertising agencies and foreign agencies. Members indignantly enquired whether Indian advertising agencies were not competent to handle advertising by themselves. One Member asked why foreign collaboration was necessary at all when Indian agencies were doing a competent job. It was pointed out in support of this claim that India had won prizes in several international advertising exhibitions. The Minister for Industry and Supply, T N Singh, agreed that the Indian advertising agencies were functioning quite satisfactorily, but he defended the decision to allow foreign collaboration on two grounds. First, he said, a few wholly foreign-owned advertising agencies were at present holding a dominant position in the advertising business in India by reason of their organisation. The proposed collaboration would strengthen the position of the two Indian companies concerned and enable them to compete successfully with the foreign companies. Second, it might be possible to effect some reduction in the foreign exchange expenditure on advertising charges as a result of the collaboration.

One would have expected the matter to end with the Minister's plausible explanation. But some Members did not seem to be satisfied with the link-up and they wanted time to discuss the matter further. It will be recalled in this connection that the consent for collaboration has been granted to one agency on the basis of 49 per cent foreign participation. In the second case, the Government has given preliminary clearance and the draft agreement was under consideration of the Government when the matter was raised in Parliament. Later reports indicate that the second link-up has been sanctioned on the basis of a 25 per cent foreign participation. But this may not be the end of the matter since all Indian advertisers have submitted a document to the Government protesting against the encouragement given to foreign agencies. The Minister did assure the House that the Government would ensure that Indian companies were not affected by collaboration and that there would be a check on the outflow of foreign exchange on this account.

A full appreciation of the case for and against collaboration in advertising calls for an understanding of the structure of the advertising industry and its development. Of the estimated Rs 30 crores spent on advertising, approximately 33⅓ per cent (Rs 10 crores) is handled by the Government, mainly through the Directorate of Audio Visual Publicity. Rs 12 crores or 40 per cent is controlled by the wholly foreign-owned agencies. The two companies which have been granted collaboration facilities handle about 8⅓ per cent (Rs 260 lakhs). About 18 per cent (Rs 540 lakhs) is handled by 200 and odd other Indian agencies of all sizes and description. The dominance of foreign agencies is mainly due to the patronage of foreign firms, though it cannot be denied that the high level of their technical skill and knowledge of the latest techniques also help. They have been able to attract business from Indian firms. The handling of Air India's account by a foreign agency is an outstanding case in point.

Twenty Years Behind the Times

Faced with this challenge, Indian agencies, many of them founded in the early forties, have found the going rather rough. Some of them had the backing of business groups and they managed to lead a sheltered life, without much regard to quality and diversification of service to meet changing marketing needs. Others managed to secure and retain clients by means not always above board, such as rebating of commission. There was hardly any compulsion to improve quality. As a result, Indian advertising is 20-30 years behind times. The backwardness is particularly glaring in the field of market and product research, media survey, motivational research and so on. With the idea of export publicity catching up rapidly, it was very clear that Indian agencies were hopelessly ill-equipped to offer competitive service against foreign-owned agencies.

It is under these compulsions that some of the agencies have sought foreign collaboration. To compete effectively with the foreign-owned agencies, it was felt, one had to have comparable technical know-how. The two main ways of getting this is by training Indians abroad and by exchange of latest technical know-how in the industry. (Curiously, some of those who have protested against collaboration had reportedly sought, and failed to get, collaboration themselves. One or two major agencies have refused to join in the protest for this reason.) Viewed in this context, the reference to international awards to Indian advertisers is a trifle besides the point. They are indicative of the standards of only a section of the Indian advertising trade. Besides, layout and copy do not constitute all of advertising service. As to foreign exchange lost through link-ups, it is to be remembered that a large amount of it is now being spent by entrusting business directly to foreign-owned Indian agencies. The export bodies spend much on market surveys by agencies like the Economist Intelligence Unit. Not long ago the Government of India itself had sought the services of the London Press Exchange (one of the two foreign companies who have been given permission to collaborate with an Indian company) for a survey of demand for Indian products like carpets in Europe at a cost of several thousand pounds.

Indian agencies claim that they are in a position to provide service in the overseas markets without any foreign collaboration. It seems that a few of them have some *ad hoc* arrangements with agencies abroad, from whom they get the required services by sharing the commission earned on the specific business. However, this does not always work to the advantage of Indian clients. The returns to the foreign company are too low for it to provide service at its usual standards. Besides, such *ad hoc* arrangements take a long time to put through and in many cases the purpose of the whole project is lost by loss of time. Finally, in export advertising unlike in domestic advertising there are no substitutes for proper professional standards.

If there is a case for protecting the Indian agencies it is against the foreign-owned agencies. They repatriate all the profits that they earn, whereas the foreign collaborator's share of profits is only to the extent of its financial involvement. If collaborations work to the detriment of the Indian partners or the national interests, they can be terminated without much ado. As matters stand, collaborations are expected to facilitate the training of Indian personnel abroad and the foreign parties will also press their international clients to shift their Indian business from foreign-owned agencies to their collaboration partners.

Among Practical Idealists: A Sarvodaya Meet

(From One Who Attended as an Outsider)

THE Sarvodaya movement meets at periodic conference through its organised body, the Sarva Seva Sangh. The latest of these was held at Gopuri near Wardha on May 7, 8 and 9. It was attended by over 500 workers from all over the country. Most of them were active members of the Gandhian movement before Independence who gravitated to Vinobha's fold after Gandhiji's death. Others entered politics when the political and socio-reformist parts of the Gandhian movement separated after Independence, only to get disillusioned and join the Sarvodaya movement. Among these at the conference there were at least five ex-ministers and one ex-chief minister. Several workers had been university teachers and there was a sprinkling of foreigners. Spiritually, the overwhelming majority of the workers could be described as Hindus of liberal and humanitarian leanings. Of mysticism or obscurantism there was no evidence. (The movement boasts of at least one prominent atheist).

The formal function in these gatherings is to lay down, collectively, Sarva Seva Sangh policy, although in practice resolutions tend to be formulated before the conference by the executive body, the Prabandh Samiti, which consists of leaders of the movement. (It would be misleading to emphasise the distinction between leaders and the rest. It would be truer to say there is a continuous gradation from the more to the less prominent workers. The most prominent belong to the Prabandh Samiti. After Vinoba, they do most of the thinking of the movement, though some of them have earned their reputations and their place on the Samiti through hard, practical and effective work in the villages). But since their speeches usually prepare the ground for the resolutions that will follow and since their views carry the weight of greater personal authority, the resolutions presented at the end do in fact represent the consensus of the conference. Where they do not, amendments are proposed and incorporated in the draft resolutions.

The real value of the attendance of the majority of delegates lies elsewhere. The movement gains in ideological coherence through discussion of its social and political philosophy. New trends in thinking emerge, and old principles are applied to new situations. Secondly, old friendships are renewed and the movement gains in coherence through greater personal contact. Thirdly, Vinoba's talks (he spoke every morning for an hour-and a-half) have a salutary effect on morale. He speaks gently, persuasively, with flashes of humour, referring often to points raised in the previous day's discussion to lay aside doubts or to answer criticism concerning, say, the direction of the movement or its order of priorities. His steady faith in the value of the work of the movement never fails to infect his audience. "Nothing spurs me on to further action than despair" he said recently. And "if our movement has failed I would be the first to say so". Apart from the mental stimulation of listening to Baba (as he is affectionately known) the workers satisfy their *darshan lalsa*, or craving for *darshan*. Finally, many of the workers are members of specialised committees to do with such activities as the Sarvodaya weeklies or basic education. It is convenient for these committees to coincide their meetings with conferences when they take important practical decisions.

Movement Needs Spectacular Success

So much for who was there and why. The conference discussed at some length means of settling the situation on the Sind-Kutch border and the wider question of India's relation with Pakistan generally. Several speakers spoke of the total breakdown of communication between the two countries. Vinoba pointed out that the newspapers of both countries dealt selectively with the facts of the situation though he seemed to partly justify this one-sidedness in a later talk when he explained it in terms of the need to keep morale high. As a counter balance, therefore, he had tried to get hold of one of the more moderate Pakistani newspapers. In the same connection, but in relation to China, another speaker criticised the government's policy of proscribing books about the border dispute which did not fully accord with India's official stand. Several speakers suggested that in situations like Kutch it was the duty of workers to try to form as objective an assessment of the facts as possible, if necessary by visiting the affected border himself. Greater personal contact between the people of both countries was urged.

As regards the Kutch dispute, Jaya Prakash Narayan proposed its submission to the International Court of Justice for adjudication. He felt that an insistence on a return to the *status quo ante* was justified in the case of bilateral negotiation, because then neither side would stand to gain by the use of force if negotiations failed. But if the dispute was referred to a third party for adjudication (ICJ) or arbitration, both parties could commit themselves in advance to regard the verdict as binding. In order to prevent future border disputes, he proposed the setting up of a joint commission to demarcate the boundary, and a resort to arbitration for those sections of the boundary the commission could not agree upon. Failing this he suggested the establishment of some sort of permanent machinery or procedure to deal with future disputes of this kind.

Perhaps the most significant outcome of the conference for the Sarvodaya movement itself was Vinoba's announcement on the last day that he was willing to accept Bihar's invitation to go there for six months, on the condition that the Bihar workers promised to 'raise a storm' and collect 10,000 gramdans in six months. With Vinoba's presence in Bihar it is just possible that this ambitious target will be approached if not attained. He is not well enough yet after his recent attack of typhoid to walk again; *padyatra* the most important ingredient of his appeal, will have to give way to some other form of *yatra*. But this need not turn out to be a handicap in Bihar where Vinoba is best known and loved.

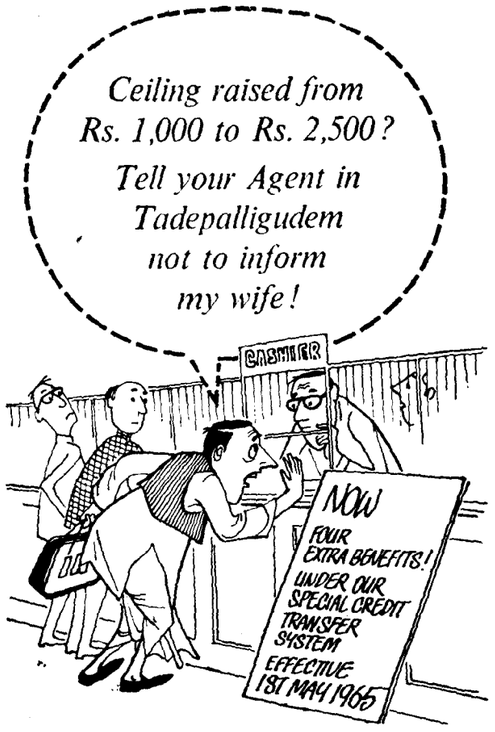
It is just this sort of spectacular success that the movement needs if it is to regain its momentum and recapture the popular imagination, as it did in the early and middle fifties. On the other hand as JP pointed out when he welcomed Vinoba's challenge to Bihar, the movement must learn to be less dependent on Vinoba's personal appeal if it is to grow. But if the new Bihar thrust proves successful it may infect workers with a new enthusiasm, and the two needs will to that extent be reconciled.

The variety of subjects discussed at the conference revealed how much more diversified the movement is than the outsider realizes. The several as-

pects of the movement cover the whole gamut of social and political issues, more often than not striking at the roots of a problem with radical solutions. It is this combination of radical solutions coupled with a refusal to use force or political power to implement them that makes the movement seem so Utopian. But most workers feel confident that their programme of fundamental change will follow upon the creation of the right atmosphere, which they see as their first task. The movement has been criticised for lacking a policy towards large-scale mechanized industry (apart from what Gandhiji said about trusteeship), and indeed for not even having accepted it as something which has come to stay, but this lack is being remedied by new thinking on the subject. Fields of interest tend to vary and not every worker would agree that bhoodan-gramdan is the most important aspect of the movement. Many would see it as fighting chauvinism or working for communal harmony, or genuine democratic socialism. That fields of interest may even conflict was demonstrated when a gramdan worker complained that the movement's internationalism proved embarrassing to him in his village work.

One of the reasons for this heterogeneity is partly to be found in Vinoba's own attitude to his leadership. He said at the conference that revolutions are never made by following anybody. "I do not follow anyone, nor should you follow me". He said he had done everything he could to counteract the cult of leadership. His aim had always been *shoonyata* or nothingness. Another reason is the general mistrust of strong centralised organisation and of policy lines expressed in resolutions of the Sarva Seva Sangh when almost complete unanimity is lacking. The example of the response which met a proposal at the conference to pass a resolution to send *shanti sainiks* to the Kutch border is illustrative. J P took the line that this was a question for each worker (most workers have taken the vow of the *shanti sainiks*) to decide for himself according to his *antrik prerna* or inner inspiration. He personally did not feel he had to go, but if others did they should certainly go. The outcome was that a group of workers, mostly from Gujarat, met informally that evening, and the next day announced their intention of visiting the border. Thus questions such as these tend to remain open.

What struck one so strongly at the conference was that this was primarily an assembly of doers, not talkers, of idealists, but intensely active and practical idealists. They work for their ideals, often at great personal risk as when *shanti sainiks* tried to quell the latest outbreak of communal riots. Today some of them are engaged in restoring mutual confidence in Jamshedpur and Rourkela. They seemed to share a keen sense of personal responsibility for, and involvement in, whatever happens in our midst. They seemed determined to tell the people the truth, particularly about ourselves, even if it hurts. Above all they are working courageously and constructively, to draw attention to and help solve at least three of our basic problems: the threat to democracy from what someone at the conference called "aggressive, narrow-minded nationalism" (as opposed to liberal nationalism which shows a healthy regard for other people's interests as well as one's own), communalism and the problem of our land-hungry, rural poor.



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Three Bye-Elections

Introduction

Rajni Kothari

THE articles in this series deal with the three parliamentary bye-elections held in 1963 in Amroha, Farrukabad and Rajkot,[1] in each of which the Congress was badly defeated. Although they were not the only bye-elections in which the Congress was defeated, they evoked great interest among the politically conscious sections of the Indian public, because of the circumstances in which they were held, and the importance that was attached to them by the contesting parties. The elections were held at a time when the prestige of the government was at a low ebb. The Chinese attack on the country's northern borders was primarily responsible for this. The atmosphere was full of political controversy.

Although the bye-elections took place a few months after the actual Chinese attack, the political climate was still charged with suspicion and dissatisfaction. In fact, fresh grounds for discontent were added by rising prices, and the new policies of Gold Control and Compulsory Deposits Scheme announced by the then Finance Minister, Morarji Desai, in his budget speech in April 1963. The return of peace also took away the sense of the emergency under which the people had rallied round the Government. The Opposition took advantage of the elections to challenge and ridicule the policies of the Government. The Congress leadership, on its part, took the challenge seriously and called upon the people to vote for the Congress and show that they stand behind the Government. Such declarations created a tempo not normally found in bye-elections.

Dramatis Personae

The *dramatis personae* behind the elections added to this tempo. Three of the leading lights of the Opposition were put up as candidates, Acharya J B Kripalani in Amroha, Ram Manohar Lohia in Farrukhabad, and M R Masani in Rajkot. The Congress also took considerable risks. In Amroha the name of Hafiz Mohamad Ibrahim, Union Minister of Irrigation and Power and a sitting member of the Rajya Sabha, was announced at the last minute. In putting up Hafizji, a leading role was played by Krishna Menon who had himself defeated Acharya Kripalani in the famous North Bombay contest in 1962, and his close associate, K D Malaviya. In Farrukhabad, Keskar, formerly Union Minister of Information and Broadcasting, who had been defeated in 1962, was sought to be brought back. His contestant from the Socialist Party, Lohia, had fought against Prime Minister Nehru himself in 1962 from Phulpur. In Rajkot, another sitting member of the Rajya Sabha, Jethalal Joshi, was put up as the Congress candidate against Masani. All the three opposition leaders were known to be bitter critics of the Government and especially of Nehru.

The results of the three elections in each of which the Congress was defeated by a sweeping majority, created a sensation in the country. While the extent of the defeat[2] surprised everyone, it nearly stupefied the Congress, and raised great jubilation in the ranks of the Opposition. The latter lost no time in declaring the results as a clear "verdict" of the people against the Government, and, in fact, called for a general election in the country. The Congress, however, was in no mood to oblige the Opposition like that and declared that the election results had nothing to do with the policies pursued by the Government, adding that it had achieved significant victories in other bye-elections.[3] and that the public response to the Chinese attack had shown beyond doubt that the people stood behind the Government. Nevertheless, the results of the bye-elections had greatly perplexed the leadership in the Government and added to the soul-searching that had been going on for some time. The Congress called for an enquiry into the factors that had led to its defeat, and appointed a committeee for this purpose. The studies on the basis of which these three articles on the bye-elections are written, were conducted independently of the enquiry undertaken by the Bye-Election Committee,[4] although the AICC provided all the necessary assistance for the conduct of the three studies, and in fact, stimulated them in every possible way. Both the AICC office in New Delhi and the DCC offices in the respective districts were found to be co-operative and I should like to record our gratitude to them for this. We are also thankful to a number of other public organisations, office bearers of political parties, a large number of local leaders, and members of the public for giving their valuable time and the benefit of their experience to the respective scholars who undertook the field work. Neither the office-bearers of the Congress nor anyone else, however, are responsible for the conclusions of these studies.

Factors Behind Congress Defeat

The results of three studies are interesting for an understanding of the factors which bring about a defeat of the ruling party in India. Although the opposition and certain sections of the press interpreted the outcome of the elections as a "verdict" against the policies of the Congress, and although the Congress utterances before the elections provided support for such an interpretation, a striking revelation of the three studies is the relative unimportance of issues and policies in the elections. The Amroha study takes this as the chief focus of its attention but the point is equally brought out in Farrukhabad and Rajkot.

Secondly, all the three studies show the great importance of the state of the Congress organisation in the determination of election results. Farrukhabad and Rajkot provide direct evidence on this point; Amroha does it in an indirect manner.

Thirdly, and this follows from the state of organisation of the Congress party, all the three studies bring out the considerable importance of the struggle for power within the Congress in its ability to deal with the opposition. The Amroha study vividly brings out this factor by contrasting the conditions in Amroha with the conditions in Jaunpur (1963) and Moradabad (1962) Parliamentary constituencies, in both of which the Congress has staged

a come-back following the conciliation of diverse groups within the party. In Amroha the Congress failed to bring about such a conciliation. The articles on Rajkot and Farrukhabad also show how the alienation of important social groups from the Congress resulted in a high rate of dissidence – and "sabotage" – from within the Congress in the elections.

Fourthly, as against such fragmentation of the Congress, the opposition consolidated its forces in each of the three bye-elections. Such a consolidation proved too much for the Congress, especially when its own house was in bad shape. The point is of general importance. In both Amroha and Farrukhabad, the Congress had all along been in a minority position but had won because of its plurality over a fragmented position. On the other hand, as shown clearly in Amroha, even the organisation of the opposition parties and the support received by them considerably depends on the pressures operating upon the Congress and the desire by various groups to acquire a dominant position within it. The support given to an opposition candidate often represents an attempt by an important group or faction to press its way to power within the Congress. Again, this is a point of general relevance and underlies the dominant position of the Congress in the organisation of Indian politics.[5]

Not Issues, but Organisation

Each of the three studies shows the importance of long-range factors in determining the outcome of the bye-elections, thus further modifying the impression that immediate issues dominate voters' preferences. On the other hand, the short-range factors that weighed with the electorate differed between the three constituencies. On the side of the Congress, there are such factors as the importance of Panchayati Raj in Rajkot, public dissatisfaction with the administration in Amroha, the poor impression created by the Congress candidate in Farrukhabad. The accentuation of the 'communal problem' in Amroha, largely as a result of Central interference, proved decisive. There was, however, no slackening of effort in Amroha as was the case in Farrukhabad and Rajkot, both victims of acute party factionalism, internal sabotage, and a low state of morale.

Caste, communal and demographic factors played their usual role everywhere, but appeared in different ways in U P on the one hand, and Gujarat on the other. In U P they took the traditional pattern of communal voting, whereas in Gujarat it was in terms of the powerful *Kshatriya Sabha*, a caste federation of great political importance in the region since 1962.

The studies serve to modify the forebodings and excitement usually generated by the results of such elections. They show the exceptional circumstances under which the opposition was able to consolidate its forces against the Congress, a tendency that has been lately growing somewhat, but has not yet taken any definite and institutional form. They also show beyond any doubt the critical importance in Indian politics of the internal group structure of the Congress party and its ability to accommodate diverse



conclusion that emerges is that it is not issues but the organisational competence of a political party in mobilising a wide range of support that is the critical factor in electoral behaviour. In India, the conclusion is important for both the Congress and the Opposition.

Notes

1 Amroha: 19 May, 1963; Farrukhabad: 19 May 1963; Rajkot: 26 May '63.

2 The lead of the Opposition candidates over the Congress: 50,454 in Amroha; 57,588 in Farrukhabad; 14,151 in Rajkot.

3 Of the 10 bye-elections held to the Lok Sabha since the third general elections upto July, 1963, the Congress won in 4 as against 8 in the general elections. Of 49 bye-elections to the Legislative Assemblies, the Congress won in 28 as against 26 in the general elections.

4 See the "Bye-Elections Committee Report", All-India Congress Committee, New Delhi.

5 For a theoretical interpretation of the Congress dominance system, which was also used as a point of departure for the bye-election studies, see Rajni Kothari, The Party System, "The Economic Weekly, June 3, 1961; and "The Congress 'System' in India," Asian Survey, December 1964.

THREE BYE-ELECTIONS—I

Congress Defeat in Amroha

A Case Study in One Party Dominance

Bashir Ahmed

Considering the various factors that operated during the Amroha bye-election, Acharya Kripalani's victory hardly appears to have been a verdict for or against the policies or record of the Congress. For, not only did an issue like the Chinese aggression fail to evoke much interest among the majority of voters but even those policies and actions of the Congress Government that adversely affected the interests of the people failed to have a bearing on the way they finally voted.

Even communalism with all its psychological and emotional overtones played no more than an accentuating role in the elections inasmuch as it merely reinforced the existing opposition to the Congress. For the Congress itself, however, it did bring in more votes from the Muslims but this accretion of electoral support was not of material importance to the outcome of the election.

The outcome was decided, if anything, by the opposition the Congress had been facing over the years from the influential elements in the social structure whom it has failed to accommodate in the organisation. The vote against the Congress in the bye-election was, therefore, no more than another expression of the struggle against the incumbent leadership in the Congress that these influential elements have been waging at successive elections in the district.

The Congress continues to be the focal point of political power in the district and its reverse in Amroha underlines precisely this dominant position in district politics.

[The study of the Farrukhabad bye-election by Ramashray Roy will appear next week and that of the Rajkot bye-election by Rushikesh Maru the week after.]

THE selection of the Congress candidate and the struggle for positions within the Congress party dominated the bye-election in Amroha, one of the two parliamentary constituencies in the Moradabad District of Uttar Pradesh. The election was held in May 1963 following the death of the sitting Congress M P Maulana Hifzur Rehman. One of the first to announce his candidature for the election was Acharya J B Kripalani who defeated in the 1962 General Elections' by V K Krishna Menon in the well-known North Bombay contest, was in search of a seat in Parliament. Though contesting the election as an independent, Acharya Kripalani had the support of all the opposition parties except the Communist party. The Republican party, which had earlier entered the contest, retired from it in favour of Acharya Kripalani after the last date for withdrawals was over, as did three of the five other Independents who had also filed their nominations from Amroha. The Congress party, however, took a long time choosing its own nominee.

Finally on April 7, the Central Parliamentary Board of the Congress picked Ram Saran, a local leader, whose name had been recommended by both the DCC and the PCC as its candidate. But it changed its mind on the day the nominations were to close and replaced him with Hafiz Mohammed Ibrahim, a member of the Union Cabinet and the Central Parliamentary Board. Lest delay or irregularity be committed in the filing of the papers leading to their possible rejection, the responsibility for completing this formality was taken upon themselves by Krishna Menon and K D Malaviya both of whom personally went from Delhi to Moradabad for this purpose. The last minute choice of such a senior leader and the keenness shown by Menon and his close ideological associate Malaviya, Union Minister for Mines and Fuel, who after Menon's departure from the Government had become a major target of opposition attack, gave a new significance to the Amroha bye-election and turned it into a prestige contest for the Congress.

Apparently the Congress chose Amroha for a major trial of strength because Acharya Kripalani, one of the most prominent of its critics, had decided to contest the seat. It was probably believed that his defeat, at a time when the opposition was subjecting the Government to the most severe kind of criticism, would silence such criticism or at least make it less effective. Conversely, the Congress victory against Acharya Kripalani would virtually amount to a popular vindication

of their stand and policies. At least, this was how Mrs Indira Gandhi posed the matter before the electors. Addressing a public meeting on the eve of elections in Moradabad, she said the Congress believes that Hafiz Mohammed Ibrahim's success was necessary for India's political future, its domestic and foreign policies and for democracy, while Acharya Kripalani's victory would mean upsetting of everything for which the nation and Congress had stood and striven for so far.

The opposition also formulated the issue in similar terms. Two of its spokesmen issued a statement in which they argued that the "enthusiasm shown by Mr Krishna Menon and Mr K D Malaviya in sponsoring the candidature of Hafiz Mohammed Ibrahim is proof that it is not really the Congress that is contesting the election but Mr Menon and his group . . . Our retreat during the Chinese invasion was the result of the policies of Mr Menon. Every vote for Hafiz Mohammed Ibrahim will, therefore, be a vote for Mr Krishna Menon's policies". By approaching the Amroha election in this manner both the Congress and the Opposition, therefore, chose to fight it on the basis of the Government's record and national policies.

Consistent with such an approach towards the election, Acharya Kripalani's impressive victory over Hafiz Mohammed Ibrahim by a margin of 50,454 votes, in what was virtually a straight fight (see Table 1), came to be interpreted by the Opposition as an expression of the peoples lack of confidence in Nehru's Government and led to the demand on their part that fresh elections be held throughout the country. Even some of the newspapers saw in the Congress defeat in Amroha an expression of popular disapproval of the Government's policies and performance, particularly of its "failures on the food and planning fronts and laxity in the maintenance of standards of public life . . . (Editorial, *Hindustan Times*, May 23, 1963; also see Editorial, *Indian Express*, Delhi, May 22, 1963.)

Was such an interpretation of the election warranted? Was the Amroha bye-election a verdict of the people on the policies, programme and performance of the Congress Party? With a view to answering these questions, our study in Amroha began with an inquiry into the extent to which policy issues and the record of the party in power figured in the voting decision of the adult citizens in the Constituency. For this purpose we selected some of the major planks of Congress policy and record that had constituted the main focus of attack from the Opposition both inside and outside Parliament immediately preceding the election, and had been brought before the electorate in Amroha during the course of the election campaign. We then interviewed voters in towns and the rural areas to see how and to what extent policy issues and the record of the Government became part of the frame of reference within which they made up their mind to vote the way they did. We present below the evidence we collected as also an analysis of the factors that influenced the outcome of the elections.

II

Issues Affecting the People

Considering the severity of criticism that Nehru Government's failure to secure the country's frontiers against the Chinese had provoked from the Opposition and Menon's association with the policy leading to it, we assumed that much of the vote against the Congress would reflect the peoples reaction in this regard, particularly since Menon had also chosen to identify himself so closely with the Congress candidate in Amroha. But we found that only the educated in the Constituency were agitated about the military debacle on our North Eastern borders in 1962 while the event failed to figure as one of the important considerations in the voting decision of the other voters.

Similarly the Gold Control policy of the Government of India which had provoked one of the major controversies of the period hardly evoked much concern among the voters. In the rural areas the issues failed to have an impact on a majority of the voters for reasons which were best summed up by a voter in Deeppur village when he said: "How does it matter to us whether there is gold control or not. In the first place we could never buy gold even when it was available in 'pure' form. But when in the past some of us could and did buy it, we were always cheated by the goldsmith. Now at least with 'impure' gold in the market none of us will be tempted to buy it and will be saved from being cheated." In the urban areas again neither the reaction nor the reasons for it were very different. Deep resentment over the Gold Control Policy was found only among the goldsmiths concentrated in some of the towns but forming on the whole an infinitesimal part of the electorate in Amroha.

The rise in prices and the shortage of food and other commodities, however, had a more widespread impact particularly since its consequences were felt directly by the people in their day to day existence. Most adversely affected were the people in towns who form 21.5 per cent of the population in the Constituency, while for the 78.5 per cent of the population in rural areas the ill effects were somewhat mitigated by their ability to produce part of what they required. The consumption

Table 1 : Amroha Parliamentary Constituency—Votes Polled by Candidates in 1963 Bye-Election

Names of the Candidates	Affiliation Party	Votes Polled
Acharya J B Kripalani	Independent	1,28,694
Hafiz Mohammed Ibrahim	Congress	78,240
Halimuddin Rahat Maulai*	Republican	1,075
Ram Prasad*	Independent	2,003
Boota Ram*	Independent	1,861
Abdul Rab*	Independent	774
Ali Bahadur	Independent	5,423
Zabar Singh	Independent	10,831

Source: Table compiled from the boothwise returns supplied by the District Election Office. Same source was used for all voting data appearing in the subsequent tables.

* Identifies candidates who retired from the election. Of the two Independents who remained in the contest Ali Bahadur was new to the constituency having come recently from Delhi. Zabar Singh also is little known in the constituency his influence being confined primarily to the Hassanpur North and South Constituencies.

pattern of village Dhakia[1] (See Tables 2-A and 2-B), which is more or less the pattern in other villages in this constituency, shows that 54.8 per cent of the food was produced by the households, where they had to buy the remaining 45.2 per cent of their total food requirement spending Rs 1202 for the purpose. In contrast to the quantity of food they purchased from outside, their purchases of non-food articles was only 40.60 per cent of their total requirements. Interestingly however, the money spent on non-food items was only slightly more than half the amount they had spent on the purchase of food items. Thus the tables show that the villages were far from self-sufficient either in the matter of food or non-food articles. Their position, though better than that of the urban population, did not really remain unaffected by the rise in prices and the shortage of food and other commodities.

Factors Affecting an Election

Perhaps the greatest concern and agitation among the people was over matters that were primarily administrative in nature. For instance there was widespread complaint against the manner in which the National Defence Fund was collected in the District. While no one ever questioned the need for such a contribution being collected from the people, they all objected to its being taken at several points and through several agencies. Likewise they resented the pressure and the force that was sometimes used in the process. In Amroha and part of the Hasanpur Tehsil there were additional complaints relating to the extortion of bribes by officers in charge of the land consolidation proceedings that were under way in these areas during the period immediately before the election. More localised and specific were the complaints in some of the villages we visited. In the Sambhal Assembly Constituency which forms part of the Amroha Parliamentary Constituency, we found voters in Madala Fatehpur and Nagla villages exercised over the non-fulfilment of the promise made by leaders and officers alike to complete the work started in 1957 on the Sambhal-Amroha road that passes very close to their villages. Similar grievances were voiced in the other villages we visited in the Constituency. Very often these were mentioned along with complaints about corrupt, unjust and high-handed behaviour of government officials and politicians in the past. As a consequence of such a linking of these two kinds of complaints, the resentment among the people was fairly strong even when the specific and immediate complaints were in themselves negligible.

Do these grievances among the people ever find an expression in their votes? Did they find such an expression in Amroha? The electoral record of Madala Fatehpur and Nagla, the villages referred to above, shows that at least in their case the vote did not reflect such a relationship. Forming between the two of them the polling booth No 35 in the Sambhal Assembly Constituency, Madala Fatehpur and Nagla gave the Congress a majority in both the 1962 election and the 1963 bye-elections to the Parliament, notwithstanding the grievances the villagers had against the Government and the Congress.

Taking the Constituency as a whole, the position does not seem to be any different in this regard. An analysis of votes polled by the Congress and the Opposition at the Third General Elections and the 1963 bye-elections shows that in towns where the people were adversely affected by the rise in prices and shortage of food and other commodities, Congress actually polled 15,067 votes more in 1963 than it had polled in 1962. In the rural areas where too the people did not escape the adverse affects of increasing prices and shortages and had in addition a host of specific grievances against the government Congress only lost a negligible 802 votes from what it had polled in 1962. On the other hand, the Opposition, to which should have logically gone the advantages of rising prices, food shortages and all the other grievances among the people, actually lost 9,763 votes in towns and 1,517 in the rural areas. In terms of the overall position also, the Congress fared much better this time than it had done in 1962. For while the Congress added 14,265 votes to its 1962 figure, the Opposition actually dropped 11,280 votes from its previous total.

The assumption, therefore, seems well warranted that the way people vote is determined by factors other than the policies and performance of the Government. Additional support for such an assumption comes from Congress victory in a bye-election in Jaunpur, a parliamentary constituency in U P where elections were held at the same time as the bye-elections in Amroha. The Party's position in terms of policies and record here was no different from what we had noticed it to be in Amroha. A *Hindustan Times* Correspondent visiting the rural areas in Jaunpur found, for instance, that the people were unhappy about the emergency surcharge on land revenue and other rural imports as they were about the rising prices and shortage of kerosene and sugar. He also reported that the Jan Sangh which was opposing the Congress here in a straight fight was fully exploiting the situation. *(Hindustan Times, May 4, 1963).* In several respects in fact the situation here was much less favourable to the Congress than it was in Amroha.

For one thing, the Congress was contesting here for a seat it had lost in 1962. For another, its candidate was a local leader while his rival was no less a person than the General Secretary of the Bharatiya Jan Sangh, which has its major base in U P. Organisationally also while twenty Central and State Ministers camped in Amroha for the election and ample funds were poured into the campaign there, in Jaunpur the campaign machinery lacked adequate resources. On the other hand, the Jan Sangh had an elaborate set up with a fleet of cars,

Table 2 A : Consumption Pattern —Village Dhakia

Value of weekly consumption of food articles by Households in rupees

All Households*	Food	
	Purchased	Home Produced
Cereals	476 (29.3%)	1150 (70.7%)
Total food	1202 (45.2%)	1455 (54.8%)

Table 2 B : Consumption Pattern —Village Dhakia

Value of weekly expenditure on non-food articles and total weekly expenditure in rupees

All Households*		
	Purchased	Home Produced
Non-Food Articles	696 (40.00%)	1023 (60.00%)

* Total number of Households in Dhakia is 191.

Source: "Continuous Village Survey: Dhakia Village, U P", Agro-Economic Research Centre, Delhi University. The Survey has not been published yet.

cycle squads, host of speakers and canvassers to conduct the campaign since Jaunpur was a prestige contest for it just as Amroha was for the Congress. But despite what were by all standards considerable odds against it, the Congress won by a handsome margin of 8,000 votes, thus regaining the seat it had lost to the Jan Sangh in 1962.

What caused the Congress victory in Jaunpur? Our inquiry shows that the most important factor was the latter-day patching up of differences in the ranks of the influential Thakurs who control the D C C. Considering the otherwise unfavourable situation for the Party, this development proved of critical importance to the successful outcome of the bye-election. For the Thakurs, forming a numerically large group and possessing considerable economic power and high social status, have virtually controlled the political life of the District through their influence in the rural areas. Although they are not the only element of the district population represented in the DCC, agreements and disagreements among them have always proved to be crucial to the performance of the Party in the elections. The Congress defeat in the Third General Elections in Jaunpur had followed differences among the influential Thakurs in the Constituency. Likewise a rapproachment between them had enabled it to win nine of the ten positions of Block Pramukhs in the Jaunpur Parliamentary area in the elections held just prior to the 1963 parliamentary contest. Seen in this context, therefore, the Congress victory in Jaunpur appears to have been less a function of popular policies or a satisfactory record of the Congress Government, and more of organisational cohesion resulting from the accommodation of the most influential individuals in the district and the resulting aggregation of the most vital elements of the electorate in the area within the Party fold. And it is precisely in this respect that the Congress in Moradabad District, of which the Amroha Parliamentary Constituency forms a part,[2] appears to have been particularly defecient.

III

The Support Base of the Congress in Moradabad District

The total population of Moradabad district according to the 1961 Census is 19,73,530, 23,58 per cent of which lives in the 14 towns in the district, while the remaining 76.42 per cent is spread over the rural parts of the district.[3] Among the numerically important communities[4] living in the rural areas are the Scheduled Castes, the Chauhans, Jats, Ahirs and Kahars, while between 60 to 65 per cent of the large Muslim community and about the same proportion of Vaishyas and Brahmans live in towns. Besides these numerically large communities, there are the other agricultural castes of Thakurs, Bishnois and Tiyagis, which though small in number are important elements in the area because of the high degree of social and political articulation they possess.

Of all these elements it was the urban-middle class individuals belonging to the Vaishya, Brahmin and Muslim communities who originally established and ran the Congress in Moradabad till 1938. The organisation did, however, manage to gain, by the early thirties, the support of influential individuals from among the Chauhans, a numerically large, ritually high and economically powerful caste, and from the less prosperous and small but high caste of Tiyagis. From the big and perhaps economically the most well-off caste of Jats in the district as from the equally rich but small caste of the Thakur, no one of significance could ever be attracted into its ranks. This was probably because both the Jats and the Thakurs who held most of the "Zamindaris" in the area regarded causes espoused by the Congress in this period as opposed to their interests. Rather than join the Congress, almost all the Jat and Thakur notables joined the Agriculturist Party that was formed in the thirties to represent the interests of the Zamindars and the rich peasants in UP. Even after independence the relations between them and the Congress did not change. On the contrary, they became, if anything, a little more hostile in their attitude towards the Congress, particularly since measures like the Zamindari Abolition Act sponsored by it affected their interests adversely.

Although the Congress failed with the Jats and the Thakurs, it was able to attract a few leaders from among the Ahirs and from some of the Scheduled Castes into its ranks. In fact, by 1938 the rural element in the Congress was so large that it was possible for Shiv Swarup Singh, a Chauhan, and Muni Dev, a Tiyagi, to become the President and General Secretary of the DCC, respectively. They remained in virtually complete control of the organisation till 1949 when differences between them, arising mainly out of personal ambitions, allowed others like Ram Saran, Dau Dayal Khanna and Jagdish Prasad, who belonged to the group of urban-middle class individuals that ran the Congress originally to stage a come back. By 1951 the

Table 3: Congress and Non-Congress Share of the Rural and Urban Votes Polled in Amroha Parliamentary Elections, 1962 and 1963

	1962 General Election					1963 Bye-Election				
	Total Votes Polled	Congress Votes		Non-Congress Votes*		Total Votes Polled	Congress Votes		Non-Congress Votes*	
		No of Votes Polled	Votes polled as Percentage of Total Votes Polled	No of Votes Polled	Votes Polled as Percentage of Total Votes Polled		No of Votes Polled	Votes Polled as Percentage of Total Votes Polled	No of Votes Polled	Votes Polled as Percentage of Total Votes Polled
Rural	1,76,686	41,885	**23.7**	1,37,384	**77.76**	1,75,479	41,083	**23.4**	1,35,867	**77.45**
Urban	58,685	22,090	**37.6**	34,012	**57.95**	62,877	37,157	**59.00**	24,249	**38.65**
Total	2,35,371	63,975		1,71,396		2,38,356	78,240		1,60,116	

*The Non-Congress votes for 1962 include votes polled by the candidates of the Socialist Party, the Jan Sangh, the PSP and four Independents. Non-Congress votes for 1963 include the votes for the Republican Party nominee, who later withdrew from the contest and of six Independent candidates including Acharya Kripalani.

leadership passed into their hands. That year Ram Saran was elected President of the DCC while Jagdish Prasad became its General Secretary. In the factional struggle that led to their success and in the steps they subsequently took to consolidate their position, a large number of influential rural leaders belonging to different castes were pushed out of important positions in the party and in some cases sent out of the organization itself. In a few instances individuals even left the Party on their own.

As a consequence of these developments, the Congress in Moradabad once again reached very nearly the position from which it had originally started. Today almost all the important offices and positions in the DCC are held by Vaishyas while the representation of other communities in the organisation seems at best to have become merely nominal in character. Of the nine office-bearers, for instance, 5, including the President and the General Secretary, are Vaishya, while 2 are Chauhans, 1 a Brahmin and 1 a Muslim. Again, in the 20-man Executive, there are 9 Vaishyas, 2 Chauhans and one each from among the Jat, Ahir, Thakur, Tiyagi, Bishnoi, Brahmin, Jatav, Sunnar and Muslim communities. Similarly of the 73 others in the General Body of the DCC, besides those already mentioned, 20 are Vaishyas, while seven of the fifteen PCC members from the District also belong to this caste.

This failure of the Party in Moradabad to accommodate effectively the other communities is particularly prejudicial to the interests of the Congress party, in view of the political influence some of these appear to wield in the rural areas. Some idea of the extent of this influence is provided by an analysis of the caste affiliations of the 19 Pramukhs and 19 Representatives that each Block Samithi sent to the Zila Parishad in 1961.

As Table 4 shows, while only 3 of the 38 of the Pramukhs and Representatives from the Block Samithis were Vaishya, 23 of them came from the three economically powerful castes of Jats, Chauhans and Thakurs in the District, while 7 belonged to the less rich but landowning Ahir and Tiyagi Castes. By alienating over the years the sympathies of leading individuals from some of the politically important castes like the Chauhans, Ahirs and Tiyagis, the present leadership of the DCC has, therefore, only augmented the opposition the party was already facing from the Jats and the Thakurs. The consequences of this development for the Party have been most inopportune, as is clearly noticeable in the increasing losses the Congress has suffered at successive elections in both the Assembly and Parliamentary Constituencies in the District.

IV

Congress Position Till 1962

Moradabad district has two Parliamentary and eleven Assembly Constituencies. Moradabad Parliamentary Constituency, known after the district itself, covers the six Assembly Constituencies of Moradabad (City), Moradabad (Rural), Thakurdwara, Chandausi, Bhaijoi and Bellary, while the Amroha Parliamentary Constituency is made up of the remaining five Assembly Constituencies of Hasanpur North, Hasanpur South, Amroha, Kanth and Sambhal. In the First General Elections the Congress was able to cap-

Table 4: Caste Affiliations of the Block Pramukhs and Representatives in the Moradabad Zilla Parishad

		Caste of the Block Pramukh and Rep in the Zilla Parishad								
S No	Name of the Block	Chauhan	Jat	Ahir	Thakur	Tiyagi	Brahmin	Vaishya	Gujjar	Muslim
(1)	Dhanaura					1	1			
(2)	Gajraulla	1	1			1	1			
(3)	Hassanpur		1					1		
(4)	Gangesri	1		1						
(5)	Amroha	1	1							
(6)	Kanth		1						1	
(7)	Joya		2							
(8)	Sambhal			2						
(9)	Bhaijoi			2						
(10)	Panwasa		1				1			
(11)	Asmauli		1							
(12)	Bhagathpur				2					
(13)	Mundha Pande		2							
(14)	Moradabad	2								1
(15)	Thakurdwara	1								
(16)	Dillary		2							
(17)	Kunderki		1					1		
(18)	Bellary				2					
(19)	Baria Ther									
	Total	**6**	13	**5**	4	2	3	3	1	1

*Compiled from the list of members supplied by the Zilla Parishad Office with the assistance of the Office-Secretary D C C.

ture both the Parliamentary and all the eleven Assembly seats in the District. At the Second General Elections it retained both the Parliamentary seats but lost four of the Assembly seats in the Moradabad Parliamentary Constituency and two in the Amroha Parliamentary Constituency. In the 1962 General Elections, however, it lost the contest in the Moradabad Parliamentary Constituency where it also dropped another Assembly seat while its position remained unchanged in Amroha. Therefore by 1962 the Congress was left in the District with only one Assembly seat in the Moradabad Parliamentary Constituency and three Assembly seats and the Lok Sabha seat in the Amroha Parliamentary area.

But even in Amroha, the Congress was not able to draw adequate support from the 4,18,384 voters, 78.5 per cent of whom are in rural areas while the remaining 21.5 per cent are in the seven towns in the Constituency. In the 1962 elections to the Parliament, the Congress polled 63,975 or only 15.32 per cent of these votes. Between urban and rural parts of the constituency, its percentage share of votes polled was higher in the former than in the latter (see Table 5). In the urban areas the bulk of the Muslims, who constitute between 35 to 37 per cent of the electorate, are concentrated. As Table 6 shows, Muslims constitute from 60 to 70 per cent of the population in the three large towns of Hassanpur, Amroha and Sambhal and the two small towns of Bachraon and Naugaon. In the two other small towns of Kanth and Dhanaura, they constitute half the population in the former and 35 per cent in the latter.

The larger share of the urban votes that the Congress got in the 1962 elections was, we suspect, due to the Muslim support for it in the towns. And it is also from the Muslims that a substantial part of the Congress support was probably drawn even in the rural part of the constituency.

Although it is not possible to establish this fact satisfactorily due to the nature of data available, a booth-wise analysis of votes polled by the Congress candidate for the Assembly, Sri Sukhanlal, and the Congress candidate for Parliament, Maulana Hifzur Rehman, in the Hassanpur South (Reserve) Assembly Constituency in 1962 provides us with some empirical basis for making such an assumption.

Hassanpur South is a completely rural constituency with a Hindu majority and a fairly large Scheduled Caste population. Muslims spread all over the constituency have a majority only at six of the seventyseven of the polling booths while at 39 others their minimum number is at least 100. An analysis of the poll at the 77 polling booths in the constituency reveals a close relationship between Congress votes and the number of Muslim voters (see Table 7). The Table shows that Congress vote increases, both in the case of Sukhanlal, a Hindu, and Maulana Hifzur Rehman, a Muslim, as the number of Muslim voters at the polling booths goes up, although the percentage of votes polled by the two is not always the same. There is a variation of approximately 4½ to 5½ per cent in the votes polled by them in the first two categories of polling booths, while in the three that follow, it ranges from 1 per cent to nearly 2½ per cent (see the Table) One of the main reasons for these variations could have been the inability of Maulana Hifzur Rehman to attract Hindu votes, for we notice that the differences between his votes and those polled by Shri Sukhanlal increase as the Muslim vote falls. Even so a substantial part of the Congress support in both the Assembly and the Parliamentary constituencies could only have come from the Muslims since the Congress share of the vote falls as the percentage of non-Muslim voters and of total voters in the constituency increases. Thus by 1962 the Congress support was not only confined to a rather restricted geographical area but also to a narrow social base in the district.

The foregoing analysis of the Congress position prior to the 1963 bye-election should not, however, lead us to the conclusion that the Party is on its way out in the district. To do so, we believe, will be to ignore one very important factor in the situation, namely the position and role of the Congress Party in local, state and national politics. Holding immense patronage and vast resources through its control of Government in the State and the country as a whole, the Congress has become the focus of all political activities in the district. Those out of it wish to come into its fold, while those within it but not in positions of leadership want to attain these positions. It is in this context, therefore, that the opposition to the Congress, both from outside and from within its own ranks, should be viewed. That at any rate is the position in Amroha and in Moradabad. Many of the locally influential individuals who have contested against the Congress candidates in Moradabad, sometimes as independents and sometimes under the label of one or the other of the opposition parties, seem to have done so more out of a desire to pressurise the local leadership into taking them into the Congress fold than with the desire of ousting the Party out of power. And very often they seem to have succeeded in the realisation of this aim. In 1962, for instance, Haith Ram and Bishan Singh of the PSP and Kunwar Narendarsingh, a locally influential former zamindar, and a non-party man, were taken into the Congress. Their admission, however, followed their success at the Third General Elections against Congress candidates in the Assembly Constituencies of Bellary, Bhaijoi and Chandausi, respectively. The D C C leaders were obviously compelled to bring them in since the election of these individuals had the effect of wiping out the Congress from the Moradabad Parliamentary area. This move of the Party, not only tilted, the balance in its favour but also as a corollary rendered the opposition's success a temporary achievement. In the long run, the overall effect of the Congress policy to absorb influential opponents when really pressed to the wall has been to prevent the crystallisation and institutionalisation of op-

Table 5: Congress Share Of The Total Rural And Urban Votes In Amroha

(1)	(2)	(3)		(4)	
Name of the Assembly Constituency	Votes in the Constituency	Congress Votes Parliament—1962		Congress Votes Parliament-1963	
		No of Votes Polled	Votes Polled as Percentage of Col 2	No of Votes Polled	Votes Polled as Percentage of Col 2
Amroha	Rural	53,671	5,928 **11.04**	6,146	**11.45**
	Urban	35,582	11,703 **32.14**	17,742	**49.86**
	Total		17,631	23,888	
Sambhal	Rural	57,318	5,240 **10.82**	6,949	**12.13**
	Urban	33,862	6,349 **18.75**	12,259	**28.73**
	Total		11,589	19,208	
Kanth	Rural	74,668	14,879 **19.92**	13,133	**17.59**
	Urban	3,937	977 **24.81**	1,259	**31.98**
	Total		15,856	14,392	
Hasanpur North	Rural	63,478	6,798 **10.8**	7,446	**11.73**
	Urban	16,382	3,061 **18.68**	5,897	**35.94**
	Total		9,759	13,343	
Hasanpur South*	Rural	79,486	9,140 **11.5**	7,409	**7.40**

* There are no towns in this consituency.

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position in the district. Even the PSP (now SSP) which had been the most successful of the opposition parties in the area with two electoral victories in 1957 and three in 1962 to its credit for instance has failed to acquire a permanent support base and establish a regular organisation in Moradabad.

There is a corollary to what is said above. Individuals from within the Congress, particularly those belonging to the 'out-group' in the DCC have also contributed to the rather impressive though ephemeral strength the Opposition has exhibited at the successive elections in the area. Chaudhury Shiv Swarup Singh and Muni Deo pushed out of positions of power in the Congress, for instance, have supported in the past both independents and opposition party candidates contesting against the nominees of their own party. Their main idea in doing so has apparently been to secure the defeat of as many Congress candidates as possible so that the dominant group in the district organisation is discredited and the Congress leaders in the State are forced to acknowledge their influence, placing the control of the DCC once more into their hands.

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V

The Significance of the Bye-Election

All of this provides the overall context against which the Amroha bye-election has to be seen. The bye-election provided Chaudhury Shiv Swarup and all the others in the district organisation who were opposed to the present DCC leadership with an excellent opportunity to pursue the strategy they had been following in the past and possibly invite intervention this time from the highest quarters in their favour. The importance the Prime Minister himself appeared to attach to the outcome of what had become a prestige contest for the Congress seemed to indicate the seriousness with which the Congress High Command could be expected to view the defeat of its nominee on this occasion. Regarding this as a rare chance, what could be called the 'out-group' in Moradabad Congress, did all it could to secure the defeat of Hafiz Mohammed Ibrahim. It was greatly helped in its efforts in this direction by the attitude the 'dominant-group' adopted towards the outcome of the elections. Piqued at the last minute replacement of its own man, Ram Saran, the 'dominant-group', which was entrusted with the task of organising the campaign, showed little interest in working for Hafiz Mohammed Ibrahim. Both, the dominant-group's indifference and the out-group's work against their own Party's nominee, could not but have favoured Acharya Kripalani. Looked at in this background, the vote against Congress in Amroha, therefore, appears not as an expression of opposition to the Party as such but a reflection of the struggle of different elements in the district to get access to positions of control in the Party.

Communalism as an Issue

It was perhaps such an awareness of internal struggle and of a generally weak support base of the Congress in the district which impelled the Congress High Command to choose Hafiz Mohammed Ibrahim, a Muslim, rather than a senior Congress leader belonging to some other community when it decided to make Amroha into a prestige contest. But what the Congress leaders apparently did not take into consideration was the latent feeling, particularly in the articulate sections of the Hindu community that the Muslims have a disproportionately large representation from the District than their numbers warranted. This feeling was based on the fact that unlike in the past when a Hindu and a Muslim were returned from the two parliamentary constituencies in Moradabad District, both the successful candidates at the 1962 elections were Muslims, although one was returned on Congress ticket and the other on that of the Republican Party. Ram Saran's replacement by Hafiz Mohammed Ibrahim, therefore, instantly produced resentment in certain sections of the Hindu community against the Congress and made communalism into a major election issue in Amroha.

No party can in reality ignore the ethnic and caste composition of a constituency in making its choices at the time of elections. In deciding on election strategy, however, great care is needed in the handling of prevailing sentiments and climate of opinion. By choosing in such a crude and transparent fashion a Muslim as its candidate in an area where communalism was lying, as it were, near the surface, the Congress, wittingly or unwittingly, turned it into an active element in the constituency. If it was the expectation of the Congress that Acharya Kripalani will ignore the resentment that its own action produced in the majority community then it must have been disappointed. For Acharya Kripalani, as keen on winning the election as the Congress itself, not only took cognizance of the sentiments of the majority community but also fully exploited them.

Throughout his campaign great stress was placed on the motives of the

Table 6: Muslim Population in Seven Towns in the Amroha Parliamentary Constituency

Name of the Town	Type of Municipal Institution	Total Population*	Muslim Population as percentage of total Population**
(1) Hasanpur	Municipal Board	17,731	60
(2) Amroha	"	68,965	60
(3) Sambhal	"	68,940	65
(4) Bachraon	Notified Area Committee	10,771	64
(5) Naugaon	"	6,777	70
(6) Kanth	"	10,315	50
(7) Dhanaura	"	6,331	35

* Population Figures from *Census of India*, op cit.
** These percentages are based on estimates made by local leaders.

Table 7: Congress Support Among Muslims

Votes polled by the Congress Candidate for Assembly and Parliament — 1962. Hassanpur South (Reserve) Constituency

Per cent of Muslim Voters at Polling Booths	Total No of Polling Booths in each Category	Per cent of Total Votes at Polling Booths in Each Category as Per Cent of Total Votes in the Constituency	Congress Votes for Assembly in 1962 as Per Cent of Total Votes at P B s in Each Category	Congress Votes for Parl in 1962 as Per Cent of Total Votes at P B s in Each Category
0 — 9.9	33	43.14	8.80	4.40
10 — 19.9	20	26.04	11.50	5.60
20 — 29.9	4	4.90	17.14	16.00
30 — 39.9	7	8.29	16.21	14.70
40 — 49.9	7	9.29	20.60	18.20
50 and over	6	8.34	21.74	21.74

* The analysis of Hindu-Muslim votes in the table was done on the basis of the electoral rolls for the constituency. Booth-wise returns were taken from the District Election Office.

Congress leadership in replacing Saran by Hafiz Mohammed Ibrahim. To the more sophisticated audiences in towns the change was represented as a kind of challenge to the Hindu community. It was argued that if 37 per cent of the Muslim voters in the Constituency can be expected to elect a Muslim candidate, then surely 63 per cent Hindus can also return one of their own number to the Parliament! In the rural areas the matter was posed more directly though perhaps a little crudely by Acharya Kripalani's workers who had gone and settled down in the villages several days before the poll was held. The choice before them, the villagers were told, was whether they will vote for 'Choti' or for 'Boti'.[5] All kinds of deep prejudices against the Muslims were activated and references were made to real or imaginary instances in which Muslims supposed to have been with the Congress had in reality joined hands with other members of their community and had by acting secretly as a group, brought about the defeat of Congress Hindu candidates in the past.

Such arguments and stories received greater credence among the people due

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to the way Hafiz Mohammed Ibrahim's campaign was conducted. With it were associated local Muslims who had always opposed the Congress in the past. A man like Nawab Yusuf Ali Khan who had opposed the Congress candidate Jaydish Prasad in the Hassanpur North Assembly contest at the Third General Election was now, for instance, playing an important role in organising support for Hafizji. Then there were the Muslim divines from the shrines of Ajmer and other religious places who virtually turned the campaign into holy crusade by the kind of speeches they delivered. Wherever they spoke they referred to the past greatness of the Muslims, their present 'plight' and the need to defend their religious, cultural and political rights which, the Muslims were informed, were in jeopardy due to the rise of Hindu communalism that Acharya Kripalani's campaign represented.

How important in fact was the impact of this 'communalism' on the distribution of the vote? In its total effect the communal atmosphere produced by the two sides appears to have only reinforced the Opposition to the Congress that had been growing over the years with the alienation of influential leaders from the organisation, for the non-Congress vote in the Constituency did not either increase or decrease substantially. Although the non-Congress vote did fall from 1,71,396 in 1962 to 1,60,116 in 1963 the loss of vote in terms of percentage was too small to signify any major alteration in its size.[6] It is, therefore, arguable that even if the communal factor had not operated in the bye-election in the manner it did, the vote against the Congress would have perhaps remained the same. It is doubtful, though, if the same could be said of the support received by the Congress. For at this election the way the campaigns of both the candidates were conducted created in the minority community of Muslims which is peculiarly sensitive and self-conscious, a frame of mind in which Acharya Kripalani's election came to symbolise a threat to its vital interests in the District. With this kind of perception, the Muslim community which had remained divided due to sectional, personal and political differences in the past, closed its ranks, turned out in great numbers and polled heavily for Hafiz Mohammed Ibrahim, thus enabling Congress to register an increase of 22 per cent over the votes it had polled at the 1962 General Elections. All the additional 14,265 votes the Congress received this time came, as Table 5 shows, entirely from the towns where Muslims are in a majority. In both Amroha and Sambhai its urban vote increased by 6,000 each. In Hassanpur North it increased by a little over 2,300 while in Kanth it went up by 300 votes only. In terms of percentage, the Congress urban vote, not surprisingly, rose from 37.6 per cent in 1962 to 59 per cent in 1963 (see Table 3).

But even the 14,265 extra votes it polled were not enough to enable the Congress to win this time. For the continuous decline in its vote at successive elections had made Amroha into a marginal constituency for the Congress. Its percentage share of the votes polled which was 47.60 in 1952 went down to 39.17 in 1957 and fell even further in 1962 to a mere 27 per cent. All through, its successes were possible due to the multiplicity of candidates opposing it. At the First General Election the 52.40 per cent non-Congress vote was, for instance, shared by the candidates of the Socialist, Jan Sangh and Kisan Mazdoor Praja Parties. In 1957 over 60 per cent of the votes polled were shared by the candidates of two opposition parties, namely, the Jan Sangh and the Praja Socialist and one Independent, while in 1962, 73 per cent of the votes polled were distributed among four candidates of the opposition parties (S P, Jan Sangh, PSP, Republican) and four independents (see Table 8). The decision of all the opposition parties which had candidates in the previous election, to back Acharya Kripalani in the bye-election, therefore, proved decisive. Though two of the five independents who had entered the contest remained in the field while the others withdrew, they never really were in the picture because of the limited influence they had in the area. Consequently, the election virtually turned into a straight fight between the Congress and the opposition with the former losing for the first time in the Constituency.

In light of the foregoing analysis of long-term trends, it is not difficult to

Table 8: Distribution of Votes in Four Parliamentary Elections in Amroha

Year	Total Votes Polled in the Constituency	Votes Polled by Congress		Votes Polled by Opposition Parties					Votes Polled by Independents		Non-Congress Votes	
		Total Votes Polled	Total Votes as % of Col 2	Jan Sangh	S P / PSP*	Other Parties†	Total Votes Polled	Total Votes Polled as % of Col 2	Total Votes Polled**	Total Votes Polled as % of Col 2	Total Non-Cong Votes	Total Non-Cong Votes as % of Col 2
1	2	3	4	5	6	7	8	9	10	11	12	13
1952 Gen Election	1,56,871	74,644	**47.60**	22,088	41,552	18,587	82,227	**52.40**	——	——	82,227	**52.40**
1957 Gen Election	1,89,453	74,220	**39.17**	51,574	41,985	——	83,598	**44.12**	21,674	**11.44**	1,15,233	**60.82**
1962 Gen Election	2,35,371	63,975	**27.00**	46,830	14,184 14,409	24,000	99,423	**42.66**	71,973	**30.58**	1,71,396	**73.00**
1963 Bye-Election	2,38,356	78,240	**32.80**	——	——	1,075	1,075	**0.45**	159,0	**66.72**	1,60,116	**67.20**

* In Col 6 the votes in the top are those polled by the Socialist Party before it transformed itself into the PSP. For 1957 the votes are PSP votes. In the split that occured after the Second General Elections Lohia and his followers left the PSP and formed their own party called the Socialist Party. For 1962 General Elections, therefore, the first figure indicates the votes polled by the PSP (after the split) while the second indicates the votes polled by the new Socialist Party.

† In Col 7 the votes for 1952 were polled by the Kisan Mazdoor Praja Party. Vote for the Third General Elections and by the Bye-election in this Col were polled by the Republican Party.

** There was one Independent candidate in 1957, four in 1962 and six in 1963. Of the 1,59,041 votes polled by the Independents in the bye-election, 1,28,694 were secured by Acharya Kripalani and the remaining 30,347 vote were shared by five other Independents.

see why the Congress leadership was so nervous about the Amroha bye-election. To retrieve itself from such a difficult situation, however, the party had to fulfil three conditions:

(1) It should have won back into its camp those sections of leadership that it had alienated during the past few years;

(2) It should have widened its social base; and

(3) It should have widened its geographical base, especially adding substantial rural support to the already available urban support.

It is now clear that the Congress failed to fulfil any of these conditions, and thus lost the bye-election.

However, there is no reason to believe that the Constituency is lost to the Congress forever. So long as those opposing it remain primarily interested in gaining positions of importance within its organisation so as to be able to share the benefits of power and patronage that it alone seems to offer, any reverse for the Congress is likely to be temporary, and hence possible to arrest. The only thing that could stop the position from changing favourably for the Congress in the future would be the refusal of the incumbent leadership in the DCC to recognise the realities of the situation and let in the elements who were responsible for Congress defeat in Amroha. But past experience shows that the leadership may not adopt such an obdurate attitude but instead accommodate within the Party its most influential rivals as it had done in the case of the Moradabad Parliamentary Constituency.

VI

Conclusions

Considering all the factors that have operated during the Amroha bye-election, Acharya Kripalani's victory appears hardly to have been a verdict for or against the policies or record of the Congress. For not only did an issue like the Chinese aggression fail to evoke much interest among the majority of voters but even these policies and actions of the Congress government that adversely affected the interests of the people failed to have a bearing on the way they finally voted. Even communalism with all its psychological and emotional overtones played no more than an accentuating role in the election in as much as it merely reinforced the existing opposition to the Congress. For the Congress itself, however, it did bring in more votes from the Muslims but even this accretion of electoral support for it was not of material importance to the outcome of election.

The outcome was determined if anything by the opposition the Congress has been facing over the years from the influential elements in the social structure that it has failed to accommodate in the organisation. The vote against the Congress in the bye-elections, therefore, was no more than another expression of the struggle against the incumbent leadership in the Congress, that these elements have been waging at successive elections in the district as a whole. The Congress continues to be the focal point of political power in the district and its reverse in Amroha underlines precisely this dominant position of the Congress in district politics.

Notes

[1] Village Dhakia forms part of polling station No 41 in the Kanth Assembly Constituency which is one of the five Constituencies forming the Amroha Parliamentary Constuency.

[2] In the following section we discuss the social basis of the Congress support in Moradabad district. What is said there in respect of Moradabad applies equally to the Amroha Constituency.

[3] Census of India, Paper No 1, 1962.

[4] Community-wise break-up of the population is not available for 1962 except for the Scheduled Castes. According to the District Election Office the latest figure is 3,17,730. Some idea of the size of the other communities is available from the 1961 Census. The total population of the District in 1961 was 1, 28, 4,108, of these 7, 45, 669 were Hindus and 4, 78, 847 were Muslims. The numerically large Hindu Caste in the district were Chamar 1,73,907; Chauhan — 47,312; Brahmin — 39,751; Kahar — 33,887; Ahir — 33,235; Jat — 30,204 and Vaishya — 27,574.

[5] The expression 'Choti' refers to the tuft of hair worn by orthodox Hindus at the back of their head. 'Boti' is a colloquial expression for beef and refers here to the Muslims who are beef-eaters. The expression 'boti' also has an emotive significance for the Hindus who revere the cow and have been successful in securing a ban on cow slaughter in some of the States, including U P.

[6] The 11,280 votes dropped by Opposition amount to only 6.58 per cent of its vote in 1962.

Irrigation Target for 1965-66

THE Ministry of Irrigation and Power has set up a Reviewing Committee of officials to examine the progress of works on certain irrigation projects which are in an advanced stage of construction and to remove, as far as possible, the difficulties experienced in their execution. Irrigation and multi-purpose projects taken up during the First, Second and Third Plans are expected to create an irrigation potential of 19.4 million acres by March 1966. The potential attained by March last year is about 16 million across. The remaining potential has to be achieved during the current year, the last year of the Third Plan.

The average rate of creation of irrigation potential has so far been of the order of one million acres a year. The current year's target is three times the yearly average. The setting up of the Committee is one of the steps being taken by the Ministry of Irrigation and Power for close liaison with State Governments in achieving this target. The Committee will review the progress of works in the following nine States: Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal.

The Reviewing Committee is presided over by the Chairman of the Central Water and Power Commission, M R Chopra. The Members of the Committee are D B Anand and A R Venkataraman, both Members of the Central Water and Power Commission, and G R Iyer, Joint Secretary and K S S Murthy, Deputy Secretary, Ministry of Irrigation and Power. K V Krishnamurthy, a Director in the Central Water and Power Commission, is the Committee Member-Secretary.

Export Promotion through Import Entitlement

I S Gulati

The objective of this paper is two-fold:

(i) to appraise the scheme of export promotion through import entitlement as it obtains to-day; and,

(ii) to examine the present criterion on the basis of which import entitlements are fixed for various export products and to attempt an answer to the question: Does the criterion lead to optimum export promotion?

[I must acknowledge my debt to N B Amin of Jyoti Limited, Baroda, one of the small band of forward-looking businessmen in this country. He first made me aware of the existence of the problem. My subsequent discussions with him on the subject have been of immense help. But I would not like to commit him in any way to the views expressed and conclusions drawn by me in this paper.]

AS a measure of promoting the export of manufactured products from India, the Government issues import licences against exports of specified items. Against each export product covered by this scheme of export promotion, a specified percentage of the FOB value of the export is allowed as import entitlement.

The import entitlement under this scheme may be used for the import of raw materials required in the manufacture of export products and also for the import of machinery and parts. These import entitlements may be availed of by the exporter himself or transferred or sold to another manufacturer who (a) manufactures products covered by the scheme and (b) exports (or sells for export) a part of his product.

The objective of the Government in giving the import entitlements is, to put it in the words of the 1964-65 Report of Ministry of Commerce, "to keep the (export) industries modernized and to asssit them with imported essential raw materials, components, etc., which are not indigenously available." In this manner, the Report argues, the manufacturers|exporters are provided with "a dependable source of availability of these raw materials and components as compared to the manufacturers and producers who are too much attracted by the sheltered internal markets and internal higher prices and, therefore, do not desire to export."

This import assistance is supposed to enable manufacturers|exporters to produce more not only for export but also for internal markets. It helps them "to partly compensate for the loss in exports and partly to be competitive with the non-exporting manufacturers in the country." The element of help can be said to enter the scheme in two ways: (a) in the almost automatic entitlement to import the inputs which are not locally available, and (b) in the entitlement to import *over and above* the actual import-content of the export product. It is this second part of entitlement which contains a clear element of subsidy or bonus, the extent of subsidy, of course, depending on the premium the import licence for the import of the particular machinery or raw material commands. It is again this bonus element of import entitlement which really differentiates between production for export and production for the internal market because even the latter would be given a licence to import the inputs not locally available, even though less expeditiously.

II

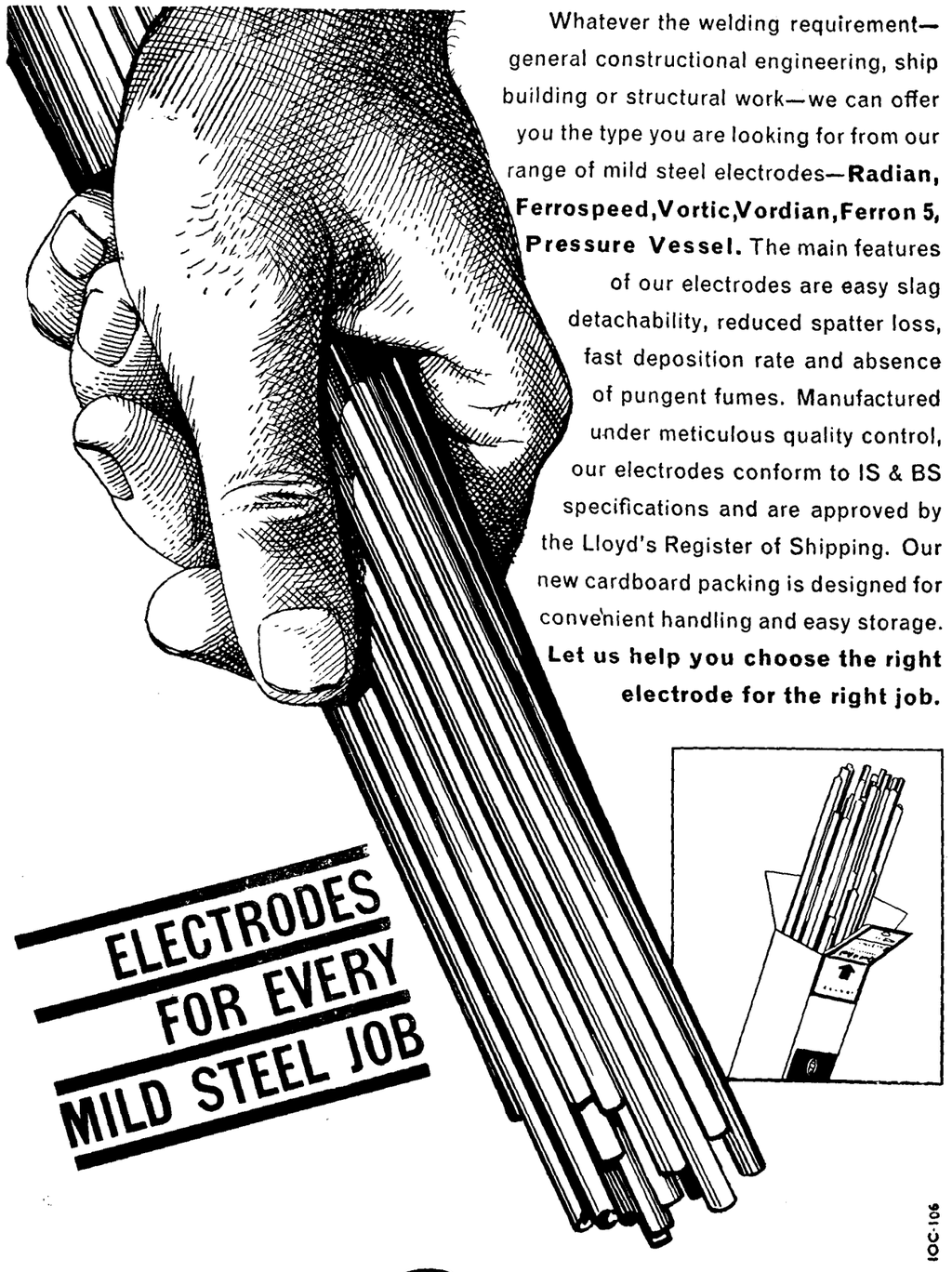
From the same Report we learn that out of the total annual exports of Rs 835 crores in 1964, exports valued at Rs 193 crores (ie, less than 23 per cent) were eligible for import entitlements under the above scheme. The rest of exports belong mostly to the category of traditional items which, the Report says, "do not require any major assistance for promoting their exports because in most cases their internal prices are more or less at par with the international prices of these products."

Between 1962 and 1964, total export earnings have gone up by Rs 150 crores. The report compares to this increase in total export earnings the increase in the value of import licences to the tune of Rs 15 to Rs 20 crores under the import entitlement scheme during the same period. The total value of import licences issued under the scheme is estimated at Rs 50 to Rs 55 crores in 1964.

The above comparison, to say the least, is not valid. How can credit for the expansion of the total export earnings be claimed for the import entitlement scheme when only 23 per cent of the export products are eligible for the import assistance under this scheme? It is the increase in export earnings of the products covered by the scheme which is relevant. Even then, the question remains: In orders to appraise the scheme, should the increase in export earnings of the products covered be compared with the increase in the value of licences issued under the

Table 1 : Net Foreign Exchange Earnings under the Existing Scheme

Export Product	FOB Value	CIF Value of Import Content	Net Export Earnings	Import Entitlement		Net Foreign Exchange Earnings
				Against Import-Content	Towards Bonus	
A	100	10	90	10	10	80
B	100	15	85	15	15	70
C	100	20	80	20	20	60
D	100	25	75	25	25	50
E	100	30	70	30	30	40
F	100	37.5	62.5	37.5	37.5	25
G	100	50	50	50	50	00
	700	187.5	512.5	187.5	187.5	320



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scheme or with the total value of the licences thus issued or further, with the total value of only bonus entitlement claimed during the period? It is enough, at this stage, to have posed this question. We shall take it up later in the course of this paper when other issues are cleared up.

III

The general principle on the basis of which import entitlement is determined at present is to allow by way of import twice the import-content of an export product subject to a ceiling of 75 per cent of the FOB value of export. In actual practice, however, there are items in whose case import entitlement has been fixed at even 100 per cent. Among the group, Engineering Goods, as many as 29 items are listed for 100 per cent import entitlement. For engineering goods, the import entitlement ranges from 20 per cent for items like wooden furniture, gramophone, records and bicycle components to 100 per cent for non-ferrous semis, alloys and fully processed manufactures and stainless steel products.

Let us first examine the general principle of giving an import licence twice in value the import-content of an export product. Half of the import licence thus acquired may be said to compensate the manufacturer/exporter for the foreign exchange that he gave up in making the export[1]. The other half represents the bonus intended to offer the necessary incentive to exports.

In Table 1, we have classified export products into seven categories[2] and calculated net foreign exchange earnings from the export of each of the seven categories of export products. The categories are arranged in the ascending order of import entitlement. In this Table a distinction is drawn between 'Net Export Earning', and 'Net Foreign Exchange Earning' in the following manner:

Export Earning = FOB value of Export *minus* CIF Value of Import Content

Net Foreign Exchange Earning = FOB value of Export *minus* Import Entitlement

Since *by definition:*

Import Entitlement = Entitlement against Import Content *plus* Bonus Entitlement

Therefore,

Net Foreign Exchange Earning = Net Export Earning *minus* Bonus Bonus Entitlement

The distinction drawn above is, as will be observed, very useful. It helps bring out the incidence of the bonus element in import entitlement on export earnings. While for product A, export earnings are reduced from Rs 90 to Rs 80, for product G, export earnings decline from Rs 50 to Zero. But more important, by making this distinction it is possible to see clearly that under the present scheme the *bonus entitlement increases with decreases in net export earnings.* For product A, whose net export earning is Rs 90 the bonus entitlement is Rs 10, whereas for product G whose net export earning is Rs 50, the bonus entitlement is as high as Rs 50. Thus, the lower the net export earnings of an export product, the greater is the bonus entitlement it earns under the existing scheme. That is, a higher bonus is offered to an export product yielding a smaller export earning. It is incredible but true that a scheme designed to promote exports with a view to augmenting the country's export earnings should, in effect, have a bias operating in the opposite direction.

Table 2: Bonus Entitlement under the Existing Scheme

Export Product	FOB Value	CIF Value of Import Content	Export Earnings	Import Entitlement		Bonus Entitlement as Percentage of Export Earning
				Against Import-Content	Towards Bonus	
A	100	10	90	10	10	11
B	100	15	85	15	15	17
C	100	20	80	20	20	25
D	100	25	75	25	25	33
E	100	30	70	30	30	43
F	100	37.5	62.5	37.5	37.5	60
G	100	50	50	50	50	100
H	100	60	40	60	40	100
I	100	70	30	70	30	100
J	100	80	20	80	20	100
K	100	90	10	90	10	100
L	100	100	0	100	0	100

The second drawback of the existing system of import entitlement is that it has to stop short at the point where net export earnings comprise 5 per cent of the FOB value of export because at this point the bonus entitlement will work out to 50 per cent and thus the entire export earnings are wiped off. That is why net foreign exchange earning at this point is Zero. Thus it creates the anamolous situation in which an export product whose net export earning works out to, say 40 per cent of FOB value (i e CIF value of import content is 60 per cent) contributes as much to foreign exchange earnings of the country whereas an export product with 50 per cent export earning contributes nothing to the country's foreign exchange earnings.

Now we can easily anticipate the answer that even as things stand to-day it is not that the export product with 60 per cent import content is not entitled to any bonus entitlement but with the effective ceiling of total import entitlement at 100 per cent, the bonus entitlement could not exceed 40 per cent. Hence, the type of anamolous situation feared by us will not, it can be argued, arise.

Be it as claimed in the above argument, we shall be very happy that at least this drawback of the existing scheme is being taken care of.

Assuming that export products with

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import content exceeding 50 per cent do get covered by the scheme under review, but subject to an effective ceiling of 100 per cent import entitlement, the position with regard to bonus entitlement for various categories of export products would be as is worked out in Table 2. It can be observed that the *bonus entitlement increases as the export earnings decline* until we reach the export product 'G'. From there onwards, bonus entitlement as a proportion of net export earnings remains constant at 100 per cent.

IV

At this point in our discussion, let us make a slight digression and raise the question: What is the gain to the economy in allowing 100 per cent import entitlement? Obviously, the gain in foreign exchange earning in such cases is nil. The only defence that one can put up for giving 100 per cent import entitlement is in terms of its being a purely temporary measure intended to help manufacturers/exporters in these particular lines to establish their foot-hold abroad. Once they are established, the quantum of import entitlement might be reduced.

V

But the much more important questions remain: Is it appropriate that bonus entitlement should be tied with the import content of an export product? Since the purpose of giving the bonus is to stimulate net export earning, will it not be much more beneficial to the economy to relate the bonus to net export earning of an export product rather than relate it to the import content of the export product? If bonus entitlement is linked to the import-content of an export product, the tendency on the part of the exporter will naturally be to go in for the export of products with higher import-content. Also, there will be an urge to overstate the import-content[3]. If on the other hand, bonus entitlement is linked to net export earning, the natural tendency on the part of the exporters should be to go in for exports with lower import content and, if anything, the urge will be to overstate the local content of the export product.

Clearly, the right thing to do is to relate bonus entitlement to the net export earning of an export product instead of to its import-content. In Table 3 (A) and 3 (B), it is indicated how this can be done and what the change would imply in terms of net foreign exchange earning for each of the export products.

In constructing Table 3(A) two considerations have been kept in mind: (i) it is taken as a given restraint that the total outlay of foreign exchange in the form of bonus entitlement must not exceed what is given away at present (i e Rs 187.5 in our illustrative exercise as against total net export earning of Rs 512.5) and (ii) bonus entitlement has to be related to net export earning from an export product instead of to its import content. As a proportion of total net export earnings from products A to G, the present total outlay on bonus entitlement works out to 36.5 per cent. Therefore, in our calculations bonus entitlement is distributed among these export products at the rate of 36.5 per cent of their respective export earning. This yields an interesting result. Unlike under the existing scheme, bonus entitlement as a proportion of the FOB value progressively increases as the net export earning rises.

In Table 3 (B) bonus entitlement is separately worked out for products H to L. If these products were included in Table 3 (A), the outlay available for bonus entitlement would have added up to Rs 287.5 against total net export earning of Rs 612.5 and therefore, the proportion of export earnings which could be given away in bonus entitlement within the limit set by our restraint would be as high as 47 per cent.

It is important to note that with the proposed modification in the fixation of bonus entitlement, products G to K which now yield Zero net foreign exchange earnings would be making some contribution to the country's foreign reserves. Only product L would not. But then it would not be *ordinarily* exported.

VI

This brings us to the question of appraising the achievement so far

Table 3A: Bonus Entitlement on a Modified Basis

				Bonus Entitlement		Net foreign exchange with bonus earning	
	FOB Value	Value of Import Content	Net export earning	@100% import-content	@36.5% of export earning	@100% import-content	@36.5% export earning
A	100	10	90	10	33	80	57
B	100	15	85	15	30	70	55
C	100	20	80	20	29	60	51
D	100	25	75	25	27	50	48
E	100	30	70	30	26	49	44
F	100	37.5	62.5	37.5	23	25	39.5
G	100	50	50	50	19	0	31
	700	187.5	512.5	187.5	187	325	325.5

Table 3B: Import Entitlement on a Modified Basis

				Bonus Entitlement		Net foreign exchange with bonus earning	
	FOB Value	Value of Import Content	Net ex-Port earning	@100% import-content	@36.5% of export earning	@100% import-content	@36.5% export earning
H	100	60	40	40	15	0	25
I	100	70	30	30	11	0	19
J	100	80	20	20	7	0	13
K	100	90	10	10	4	0	6
L	100	100	0	0	0	0	0
	500	400	100	100	37	0	63

under the existing scheme whereby bonus entitlement accrues on the basis of the import-content of an export product. In appraising this scheme, the relevant data would be (a) *the increase in net export earnings* of the country from the export products covered by the scheme and (b) *the total outlay on bonus entitlement* during the period under review. It is the bonus part of the import entitlement which, as we observed at the very outset, can make a material difference to the exporter and is, therefore, the relevant part to be taken into account in making the appraisal. Also the *total outlay* and *not the increase in outlay* on bonus entitlement should be taken into account because it is the entire bonus entitlement which is supposed to be directed to securing an increase in export earnings.

Let us now apply this criterion to the performance between 1962 and 1964. On the assumption that half of the value of import entitlement licences issued during the period represented bonus entitlement the bonus part in the year 1964 would be around Rs 25 to 27 crores. If, however, one allows for the fact that for certain export products (like products H to K) bonus will work out to less than 50 per cent of import entitlement, bonus entitlement for the year 1964 may be put at Rs 22 to 24 crores. As against this, the *increase in the FOB value* of export products covered by the scheme in 1964 may be put at Rs 40 crores (See Table 4 for principal items covered by the scheme) and our rough calculations yield a figure of Rs 30 to 32 crores for the increase in net export earnings of the same products.[4]

As it is, therefore, the gain in net export earnings from the present scheme, no doubt, exceeds the bonus entitlement but by just about Rs 8 crores. In other words, credit can be claimed by the present scheme of import entitlement for contributing to the increase in the country's net foreign exchange earnings to the extent of *only Rs 8 crores and not Rs 150 crores*. If, however, the scheme is modified on the lines suggested in this paper, it should be possible to achieve much better results, because a clear incentive will then have been introduced to increase *net* export earnings—an incentive which does not exist at present. Bonus entitlement, when related to net export earnings should stimulate efforts on the part of manufacturers|exporters to increase their net export earnings and that is precisely what the scheme is supposed to promote.

Table 4: Performance of Principal Export Products Covered by Import Entitlement Scheme, 1962-64

Item[1] No.	Commodity	Exports in 1961-62	Exports in 1963-64	Increase or Decrease
			(*Rs Crores*)	
12	Essential Oils	4.5	2.8	—1.7
17	Fish	3.9	5.7	1.8
25	Cotton Fabrics Mill	48.3	54.4	6.1
26	Fabrics of Artsilk, etc	7.6	10.6	3.0
27	Silk Fabrics	1.2	2.2	1.0
28	Woollen Fabrics	0.2	1.5	1.3
29	Cotton Yarn	4.9	6.7	1.8
31	Clothing	0.7	4.5	3.8
33	Coir Yarn and Manufactures	11.2	11.6	0.4
36	Footwear etc	2.4	3.6	1.2
37 (b)	Leather Manufactures	1.2	2.3	1.1
38	Engineering Goods	7.6	13.5	5.9
39	Handicrafts	19.3	30.7	11.4
43	Chemical and Allied Products	3.3	3.7	0.4
48	Paper, etc	0.8	0.7	—0.1
		117.1	154.5	37.4

1 As in the 1964-65 Report cited below.

Source: Appendix IX, "Export Estimates for Fourth Plan" in 1964-65 Report of Ministry of Commerce

Notes

[1] We put it in this way deliberately. Under the import-entitlement scheme, one is not obliged to export one's produce on utilization of import entitlement. Having once made an export of the product eligible for import-entitlement, one becomes eligible for an import licence regardless of whether one partakes the subsequent export-cum-entitlement round or rounds.

[2] This follows more or less the classification of Engineering Goods under the existing scheme of Import Entitlement.

[3] It must be conceded that if the import-content is independently determined on the advice of export advice available to the Government, and the bonus admissible thereon does not vary from transaction to transaction, the scope for overstatement of import-content or of under-statement of local content does not exist except through pressure at the very stage when experts are engaged in fixing the import-content.

[4] According to the 1964-65 Report of Ministry of Commerce, the *increase* in the value of import entitlements was of the order of Rs 15 to 20 crores. Assuming, that at least half of it represented the value of import-content we get the figure given in the text. If the import-content was somewhat higher, the net export earnings ought to be smaller by that amount.

Dalal Street at New Low

Wednesday, Morning

IT is about the same story every week. Oppressed by political uncertainties and continuing monetary stringency, the stock market continues to beat a gradual retreat even though the corporate news remains fairly encouraging. On May 18, Dalal Street slipped through its March 27 low, thereby making a new low point for the year—the lowest for over two years. With the inter-bank call money rate reaching a new high of 9½ per cent and Pakistan continuing to evade a negotiated settlement of the Kutch border dispute, Dalal Street's performance could scarcely have been different. Perhaps the only redeeming feature of the market was that bears were never really aggressive; the sagging tendency was due more to lack of support than to any important selling. Bears seemed to have been discouraged mainly by the fairly consistent support from the Life Insurance Corporation. Recently, there has hardly been a week when the LIC has not been reported as an important buyer of one scrip or another. Trading throughout last week was characterised by extremely poor turnover and narrow fluctuations. Several shares, both on the forward and cash list, were marked down to new low levels —the lowest for several years—and these included some of the growth shares like Telco and Voltas.

The feeling of despondency is growing with time. The fall in equity prices provides little indication of the mood of frustration pervading the stock market which has long been living on a starvation diet. Dalal Street has lived through many bear cycles and seen several crises which even necessitated its closure for a time. But stock brokers cannot recall any occasion when the turnover shrank so low as it is at present. Fall in equity prices is inevitable when the interest rates are being pushed up as matter of official policy. And it is also a fairly common experience for activity to shrink with the decline in prices. While monetary policy and also fiscal policy, to some extent, can explain the declining trend in equity prices, these cannot fully explain the phenomenal fall in stock exchange activity. The slump in stock exchange business needs to be properly distinguished from the slump in equity prices. Strange as it might appear, activity on the stock market has been steadily declining over the years—including bull cycles—in spite of the phenomenal growth of the corporate sector over the past 15 years or so. Factors which are affecting the course of equity prices are different from those which have been influencing the volume of business. In the past, the stock markets in India have thrived mainly on speculation but speculative activity has been steadily declining over the years for good many reasons.

COTTON

Dull But Firm

THE cotton market last week displayed a firmer tendency though the turnover continued to be extremely restricted. The futures market appears to be as good as closed as the daily turnover has dwindled to a trickle and conditions are not much better in the spot market where only the needy mills figure as buyers now and then. Because of the none-too-encouraging off-take of cloth and the acute financial stringency, mills are making their purchases of cotton only on a hand-to-mouth basis. Laxmi, Jayadhar, C02, L 147, Digvijay and Kalyan—these are the varieties which are being more actively traded at present.

The improved sentiment in cotton which took the August hedge contract to a new high of Rs 770.25 on May 18 was attributed generally to rumours suggesting an all-round increase of about 10 per cent in the ceiling prices for the 1965-66 season. An increase of this order would please the growers, paccify the opponents of decontrol and also relieve the authorities of the responsibility of administering price control because rarely have cotton prices been known to be quoted 10 per cent above the existing ceiling rates. But if the authorities are willing to concede such a big rise in ceiling prices, it would perhaps be better to abolish the control altogether if only to expose the oft-repeated complaint that price control has been hampering production. Whether decontrol will help production is a moot point but it will certainly help minimise the evil of mixing of different varieties of cotton which has often been resorted to in order to secure higher prices for inferior types.

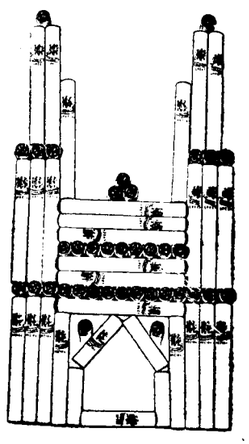
Arrivals of foreign cotton into India during the first eight months of the current season—September 1 to April 30—are placed at 5.86 lakh bales as against 4.62 lakh bales in the same period last season. Of this American cotton accounted for 2.72 lakh bales (2.25 lakh bales), Egyptian 1.31 lakh bales (1.28 lakh bales), East African 69,151 (21,452), Sudanese 51,970 (78,923), Syrian 4,611 (nil), Pakistani 49,939 (4) and other 8,039 (8,159). Export sales of Bengal Deshi up to May 13 are placed at 2.14 lakh bales. Actual shipments up to May 1 total 1,45,492 bales against 1,70,271 bales in the corresponding period last season. Out of this Japan's share is 108,411 bales (121,783 bales) to be followed by the Continent with 15,780 (20,262), USA 12,213 (14,234), Hong Kong 6,234 (8,036), UK 2555 (4,994) and others 299 bales (862 bales).

OILSEEDS

Prices Firm Again

THE oilseeds market last week showed remarkable strength with groundnut oil striking a new high for the season. The spurt in groundnut oil from Rs 24 to Rs 25.10 (per 10 kgs) in a matter of days had a profound effect on the general market psychology. Linseed oil ready rose from Rs 19 to Rs 20 in sympathy with groundnut oil and castor oil Commercial hardened from Rs 16.80 to Rs 17.10. Oilseeds futures also recorded sizable gains, with linseed June improving from Rs 96 to Rs 99.70 (per 100 kgs)—a new high for the season—and castor June recovering from Rs 78.25 to Rs 79.65. The latest quotations were only a little below the week's best.

Business in new contracts was permitted from May 13 without any changes in the terms and conditions of trading except for the increase in the weekly permissible range of fluctuations from Rs 2 to Rs 3 (per 100 kgs). While the new September contract in castor has been commading a modest premium on the June delivery, in linseed the September contract is quoted slightly lower than the June contract. The Forward Markets Commission has permitted trading in the July contract in groundnut with a ceiling of Rs 105 (per 100 kgs) which makes little sense because even the



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inferior most groundnut Karad Bold ready is quoted about Rs 14/15 higher than the permissible ceiling for futures. The Commission cannot be unaware that no transaction had been recorded in the April hedge contract as the spot material was all the time enjoying a huge premium over the prescribed ceiling. It is one thing not to permit hedge trading—opinions on the utility of hedge trading can differ sharply—but there is no sense in allowing forward trading on terms and conditions which make business impossible. The only justification for permitting hedge trading in groundnut July with a ceiling of Rs 105 can be that prices might decline below this level some day in course of time and thereby make forward dealings feasible.

May be, the Commission feels, as many other observers do, that there is no sound reason why groundnut and groundnut oil prices should be quoted around the prevailing high levels. But it is not easily possible to assess the demand and supply position of oilseeds in India. Estimates of supply are quite often very wide of the mark and no reliable estimates are at all available about demand. Little wonder therefore that many observers have been intrigued by high prices of edible oils this season when the overall availability of oils is believed to be appreciably larger than in the previous season.

And what is more, last week's spurt in groundnut oil ready from Rs 24 to Rs 25.10 (per 10 kgs) occurred when it could have been the least expected. The Union Commerce Minister told the Rajya Sabha on May 13 that the Government had no proposal at present for exporting groundnut oil. The Government has also issued the authorisation for the purchase of the remaining 35,000 tonnes (or more depending on prices of soyabean oil) of soyabean oil under PL 480. There has also been a sizable decline in soyabean oil prices in the US over the past few weeks — about $30 per tonne, which will not only enable India to secure a larger quantity of oil with the same funds but it will also make the use of this oil more remunerative for vanaspati manufacturers. This in turn could be expected to have a softening effect on groundnut oil prices.

Export houses reported fairly large business in groundnut extractions last week. Communist countries were the chief buyers and they took substantial quantities. Apart from groundnut extractions, the other main item of export is cottonseed cake. Exporters are eagerly awaiting the details of the tax credit certificate scheme for exports. The Government will do well to announce the details of the scheme soon to enable exporters to make a fresh assessment of the export possibilities.

BUSINESS NOTES

Atul Products

THE preliminary profit figures of Atul Products for the year ended December 1964 were discussed in these columns in the issue of April 3. The directors' report now released says that higher sales were due mainly to a better working of all the dyes and the caustic soda plant. The difficulty regarding procurement of raw materials continued in 1964 also, and whatever materials were secured were purchased at a higher cost. The situation was partly relieved because the company itself manufactured some of the intermediates.

The company has made satisfactory progress in implementing its various projects. The project of extension of sulphuric acid plant and establishment of chlorosulphonic acid plant is completed; the latter plant started working in February. The caustic soda plant worked throughout the year, but it could not achieve full capacity due to the non-availability of power. Since March last, however, the plant is running to full capacity. The dicalcium plant is expected to begin production shortly. Originally, it was intended to secure foreign know-how for chlorinated products but the management has now decided that the company itself should develop them. Some more time will, therefore, be needed to complete this project. The naphthalene intermediates plant is expected to go into production in the third quarter of this year, nearly three-fourths of the equipment for the plant having been already installed. The company has ordered almost all the equipment for the fast colour bases plant, and the construction of the building is in hand.

The Cibatul's projects will cost approximately Rs 3.5 crores, and the company will have to raise additional funds. The original estimate was for the total sum of Rs 3 crores. Almost all the machinery for the plastics project has arrived on site and is in the course of being installed. The plant is expected to be ready for commissioning in the third quarter of this year. So far as the Sulpha project is concerned, the progress has not been so satisfactory. Only 50 per cent of the machinery has been received on site. But the greater delay is in respect of the structural steel required for the plant building. The fabricators have not been able to keep their delivery dates. It, therefore, appears that the plant may not be ready for commissioning before the middle of 1967.

Shree Digvijay Cement

THE management of Shree Digvijay Cement has decided to undertake a further expansion of the cement capacity with a view to raising it by two lakh tonnes to 8.30 lakh tonnes per annum. Plans are also under way for raising the capacity of asbestos cement products.

During the year to December 1964, the company's production of cement increased from 5,02,995 tonnes to 5,90,407 tonnes but the output of asbestos products was lower at 21,531 tonnes against 23,300 tonnes last year. The total turnover was up by 24 per cent from Rs 6.18 crores to Rs 7.64 crores, and even though cement prices continued to be "unremunerative" the company earned a considerably higher gross profit of Rs 159.67 lakhs against Rs 123.12 lakhs a year ago. This outcome was possible mainly on account of the higher output and increased efficiency. The directors have raised the dividend to Rs 15 per share from Rs 13 paid for 1963 and Rs 10 for 1962. The proposed dividend is payable in full on the additional capital raised in 1963, which in the preceding year ranked for only a proportionate payment.

The provision for depreciation has taken up Rs 34.78 lakhs against Rs 32.63 lakhs, development rebate reserve Rs 5.14 lakhs against Rs 16.20 lakhs and the tax liability Rs 47 lakhs against Rs 29 lakhs. The rehabilitation and development reserve gets Rs 5.59 lakhs against Rs 4.73 lakhs and the transfer to general reserve Rs 32 lakhs against Rs 19 lakhs. The proposed ordinary dividend should take away Rs 29.92

lakhs against Rs 22.63 lakhs and preferential dividend Rs 5.20 lakhs as before.

Herdillia Chemicals

HERDILLIA Chemicals is soon entering the capital market with a capital issue of Rs 1.70 crores for its big petro-chemical project. One of the first ventures falling within the private sector to undertake the manufacture of phenol, acetone and phthalic anhydride from petro-chemical raw materials, the project is estimated to involve a total capital outlay of Rs 10.59 crores. Speaking to the Press recently in Bombay, H V R Ienger, Chairman, said that the petro-chemical industry would make rapid strides in the coming few years and that Herdillia's project, when completed, would open a fascinating chapter in the industrial development of the country. He said that the company was expected to go into production in the third quarter of 1967 and that when in full production, its turnover would be around Rs seven crores per year.

The company is promoted by E I D-Parry in collaboration with Distillers Co of U K and Hercules Powder Co of U S A. The factory will be located in the trans-Thana creek industrial area on the Thana-Belapur Road in Maharashtra. Of the present capital issue of Rs 4.02 crores, Rs 2.32 crores are to be subscribed by the promoters, collaborators, directors, the Commonwealth Development Finance Co of U K and the National and Grindlays Finance and Development Corporation of U K. The remaining capital of Rs 1.70 crores will be offered to the public for subscription at par. The entire public issue will be underwritten.

Ceat Tyres

DEMAND for tyres was slack for the major part of last year, mainly as a result of over-production. With another unit entering production, there are now seven producers in the country in the field of tyres and tubes. Happily, there has been some improvement in demand from the beginning of this year and this has relieved the situation to some extent, but market conditions are such that manufacturers have to depend largely on their ability to sell their products in a competitive market. Anticipating this situation, the management of Ceat Tyres of India has been devoting a good deal of attention on expansion of their selling organisation throughout India. This policy is expected to help this new company in meeting competition in the market.

Poor demand apart, last year the company's employees in certain sections resorted to go-slow methods which lasted for three months and culminated in a strike of six days. The output was, therefore, some 14 per cent lower than that of the previous year. Sales at Rs 5.95 crores were about 3¾ per cent lower, and the year's operations resulted in a loss of Rs 2.09 lakhs, as against a profit of Rs eight lakhs, after providing Rs 25.68 lakhs (Rs 24.09 lakhs) for depreciation. From the beginning of last year, prices of tyres and tubes were raised by six per cent but the benefit was almost neuralised by larger consumption of more expensive indigenous raw materials, particularly synthetic rubber, carbon black and fabrics. The company's expansion programme could not be completed in time, and is expected to be completed in the current year. The production of retreading material will begin shortly. Besides, proposals for further diversification are being considered by the management.

Mahindra Ugine

PER capita consumption of steel in India is lamentably low compared with that in other progressive countries. While it is acceptable that the country's immediate need is increased agricultural production, and a balanced growth of consumer goods, attention must be paid simultaneously to the development of a well co-ordinated iron and steel industry. This view was expressed by Harish Mahindra, Chairman, Mahindra Ugine, at the company's annual general meeting held in Bombay. He added that only the development of the basic industries on pre-determined lines could bring the nation to the take-off stage and that any shift in emphasis was fraught with the possibility of a grave danger to the economy.

Official thinking also seems to be on similar lines. In view of the rapidly rising demand for alloy steels and the long gestation period involved in the establishment of the alloy steel plants, the Government some time ago welcomed proposals from those units in the private sector which had made tangible progress in the implementation of their manufacturing programmes and were ready to expand their capacities to cope with the demand during the Fourth Plan period. Mahindra Ugine has recently received a letter of intent from Government permitting the company to expand the rated capacity of its plant from 18,000 tonnes to 31,000 tonnes of finished alloy steel per year. According, the company's plant is now being designed for an initial output of 24,000 tonnes, with suitable provisions in the works layout and plant and equipment for eventual expansion to 50,000 ingot tonnes per year at a minimum cost. The substantial increase in the rated capacity of the plant is estimated to involve additional outlay of Rs two crores, of which Rs 1.5 crores will be required by the company by 1966 and the balance by 1967-68.

INDIAN ECONOMIC GROWTH

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Statement by the Chairman, Sir Raghavan Pillai, KCIE., CBE

THE following is the text of the statement by Sir Raghavan Pillai, KCIE, CBE, Chairman, Guest, Keen, Williams Limited, on the occasion of the Thirty-fifth Annual General Meeting held in Calcutta on May 21, 1965 :

It gives me great pleasure to welcome you to this, the thirty-fifth Annual General Meeting of your Company. The Directors' Report and the Statement of Accounts have been in your possession for some time, and I propose, with your permission, that they be taken as read.

When we met a year ago I took the opportunity to review the history of the Company and drew attention to the several important recent developments which marked the opening of a new chapter of progress. I am glad to be able to tell you today that the impetus gained in recent years in the raising of productivity and in the rate of modernisation and expansion has been fully maintained in 1964, and we can be satisfied that in this context achievement during the year has wholly matched expectation. Much benefit is being gained by the merger of the Company's former subsidiary, Sankey Electrical Stampings Ltd., which now operates as Sankey Division. The process of administrative and managerial integration will necessarily take time, and indeed this is desirable; advances have been, and will continue to be made towards the objectives of economy and improved administrative efficiency, and these will progressively be reflected in the Company's results.

Operations

In all divisions a substantial increase in production and sales was recorded in 1964 representing a further improvement in the utilisation of new plant. In certain lines competition has intensified noticeably, but the Company is generally maintaining its share of the expanding market.

As in the past few years a curb was imposed on the rate of activity in the Steel Division by the continued shortage of raw materials. This lack of steel billets is becoming a problem of serious proportions, and during the year raw material stocks were further reduced. While the immediate outlook is thus far from satisfactory, we can look forward to some measure of relief when the expansion of the Company's own steelmaking capacity has been completed. and I shall refer to this again; it is clear that in the future greater emphasis must be given to this area of development to ensure a regular supply of good quality steel for the mills and for the fabricating departments.

In the Sankey Division, too, the raw material position caused difficulty, and the considerable increase in the production of electrical stampings and precision presswork that was required of all three Works of the Division was not matched by supplies of indigenous electrical steel sheets. It has not yet been found possible to increase indigenous production of electrical sheets since this was started a few years ago, and it is still necessary to import from abroad the major part of India's requirement. It appears unlikely that indigenous supplies will be appreciably increased before 1967 or 1968, and in the meantime the needs of the consuming electrical industries grow day by day.

A rise in the output of railway track items and forgings in the Engineering Division was recorded. The manufacture of certain simple items is being progressively reduced however in favour of more complex products.

In the Bolt and Nut Division at Calcutta and the Screw Division at Bhandup production of all types of fasteners showed a satisfactory advance although output of high tensile products is still limited by shortages of raw material and imported parts for the plant.

Labour relations during the year were generally satisfactory and employees throughout the Company are responding well to the changing conditions arising from expansion. Several important issues, including Annual Bonus for earlier years affecting a large proportion of the Company's workmen, were settled in 1964.

In response to the Government's call, Consumer Co-operative Stores have been set up at the Works at Howrah and at Bhandup.

A year ago I told you of the Court of Inquiry that had been constituted by the Government of Maharashtra to inquire into the most deplorable strike which occured at the Bhandup Works of the Company's then subsidiary. Today the lengthy proceedings of the Inquiry still continue, and until the outcome is known I must refrain from further comment.

Exports

Never before has the need to develop India's exports been so acutely felt as at the present time, and it is with great personal satisfaction that I am able to tell you of the efforts that your Company is making in this direction.

During the past few years valuable and comparatively regular trade has been established with the U K and with Middle and Far Eastern countries mainly for the export of fasteners but also for other engineering products. Representatives of the Company have travelled to a number of countries to seek out potential export markets and to establish trade channels which are now being developed. In 1964 the Company shipped its products to the United Kingdom and New Zealand, to Iraq, South Vietnam and to the U S A as well as to closer neighbours, and you will be glad to know that the value of exports during the year, at almost Rs 28 lacs, was higher than ever before. Opportunities have now been presented to enter the U S A market on a larger scale than hitherto, and we can take pride in the fact that the quality of the G K W product offered has been very well received, as in other countries, when judged by the highest international standards. This new avenue of trade is being actively explored.

Such direct exports, however, form only part of the Company's contribution to India's overseas trade since its products, particularly fasteners, are used in the production of an endless range of engineering goods which are

increasingly exported by other manufacturers in India to all parts of the world. Whilst it is impracticable to assess with accuracy the value of such indirect exports we can be certain that our goods are to be found in ever increasing quantities in all foreign markets for India's engineering industry.

Trading Results aid Dividends

The accounts for the year under review incorporate the operations of Sankey Division whereas in the previous year they did not, since the Division was operating as a subsidiary company. In my ensuing remarks the comparative figures for the previous year have been adjusted to include the operations of the then subsidiary so as to illustrate more clearly the progress that has been made.

Turnover rose satisfactorily to Rs 26,91,66,841 from Rs 22,53,80,677 for the previous year. Profit before taxation, Rs 3,09,72,190, compares favourably with the figure for 1963, Rs 2,60,80,071, in spite of raw material shortages and the unusual inflationary conditions prevalent in the country throughout the year which were reflected in higher operating costs.

The charge for taxation amounting to Rs 1,65,00,000 is determined after allowing for tax relief estimated at Rs 12,00,000 in respect of your Company's new industrial units. In the absence, however, of any agreed assessment it has been considered prudent to make provision for this amount in the accounts as an Additional Taxation Reserve.

The available profit for disposal after all required transfers and appropriations is Rs 1,05,33,204. Your Directors have recommended a Final Dividend of 70 paise per share which together with the Interim Dividend of 60 paise per share already paid makes a total distribution for the year under review of Re 1.30 paise per share compared with Re 1.20 paise per share distributed in the previous year. You will recall that the paid up capital of the Company was increased during 1963, after declaration of the Interim dividend for that year, and on the increased capital the total distribution for 1964 amounts to Rs 82,18,436 compared with Rs 63,21,874 in 1963. Rs 23,14,768 is taken to General Reserve and shareholders will appreciate the need to conserve as far as possible the Company's own resources to finance its expansion programme.

As regards prospects for the immediate future, the results for the first few months of 1965 have been encouraging though it would be imprudent to assume that the pattern has been set for the full year since results are highly sensitive to supplies of raw materials. Experience shows that steel supplies cannot be realistically predicted with confidence, but, if adequate supplies materialise, there are reasonable prospects of a further improvement in the Company's results for 1965.

Expansion

Much progress has been made in the Sankey Division in the development of new products and in the overall expansion of capacity for electrical stampings production. By improved productivity and by the installation of new and sophisticated plant, productive capacity was raised by some 20%. Plant for the manufacture of brake components for the automobile industry was fully installed at the Bhandup Works during 1964 and is in production, and a start has been made on developing the die casting of rotors. This will help to conserve India's meagre supplies of copper and, together with the introduction of steam blueing, will constitute an additional and useful service to the electrical industry.

Another major project which is now being implemented is the modernisation of the forge which forms part of the Engineering Division and its expansion to the extent of 4,400 tonnes of forgings per year. The Government of India has issued a letter of intent indicating approval for these proposals, and plant procurement is now in hand. This project will enable the Company to increase the quantity, the range and the quality of the forgings it supplies to the railways and to the automotive and other industries.

Much of the modern replacement plant planned for the Bolt and Nut Division has been ordered. In the Screw Division the expansion of self tapping screw capacity has been largely completed and the remaining plant will be installed in the third quarter of this year. The process of further diversification of the Company's extensive range of fasteners continues and new products are being added to the range.

In the Steel Division is the largest project currently in hand, the expansion of steelmaking capacity. The construction of the new melting shop buildings is approaching the final stages, despite shortage of structural steel, and installation of plant for the first phase of the project which will increase capacity to about 30,000 tonnes of ingots per year is scheduled for completion later this year. The second phase is coupled with the installation of a new merchant bar mill, and the building of the mill equipment is proceeding in the U K.

I mentioned earlier the need to direct future development to the field of steelmaking. Today, we are witnesses of further substantial expansion in India's iron and steel industry, but this expansion has been mainly focused on the large scale production of mild steels in the integrated steel works. For some time now the urgent need has been recognised for developing also the production of special steels in relatively small quantities, steels which are at present a drain on India's foreign exchange resources, and this task is being undertaken by both Public and Private sectors of industry.

Backed by the technical and financial resources of Guest, Keen & Nettlefolds Ltd., to whom I should like to take this opportunity to express our thanks for the help rendered by them, your Company is well equipped to take part in this specialised field of development, and during the past year a study has been made of possible further expansion. This expansion will be of immense benefit to the Company, not only in safeguarding its vital needs of raw material but also in strengthening its present ties with the industries, particularly the transport industries, which consume these steels.

To all the staff and employees, on whose diligence and loyalty so much depends, you will, I am sure, wish to join me in expressing our thanks for their work and enthusiasm. The tasks before us are challenging but exhilarating, and I am sure we can rely on every man to devote himself to his share of the burden with energy and with the determination to give of his best.

NOTE: This does not purport to be a record of the proceedings of the Annual General Meeting.

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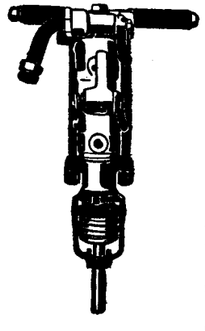
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The Right Lead

FOR the first time the Congress Working Committee struck the right note on the language problem when at its meeting in New Delhi this week it did not content itself with arbitrating between English and Hindi and concentrated instead on marking out for the regional languages their rightful place in the future language scheme for the country. To allay the immediate apprehensions of non-Hindi regions, it has suggested that the purpose for which use of English, in addition to Hindi, will be compulsory at the Centre and in inter-State dealings should be specifically laid down in the proposed amendment to the Official Language Act. Bilingualism of this sort is presumably to continue without any particular time-limit till such time as the change to exclusive use of Hindi can be made by common consent.

More important are the Working Committee's recommendations relating to regional languages. It is made "obligatory" for all States to introduce the three-language formula in their educational curriculum, extend it to the university stage and apply it strictly. The regional language of each State will become the medium of administration as well as of instruction, including at the university stage, as early as possible. Efforts are to be made simultaneously to improve the standard of teaching of Hindi in the schools and colleges while English would continue to be taught "as a language which has to play an important role". Along with their adoption as medium of instruction in schools and colleges, all UPSC examinations will be conducted, besides in English and Hindi, in the 14 regional languages specified in the Eighth Schedule of the Constitution.

These recommendations at last impart some internal consistency to the Government's language policy. At present, while the changeover to the regional language as the medium of instruction in schools has been substantially completed all over the country, instruction in colleges continues to be in English in all the States, with one or two partial exceptions. Fresh entrants to colleges thus come up against a veritable language barrier, a circumstance which must be reckoned as among the main causes of the deterioration of college education. This inconsistency is itself in a way the result of the other glaringly illogical aspect of the language policy which, while directing that students be taught in the regional languages in schools and colleges, expects them to take examinations in English only for entry into Government service. The belief that English education offers better economic opportunities, therefore, has continued and with justification. Inevitably, in colleges which offer students a choice of instruction in either English or the regional language, the majority opt for English. In Madras, which was a pioneer in introducing instruction in the regional language at the university level, Tamil medium colleges are actually starved for students. In Gujarat, another State which has introduced the regional language medium in colleges, the situation is somewhat different but equally unhappy. Here the changeover to the regional language has been almost entirely achieved through administrative fiat, but complaints are getting steadily more insistent that students from the State have been faring poorly at UPSC examinations and the pressure for reinstating English is getting stronger.

The experience so far makes it clear that however much one may decry the craze for English education, so long as better job opportunities, real or fancied, are offered by it, it will not be successfully snuffed out. Here the substitution of Hindi for English as the medium for public service examinations would have left the position unchanged for the majority of the country's college educated who receive instruction in languages other than Hindi. If proficiency in Hindi becomes a precondition for success as that in English has been hitherto, it will not be enough to study Hindi as just one of many subjects, which is what the three-language formula requires, and the tendency will be to opt for institutions which teach in Hindi, whatever one's mother tongue may be.

The suggestion to conduct UPSC examinations in the regional languages, besides in Hindi and English, therefore, cannot be questioned without rejecting the three-language formula. This journal has repeatedly pressed the viewpoint that if the purpose of education is to enable students to develop mentally, to teach them to use their minds, then education at all stages has to be through the mother tongue. Not that other languages should not be taught. A knowledge of Hindi as the link language and the official language of the Union will be essential as will be that of English for those who aspire to higher education and specialisation at the university stage. These requirements the three-language formula meets satisfactorily. But both Hindi fanatics and those who would cling on to the economic and social advantages which knowledge of English has given them can be expected to resist the clevation of regional languages. Both will raise the spectre of national disintegration as a result of the undermining of the two supposed props of the present unity — English as link language and the steel frame of the all-India civil service.

It need not be denied that initially at any rate communication among linguistic regions will be clogged and the character of the administrative services may also be altered—for, the problems of ensuring uniform assessment arising from the use of 16 languages in examinations cannot but lead to some sort of quota system, open or tacit. But must the nation perish in the process? The prophets of gloom unwittingly or otherwise overplay the centrifugal tendencies and understate the centripetal ones. The judgment that the English language and the civil service are the only, or even the main, bonds of Indian unity comes from a partial view of history. The national movement was underpinned by neither. And if today the possibility of holding the nation together once again through a common political purpose is not even mentioned, that is a reflection on the state of our political morale.

Odd Man Out Again

IF at the Bandung anniversary celebrations India was the 'odd man out', out of step with the rest of Asia, the spectacle at Algiers will be even more odd for us. The figure we shall cut will be more ridiculous and pathetic if the way we propose to overcome our isolation is to team up with Russia and Japan. It is extraordinary that during the past few days press reports and comments have harped triumphantly on India's successful diplomatic deals with Russia and Japan. We seem to be about to present Chinese diplomacy with a resounding victory on a platter.

The most probable hypothesis about Chinese motives in regard to India is that she would like to make India appear a perfidious partner of American imperialism, shrewdly and opportunistically playing the game of non-alignment—one who is not to be depended upon as a true Asian nation and not to be trusted in any anti-imperialist front. What can please the Chinese more than seeing India line up with the most non-Asian and the most "imperialistic" of all Asian countries, namely Japan? And championing of Soviet participation in the conference will hardly serve to restore the Indian image: Russia is indeed *not* an Asian country, whatever the facts of geography. Russia was one of the power poles, alignment with which was to be avoided according to the philosophy of non-alignment as it was originally formulated and adopted. True, non-alignment for India has undergone a transformation and has actually become equi-alignment: from a position of fearlessly defying both the power blocs, if need be, we have been reduced to fearfully pleasing both of them. All the same, by canvassing support for Russian participation and at the same time seeking Japanese backing, India has discarded the mantle of assumed moral superiority and overtly entered the arena of real politics in the same spirit as China and Pakistan.

This is no criticism: the mantle has been proving inconvenient for quite some time. But one must judge the Indian politicking in terms of its efficacy as a match for Peking-Pindi diplomacy. What exactly are we gaining by backing Russia and seeking Japanese support? The Chinese and Pakistanis are trying to isolate us; so we refuse to be isolated by seeking friends. It is a counter-move to a move. But what do we do next? Do we know what the Chinese will be up to? We are assured of Japanese backing. But for what? Against whom?

This brings us to the essentially unreal, phantom character of the proposed conference at Algiers. The excitement is all about who is against whose participation and about who is teaming up with whom. Nobody discusses the agenda. It is a play about actors going to act in a play: the conflicts between the actors are the elements of the drama, the stage setting is that of the green room, the play to be presented within the play quite unimportant and incidental. This is to be an Afro-Asian conference, the second one. It is not a non-aligned nations' conference, nor an anti-imperialist conference, given the participation of Russia and China on the one hand and of countries like Japan and Pakistan on the other. Is it then going to herald the establishment of an Afro-Asian United Nations inspired by Indonesia? But that is too flighty a proposal to be taken seriously.

Nobody has as yet declared that the conference is meant to celebrate the close of an era that was opened up by the Bandung conference ten years back, yet if at all the Algiers conference has any impact of any sort it could only be in that funeral role. The world has changed since the days of Bandung: the Sino-Soviet split, the India-China dispute, the phenomenon of de Gaulle and the varying rates and patterns with which economic development has taken place in the Afro-Asian countries have together put an end to the situation in which it was possible for Afro-Asian nations to keep out of the two blocs *as a bloc*. Divergences in interests among Afro-Asian nations have become increasingly important and have reached a stage when they cannot be regarded as negligible in comparison with the identity of interest among this group of under-developed and ex-colonial countries. These nations have been, as a matter of fact, individually and in groups, not acting according to any principle of non-alignment but groping for multiple alignments with and against each other. One country that is not groping but following a premeditated path is, of course, China that has long been ideologically convinced about the necessity of putting an end to what it considers the hoax of non-alignment. It would be a signal victory for it if the Algiers conference in a pandemonium of multiple conflicts explodes the assumption of common Afro-Asian interests.

Weekly Notes

Tariff Preference

AUSTRALIA'S decision to give tariff preference to exports of manufactures and semi-manufactures from developing countries has been hailed by India's Minister of Commerce as "bold and imaginative". Without detracting from the merits of the Australian move the context in which it has been made needs to be mentioned. Australia recently refused to approve the new Article 37 of the General Agreement on Tariffs and Trade which requires members to give high priority to reducing non-tariff barriers and to refrain from increasing tariff barriers on imports of interest to the developing countries. The new Article embodies, if only imperfectly, the conclusions of the UN Conference on Trade and Development. Australia's reasons for rejecting it have to do partly with her distrust of the GATT as an arrangement favouring only industrial exports and partly with the anxiety not to commit herself to not raising tariffs in any circumstance. Australian official spokesmen have further explained that in their view across-the-board tariff cuts as required under Article 37 would benefit the developed countries more than the developing ones. By offering to give tariff preference to specific exports from the developing countries, the Australian Government has thus retained its control over tariffs and at the same time appeared to be not insensitive to the problems of the developing countries.

Under the preference system adopted by Australia, tariff rates will be reduced by between 7½ per cent and 20 per cent on imports of selected commodities from developing countries. The commodities covered include soaps, leather, carpets, coir goods, electric fans, sewing machines, machine tools, furniture and sports goods. Two features of the preference system make it less attractive to the developing countries than it might have been. First, the Australian Government reserves the right to withdraw the preferential tariff on imports of a particular commodity from a developing country if in its view the country is "competitive" in the manufacture of that commodity. Thus, for instance, matt-woven fabrics of certain specifications of Indian and Pakistani origin have been considered ineligible for preferential tariffs. Second, along with the preferential tariffs, Australia has fixed quotas for imports from developing countries of each item. In some cases at least the quotas fixed are very small. A further criticism could be that the list of goods entitled to preferential tariffs should have been longer.

Neither these criticisms nor the fact of Australia's refusal to accept Article 37, however, negatives the fact that the tariff preference for developing countries is an important step towards the modification of international trade practice to meet the problems of development. Preferential treatment for developing countries is the most important part of the decisions of the UNCTAD and Australia deserves to be congratulated for taking the initiative in offering such preference.

Tariff reduction by developed countries does not, however, automatically open up their markets to the exports of developing countries. These exports have to be able to compete with identical goods produced in the preference-giving country. In the case of manufactured goods at least this will not be easy since it requires a growth of productivity in manufacturing industry in preference-recipient countries which is higher than that in the preference-granting developed country.

The benefits of tariff preference will be reduced also if the preference-granting countries consider the preferences as a substitute for aid. The developing countries would then lose on the swing in the form of aid what they gain on the roundabout in the form of trade. The developing countries themselves do not appear to be adequately aware of this possibility.

Too Much Money or Too Little?

WITH the end of the busy season the monetary authorities have now to face the problems of the slack season. The Governor of the Reserve Bank has already given notice to bankers that they would have to cut back credit sharply. And now it has been reported in the press that the authorities intend to keep the screw tight not during the slack season only but the entire last year of the Third Plan. The Reserve Bank is credited with the intention of keeping expansion of money supply down to five per cent during the year on the ground that a faster growth would give a fillip to inflationary trends.

If the reports correctly portray the monetary authorities' intentions, then the influence of orthodox quantity theorists is plain enough. But even from the quantity theory viewpoint, the permissible rate of expansion of 5 per cent chosen is intriguing. In a year when national income at constant prices is expected to grow at a rate between 6 and 7 per cent, what exactly is the rationale of a 5 per cent expansion in money supply? Or is the Reserve Bank hoping to induce a price deflation in the coming months?

A deflation we may well get, but one not marked by a price fall. The investment of the last few years has created new capacity in almost all sectors of industry which has to be utilised while the import restrictions recently clamped are bound to affect production. Where will that leave costs and prices? Besides, what about bank credit to the Government, for monetary expansion is not all the result of credit extension to the private sector. If with the slack season contraction of bank credit, there occurs a simultaneous rise in bank subscription to Government loans, banking statistics may show a gratifying fall in the figure of bank credit without, of course, reducing money supply. Has this possibility been fully considered while setting the 5 per cent growth ceiling for money supply?

No Bounty For Cement-Makers

THE cement industry has been in bad shape for the last four years. Consumers have suffered. Penny-wise price fixation and concern with what was described as concentration of economic power put the industry in a strait jacket. The cement industry is no more (or no less) inefficient than other industries but thanks to the prices set in 1961, its profitability has been consistently and significantly lower than average, and retention of profits has been wholly on account of development rebate, which is not available for distribution. Till recently, Associated Cement was not given any licences for largescale expansion because it contributes about 40 per cent (against two-thirds before the war) of total output, while the Dalmia-Sahu-Jains have been denied expansion since the publication of the Vivian Bose Commission Report. It is hardly surprising then that inspite of two public sector plants, a shortage of about two million tonnes has emerged — and manufacturers of cement machinery are waiting for orders.

Some belated recognition of the need for positive action is noticeable now. Government has set up a Cement Corporation but it will take time to deliver the goods. The development rebate has been raised from 20 per cent to 25 per cent which is equivalent, in event of expansion of fixed assets, to an increase of about Rs 6 per tonne of cement. Now, with effect from June 1, the ex-works price allowed to producers will be raised by Rs 4 per tonne and the selling price by Rs 8.35 per tonne. The price increase is meant to offset rise in costs, as laid down by the Tariff Commission formula. Previous increases were sanctioned in June 1963 and June 1964, aggregating Rs 4 per tonne against a cost increase of Rs 5.91 in 1961, claimed by the industry. The industry now claims that the cost increase between May 1964 and March 1965 has been Rs 2.17 per tonne, exclusive of higher railway freights since April 1965 and the rise in interest rates on borrowings. Since the latest increase of Rs 4 per tonne, like the earlier one, has no retrospective effect, the industry is not terrible enthusiastic about it.

A comparable situation was allowed to develop in the steel industry in the early fifties and had to be set right at great cost later. Spokesman of the cement industry have been demanding an expansion allowance in the price on the basis allowed to steel companies. The Tariff Commission is slated to make a fresh inquiry into the industry next year, but there is a case for not waiting that long. A number of steps can be suggested. Retention prices can be increased at the expense of the margin allowed to the State Trading Corporation and a large part of this increase segregated in a special development reserve. Or, following the Raj Committee scheme and on the analogy of sugar, Government and high priority users should get a specified percentage of the output of each producer and the balance of production should be decontrolled.

From Port to Consumer

THE shortage of middle distillates, kerosene and high speed diesel, threatens to upset the precarious stability of prices which had been established in the last few months in vulnerable areas. The reason for the shortage is two-fold: delays at Barauni which was expected to supply a large part of the eastern and northern markets, and the denial of foreign exchange to the Western oil companies for the import of these deficit products during April-September 1965. Unless Cochin and Koyali are commissioned on schedule —which is unlikely to happen—the shortage will continue into 1966. As the foreign exchange position got tighter and the demand for kerosene and HSD increased rapidly, Government had two alternatives. One was to ask the oil companies to import deficit products against rupees. This the companies would not, partly in view of possible repercussions in other importing countries. The companies offered a sop in the form of a moratorium on their remittances of profits but this rightly failed to satisfy Government because, among other reasons, there was no offer to reduce prices. The other and immediate alternative which the Government adopted was to step up rupee payment imports from USSR and Rumania under existing arrangements and to negotiate with Kuwait and France for cheaper or easier imports. Meanwhile, areas like Calcutta which are supplied mainly from imports are facing a difficult situation.

Indian Oil Corporation which handles all petroleum imports on Government account has nearly doubled its imports from USSR and Rumania and will, in the bargain, effect a net saving of foreign exchange because these imports are cheaper. IOC's problem, however, is not of import but storage and distribution. Its ability to relieve shortages on an emergency basis is not doubted but arrangements have to be put on a permanent basis if only because it has to handle the capacity production of Barauni by the end of the year and later the increasing flow of supplies from Koyali and Cochin. IOC has little storage facility and its distribution organisation is still rudimentary compared to those of Western oil companies. The companies continue to have the products of the Bombay and Visakhapatnam refineries besides imported lubricants which are still relatively unrestricted. They will not handle oil (crude or refined) from the communist countries through their own network nor will they place indents upon IOC. At most, they might agree to temporary leasing of storage facilities; they can be compelled to do so under emergency powers. Their dealers are all captive and cannot walk over to IOC except at great loss. While much has been heard about IOC's import programme, one would, therefore, like to know a little more about its arrangements for storage and distribution, apart from bulk sales to large consumers.

Coal Folly

THERE is only one bona fide reason we can think of for the appointment of a committee to study the prospects of coal exports—that the government is abysmally ignorant of the conditions in the world fuel market. At the present prices, mineral oil is a cheaper fuel in almost all uses; the only assured uses for coal are in the making of coal-based chemicals and of coke for blast furnaces. Where it is particularly cheap, it is barely competitive with oil in thermal power generation.

If coal continues to be widely used in spite of being uncompetitive, it is partly for historical reasons and partly due to deliberate government policy. Many of the world's older industrial plants use coal as a fuel, and railways have large fleets of steam engines; coal continues to be used where the conversion to oil is expensive or impossible. Britain, France and Germany levy discriminatory taxes on fuel oil in order to prevent precipitate unemployment among coal miners, and many countries, including India, protect coal mining for balance of payments reasons. The reasons behind India's present coal exports are largely historical —the bulk of them goes to East Pakistani jute mills.

In these circumstances there are three principal ways of stimulating coal exports. First, we might give a whacking subsidy on coal exports to make them competitive with oil and promise to continue the subsidy over a long period. However, since the relative price of coal to oil is lower at home than in the international market owing to the oil duty, it would be more sensible to save foreign exchange on oil by subsidising home consumption of coal. Second, we might take payment for coal from imports abroad in their own currency; some scope for doing so exists perhaps in South-East Asia, Ceylon and East Africa. Then, however, we would require to enter into trade agreements with the coal importing countries and to shop around to see what we could buy from them. The idea of Afro-Asian trade co-operation or payments union is worth pursuing,

Capital View

Romesh Thapar is away from Delhi. Capital View will be resumed on his return.

— Ed.

but it is hard to visualise the Indian Government taking an initiative in the matter. Third, we might manufacture coal-fired thermal power stations and sell them in Asia and Africa; coal exports may then follow the power stations. The conversion of power stations from coal to oil is none too difficult, however; so either the exported coal will have to be much cheaper or the conversion co-efficient of coal into electricity will have to be greatly improved. The possibilities of technical advances in the latter direction are enormous, but we are not even manufacturing much thermal power equipment, let alone improving its performance. And the appointed "team of experts" is quite irrelevant to the problem.

No Sympathy From India

A Correspondent writes:

COMMON courtesy becomes the first victim of national animosities. April and May have been months during which Indians and Pakistanis were busy denigrating each other. The Rann of Kutch has excited emotions, and those emotions which have a primal base — anger, hate, fear, desire for vengeance, and so on. Old issues of conflict have been revived, new issues have been discovered; whether here or in Pakistan, the general spirit is one of uncompromising non-accommodation. Iron has entered the soul. In either country, goodwill for the other is at the lowest point.

It is not necessary to go into the relative merits of the various issues in the Indo-Pakistani dispute. In the context we want to refer to here, it should not be necessary to rake them up. More than thirteen thousand men and women died in East Pakistan as a result of last month's devastating cyclone. All these people must have been poor, simple folk, mostly peasants; some perhaps had belonged to the artisan class; for all one knows, some were members of the fishing community. Communication lines too have been destroyed, property damaged extensively, school buildings washed away. All told, it has been a grim human tragedy.

As human beings, we on this side of the border ought to have felt deeply about these deaths and devastations, and should have been moved to express our sorrow and sympathy to the stricken inhabitants of East Pakistan. In different circumstances, perhaps the President or the Prime Minister would have sent a telegram of sympathy to the Government of Pakistan and might even have made a token offer of relief. The Rann of Kutch has taken care of all that. There has been no report of any telegram from our leaders and by and large no commiseration on the part of the Indian press. Our conscience would not apparently allow us to accord any sympathy to human beings in distress across the border because we have concluded that the people who have now been stricken — or at least their Government — have done us wrong. Similarly, it is possible that there would be no message of sympathy from Pakistan for the mining disaster at Dhori.

Must the logic of conscience be so cold-blooded? Must human sentiments be of such acute divisibility that we should be prevented from expressing our sorrow on a tragedy which obliterates populations, devastates schools, destroys standing crops and wipes out transport networks, in case all these take place in a country which we consider to be hostile? Are we scared that any such expression of sympathy will weaken our political cause? Or has some sage in the South Block reached the conclusion that a telegram of sympathy to the Pakistan Government would affect adversely the morale of our troops along the border?

These questions are being raised here more in sorrow than in annoyance. In the long run, a nation will grow as strong as its moral fibre will allow it to. In our struggle for survival, we are not supposed to abdicate the elementary decencies. This, one assumes, was the teaching of Tagore and Gandhi — and of Nehru, whose first death anniversary we were observing last week. But perhaps we are going to other temples of learning these days, so that each time there is a drought in China, there is no end of gloating in our newspapers, and each time a cyclone hits East Pakistan, we decide to do a foxtrot.

World Bank's Smile

WHILE the Industrial Finance Corporation had to rest content with a loan of 10 mn dollars from the US Agency for International Development last month (which raised its aggregate borrowing from that agency to 40 mn dollars), ICICI has walked away with 50 mn dollars from the World Bank. This sixth loan has raised the Bank's total credit to ICICI to 140 mn dollars; it is also the largest single loan yet given by the Bank to any development finance agency. The fifth line of credit of 30 mn dollars obtained by the ICICI in 1963 was fully committed in 1964. As a matter of fact, in anticipation of the present credit ICICI had committed 91 mn dollars through 1964 against the then available total of 90 mn dollars. The amount credited by the Bank to ICICI Loan Account was 71 mn dollars (Rs 34 crores), of which 49 mn dollars (Rs 23 crores) or 68 per cent was disbursed to sub-borrowers. Repayments by ICICI through December 1964 aggregated Rs 4.96 crores, all of which had not been recovered from sub-borrowers till then. The ICICI's annual report for 1964 indicated an amount of Rs 1 crore overdue from sub-borrowers, most of whom have run into project delays and overruns of cost. This difficulty has arisen because the first three loan agreements signed in 1955, 1959 and 1960, provided for a fixed repayment schedule. Thanks to the efficient management of its resources, ICICI has been able to withstand this strain. The fourth and fifth credits, finalised in 1962 and 1963, provided for flexible repayment schedules consistent with the repayment of sub-loans. The latest credit also has the same terms of repayment but unlike the variable interest rates chargeable on the earlier loans it has been extended at 5¼ per cent. The credit is expected to meet the bulk of ICICI's foreign exchange requirements (the rest are met from West German loans) till mid-1967.

From 1955 to 1964, ICICI has approved assistance of Rs 102 crores to 374 projects. Foreign exchange loans account for about one-half of total assistance, rupee loans for a fourth, and underwriting and direct subscriptions for the rest. The ICICI has concentrated on new industries like chemicals, machinery and machine tools (unlike IFC which has taken great interest in textiles and sugar). About a third of the 125 assisted projects which have gone into production have been sponsored by entrepreneurs who are new to industry. The ICICI's main problem now is not foreign exchange but rupee funds. IBRD had agreed in the past to a 4 : 1 instead of 3 : 1 debt equity ratio, the first government loan of Rs 7.5 crores also ranking as equity, but the sixth credit and the tapering off of government rupee loans (Rs 1 crore only has been provided for ICICI in the 1965-66 budget) have made it necessary to increase the share capital in the immediate future. How capital is to be raised under present capital

market conditions is a problem that has agitated ICICI for a considerable time. Nearly 30 per cent of the present share capital is held abroad but a rights issue for the balance of 70 per cent would have to be underwritten. Who except the LIC and the Industrial Development Bank would bear the brunt of the burden? Some changes in ownership may be produced this way.

LETTER TO EDITOR

PL-480 Transactions

I AM writing this letter to question the purpose of the article by M Z Mogri on P L 480 transactions, which appeared in your issue of May 29, 1965. According to the author, the article is intented to be a sort of supplement to the official statement on the subject issued by the Finance Minister. The official analysis, he says, considers the impact of PL 480 transactions with reference to Government Accounts only, whereas he considers the banking system as a whole.

It is, however, not a fact that the official statement is incomplete. The official statement, though Mogri does not mention it, is based on a study prepared by the Reserve Bank about two years ago. This study dealt with the problem of the impact of PL 480 transactions very comprehensively. The subsequent controversy between the authors of that study and B R Shenoy in the *Economic Times* clarified the issue still further. In fact Mogri's article merely paraphrases the main conclusions of the RBI study. True, he disaggregates the transactions involved in accumulation and disbursal of the PL 480 counterpart funds; but is most of this disaggregation necessary? To understand the basic issue only the basic transactions need be analysed. At this rate, someone else can come up with still more transactions without arriving at any different conclusions. Mogri's conclusions, not surprisingly, are exactly the same as those of the RBI study.

Finally, a word about Mogri's concern over the long-term implications of the accumulation of PL 480 funds. Though the counterpart funds are made over to the Government of India both as loans and grants, it is the latter element that is predominant. Further, even the loans are not repayable in foreign exchange nor would their repayment involve export of goods from India. The problem of creating an export surplus at a future date to liquidate the liability does not, therefore, arise. And even if the export surplus had to be created, the problem would not be peculiar to PL 480 assistance.

Bombay D S
June 1.

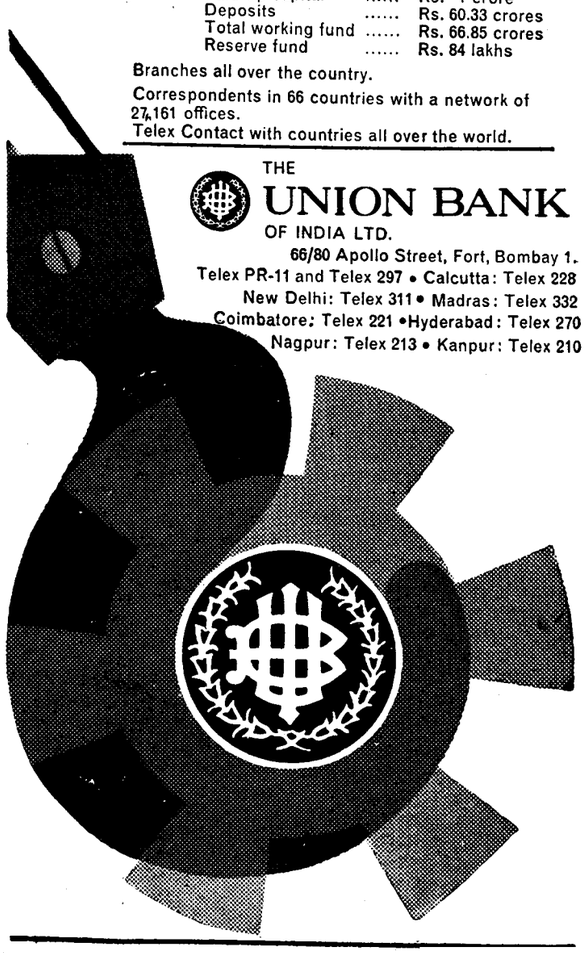
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FROM THE LONDON END

More Debate on International Liquidity

THE fundamental differences of approach on the question of international liquidity permit agreement only on one point — viz, the present system, based on the international gold exchange standard, is far from adequate. The Anglo-Saxon view is that there is an overall shortage of international liquidity, and unless something is done to remedy this defect, world trade will grind to a halt. The Continental view, on the other hand, claims that there is no shortage of liquidity as such, but that the present system under which the pound and the dollar act as reserve currencies, leads to slack discipline in monetary matters both in Britain and America, and forces third countries to import inflation from these countries. What, according to Continental bankers — principally French — is needed is stricter monetary control, even at the cost of deflation and unemployment. In February, General De Gaulle made it quite clear that what he hankered after was a return to the disciplines of the automatic gold standard which would inhibit the inflationary excesses of Britain and America.

In Britain itself, the burden of supporting a reserve currency has meant a constant conflict between internal growth and external balance. As long as the present system continues and new methods of increasing international liquidity are not available, Britain seems inevitably doomed to a "stop-go" policy which, apart from inhibiting growth in Britain itself, will have a serious effect on the developing countries since it will restrict the foreign exchange resources that are available to these countries. With balance of payments difficulties facing both Britain and America, assistance to developing countries is in jeopardy. Indeed, the British Budget is very much a case in point. The Budget is designed principally to correct Britain's balance of payments. The brake it put on overseas investment is a threat to developing countries, and unless some last minute revisions are introduced in the working of the Corporation Tax, and special concessions are made so as not to restrict overseas investment in the developing world, these countries, so urgently in need both of development finance and technical know-how, will find themselves in a very difficult situation.

Solution of the problem of international liquidity has thus assumed great importance. Last week in London, the whole problem was discussed once more under the auspices of the Federal Trust for Education and Research, which organised a two-day Conference on international monetary problems. The gathering was graced by many experts who have made their contribution to this problem, chief among them being Professor Triffin who is one of the main proponents of increasing international reserves through an international credit-creating authority, preferably the International Monetary Fund, and Monsieur Jacques Rueff, a firm disciple of the gold standard. Midway between the two, and also attending the Conference, was Reginald Maudling who, in 1962, at the Annual Meeting of the International Monetary Fund, produced his own particular scheme for adding to international liquidity. Shortly before the Conference was held, Roy Harrod's new book "Reforming the World's Money" was published, adding its quota to the general discussion.

The Theories

It may be useful perhaps to summarise the debate as it now stands, still split by Anglo-Saxon and Continental differences of approach. Edward Bernstein the author of the now well known Bernstein Plan was absent from the London Conference, but he spoke last week on the dollar and the international monetary system before an audience invited by the New York firm of Model Roland and Company. The essence of the Bernstein Plan is that new reserve assets should be created among the rich Continental countries in the Group of Ten, plus Switzerland: each one of these countries should agree to hold the currencies of others in prearranged proportions in its reserves which would be used, with gold, in the settlement of debts. These new reserve assets would be Composite Reserve Units. Under the Bernstein Plan gold would remain as the basis of the international monetary system and nothing would be done to undermine the position or the important role played by the dollar and sterling; the CRU would, however, acknowledge the mounting importance of European currencies which could also be used to finance international trade.

The French CRU proposal is a doctored version of the Bernstein Plan, but does not permit the holding of sterling and dollars as a reserve currency. Another recent addition to the Bernstein Plan to take in the needs of the developing countries — which were ignored in the original draft — is that 25 per cent of the reserve units should be handed over each year to the International Monetary Fund to be channelled to the developing world.

The Triffin Plan is based mainly on making an international institution the main creator of international reserves which at present rely so largely on the two reserve currencies, sterling and dollars. He points out that the situation has now become urgent, with both Britain and America surrounding themselves by exchange controls of one form or another in order to protect themselves and their currencies. According to Professor Triffin, neither God nor gold will save the international monetary system from its approaching crisis. Professor Triffin is a champion of a new and more ambitious world monetary structure which involves a massive increase in the powers of the International Monetary Fund. His plan proposes the conversion of underlying national reserves into deposits with the I M F, backed by a massive increase in the Fund's deposits and its investment activity. The Fund could then operate an international contra-cyclical credit policy, at the same time offering creditors guarantees on deposits and a nominal rate of interest as an added incentive against holding gold. Deposits could be used to invest for profit and could also be channelled to the World Bank for the use of less developed countries.

During the discussions, Maudling recalled his own plan for a mutual currency account, the basis of which is that when a country bought another's currency in a support operation, it could, with the agreement of the country supported, pay it into a gold-guaranteed "mutual currency account" in the I M F. Dealing with the so-called "privileged position" of the two reserve currencies, he pointed out that as far as Britain was concerned, it would be happy to share this role with countries other than the U S A, but he pointed out that under the present system, in order to have a reserve currency, a country must owe the rest of the world a very great deal of money (i e the balances held by other coun-



tries) and it must also owe this in a form in which other countries are willing to hold their balances. One of the difficulties in the situations today is that more and more countries are reluctant to hold either dollars or sterling.

The case for gold was put forward by Monsieur Jacques Rueff who emphasised the virtures of the two-way equilibrating mechanism and discipline that used to be wielded by the gold standard. Of course, he realised that a return to such a gold standard would only be possible if there was a substantial increase in the price of gold. His argument seemed to be that the solution of the problem of international liquidity could be found if the world price of gold was doubled and there was a ban on the use of national currencies as exchange reserves.

Perhaps one of the most interesting schemes to increase international liquidity is that put forward by Stamp. *The Stamp Plan*, in essence, envisages the I M F increasing liquidity by a fixed amount each year by investing in developing countries, either through the International Development Association or directly in their capital markets. The developing countries would then use the certificates they obtain from the I M F to buy from the industrialised countries which would treat these certificates in the same way as gold additions to their reserve assets. This would not only increase international liquidity, but provide it to those areas which are most in need of it.

However, it must be admitted that no real agreement was reached at the Conference. The only thing on which politicians, bankers and economists could agree was that the gold exchange standard is no longer working properly. The second point on which they agreed was that some action is urgently required, but what this action should be is still no nearer solution.

A CALCUTTA DIARY

The Darjeeling Exodus

INDIANS old enough to know that history did not begin, although a part of it ended, on August 15, 1947, will not need to be reminded what a hardy annual the Simla exodus used to be. Long before a derelict village called Delhi was chosen as India's capital, the Viceroy and his chosen bureaucrats used to travel all the way from Calcutta to Simla for a part of the year when Calcutta, the seat of government, was more unpleasant than usually. The bureaucracy was then largely British; we have been told by Graham Greene of "the involuntary injustices of tired men" in exile in a hostile climate. Somehow, the "natives", together with most newspapers, some owned by Englishmen, never saw a diminution of injustice following the exodus and commented only on the colossal cost. Loudest in protest was the Indian National Congress.

Quite apart from the physical effects of heat, to say nothing of the worse adversary called humidity, on the children of a very different kind of weather, there was the philosophy, brilliantly analysed recently by Nirad C Chaudhuri, that ever since the Mutiny it was the conscious policy of the British Government to be aloof and apart from the people of India. The annual exodus to Simla—followed by Darjeelings, Nainitals, Panchmaris and lesser summer capitals—was part of this ritual: the heat of Calcutta might be all right for the natives but not for the superior bureaucracy. The Government those days never pretended to identify itself with the people; distance was then the essence of deference. The Congress was for the people, with the people, of the people.

Things then stood on their heads; the critics of yesteryear became the rulers. The hill stations languished. The Exodus shed all the tragic associations of the Old Testament and became a journey of hope. For a fortnight or so the West Bengal Cabinet and the higher echelons of the bureaucracy with their wives go to Darjeeling every year, accompanied by numberless underlings; and all this is for the welfare of the hills people. An imperialistic luxury has been neatly converted into a nationalistic necessity. Poor Prafulla! He has to go to Darjeeling at the height of Calcutta's brilliant summer only to preach and practise national integration to the sometimes contrary people of Darjeeling.

Sheershasana

A rather naive reporter has meanwhile spilled the beans. In his story from Darjeeling he recently said that some film actresses were leaving the place but others were on the way; Suchitra Sen had indeed left but Prafulla Sen was here! The equation became a little more disturbing when the correspondent informed his readers that Prafulla Sen, the Chief Minister, was spending most of his evenings playing cards with his friends and colleagues. A card, indeed.

Basically, there is nothing wrong whatever with a Chief Minister going on holiday and playing cards with friends in the evening. The fantastic idea that Ministers could live on Rs 500 and fresh air and a fruit cocktail of love and *ahimsa* did not make sense even in the late 'thirties when some Congressmen saw, for the first time in their lives, carpeted rooms and liveried chaprassis. Apart from the myth of Congress austerity, is there one reason why a Minister should not enjoy at least the same amenities as a Secretary? But no Congressman born of Mother India will enunciate so simple a proposition; hypocrisy holds a higher place. Holiday is high duty. And the bill goes to the Government, which, of course, means the tax-payer, you and me.

What makes the current scene a little touching is that we are seeing chaps enjoying themselves for the first time. They had spent a lot of their time in prison and knew no comfort, let alone luxury. To the consumption of new things, sometimes lovely and young, they bring a certain vulgar avidity which would be understood and condoned by an old surviving member of the Viceroy's executive council with a mistress somewhere in the background—had not the Congress Minister's pleasures been publicised so as patriotic sacrifices. "The pursuit of happiness" is a part of the U S Constitution; the Indian Constitution forbids it.

What makes the Indian scene today so endlessly interesting is its obvious transience. Lal Bahadur Shastri constitutes a dyke of weaknesses between two forces that I dare not identify. Prafulla Sen, likewise, represents a pliant body of feeling, not opinion, that he may not be up to much harm. Which assessment is probably correct. Playing cards with friends in the evening seems so much more a human act than playing poli-

tical chess with Atulya Ghosh, although one is not sure that the latter game is not being played too. Yet it remains a fact that the Sen-Ghosh compact has so far spared West Bengal the kind of sordid wrangle almost every other State Congress Party has painfully known and not yet recovered from. Even in Kurseong and Darjeeling Sen and Ghosh met; and they seemed the best of buddies.

The criticism against summer sorties today is that while foreigners born in another clime might in retrospect be forgiven for running away to the hills at the cost of a subject people, the native administrators of today should be used to the weather and stay put. This is the place to make the point that nobody ever gets used to his weather, hot or cold. With their usual contrariness, the British bellyache when it is perishing cold and they utter the most unprintable swear words when it is 80° in the shade. Prafulla Sen's Darjeeling holiday need not be grudged at all; he fully deserved his holiday, even if he was under no obligation to call it work. But everybody is wise to remember that nobody gets used to his political weather either. Everyone bellyaches; and a bellyache is almost always the beginning of bust-ups that are sometimes, if successful, called revolutions. In short, the Darjeeling junket needs what the Americans call "validation".

—Flibbertigibbet

AN AMERICAN LETTER

The Economy at Midyear

WHEN President Kennedy proposed, almost two years ago, that a substantial tax cut be instituted to deal with economic stagnation, many American economists were sceptical. Although the tax cut proposal was in keeping with Keynsian economics, many conservative analysts opposed the cut, and expressed fears that the government would be forced into substantial deficit spending. In mid-1965, almost a year after the cut was instituted by the Johnson Administration, it has proved a complete success, and the U S government is at present considering massive reductions in excise and sales taxes to go along with the earlier cuts, which were mainly in corporate and income taxes,

The purpose of the Kennedy proposal was to stimulate corporate investment and individual spending at a time when economic growth had slowed down. This goal was achieved beyond the expectations of the Council of Economic Advisors which was mainly responsible for the specific legislation which was finally carried through Congress under the guidance of President Johnson.

One of the results of this rather unexpected economic boom was to produce a surplus of tax revenue, since gross corporate earnings, as well as individual incomes, were up substantially. In an attempt to keep consumer spending at a high level the Johnson Administration has proposed further substantial cuts in excise and sales taxes imposed by the federal government on many items. The Administration has, for instance, suggested that the present 10 per cent tax on automobiles be completely lifted in a series of measures. Similarly, taxes ranging up to 15 per cent on entertainment, luxury goods such as fur coats and jewellery, airplane tickets, and other items will also be lifted. Though the federal excise taxes were originally instituted to pay for the Korean war in the early 1950's and were conceived as an emergency measure, the giving up by the Government of such a large segment of tax revenue at one time is an unprecedented step.

The rationale behind the proposed cut in taxes is not difficult to understand, however. The Administration is able to make the concessions because government economists are convinced that the growth rate of the economy will make up for the loss in revenue. Rising incomes and corporate profits have boosted government revenues in recent months. Besides, federal authorities have been concerned at the rising rates of local and state taxation. In many parts of the United States, municipal authorities, as well as some of the fifty States levy various taxes to raise necessary revenues. As a result, the tax burden on Americans, particularly those living in cities and suburban areas, has risen in spite of the cuts in federal taxes. Tax relief by the federal government will give State and municipal governments more room and will ease the tax burden.

Though tax cuts, both those already effected and those proposed, have been the most important economic news of the year, other even more important issues are in the background. The much heralded "War on Poverty" inaugurated by President Johnson late in 1964 has run into difficulties, while the trend toward automation in industry has continued at an unprecedented rate. The "War" has got bogged down in internal battles in a number of cities, such as New York and Boston, where groups have been fighting for control over the millions of dollars being spent by the federal government on various rehabilitation projects. As a result, the success of the "War" has been limited, and in many areas, the effort has been totally unsuccessful. Yet the government *has* attempted measures of reform and rehabilitation. The problem it faces is of vast dimensions and, of course, needs more drastic solutions.

Some valuable work can be done; workers can be trained, educational levels in some areas can be raised, and crises in some industries can be avoided by adequate planning. But the trend toward a smaller industrial work force is irreversible, and the Administration's current efforts are not adequately dealing with the problems. Even in areas like the coal mining districts of western Pennsylvania, where the "War on Poverty" has been concentrated the situation has not substantially changed.

The summer will see two conflicting trends in the United States. The economic boom will continue at its present rate and the government's growth projections will almost certainly be proved correct. The tax cut will probably pass the Congress without much difficulty within the next few months, much as President Johnson suggested it. On the other hand, the summer will also probably see further violence in the predominantly Negro areas of the large cities. Racial violence, which has become an integral part of the hot summer months when many people are on the streets and tempers become short in the cities, is directly connected to the economic situation. Certain sections of the population, including of course the Negroes, have not been a part of the booming economy. Poor educational levels, lack of training, and latent prejudice among employers has meant that Negroes have a difficult time obtaining jobs, and at a time of a shrinking job market for unskilled labourers, they are in a particularly difficult situation. Thus, despite efforts to the contrary, the United States is faced with pockets of poverty in the midst of general abundance. And it does not seem that with the present governmental plans will substantially alter this situation in the near future.

BOOK REVIEW

Growth of a Bureaucracy

Arthagnani

The Planning Commission : A Descriptive Account by H K Paranjape; The Indian Institute of Public Administration, New Delhi: pp *ix* : 216; price Rs 5.

NORTHCOTE Parkinson's well known equation shows the rate at which an organisation inevitably grows. The equation is $x = 100\ (2k^m + 1)\%$, where k is the number of staff seeking promotion through the appointment of subordinates; 1 is the difference between the ages of appointment and retirement; m is the number of man-hours devoted to answering minutes within the department; n is the number of effective units being administered; y is the total staff; and x is the percentage increase of staff per year. This rate, Parkinson is sure, "would invariably prove to be between 5.17 per cent and 6.56 per cent, irrespective of any variation in the amount of work (if any) to be done". Applying this formula to the Planning Commission which had a staff of 584 persons (186 higher categories plus 398 lower categories) in 1955-56, the figure for staff, calculated at Parkinson's higher rate of growth, should have been 970 (310 plus 660) for 1963-64; actually, the Planning Commission had a staff of 1,025 (297 plus 728) towards the end of 1963!

Chapter IV of the book under review provides an interesting account of the biology of organisational growth of an official body. The Planning Commission was originally conceived as a compact expert body which would provide the driving force for India's economic growth (p 162). However, it could not withstand the urge, natural in India, to share in executive powers and, in the process, lost both its independence and it expertise. The beginnings of this process can be traced almost to the very first stages after the formation of the Planning Commission.

The first stage in the process was the inclusion of Ministers as members of the Commission, starting with C D Deshmukh, "not so much" as the author says, "because of any preconceived thinking about the necessary pattern of membership as because of *ad hoc* considerations" (p 15). There were three "minister-members" from 1951 to 1956, four since then, and the number has increased to five recently. As a *quid pro quo* perhaps, the author reports, the Deputy Chairman of the Planning Commission attends all meetings of the Economic Committee of the Cabinet (pp 32-33).

The second stage in this process was the common manning of secretarial personnel, beginning with the Cabinet Secretary who felt himself versatile (or idle) enough to double as Secretary to the Planning Commission, ostensibly because "the Secretary of the Commission being also the Cabinet Secretary was able to get the views of the Ministries and in his dual capacity could do things by way of discussion on difficult questions at official level at the meetings of Secretaries, etc," and, as if this was not enough, because "there was also some difficulty in getting a person who would make a good Secretary" (p 33). Evidently, the theory of the indispensability of civil servants is becoming more pervasive today, the way superannuated civil servants manage to hang on to all kinds of official positions. When this dual position was questioned by the Estimates Committee, the Government blandly replied that it accepted the principle underlying the Estimates Committee's views—but, of course, in India, principles are intended to be enunciated, not acted upon.

This concept of common personnel was carried from administrative matters to policy-thinking and policy-making through having the Chief Economic Adviser of the Ministry of Finance as also the Economic Adviser of the Commission—a decision which must be considered to have been disastrous. According to Paranjape, "this development seems to have been partly fortuitous" (p 34) in the C D Deshmukh decided to carry the Chief of the Economics Division of the Commission to the Finance Ministry. This effectively stifled all debate on the relevance of Government's economic policy to problems of economic growth under planning, and helped to establish the Planning Commission as an arm of the executive machinery. Moreover, the Panel of Economists, set up in March 1955 (pp 75, 82-83), because of its composition and the vague nature of its working relationship with the Planning Commission, failed to provide the necessary correctives for economic policy and, thus, proved a flop.

The third stage in the process was the increasing association of the Planning Commission with executive decisions. The author refers to the growth of a convention to refer important proposals in the economic field to the Commission and adds; "As a result of these developments, from the point of view of the Planning Commission and that of the executive organs both at the Union and the State levels, close understanding and co-ordination between them are required if they have to carry out their functions efficiently" (p 31). Earlier, the author justifies this on the ground that "it has been thought that in the Indian context, planning must have the closest connection with the administration if it is not to risk becoming a more (mere ?) academic exercise" (p 21).

In fact, this association has been, as it can only be, at the periphery of power—the Commission could never hope to influence decisions except by acquiescing in them. However, in India people love power, particulaly if it can be had without responsibility. This was how the Development Wing (now the Department of Technical Development), originally intended to provide technical expertise, ended up as a dispenser of industrial licences. It was not unnatural for the Planning Commission to lose its prime function in the hope of obtaining illusive powers in executive decisions.

This was inherent also in the manning of the Commission and the division of functions among the members. Very few members brought a scientific approach to their work; the author, after describing the evolution of some portfolios, states: "This indicates that the distribution of subjects and Divisions among Members has not always been the result so much of a logical pattern as of historical developments and the special interests of Members" (p 29). Later (p 30) the author mentions a case where a portfolio was transferred in four months and another where this was done in three days.

An organisation chart, appended to the book, shows the Planning Commission as having 13 members (including the Chairman) and 17 division heads (all with esoteric designations). The description of the organisation of the Commission, given by the author in Chapter IV shows how bureaucratic considerations came to swamp the functional aspects of the Commission's work. The author states, "It was recognised that if officers of the status of

Under Secretaries are placed in charge of different Divisions or Sections, it will not be possible to get in each Branch the quality required, and it was therefore, decided that the Divisions of the Commission should be placed each under a Chief of Division supported by an Assistant Chief" (p 60). Later, the author refers to how, with increasing personnel, it became necessary to increase staff at the top "owing to limitation regarding span of control". "Gradually in this manner a system came to be built up under which a hierarchical level between the Heads of Divisions and the Members was created . . ." (p 66).

The book is intended only to be a descriptive account of the Planning Commission. It has been produced at the suggestion, and with the co-operation, of the Planning Commission. The author sympathetically takes us through a lot of official jargon: members are referred to mostly not by name but by designation, and the author seriously discusses the factors governing the hierarchical status: "A question was raised whether officers put at this new level—group leaders and programme advisers—in the hierarchy should be called Joint Secretaries or should be given some other designation. It was pointed out that the term 'Joint Secretary' would give a correct description of the officers whose primary function would be to assist the Secretary of the Commission in managing his charge" (pp 66-67). He does not even refer to the criticism of Pandit Nehru on the attempt of the Planning Commission to duplicate the ministries and the designations in them. The author concludes: "It (the Commission) has evolved organisational devices and working processes whose object is to ensure that the different operating agencies are in various ways involved in the planning process. Because of its composition, especially the fact that the Prime Minister and some other senior Ministers have been its members, and also because of the approach, the expertise and the working methods developed by it, the Commission has acquired prestige and has built up for itself a position of influence in the machinery of State" (p 162). The consequences of this, however, for on the content and efficiency of planning have been wholly negative, and ultimately this is the standpoint from which the role of the Planning Commission must be judged.

Even this descriptive account indicates clearly the seeds which were to show up later in the failure of the Planning Commission. Behind all the divisions and sections and so on, there was no clear vision of the functions the Planning Commission was to perform. And the setting up of panels—for example, the Economists' Panel and now the further confusion created by the Planning Council—is no substitute for solid groundwork by staff. It is easy to find people who are eager to tag on memberships of committees and panels to their names, but the results achieved have still to provide justification for their formation. In addition, the Planning Commission has been used to park some useless ministry officials and has, in its turn, been used as the jumping board for executive positions.

To-day the Planning Commission has become a body in search of its identity. The author's is a studious, painstaking study of the formation and growth of this body; except for a few laudatory remarks, the book provides mainly factual material. It provides an interesting inside view of the evolution of planning organisation in India and of how the plans are framed.



Has the Farmer Benefited from High Prices?

A Comparison of Trends in Harvest and Annual Prices

N. K. Thingalaya

The behaviour of agricultural prices during the last decade reveals in retrospect the many imponderables inherent in our economic life and also perhaps the limitations of planning in a mixed economy.

Agricultural prices have shown large fluctuations during many of these years. They moved down during the First Plan, leading to the depression of 1955-56. The Second Plan, which began with agricultural prices still ruling at relatively low levels, saw considerable rise in them towards the end. The price rise has been accelerated during the Third Plan with prices of most agricultural commodities reaching all-time high levels during the third year of the Plan.

It is argued sometimes that rise in agricultural prices measured by annual average prices does not represent the price situation faced by the farmers in the country. Most of the farmers, their ability to hold stocks being poor, dispose off their produce immediately after the harvest when the rush of supplies to the market results in low prices. And once the produce leaves the farm, whatever rise in price occurs does not benefit the farmer.

The price that really matters to the farmers is thus the harvest price. Therefore, it is pertinent to examine whether the level of harvest prices has risen along with the rising trend of agricultural prices during the last few years.

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A STATISTICAL analysis of the trends in harvest prices and average annual prices is of considerable practical importance. It will enable us to judge whether the inflationary trend prevailing in the economy, as indicated by the rise in the annual average of wholesale prices, has any impact on the level of harvest prices. If the former has not exerted any influence on the latter, it may be said that the rising prices have not favoured the producer. And this may make those small farmers who sell their produce immediately after the harvest (at relatively low prices) and buy later (at high market prices) really worse off. On the other hand, if the level of harvest prices indicates a rising trend along with the annual wholesale prices of agricultural commodities, the farmers' price position would be determined by the relative rates of rise of the two sets of price.

A comparative analysis of the trends in the annual average prices and the harvest prices during the last 13 years 1951-52 to 1963-64 is made here by fitting linear trend equations using the Least Squares Method. Only one commodity — rice is selected for this purpose.

The annual price indices of rice are obtained from the Index Numbers of Wholesale Prices (revised series) compiled by the Office of the Economic Adviser to the Government of India. As for harvest prices, there are two types of price series, both published by the Directorate of Economics and Statistics of the Ministry of Food and Agriculture. Of the two, the farm (harvest) prices broadly represent the prices received by the farmers as they are defined as "the average wholesale price at which the commodity is disposed off by the producer to the trader at the village site during the specified harvest period"[1] These price data which are available in the form of State averages cover only a short period. And the inadequacy arising out of their non-comparability over time and space lessens their usefulness considerably.

The index numbers of harvest prices are the other set of price data available. They are based on the wholesale price quotations collected by the branches of the State Bank of India from about 104 market centres relating to a few principal crops during the harvesting season. The harvest period of the agricultural year 1938-39 is the base for this series. In a recent publication,[2] the Directorate has presented this price data, converting the base into the harvest period of 1952-53. The long-term trends in harvest prices are analysed in this study by fitting linear trend equations to the 3-year moving averages of the harvest price indices for the period 1953-54 to 1961-62. The trend equation obtained by them for the harvest price of rice is: $Y = 864.5 + 4.4x$. The value of the coefficient 'b' indicates that the harvest prices of rice have been rising at an annual rate of 4.4 per cent during the period studied.[3]

To compare this trend with the trend in the annual average wholesale price of rice, we have fitted a linear trend equation to the 3-year moving averages of the annual price indices of rice for the same period. The regression equation works out to be

$$Y = 85.93 + 3.957x \quad (0.816)$$

A comparison of the two trend lines reveals that during the nine years considered, the harvest prices of rice have been rising at a faster rate (4.4 or 4.95 per cent per annum) than the average annual prices (3.957 per cent per annum). The remarkable inference that may be deduced from this comparison is that the harvest prices of rice have been rising faster than the rate of rise in annual average prices! This certainly casts some doubts regarding the efficacy of the statistical measures employed. However, it is not strictly the statistical measures that are at fault, but the non-comparability of the two sets of prices. The differences in the methods of compilation and the number and nature of markets from which price quotations are collected are too important to be ignored. Hence the differential rates of rise recorded by these two sets of prices cannot be accepted, *prima facie*, as an indicator of the relative rise in harvest price of rice.

Alternative Analysis

An alternative method has been adopted, therefore, to make a comparative analysis of the trends in harvest and annual wholesale prices of rice. Instead of the harvest price indices, we may use the averages of the monthly wholesale price indices pertaining to the harvest period. Rice in India is grown under different soil-climate complexes and thus has different harvesting periods in different parts of the country. And again as it

is grown more than once in a year in many of the rice growing regions, there is more than one harvesting period in a year. But of the three crops grown, only the autumn and winter crops are important and broadly their harvest periods fall within the five months from September to January.[4] This has been substantiated by a study of the seasonality of rice prices.[5] However, a period of five months is a long period compared with the harvest period considered in the compilation of the harvest price indices, which is only six to eight weeks. In between these two extremes, we have selected, somewhat arbitrarily, the three months December, January and February, to represent the harvest period for rice. By a close observation of the monthly indices of wholesale prices of rice during the last 14 years (see table 1), it was found that generally prices remain low during these three months compared to the other months in the year. Therefore, a simple arithmetic average of the three monthly price indices is calculated to represent the "harvest period price" of rice in each year. These prices are obviously lower than the annual average prices during all the years.

The differences between these "harvest period price" indices and the harvest prices of the Directorate may be noted. Apart from the differences in the base period and the length of the harvest period, there is one major difference. The harvest price index is calculated as a weighted geometric average of the price relatives of rice from different States, the weights being the current year's production in different States. Our "harvest period price" index is a simple arithmetic mean of 43 price quotations drawn from 43 markets in all of the rice growing States.

Comparison of the Two Indices

The similarities between the "harvest period price" indices and the annual price indices may also be noted before we proceed with the comparative analysis. Both have the same base, same price quotations from the same markets and the same method of compilation. The comparability of these two price indices may enable us to obtain better results than that obtained by the earlier comparison.

Table 2 provides the annual price indices and the "harvest period price" indices of rice from 1951-52 to 1963-64. Linear trend lines are fitted to the 3-year moving averages of the annual and "harvest periods prices" to estimate the rates of increase of the respective price series. The trend equations obtained are :

Annual Average Prices ... Y=100.09 +2.11 X (0.67)

"Harvest Period Prices" ...Y=95.18 +2.22 X (0.54)

It is interesting to note that the "harvest period prices" have been rising at a rate equal to that of the annual average prices of rice during 1951-52 to 1963-64. The earlier comparison had given the impression of harvest prices outstripping the rise in annual prices. This would lead one to the erroneous conclusion that during the last 13 years the margin between harvest prices and annual average prices has tended to be narrowed down considerably. The present comparison, on the other hand, yields a result which is more moderate in its implications and perhaps nearer to reality than the former. It indicates that the rise in the "harvest period prices" of rice has kept pace with the rising trend in its annual average prices. A simpler inference readily acceptable would be that the price situation of the producer *has not* deteriorated during the last decade when almost all agricultural prices were moving in the upward direction. We may hasten to add that this is only an inference, deduced from the observation of only one agricultural commodity and is too far from a generalization.

It is not difficult to show that the relationship between the "harvest period price" and the annual average price has not deteriorated during the period studied. This can be examined

Table 1 : Monthly Index Numbers of Wholesale Prices of Rice

(Base: 1952-53 —100)

Year	April	May	June	July	August	September	October	November	December	January	February	March
1951-52	105	107	110	111	111	109	105	100	99	99	99	97
1952-53	97	101	103	105	104	102	98	98	95	99	99	99
1953-54	99	103	107	112	110	107	103	97	93	90	87	87
1954-55	90	89	88	86	89	90	83	81	74	73	72	72
1955-56	72	74	76	79	81	81	79	78	76	77	79	86
1956-57	92	93	85	97	100	101	100	99	94	93	98	97
1957-58	101	106	107	108	111	108	107	107	102	101	99	100
1958-59	103	106	111	115	118	118	115	108	98	92	92	92
1959-60	95	98	102	109	113	111	112	108	101	102	105	106
1960-61	108	113	114	115	115	114	111	106	102	99	100	101
1961-62	101	103	106	108	110	110	108	106	102	101	102	103
1962-63	106	109	110	112	114	115	115	116	110	108	109	100
1963-64	117	121	124	127	128	131	132	130	122	120	121	122

Source : Office of The Economic Adviser, Government of India.

by expressing the "harvest period price" as a percentage of the annual average price for each year. If the two prices are equal then the ratio between them will be 100. Any figure lower than this indicates the differences between the two prices. This difference, or the differential margin in prices, if we may call it so, has not risen during the last 13 years as can be seen in Table 3.

The average price ratio for the whole period works out to be 95.2 and during 9 out of 13 years, the ratio has remained above this level. Only during three years has it declined below 90.0. And these three years represent the years of low annual average prices. It may be noted from this observation that during the years of low annual prices the harvest prices remain still lower, resulting in a differential price margin of over 10 per cent. Logically the causal relationship may run the other way—annual prices may tend to be low due to the low harvest prices. This may be explained as follows: During a year of bumper crop, the traders who feel the pulse of the market more intelligently than the farmers, and who expect a fall in the annual prices, offer lower prices to the farmers to safeguard their margin[6].

During the years of price rise (due to poor crops), the differential margin is roughly maintained at 5 per cent or so. The harvest prices also rise with the annual prices. A plausible explanation would be that in view of the shortage of crops the traders tend to offer a little higher price inducing the farmer to part with more of his produce during the harvest period. This course of action is likely to be taken by them in order to procure large amount of supplies, which they are certain to sell at higher prices during the rest of the year. As a result harvest prices roughly keep pace with the rise in the annual average prices.

However, the simple inference deduced from our analysis is subject to modification due to the limitations of the price data used. The price quotations used for compilation of the price indices are drawn from primary, secondary and terminal markets.[8] Though the "harvest period price" index is based on price quotations prevailing during the three months considered to be the harvest period, the price quotations may not necessary pertain to rice coming to the market after the current year's harvest The price quotations in the secondary and terminal markets are more likely to be the prices relating to the previous year's crop. And usually the prices in the secondary and terminal markets are higher than those in the primary markets. A simple average of these prices thus does not realistically represent the "harvest period price" which is what really matters to the producer.

The "harvest period price" index merely represents the average price of rice prevailing in the country during a particular harvest period. Therefore, the rise in the levels of this price over a period does not mean that the level of prices received by the producer has risen with the rise in the commodity price level. At the same time it would not be unrealistic to conclude that the level of the "harvest period price" or better the level of the lowest price in each year has risen along with the rise in the annual average price of rice.

Table 2: Annual and "Harvest Period Price" Indices of Rice

Base 1952-53=100

Year	Annual Prices	3-Year Moving Averages	"Harvest Period Prices"	3-Year Moving Averages
1	2	3	4	5
1951-52	104	-	99	-
1952-53	100	101	98	96
1953-54	100	94	90	87
1954-55	82	86	73	80
1955-56	78	86	77	82
1956-57	97	93	95	91
1957-58	105	102	101	97
1958-59	105	105	94	99
1959-60	105	106	103	99
1960-61	108	106	100	103
1961-62	105	108	102	103
1962-63	111	114	109	110
1963-64	125	-	121	-

Table 3: The Ratio of "Harvest Period Prices" to the Annual Average Prices of Rice

1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
95.2	98.0	90.0	89.0	98.7	97.9	96.2
1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	
89.5	98.1	92.6	97.1	98.2	95.8	

Notes:

[1] "Economic Survey of Indian Agriculture, 1959-60", Appendix VI, p 139, Ministry of Food and Agriculture, 1961.

[2] "Agricultural Price Policy" (mimeograph), February 1963, p 1, Ministry of Food and Agriculture.

[3] It is regrettable that the trend equation given by the Directorate is found to be *wrong* and also that the standard error of the regression coefficient is not provided. Using the same data and applying the Least Squares Method, we obtained the trend line as follows :

$$Y = 88.18 + 4.950x \quad (0.197)$$

[4] "Report on the Marketing of Rice in India", 1955, p 22, Ministry of Food and Agriculture.

[5] K Krishnamurthy : "Seasonality in Wholesale Price of Rice" Artha Vijnana, June 1960.

[6] See, B D Giles: "Agriculture and the Price Mechanism" in "Oxford Studies in Price Mechanism" edited by T Wilson and Andrews, PWS The Clarandon Press, Oxford, 1951.

[8] For an account of some technical problems connected with price reporting, see Chapter II in "Collection of Agricultural Prices in India—Report of the Enquiry Committee" Chairman, P. N. Thapar, Ministry o f Food and Agriculture, 1955

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The Bechtel Plan for Fertilisers

Ajoy Gupta

IT has been shown by many experiments and the experience of difference countries that, of all the input factors in agriculture, the one which gives the quickest and most lasting results is fertiliser. The aggregate requirement of fertilisers in the Fourth Plan on the basis of the estimates of the different States has been put at 6.5 million tonnes of plant nutrient per year 1970-71. However, considering the many limitations which make production of this order impractical the Planning Commission has proposed a target of 3.35 million tonnes for 1970-71, consisting of 2 million tonnes of nitrogen, 1 million tonne of phosphorus and 0.35 million tonne of potassium. How modest this target is can be seen from the fact that if we are to reach the level of fertiliser consumption in developed countries like UK, Japan and West Germany, (ie, about 100 lbs of plant nutrient per acre), the total output of fertilisers would have to be at least 6 times the proposed Fourth Plan target. Against this all the plants which are now under production as well as those which are under construction will not yield more than 0.77 million tonnes of nitrogen by the end of 1968. There will thus remain a wide gap which will have to be filled if the Planning Commission's very modest target is to be achieved.

A consortium of Western private industries styled as the Bechtel Corporation has shown interest in a massive fertiliser production programme by establishing five plants of standardised design which will produce approximately 3.5 million tonnes of chemical fertiliser per year containing 1.79 million tonnes of plant nutrient in collaboration with the Government of India. The consortium had submitted a feasibility plan to the Union Government early this year and discussions on it have been going on between the Bechtel Corporation and the Government.

In its report the Bechtel Corporation has suggested that the proposed output of 1.79 million tonnes of plant nutrient should consist of 1 million tonnes of nitrogen (N_2) and the rest of phosphorus (P_2O_5) and potash (K_2O). The individual capacity per plant has been suggested at 200,000 tonnes of nitrogen per year. Plants of this size have satisfactory operation characteristics and favourable economics. Besides, building a series of large plants of standardised design and operating characteristics will yield saving in capital, operating costs and engineering and will reduce substantially the construction time. There will also be advantages from the point of view of purchase of raw material and spare parts and establishment of operator training facilities.

The Bechtel Plan has selected urea as the most satisfactory compound for supply of nitrogen to the soils. Urea has been preferred by the Fertiliser Corporation of India also as the most suitable nitrogenous fertiliser for our soil, especially for paddy crops. It contains about 46 per cent nitrogen and can be used straight or mixed with other fertilisers.

Raw Materials

Diammonium phosphate is recommended as the phosphatic blending constituent or for direct use. It is a more recent type of mixed fertiliser and has a very high phosphorus content, i e, 46 per cent of P_2O_5 and 18 per cent of nitrogen, yielding a total of 64 per cent plant nutrients. The manufacturing technology based on ammonia and phosphoric acid has been well established. The advantage of diammonium phosphate over other fertilisers is that besides having a high concentration of plant nutrients it can be blended with other fertilisers according to the requirement of the soil and can be easily handled, being solid.

The principal processing units proposed by the Bechtel Plan will perform the following functions: The 760 ton per day ammonia plant will produce nitrogen as ammonia and carbon dioxide as a separate co-product. Both of these materials will be required as feedstock to the urea plant. Ammonia will also be supplied for the diammonia phosphate production. The urea plant will combine ammonia and carbon dioxide under high pressure to produce 1,070 tons of urea per day. The sulphuric acid plant will provide 840 tons per day of 100 per cent sulphuric acid which, in treatment with rock phosphates, will produce phosphoric acid. The production of phosphoric acid will be 310 tons per day of equivalent P_2O_5. In the granulation plant, phosphoric acid will chemically combine with ammonia to form diammonium phosphate. Urea and potassium chloride will be mixed and granulated with the diammonium phosphate to produce a 20:20:10 grade complex fertiliser or other formulations as desired. This urea-diammonium phosphate product when coated has good storage life and can be applied easily by the cultivator.

The main raw materials required for the production programme are: (a) surplus naphtha from refineries and other petroleum feedstock for the production of ammonia; (b) sulphur for the production of sulphuric acid, and (c) rock phosphate for the production of phosphoric acid. According to the tentative programme for the Fourth Plan, total refinery throughput of 11 existing and proposed refineries will be about 29,260,000 tonnes by 1970-71. This will involve an approximate foreign exchange outlay on imports of about Rs 144 crores or some 10.6 per cent of our total imports. By 1971 estimated production of gasoline will be about 4,780,000 tonnes, while the demand for motor spirits and aviation gasoline will be 1,458,000 tonnes. Naphtha for the petrochemical projects will account for 100,000 tonnes, for blast furnace injections 200,000 tonnes and for export and J P 1,427,000 tonnes. This will give a surplus of 1,595,000 tonnes for fertiliser production. This quantity along with available refinery gases will be more than sufficient to produce nitrogenous fertilisers equivalent to 1 million tonnes of nitrogen. No further import of crude, therefore, will be necessary.

The demand for sulphuric acid in 1965-66 is estimated at 1,195,000 tonnes and in 1970-71 at 1,980,000 tonnes. The major part of this will come from the fertiliser industry. All production today is based on imported sulphur. Imports of sulphur are expected to amount to more than Rs 175 million by 1970-71. Production of sulphuric acid by the pyrites process is well known in the West. In India we have been contemplating on adopting this process for a long time. We have

large deposits of iron pyrites at Amjore in the Shahabad district of Bihar State. The recent estimate of the Geological Survey of India indicates a total reserve of 1,000 million tonnes spread over an area of 48 sq miles. A sulphuric acid plant based on iron pyrites is already in operation in the Sindri fertiliser factory. To save foreign exchange production of sulphur from pyrites must be expanded. At least two of the five units proposed by the Bechtel Corporation could be based on iron pyrites as raw material for sulphuric acid.

Cost Estimates

Almost all the rock phosphates needed for production of phosphatic fertilisers are at present imported. Total import in 1965-66 is estimated at 1,410,000 tonnes valued at Rs 136 million. Estimated demand in 1970-71 will be 4,260,000 tonnes valued at Rs 375 million. Phosphatic rocks are known to exist in the Singbhum district of Bihar and in Tiruchirapally in South India. Rocks from these sources could be used after a certain amount of beneficiation. Prospecting for phosphatic deposits has been going on in the sea-coast of Andhra and on the Arabian sea coast. Sea muds containing phosphatic rocks could be used after beneficiation as raw material for phosphoric acid production.

Bechtel Corporation has estimated the total cost of its massive fertiliser programme at Rs 202 crores which amount is distributed under different heads as shown in the Table. Considering present availabilities of supplies in India, the Bechtel Corporation expects that some 54 per cent of the total expenditure would be in foreign currencies as indicated below:

	Rupee expenditure (per cent)	Foreign Currency Expenditure (per cent)
(1) Facility construction	48	52
(2) Initial materials and services for operation	35	65
(3) Total	46	54

The above proportions appear to have been changed to some extent in recent negotiations. From press reports it seems that the Ministry of Petroleum and Chemicals is of the opinion that the Bechtel Corporation's cost estimates are on the high side compared to the estimated cost of Rs 35 crores of the Durgapur plant designed to produce 125,000 tons of nitrogenous and 108,000 tons of phosphatic fertiliser annually. The fixed capital cost could perhaps be reduced to some extent by utilising more of indigenous production of heavy machineries as has been done by F A C T and the Fertiliser Corporation of India which has designed and constructed the new fertiliser plants at Namrup and Korba. The working capital costs could also be reduced by rationalising the price of surplus naphtha and using more indigenous raw materials, the possibilities of doing which have been discussed above. In this connection it is worthwhile mentioning that the price of surplus naphtha at the refinery was calculated at Rs 70 per ton by the Kane Committee Report on Petro-Chemicals; this was increased to Rs 80 per ton in the Henny Report and the latest estimate of the Petro-Chemical Committee of the Planning Commission is Rs 90 per ton. The price of naphtha is directly based on the price of petroleum crude. In spite of the high cost estimates, however, the Bechtel Corporation expects that their plants will work economically at the present level of fertiliser prices.

The Bechtel Corporation report lays great emphasis on the marketing and distribution of fertilisers. It suggests a vigorous sales and marketing organisation employing 3,000 qualified agricultural personnel to demonstrate the usefulness of chemical fertilisers to cultivators. Credit is an import element in the marketing programme. The report estimates the credit needs of the proposed fertiliser programme at between Rs 80 crores and Rs 140 crores, depending upon the availability and utilisation of present credit sources. In addition, about 17 crores will be required for initial market development.

Table: Distribution of Cost of the Five Fertiliser Plants

Head	
(1) Processing units including ammonia plant, urea plant, acid plants and granulator facility	97,82,00,000
(2) Non-processing facilities including raw material receiving, handling and storage facilities, power generation, water supply and recovery, steam supply, site development, fencing and general plant facilities, administration, building, shop, maintenance warehouse laboratory, cafeteria and the like	59,33,00,000
(3) Housing facilities for plant staff	9,51,00,000
(4) Special facilities as required at specific plant sites, mainly wharves and ship unloading systems	4,21,00,000
(5) Cost of land	1,35,00,000
Sub-total Fixed capital	172,22,00,000
(6) Pre-production costs including start-up and training costs and initial charges of catalyst, etc, and owner's cost during construction	9,36,00,000
(7) Working capital including allowance for spare parts, 30-day storage of raw materials, interest during construction, insurance during construction, etc.	20,72,00,000
Total estimated capital requirement	202,30,00,000

Larsen and Toubro

LARSEN AND TOUBRO has added two more activities to its already vast repertoire. It has been appointed all-India selling agents for the products of the Traco Cables Company. It has also been awarded the contract to contruct, on a turn-key basis, the Atomic Energy Establishment's Radiological Laboratory at Trombay.

Traco Cables, which is a Kerala Government project, started production early this year and is estimated to produce goods worth Rs 60 lakhs during its first year. This would be doubled in the second year. Among the company's products are all sizes of low tension PVC insulated cables and wires and heavy duty cables rated at 1100 volts. Larsen and Toubro is confident that the new company's products will be well received in the market.

Atomic Energy Establishment's Radiological Laboratory, which will be constructed by Larsen and Toubro with the aid of a Danish engineering firm, is estimated to cost about Rs 3 crores. The laboratory will include 'hot cell' facilities and when complete will be the largest of its kind in Asia. Larsen and Toubro's contract covers civil works and fabrication, supply and erection of piping, air conditioning, electrical and other mechanical equipment.

Distribution of Public Health and Education Services

N Bhattacharya
B Dey

In any discussion on inequalities in level of living, it is necessary to consider the distribution of consumption outside the domestic sector, especially the consumption of free health and educational services rendered by government and other public bodies. It is necessary to know, in a rough way, at least, in what way the benefits of such free public services are being shared by people in different levels of the society.

No such information seems to be available in India at present.

The Planning Division of the Indian Statisical Institute has started a random sample survey for a broad study of the position in rural and urban sectors of West Bengal. The present paper is a preliminary analysis of the data collected in the pilot enquiry during October 1963 to May 1964 in MADHYAMGRAM, an urbanised village in the district of 24 Parganas, West Bengal, only 18 kilometers away from Calcutta.

[The authors are indebted to M Mukherjee, Head of the Planning Division, for suggesting the problem, and to S Nandi, S Dhar, P Mazumdar and A Mondal for conputational assistance.].

THE village with 468 households was subjected to complete enumeration. For each household in the village, a schedule was filled in by the interview method. The following items of information were collected in this schedule :

(a) household size and composition;

(b) average monthly consumer expenditure on all items during the last year;

(c) educational particulars of different members with details of receipt of public education services during the last year in the form of fees exempted, scholarships/stipends, and in other forms; and

(d) receipt of free public health services during the last quarter by different members of the household.

By last year and last month will be meant last 365 days and last 30 days, respectively, preceding the date of survey.

Two investigators carried out the field work and the households were divided between them at random. This gave two interpenetrating subsamples of the sample households. We do not present the sub-sample estimates but they were used at the stage of drawing conclusions.

A preliminary analysis of the data has been reported here. The objective is to show how the benefits of (free) public health and educational services are being shared by different sections of the population in this particular village. It is obviously unsafe to generalise from one village which has more than one hospital within its boundary and a number of primary and secondary schools.

Attempts were made in this pilot enquiry to collect cost data from medical and educational institutions. It may be possible to present in a subsequent note the estimated money values of benefits received by different groups of people. But this line of work is extremely laborious and the results may not be worth the trouble. In any case, for a large scale enquiry collection of cost data would be practically impossible.

Material and Analysis

As already stated, the investigators collected figures for the average monthly value of domestic consumpconsumer expenditure) by each housetion of all items (usually called total hold, averaged over the last year, i e, 365 days preceding the date of survey. Only a rough figure was obtained through a few minutes' enquiry*. The households were then ranked in an ascending order of levels of living as measured by per capita total consumer expenditure per month; ten decile groups were then formed by grouping households contiguous in the ranking. The bottom decile comprised households having the lowest values of per capita consumer expenditure; the second decile from bottom, the households having the next lowest values of per capita expenditure; and so on. The limits of per capita expenditure were so determined that each group contained nearly 10 per cent of the total population in the 468 households surveyed (see Mahalanobis [3]).

Table 1 shows the formation of the decile groups. The average household

Table 1: Total Consumer Expenditure and Share of Total Consumer Expenditure by Decile Groups—Average Month of Last Year

Decile Group (Per cent)	Number of		Average Household Size	Consumer Expenditure (Rs) Per Person Per Month		Per Cent Share of Consumer Expenditure
	Households	Persons		Upper Limit	Average	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0—10	45	310	6.89	14.28*	12.04	4.21
10—20	47	313	6.66	18.18	16.42	5.80
20—30	50	310	6.20	20.00	19.50	6.82
30—40	39	308	7.90	22.72	22.45	7.80
40—50	46	313	6.80	25.00	24.73	8.73
50—60	43	314	7.30	29.16	28.42	10.07
60—70	56	313	5.59	33.33	31.80	11.23
70—80	40	306	7.65	36.36	35.70	12.33
80—90	47	313	6.65	41.66	39.06	13.79
90—100	55	317	5.76	400.00	53.75	19.22
Total	468	3117	6.66	400.00	28.44	100.00

* The lowest observed value of per capita total consumer expenditure was Rs 8.57 per month.

size is 6.66 for the entire population and shows very little trend over the decile groups. The lowest observed value of per capita monthly consumer expenditure was Rs 8.57, and the overall average is Rs 28.44. These figures show that Madhyamgram is not a typical village. Column (7) of the Table shows the inequality in the distribution of domestic consumer expenditure. Whereas the bottom decile gets a share of only 4.21 per cent, the top decile has 19.22 per cent of the aggregate consumer expenditure of the entire Madhyamgram population. This column is repeated in the subsequent tables.

Table 2 shows the distribution of all students by decile groups. The different columns are self-explanatory. 'Students' include all boys and girls continuing their studies in public educational institutions like schools and colleges, universities and other institutions which impart training to the students and are financed and/or governed partially or wholly by public bodies. So, this excludes those institutions which are run with a motive of making and appropriating profit by individuals or groups of individuals. As for example, tutorial schools and colleges, some of the commercial colleges, K G schools etc, run under proprietorship are excluded from our scope. Students are classified under three heads: (i) primary (infant class to class IV), (ii) secondary (class V to X or XI) and (iii) others (colleges and other institutions conducting degree or diploma course).

Table 3 shows the distribution of free students by decile groups. The purposes of this table, two half-free-studentships were together taken as equivalent to one free-studentship.

Table 4 shows the distribution of patient-visits to outdoor departments of medical institutions and patient-free-bed days in indoor departments by decile groups of the population. Medical institutions include hospitals, charitable dispensaries and health centres run by government and also by local bodies. It should be appreciated that only the curative side of public health services has been considered here, and the preventive side has been left out.

The money value of a free-studentship is not the same for all students. Also, all students, including free students, may really be enjoying some subsidies. Similarly, outdoor services include services of physicians, distribution of medicine, operations, X-rays and pathological tests. In the indoor department, in addition to medical treatment, the patient receives food, accommodation and nursing care. The money value of services etc, will vary from patient to patient and from visit to visit. The indicators chosen in this study, viz, the number of free students, the number of patient-visits to outdoor departments and the number of free-bed days stayed in indoor department, are only first approximations to the money values of benefits.

* Previous type studies [1] have shown that such quick methods give estimates consistently lower but highly correlated with the usual estimates of total consumer expenditure obtained through detailed family budget schedules. Quick estimates are sufficient for the present purposes of ranking the households by per capita total consumer expenditure: There is no point in spending 3 hours per household for estimating total consumer expenditure, when the main enquiry on consumption of public services required only half an hour per average household.

Statistical Finding

Number of students: There is a clear tendency of the number of all students increasing over the decile groups from about 70 in the bottom decile to about 105 in the top decile. Average is 90 per decile. In terms of percentage of population, the rise is from 22 or 23 per cent to 33 or 34 per cent roughly. Average is 28 per cent. Hence the percentage share of the ten deciles in the total number of students rises from about 8 to 12. Figures for some deciles seem to be erratic; in general, one should smooth the figures before drawing inferences.

No such trend is found in the number of primary students which constitute about 50 per cent of all students. All deciles have about 44 students (i e, 15 per cent of population). Only the top decile shows a lower figure, viz, 28 (9 per cent of population). So each decile gets about 10 per cent of all primary students.

There is a clear tendency of the number of secondary students increasing over the decile groups, at a steeper rate than the number of all students, from about 25 in the bottom decile to 55 in the top decile, the average being 41. In terms of percentage of population these figures are 8, 18 and 13 roughly. Hence the percentage share of all secondary students rises from 6 per cent to 14 per cent over the ten deciles.

Regarding students under the 'others' category, the trend is steeper, because the number rises from 0 in the two lowest decidles to 15 in the topmost, the average being only 5. In terms of percentages of population these figures are 0, 5 and 2 roughly. Hence the percentage share of 'other' students rises from about 0 per cent to about 30 per cent over the ten deciles.

To sum up, then, the percentage share of the ten decile groups in the total number of students is more of less the same in the primary stage, while in the secondary stage, there is a rising trend from bottom to top decilies and such a trend is steepest for the category of 'other' students. A rising trend is also evident, though the rate of increase is moderate, when all students are taken together.

Number of Free Students: No definite trend over the deciles is evident when all students are considered. Each decile shows around 65 free students which means just over 20 per cent of population. So each decile had about 10 per cent of all free students. If we consider percentage of all students who are free, the percentage, however, falls from about 90 in the bottom deciles to 50 or 60 in the top deciles, the average being about 70 or 75. Free students in the primary stage form about two-thirds of all free students, and this is more prominent in bottom deciles as percentage of primary students (mostly free all over the state) to all students here is overwhelmingly large.

No definite trend is observed in the number of free primary students. Each decile shows around 40 such students which means about 13 per cent of population. So each decile has around 10 per cent of all such students. If we consider the percentage of all primary students who are free, the percentage remains very near 100 or even reaches 100 over the seven deciles from bottom, but thereafter shows signs of some decline reaching about 80 in the top deciles. The overall percentage is 95.

The number of free secondary students shows an increasing trend, rising from about 15 or 18 in the bottom deciles to 27 or 28 in the top deciles. Considered as percentage of population the rise is from 5 to 9 roughly, the average being 7. So the share of all free secondary students rises from 7 per cent to 12 per cent, roughly, over the ten decile groups. As regards the percentage of secondary students who are free, the overall percentage is nearly 55, but there seems to be a slight declining trend the figures are too erratic for any definite statement — from about 65 in bottom deciles to 50 near the top.

Very negligible number of free students were observed under the 'others' category, so little can be said except that since such students are rare in the lower deciles, free cases are also rare in the lower deciles.

Number of visits to outdoor departments of hospitals etc: The number of visits shows a clear decline from nearly 200 in the three lowest deciles to about 160 in the fourth decile from the bottom and then to around 60 or 80 in the six remaining deciles. There seems to be little trend over the top six deciles. So clearly richer people avoid visits to outdoor departments of hospitals etc. So per 100 persons per quarter (the reference period was last quarter i e, 90 days preceding the date of survey), the number of such visits decreases from about 64 in the three bottom decile groups to 50 in the fourth and then to 20 or 25 in the six top deciles. So far as percentage of all such visits is concerned, the three bottom deciles have a share of about 17 per cent each, the fourth of about 13 per cent and the top six of about 6 per cent.

Number of free-bed days stayed in hospitals etc.: The figures are too erratic in this case. A quarter seems to be too short a period to give reliable estimates. The numbers may be taken as fluctuating widely around an average of 57 per decile, and the figures per 100 of persons fluctuate around 19 per quarter which comes to about 75 free-bed days annually. So far as percentage share of the decile groups is concerned, very little can be said; for instance, the share is 0 for the eighth and 33 per cent in the ninth decile. Cummulative percentage shares are more stable; and they hardly show any inequality, as the bottom 50 per cent have a share of only a little over 50 per cent.

Table 2: Distribution of Students by Decile Groups—Last Year

Decile Group (Percent)	Percentage of persons	Share of Consumer Expenditure	Percentages of Students				Students as Percentage of Population			
			Primary	Secondary	Others	Total	Primary	Secondary	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
0—10	9.95	4.21	9.57	6.08	...	7.44	13.55	8.06	...	21.61
10—20	10.04	5.80	11.62	6.08	...	8.44	16.29	7.99	...	24.28
20—30	9.95	6.82	10.25	9.49	4.00	9.56	14.51	12.58	0.65	27.74
30—40	9.88	7.80	10.02	8.52	2.00	8.89	14.28	11.36	0.32	25.97
40—50	10.04	8.73	7.74	10.46	6.00	8.89	10.86	13.74	0.96	25.56
50—60	10.07	10.07	12.53	12.41	8.00	12.22	17.52	16.24	1.27	35.03
60—70	10.04	11.23	10.48	9.73	10.00	10.11	14.69	12.78	1.60	29.07
70—80	9.82	12.33	10.25	9.98	20.00	10.67	14.71	13.40	3.26	31.37
80—90	10.04	13.79	11.16	13.38	20.00	12.67	15.65	17.58	3.19	36.42
90—100	10.17	19.22	6.38	13.86	30.00	11.11	8.83	17.89	4.73	31.54
Total	100.00	100.00	100.00	100.00	100.00	100.00	14.08	13.19	1.60	28.87
Total (Absolute value)	3117		439	411	50	900				

Table 3: Distribution of Free-Students by Decile Groups—Last Year

Decile Group (per cent)	Per Cent of persons	Share of consumer Expenditure (Per cent)	Percentage of Free Students				Free Students as Percentage of All Students				Free Students as Percentage of Population			
			Primary	Secondary	Others	Total	Primary	Secondary	Others	Total	Primary	Secondary	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	10)	(11)	(12)	(13)	(14)	(15)
0—10	9.95	4.21	9.83	7.81	...	9.05	97.62	72.00	...	88.06	13.22	5.80	...	19.02
10—20	10.04	5.80	12.23	6.07	...	9.97	100.00	56.00	...	85.53	16.45	4.52	...	20.97
20—30	9.95	6.82	10.79	9.11	...	10.13	100.00	53.85	...	76.74	14.52	6.77	...	21.29
30—40	9.88	7.80	10.55	8.89	...	9.90	100.00	58.57	...	80.62	14.28	6.66	...	20.94
40—50	10.04	8.73	8.16	13.23	23.53	10.05	100.00	70.93	33.33	81.88	10.85	9.74	0.32	20.91
50—60	10.07	10.07	12.95	11.93	23.53	12.66	98.18	53.92	25.00	75.00	17.20	8.75	0.32	26.27
60—70	10.04	11.23	10.79	7.81	...	9.67	97.83	45.00	...	69.23	14.61	5.84	...	20.45
70—80	9.82	12.33	8.63	11.28	11.77	9.59	80.00	63.41	50.00	65.10	11.76	8.50	0.16	20.42
80—90	10.04	13.79	10.55	11.72	41.17	11.16	89.80	49.09	17.50	63.82	14.01	8.60	0.56	23.17
90—100	10.17	19.22	5.52	12.15	...	7.82	82.14	49.12	...	51.00	7.26	8.82	...	16.08
Total	100.00	100.00	100.00	100.00	100.00	100.00	94.99	56.08	28.33	72.42	13.38	7.39	0.13	20.90

Free-studentship is more or less equitably distributed in proportion to population, if all categories of students are considered together. The same seems to be true for primary students also. In the secondary stage, the bottom deciles send fewer free students than the top deciles, the shares rising from 7 to 12 per cent. Little can be said about the 'others' category; but the few free students generally fall in the upper deciles. On the whole, therefore, the higher deciles get a somewhat larger share of free educational services than the lower deciles.

Free primary education being available, almost all children seem to attend free primary schools. (Primary students form about 15 per cent of the population in all the ten decile groups.) This is why free-studentship in the primary stage shows an egalitarian distribution. The higher deciles have a larger share of free students of 'secondary' and 'others' categories; but the bottom deciles send relatively few secondary students and very few students of the 'others' category. As a matter of fact, number of free secondary students seem to be roughly proportional to the number of secondary students in the ten deciles. The two considerations — (i) economic conditions of parents and (ii) merit of the students, — may have counterbalanced each other in the award of free studentship.

So far as free medical services are concerned, it is evident that the four bottom decile groups 'get' — it is more appropriate to say 'take' — a much larger share (above 15 per cent) than the top six decile groups (6 or 7 per cent), in the service rendered by outdoor departments of hospitals etc. This is apparently because the rich people try to avoid the trouble of attending hospital outdoors, while the poorer people are compelled to do so because of their economic condition. The distribution of services rendered by indoor departments of hospitals etc, may be more or less equitable, but the picture is not at all clear from this small scale study. It is possible that acute cases, where hospital services are essential, arise equally often among all classes of population and even the rich cannot avoid hospitals in such cases.

So far we have considered how far the distribution of these benefits is egalitarian, that is, proportional to population in the ten deciles. Perhaps it is more important to consider how far the distribution of these benefits is more egalitarian than the distribution of domestic consumer expenditure. The distribution of domestic consumer expenditure is far from egalitarian, the bottom decile getting nearly 4.3 per cent and the top decile 19 per cent. (For all-India, rural or urban, the corresponding figures show even greater inequality, *vide* Mahalanobis [2]) Judged against this background, the distribution of free health and education services seems to be favouring the poorer sections considerably. In medical services rendered by outdoor departments of hospitals, the bottom deciles get more than their due share even on the population basis. In free-studentship in the primary stage, the bottom deciles get their due share on population basis and hence more than their due share on the basis of domestic consumer expenditure. The same may be said, very roughly, about services of indoor departments of hospitals. In free-studentship in secondary and 'other' stages, the bottom deciles get less than 10 per cent share, but even here their share is larger than their share in domestic consumer expenditure. Hence, it is clear that the distribution of free health and education services in *Madhyamgram* was effectively reducing the inequality in level of living.

Table 4: Distribution of Outdoor Patient-visits and Indoor Patient-Free-Bed Days by Decile Groups—Last Quarter

Decile Groups (Per cent)	Per Cent of Persons	Share of Consumer Expenditure (Percent)	Percentage of		Per 100 of Population Per Quarter	
			Visits to Outdoor Departments of Hospitals	Days Stayed In Free Bed	Visits to Outdoor Departments of Hospitals	Days Stayed in Free Bed
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0—10	9.95	4.21	16.98	4.03	64.19	7.42
10—20	10.04	5.80	17.06	10.86	63.90	19.81
20—30	9.95	6.82	16.55	19.26	62.58	35.48
30—40	9.88	7.80	13.40	2.28	50.97	4.22
40—50	10.04	8.73	6.95	16.64	24.60	30.35
50—60	10.07	10.07	4.86	5.95	18.15	10.83
60—70	10.04	11.23	6.31	3.85	23.64	7.03
70—80	9.82	12.33	5.29	...	20.26	...
80—90	10.04	13.79	5.55	33.98	20.77	61.98
90—100	10.17	19.22	7.41	3.15	27.44	5.68
Total	100.00	100.00	100.00	100.00	37.60	18.31

Note: Number of different patients: (1) visiting outdoor depts: 264, (2) staying in free bed: 26.

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The Rally Continues

Wednesday, Morning

DALAL STREET presented a distinctly steadier appearance last week and its overall performance held out the hope that the market might be able to put up a still better showing for quite sometime unless, of course, the political situation deteriorates all too suddenly. Equities have staged an all-round moderate recovery from the previous week's lows and the rise has been quite impressive in certain counters. For instance, National Rayon have moved up from Rs 348 to Rs 373, Standard Mills from Rs 385 to Rs 408, Century from Rs 505 to Rs 525, Telco from Rs 221 to Rs 233.50, Voltas from Rs 224 to 234.50, Indian Dyestuff from Rs 170 to Rs 188, A C C from Rs 147 to Rs 150.25, Scindia from Rs 12.80 to Rs 13.40, Tata Steel from Rs 147 to Rs 152.25 and SLM—Maneklal from Rs 102 to Rs 125. While Tata Steel were back again at the year's highest, Amar Dye-Chem made a new high mark last week.

Heavy short covering, scarcity of fresh offerings and renewed selective bull support—all these contributed to the recovery in prices. Turnover also showed a noticeable improvement though activity continued to be entirely professional. There was nothing particularly stimulating in the week's news to bring about a turn in market sentiment. The corporate news was of a mixed nature. The industry's reactions to the Ordinance on bonus and the increase in cement prices were not such as would enthuse the stock market bull.

But one need hardly be surprised by the recent recovery in prices, which, in fact, had been overdue. With equity prices drifting lower and lower week after week despite the progressive decline in floating stocks of several scrips as a result of sustained institutional buying, the market's technical position had become vulnerable. It was necessary that the market should take a pause to allow technical forces have their full play. This is exactly what has happened now. It is difficult to say how long the process of technical adjustment which is well underway will continue. Nor is it easy to tell how far the recovery might go. Much will probably depend on the developments in the political situation. Apart from political uncertainties, the market's behaviour has become very unpredictable because of the lack of outside public interest. Being extremely thin, the market responds sharply to small buying and selling.

COTTON

Dull Affair

TRADING in the cotton market throughout last week, particularly in futures, was an extremely dull affair. The August hedge contract hovered around Rs 773—Rs 2 below the ceiling rate—most of the time and it was only near the week-end that it eased a little to Rs 770.50 (per 3 quintals). Total turnover during the week did not exceed a few thousand bales. One really wonders how cotton brokers manage to pass their time. Conditions in the spot cotton market were a little better, though it is only the needy mills which figured as buyers from time to time. Because of the accumulation of stocks of both cloth and yarn and acute financial stringency, mills are restricting their purchases to the minimum. Uncertainty about the global import quota has led to increased demand for foreign cottons; mills are picking up available lots of foreign cotton and a fair turnover has been reported in Upland and Supima cottons. Among the indigenous varieties, C02, L 147, Laxmi and Kalayan have been receiving fair attention.

The cotton trade seems satisfied with the Indian Cotton Mills' Federation's decision to purchase ISC 67 cotton from Gujarat which had been the subject of controversy for some time. The Federation has already agreed to take up 4,125 bales from the Sabarkantha Ginners, Oilmills and Cotton Merchant's Association and it is willing to purchase another 6,000 bales provided a firm offer is made on or before June 12. The agreement stipulates that the ISC 67 cotton will not be inferior to Cambodia A. If the cotton offered is above 1-3/32" staple, the price would be the ceiling prescribed for Cambodia A 1-3/32" and if the staple length is 1-3/32" and below, the price will be 5 per cent less within the approximate ceiling price for Cambodia A.

New Delhi had still to make up its mind on the cotton price policy for the next season. If prices are to have any bearing on production then the price policy should be announced before the commencement of the sowing season. Sowings have already started in the Punjab which is one of the important cotton growing States in the country. May be, New Delhi thinks that it does not have to bother much about cotton growers in the Punjab as Bengal Deshi has been fetching quite fancy prices throughout the current season.

OILSEEDS

Hesitant Tendency

THE oilseeds market had a rather dull time last week. The turnover in futures was restricted because of the margin considerations and the bulk of business was in the nature of switching over of positions from the nearby June to the distant September contract. There was a considerable increase in the spread between the June and September contracts, the distant position being quoted at a discount. After being marked down to Rs 78.10 castor June moved irregularly higher to Rs 80.60 by the week-end and showed a net gain of Rs 1.40 per quintal over the week. The September contract was virtually unchanged over the week at Rs 78.90 against Rs 78.80. The relative strength in the spot material induced short covering in the maturing contract. Linseed futures showed a small decline over the week, with the June contract receding from Rs 101.20 to Rs 99.80 and the September contract down from Rs 100 to Rs 98.40. No tenders were issued either in castor or linseed on the first notice day. Cottonseed September in which trading was permitted last week eased from Rs 52.25 to Rs 51.75 without much activity.

The spot market also displayed a subdued tendency due to improved supplies of groundnut oil from the upcountry centres. Groundnut oil was sold down to Rs 24 but later it recovered to around Rs 24.40 (per 10 kgs). Linseed oil eased from Rs 20 to Rs 19.40 but castor oil was steadier, with the quotation for Commercial grade marked up from Rs 16.65 to Rs 16.90 on some export house buying. Prominent spot dealers do not antici-

pate any significant changes in prices—up or down—in the immediate future While the general market psychology continues to remain bullish, the overall supply position is considered as reasonably comfortable. There was a scramble for edible oils towards the end of the previous season and prices were pushed to fantastically high levels. Nobody expects that experience to be repeated this time. Oil prices are unlikely to register any important rise from the highest levels recorded recently, provided, of course, the monsoon is timely and its progress is satisfactory. With the supply of edible oils reasonably comfortable and groundnut oil prices fluctuating between Rs 24 and Rs 25 for a long while, the recent increase in vanaspati prices by the industry has evoked considerable comment in market circles. The increase in prices is said to be quite unwarranted particularly when the industry has been able to acquire a fairly large quantity of soyabean oil which is considerably cheaper than groundnut oil.

Export houses reported fairly good business in groundnut extractions though the prices realised were lower than in the preceding week. Poland, East Germany and the U K were mentioned as the main buyers. There has been an appreciable decline in internal prices of extractions, the spot quotation having come down by about Rs 30 per tonne over the past month or so. The decline in prices is attributed to increased offerings by the manufacturers. Export business in cottonseed cake also continues to be good though here again overseas prices have registered a moderate decline in recent weeks. The delay in the issue of import licences against exports of cottonseed cake has pushed up the premium on copra licences from Rs 700 to about Rs 1000 per tonne.

Money and Banking

Thursday Morning

THE Bombay short-term money market held steady during the week. Demand seemed to have slackened somewhat even as the supply position became a little easier. The call rate now stands at between 7.75 and 7.50 per cent as against 7.75 per cent quoted at closing on Saturday, May 29.

Net deposits of scheduled banks showed in increase of Rs 9.37 crores at Rs 2,653.53 crores during the week ending May 21. Investments in government securities increased by Rs 3.07 crores at Rs 721.22 crores. Bank credit dipped by Rs 13.07 crores to Rs 2,105.94 crores. Borrowings from the Reserve Bank were lower by Rs 39.84 crores at Rs 126.45 crores. Money at call and short notice rose by Rs 5.89 crores to Rs 51.92 crores.

A further contraction in notes in circulation by Rs 31.34 crores at Rs 2,698.43 crores is revealed by the Reserve Bank's statement for the week to May 28. Notes held with the banking department increased by Rs 32.58 crores to Rs 52.66 crores. Total notes issued showed a nominal increase of Rs 1.24 crores at Rs 2,751.09 crores. Central Government deposits were marked down by Rs 3.26 crores and stood at Rs 64.12 crores. State Government deposits were lower as well by Rs 2.05 crores at Rs 15.93 crores. Deposits of scheduled banks were higher by Rs 10.51 crores at Rs 104.62 crores while their borrowings decreased by Rs 21.92 crores to Rs 102.84 crores.

BUSINESS NOTES

Svadeshi Mills

IN pursuance of its objective of diversifying activities, Svadeshi Mills has obtained a licence for the manufacture of laminated plastics which will enable it to produce water and acid proof packing material for textile and other goods. Besides, steps are being taken to effect economy in operation, improve the quality of cloth and expand the weaving and processing sections. A completely new modern weaving department is now nearly complete to house about 300 automatic looms. During 1964, 3,520 additional spindles were installed, increasing the installed capacity to 91,228 spindles and thereby nearly achieving the required balance between spinning and weaving. Also, 32 automatic looms were added. Further 244 automatic looms are expected to be installed by the end of 1965 when the automatic weaving capacity would be about 38 per cent of the total weaving capacity.

The management has formulated a seven-year plan of renovation, modernisation and expansion. Estimated to cost Rs 2.70 crores, the plan envisages replacement of worn out and obsolete plant, equipment and other related facilities with modern up-to-date plant and equipment. For financing this plan, Rs one crores have already been raised by the issue of debentures, and the balance amount of finance will be met from internal resources to be generated in the course of the next seven years.

The company during the past year produced satisfactory results despite adverse trading conditions in the latter part of the year. Gross profit was higher by more than Rs twelve lakhs at Rs 89.99 lakhs, though sales and other income improved only by less than Rs five lakhs to Rs 6.93 crores. With depreciation taking away about Rs nine lakhs more at Rs 32.21 lakhs, taxation Rs eight lakhs more at Rs 31 lakhs and development rebate a lakh more at Rs six lakhs, there is left for disposal a lower amount of Rs 20.79 lakhs compared to Rs 26.63 lakhs a year ago. Of this, the unchanged equity dividend requires Rs 19 lakhs and preference dividend Rs 1.07 lakhs.

The company was able to better its export performance in spite of the difficult conditions obtaining in world markets. There was increased competition from Pakistan, Hongkong and Korea, which were making a concerted drive to expand their exports. Indian cloth was being outpriced owing to the high cost of cotton, labour, stores and plant and equipment. The company is making efforts to find new markets, and a start has been made by exporting cloth to some of the Eastern European countries.

Jyoti

BETTER utilisation of manpower and newer and better substitutes for costlier raw materials have helped Jyoti considerably in holding the production cost despite rising prices of raw materials, higher wages and taxation. The company's modern research and development centre started working last year, beginning with the hydraulic section. This year the electrical rotating machine and switchgear sections have also commenced functioning. Equipment for the metallurgical section has been ordered, and is likely to be received by the end of the year. Various laboratories of the centre are usefully utilised for extensive tests on all critical raw materials and for type tests and endurance tests on finished products. With these facilities at its disposal, the company is now in a happy position to study the problem of substituting the imported raw materials with indigenous materials and components.

In view of the expanding market for electric motors, switchgear and switchboards, the management has

decided to expand the manufacturing facilities of these products. The possibility of expanding the manufacture of small and medium motors and switchgear and instrument transformers on a considerably larger scale is being examined. A separate electrical machines testing shop equipped to test generators upto 500 kW rating is being set up. This will help in consolidating and stepping up the manufacture of generators. A collaboration agreement has been concluded with a French firm for the manufacture of power relays and allied products, and a concessionaire agreement has been entered into with a U K firm specialising in the production of large pumps and both hydraulic and electric naval auxiliary equipment.

The company during 1964 introduced some new products such as sand and cement slurry pumps, rubber lined chemical pumps to handle abrasive and corrosive liquors and other difficult chemicals, large turbines and generators, 11 kV potential transformers, 33 kV circuit breakers and switchboard panels. The company's sales promotion efforts in overseas markets have started showing results as evidenced by the rise in export business. The 1964 export performance has exceeded the records of the past years.

The financial results for the year to December 1964 show sales higher by 22 per cent at Rs 3.14 crores and profit before taxation nearly a half more at Rs 21.26 lakhs. Of this, the tax liability has taken up Rs 12.30 lakhs (7.71 lakhs), gratuity reserve Rs 0.50 lakh (same) and reserve for doubtful debts Rs 0.10 lakh (same). The allocation to general reserve has been raised from Rs 1.20 lakhs to Rs 2.50 lakhs and the dividend stepped up by two per cent to 12 per cent claims Rs six lakhs against Rs five lakhs a year ago.

Synthetics on Chemicals

THE synthetic rubber industry is in a difficult situation owing to poor offtake and high cost of production. This is reflected in the working of Synthetics and Chemicals, the only unit in the country. Though imports of synthetic rubbers manufactured by the company are banned and imports of natural rubber restricted, the company's plant remained closed for a third of the year in 1964 and produced only 11,808 tons of synaprene rubbers against the rated capacity of 30,000 tons. On the company's representations, for the first time last year the government started making specific allocation of company's synthetic rubber to individual units of industry borne on the list of Development Wing, but the total allocation for twelve months to end-March 1965 was about 15,000 tons only. The company has made representations that there is scope for the increased usage of synthetic rubber, and has submitted detailed break-up for each product and each unit of industry in support of its contention. It has urged the government to help in utilising its idle capacity when providing for any imports of natural rubber.

The company's cost of production continues to be high, mainly on account of high cost of raw materials like benzene and high import duties on imported raw materials and chemicals. It has made many representations to the government that the cost of production of synthetic rubber can not be brought down unless reasonable reliefs are given on these counts and the company is assured of the fullest utilisation of the rated capacity of the plant. Meanwhile, in deference to the wishes of the government, the company had further reduced the price from August last even when the earlier price schedule was adopted with the apporval of the government.

During the year 1964, the company sold 10,982 tons of synaprene rubber compared to 2,246 tons in the previous year. The turnover increased from Rs 93.72 lakhs to Rs 4.37 crores, and the company earned a gross profit of Rs 16.49 lakhs as against a loss of Rs 29.26 lakhs incurred a year ago. After adjusting the profit against the previous accumulated loss and making some other adjustments, the balance loss of Rs 23.06 lakhs is carried to the balance sheet. As in the previous year, no amount has been provided for depreciation. Total arrears of depreciation amount to Rs 2.10 crores. Besides, there are preliminary expense amounting to Rs 23.26 lakhs which too have not been provided for.

Indian Copper

THE year 1964 has proved a profitable one for Indian Copper Corporation. Net sales during the year rose from £4,246,511 to £4,341,905 and the company earned thereon a higher profit before taxation of £1,304,591 compared to £1,193,181 in the previous year, after providing £172,105 (170,000) for depreciation. Of the higher profit, taxation demands £880,160 (821,855), leaving a balance of £424,431 (371,326). To this is added £465 being the balance from the previous year and £12,406 being other adjustments relating thereto. A sum of £47,813 (28,125) is allocated to development rebate reserve, £57,375 (nil) to capital development reserve and £332,000 (98,000) to general reserve out of which the unchanged dividend of 12 per cent is proposed to be paid. No amount has been earmarked for transfer to reserve for gratuities which had last year received £67,500.

The company produced 9,475 tonnes of refined copper in 1964 compared to 9,582 tonnes in 1963. The overall recovery from ore to refined copper was 92.162 per cent, as against 92.403 per cent for the previous year. The loss in production is attributed to the high ash content of the coal, coupled with a breakdown to the reverberatory furnace. Sales were lower at 11,418 tonnes, including 1,015 tonnes of refined copper ingots compared with 14,029 tonnes, including 3,057 tonnes of refined copper ingots during the previous year. The average per tonne selling prices were considerably higher over those of the previous year: copper ingots were up from £241.08 to £268.17, rolled brass from £283.55 to £356.56, Y M circles from £301.45 to £345.74 and rolled copper from £353.38 to £404.61. But at the same time, the overall operating cost of production of refined copper rose from £179.11.4d to £214.5.8d.

The construction of the new electrolytic refinery suffered further delays due largely to poor quality of locally manufactured equipment and the failure of manufacturers to adhere to delivery schedules. With the completion of cast housing section, however, work commenced on the production of anode moulds. The manufacture of electrolytic wire is expected to begin soon.

New India Industries

THE year to December 1964 has proved a good deal better for New India Industries, manufacturers of cameras, photographic paper, etc. The financial results show all-round progress in production, sales, and profits. During the year, sales expanded from Rs 1.50 crores to Rs 2.14 crores and gross profit from Rs 36.77 lakhs to Rs 48.53 lakhs. Of this,

depreciation has claimed Rs 14.51 lakhs against Rs 14.98 lakhs, taxation Rs 20.80 lakhs against Rs 6.85 lakhs and development rebate reserve Rs 0.06 lakh against Rs 9.26 lakhs, leaving a net profit of Rs 13.16 lakhs compared to the previous year's Rs 5.68 lakhs. The proposed ordinary dividend at Rs 15 per share requires Rs 6.60 lakhs and preferential dividend Rs 1.29 lakhs. The directors have also recommended capitalisation of a sum of Rs 11 lakhs from share premium account and distributing the same by way of bonus shares in proportion of one new ordinary share for every four ordinary shares held subject to the approval of the Controller of Capital Issues.

Madras Motor and General Insurance

ALL-ROUND progress has been recorded by Madras Motor and General Insurance Company in 1964. The gross premium underwritten by the company has risen by Rs 27.47 lakhs to Rs 129.08 lakhs. The fire underwriting results have been fairly satisfactory, notwithstanding the adverse claims experienced in the U K which affected the treaty results of the company. The fire revenue account has shown a net profit of Rs 4.74 lakhs. The company has expanded its activities in the miscellaneous department and is granting various types of cover in addition to motor insurance. The net premium has gone upto Rs 84.91 lakhs from Rs 68.30 lakhs, but due mainly to an increase in reserve strain the net profit in this account is slightly lower at Rs 15.62 lakhs. For the first time since the commencement of marine business in 1960, the marine revenue account has recorded a small profit of Rs 0.18 lakh. The net income of the company by way of interest, dividends and rents has gone up by Rs 1.59 lakhs to Rs 7.10 lakhs. But due to the fall in the market rates of stocks, shares and other securities, the company's investments have suffered a depreciation of Rs 1.51 lakhs.

After providing Rs 12.95 lakhs (13.85 lakhs) for the tax liability, the company has earned during 1964 a profit of Rs 13.40 lakhs compared to Rs 11.46 lakhs a year ago. Of this, Rs 96,500 (78,600) are taken up by donations, Rs five lakhs (Rs 4.50 lakhs) have been earmarked for augmenting general reserve and Rs 7.48 lakhs (Rs 6.43 lakhs) for payment of dividend is lowered by 2.5 per cent to 18 per cent but payable on an enlarged capital. The total assets as at the end of the year stood at Rs 210.17 lakhs as against Rs 176.26 lakhs, reserves at Rs 30.57 lakhs against Rs 25.62 lakhs and insurance funds at Rs 56.21 lakhs against Rs 43.77 lakhs.

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CURRENT STATISTICS

Industrial Production

(Index Numbers; Base 1956—100)

Item	1965 March	1965 February	1965 January	1964 December
General Index				
Seasonally adjusted	...	185.3	185.6	184.5
Crude	...	180.6	188.2	191.9
MINING AND QUARRYING	...	174.4	178.1	180.4
Coal	...	164.2	167.4	170.1
MANUFACTURING	...	176.5	183.9	187.6
Food Mfg Industries	...	152.0	157.6	156.5
Wheat flour	...	355.4	353.8	353.6
Sugar	346.7	352.2	373.0	330.0
Tea	...	17.6	21.7	50.3
Salt	...	79.3	53.7	45.1
Beverage and Tobacco Industries Cagarettes	211.4	211.4	211.9	211.2
Manufacture of Textiles	...	128.3	132.8	137.4
Spinning, weaving and finishing of cotton textiles	...	124.8	129.0	134.3
Cotton spinning	...	133.8	144.2	149.8
Weaving of cotton textiles	...	121.4	123.1	128.3
Mill sector	...	91.8	97.5	99.2
Decentralised sector	...	201.4	192.8	207.2
Spinning, weaving and finishing of woollen textiles	...	111.0	113.3	120.6
Spinning, weaving and finishing of textiles from Silk and synthetic fibres	...	194.5	194.6	202.7
Spinning, weaving and finishing of jute manufactures	135.1	117.1	126.2	124.0
Manufacture of footwear, other wearing apparel and made up textile goods	222.0	212.3	243.3	255.4
Manufacture of wood and cork except manufacture of furniture	213.8	336.0	211.4	244.2
Manufacture of paper and paper products	...	249.7*	249.7*	249.7
Manufacture of leather and fur products	145.7	134.2	137.6	157.8
Manufacture of rubber products	...	205.7	218.6	236.0
Manufacture of chemicals and chemical products	...	228.8	242.4	248.6
Basic industrial chemicals	...	368.9	389.9	400.5
Heavy organic chemicals	...	436.4	480.6	497.0
Heavy inorganic chemicals	...	397.5	416.8	424.4
Synthetic Resins and Plastics	...	623.7	640.3	683.3
Dye-stuff	179.5	179.9	182.5	196.0
Manufacture of fertilisers	...	252.9	271.9	270.5
Manufacture of paints, varnishes and lacquers	...	172.4	181.2	189.1
Soap	...	138.2	150.0	147.3
Manufacture of Matches**	146.9	129.7	135.8	145.3
Manufacture of petroleum products	...	219.8*	219.8*	219.8
Manufacture of non-metallic mineral products	...	224.7	239.6	235.3
Manufacture of structural clay products	...	244.6	250.6	234.3
Glass and glass products	...	177.3	188.3	194.0
Manufacture of pottery, china and earthenware	...	337.9	359.4	288.2
Cement	214.5	191.7	206.3	214.5
Basic metal	...	262.5	284.9	287.8
Iron and steel basic industries	...	269.6	297.0	301.7
Pig iron	...	308.5	365.0	371.7
Finished steel	...	329.2	337.3	345.3
Copper smelting and rolling mill products	...	143.2	83.8	146.1
Aluminium manufacturing	...	397.8	422.8	380.0
Brass manufacture	...	247.7	243.6	244.9
Manufacture of metal products	...	232.8	244.9	254.0
Manufacture of bolts, nuts, screws, nails, springs, chains, etc	...	202.9	193.0	172.9
Manufacture of hand tools and small tools	...	622.3	605.1	615.5
Manufacture of metal products not elsewhere classified	...	198.3	214.2	224.4
Manufacture of machinery, except electrical machines	...	463.5	469.8	500.4
Internal combustion engines	...	454.0	483.8	484.9
Manufacture of industrial machinery	...	516.4	521.0	572.4
Manufacture of commercial office and household machines	...	362.8	358.9	370.0
Sewing machines	...	317.9	322.5	331.3
Manufacture of electrical machinery, apparatus, appliances and supplies	...	306.1	329.7	353.3
Power transformers	...	438.3	482.9	466.8
Electric motors	...	424.1	417.7	447.2
Manufacture of electric cables and wires	...	331.1	376.4	384.5
Manufacture of batteries	...	191.7	209.6	226.6
Electric lamps	...	209.6	282.4	314.0
Electric fans	...	428.0	452.1	528.4
Radio receivers	...	332.4	329.9	399.2
Manufacture of transport equipment	...	217.1	217.8	202.3
Railway wagons	...	153.2	155.8	139.3
Manufacture of Motor vehicles (automobiles)	284.1	257.2	251.6	224.9
Manufacture of motor cycles and scooters	909.5	714.3	760.2	974.0
Bicycles (complete)	...	211.1	217.8	260.2
ELECTRICITY, GAS AND STEAM Electricity	...	293.1	313.0	318.9

*Due to non-availability of production data, December 1964 figure has been repeated.

** The production statistics relate to six 'A-Class' units only. Hence the index based on their production has been inflated by the ratio of production of all units in 1961 to production of six 'A-Class' units in that year.

RAILWAY GOODS TRAFFIC

Details of Wagons Loaded on Broad and Metre Gauges—in Terms of 4-Wheelers

	Broad Guage			Metre Gauge		
	1963-64	1964-65	Increase (+) or Decrease (—) in 1964-65 over 1963-64 (Per cent)	1963-64	1964-65	Increase (+) or Decrease (—) in 1964-65 over 1963-64 (Per cent)
REVENUE EARNING TRAFFIC						
Coal and Coke for public (including Non-Government Railways)	1,771,339	1,731,937	— 2.22	308,661	273,607	—11.4
Grains and Pulses	506,247	462,353	— 8.67	406,933	398,257	— 2.13
Oil Seeds	63,868	51,046	—20.1	72,062	57,544	—20.1
Cotton Raw	22,433	19,552	—12.8	18,567	16,598	—10.6
Cotton Manufactured	9,901	9,144	— 7.64	2,761	1,533	—44.5
Jute Raw	75,130	60,040	—20.1	68,408	50,564	—26.0
Jute Manufactured	7,131	7,935	+11.3	5,175	6,426	+24.2
Sugar	59,366	54,468	— 8.25	65,326	58,870	— 9.88
Sugarcane	38,029	39,697	+ 4.39	135,244	185,327	+37.0
Cement	226,481	249,038	+ 9.96	186,849	205,725	+10.1
Iron and Steel						
(a) Pig Iron	49,551	49,785	+ 0.47	8,088	9,754	+20.6
(b) Others	417,859	436,349	+ 4.42	75,629	71,514	— 5.44
Tea	11,315	6,006	—46.9	17,735	15,352	—13.4
Metallic Ores						
(a) Manganese Ore	52,116	62,810	+20.5	12,756	18,416	+44.4
(b) Iron Ore	650,403	653,345	+ 0.45	99,821	114,596	+14.8
(c) Others	30,550	35,130	+15.0	18,367	9,846	—46.6
Lime Stone and Dolomite	253,058	268,215	+ 5.99	76,900	85,565	+11.3
Miscellaneous fulls	1,878,631	1,941,887	+ 3.37	1,399,157	1,394,790	— 0.31
Miscellaneous Smalls	335,662	360,940	+ 7.53	271,795	288,027	+ 5.97
TOTAL	7,532,704	7,540,447	+ 0.10	[3,753,837]	3,782,327	+ 0.76

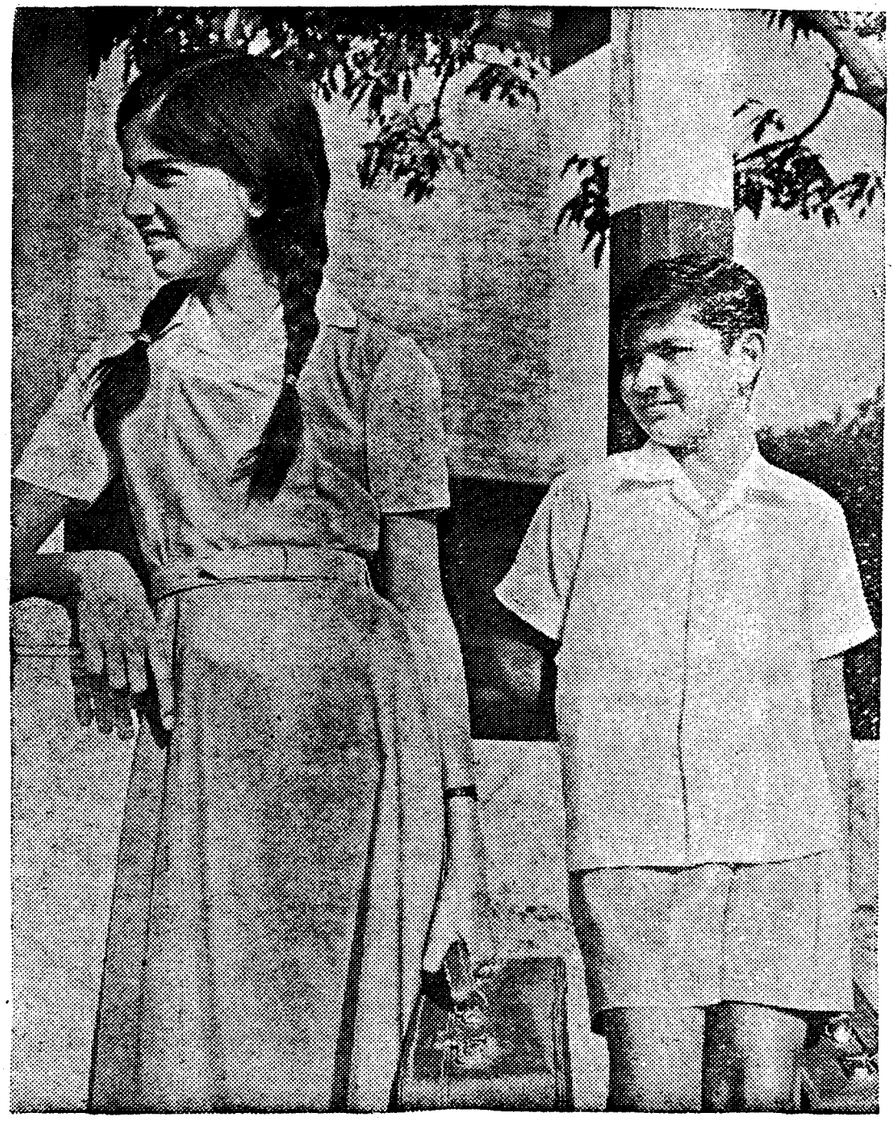
BANKING RETURNS

Reserve Bank	May 28	May 21	April 23	May 29 '64
1 Note circulation	2698.42	2729.77	2712.70	2526.52
2 Rupee coin	94.26	93.02	96.57	110.28
3 Deposits				
a) Central Govt	64.11	67.38	49.52	53.57
b) Other Govts	15.93	17.97	16.40	17.00
c) Banks	104.61	94.11	97.96	88.57
d) Others	174.86	175.65	168.14	161.54
4 Foreign securities	70.00	72.46	72.46	103.46
5 Balance abroad	7.34	10.71	6.75	12.16
6 Rupee securities	2453.07	2450.61	2441.15	2242.27
7 Investments	163.54	173.60	133.05	239.29
8 Loans and advances to Govts	82.31	76.62	83.41	85.89
9 Other loans and advances	244.79	245.49	283.36	159.12
Scheduled Banks	**May 21**	**May 14**	**April 23**	**May 22 '64**
1 Aggregate deposits (net)	2653.53	2644.16	2634.10	2326.75
Demand (net)	1423.58	1321.50	1259.82	1065.34
Time (net)	1488.30	1436.38	1374.28	1261.40
2 Cash in hand	91.29	74.68	71.68	62.11
3 Balance with Reserve Bank	91.29	94.09	103.87	83.28
4 (2)+(3) as % of (1)	6.16	6.38	6.66	6.25
5 Borrowing from Reserve Bank	126.45	166.29	120.55	48.44
a) Against usance bills and/or promissory notes	44.07	66.79	49.43	7.74
b) Others	82.38	99.50	71.12	40.71
6 Advances	1747.63	1759.00	1730.40	1556.88
a) State Bank	430.34	436.71	425.97	347.85
b) Others	1317.29	1322.29	1304.43	1209.03
7 Bills discounted				
a) Inland	282.93	282.91	283.36	212.97
b) Foreign	75.37	77.91	75.86	68.02
c) Total	358.30	360.82	359.22	280.99
(i) State Bank	55.32	56.26	56.28	23.92
(ii) Others	302.98	303.56	302.94	257.07
8 (6) + (7) as % of (1)	79.36	80.16	79.49	78.99
9 Investments in Govt Securities	721.22	718.15	718.70	620.58
10 (9) as % of (1)	27.18	27.16	27.28	26.67

TEA: SUPPLY AND DISTIRIBUTON

('000 *tonnes*)

	1956-60 average	1962	1963	1964 (preliminar)
Production				
India	318.4	346.7	345.9	370
Ceylon	184.6	211.8	219.8	317
Japan	75.0	77.5	79.4	80
Pakistan	23.3	23.4	24.8	29
Total Asia[2]	682.2	757.4	760.7	795
Africa	40.7	56.3	58.4	63
Latin America	5.8	14.2	15.5	17
China (Mainland)	131.63	159.01	159.01	1601
USSR	30.8	41.1	45.1	47.1
World Total	891.1	1028.0	1038.7	1082
Exports from Producing Countries				
India	215.5	212.5	223.5	210
Ceylon	174.3	204.9	206.8	210
Japan	9.4	8.6	3.6	3
Pakistan	5.7	4.0	—	—
Total Asia[2]	**455.3**	**478.2**	**480.0**	**470**
Africa	33.8	50.6	52.0	55
Latin America	1.3	7.8	8.9	10
China (Mainland)	41.7	23.4	27.7	301
World total	**532.1**	**560.0**	**568.6**	**5651**
Net Imports				
United Kingdom	233.8	235.4	238.6	220
Other Europe	40.6	46.9	47.3	51
Total Europe	**274**	**282.3**	**285.9**	**271**
United States	47.8	58.5	57.0	60
Canada	20.2	18.4	20.3	20
Latin America	8.3	7.6	11.4	12
Africa	67.6	79.5	76.5	85
Asia	50.5	68.7	64.0	64
Oceania	34.5	37.0	36.2	37
USSR	17.7	8.6	14.4	161
World total	**521.0**	**560.6**	**565.7**	**565**



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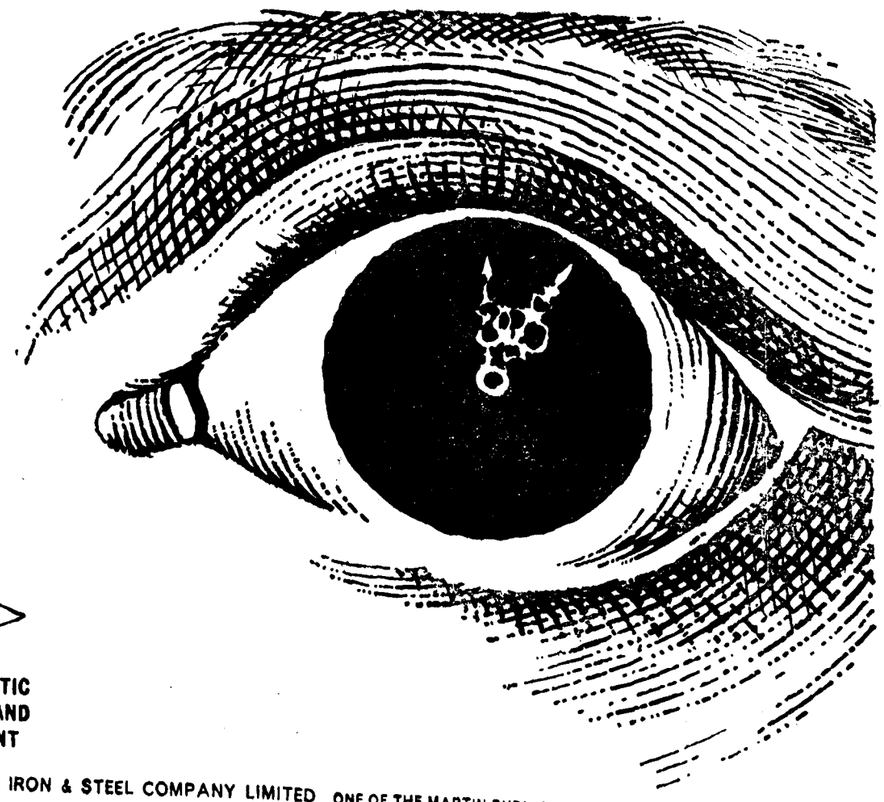
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THE ECONOMIC WEEKLY

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A Time for Introspection

IN recent weeks India has launched an all-out self-salvaging operation in Asia and Africa. The Minister for External Affairs himself has toured several African countries; simultaneously, the Minister of State crossed over to West Africa, and the Deputy Minister has been pleading the country's cause in the capitals of South Asia and the Far East. Even the Vice-President, presumably because he is a Muslim, was requested to visit the Middle East. Topping this series of manoeuvres, Lal Bahadur Shastri, on his way to Canada last week, stopped in Cairo to propitiate President Nasser.

All this is supposed to contribute to India's ground strategy to thwart China at the Afro-Asian Conference to be held later in the month in Algiers. It might be argued that our present policy of directly canvassing for Afro-Asian support is nothing out of the ordinary, since Prime Minister Chou en-Lai is also doing precisely the same thing. Even President Ayub Khan has been going out on a series of foreign tours to propagate the point of view of Pakistan. And who has not heard of the flamboyant trips of President Soekarno every twelve months or so?

A caveat nonetheless has to be entered with respect to the nature of the diplomatic offensive which our policy-makers have mounted. It is possible to propagate a foreign policy if a country has one. Do we really have one? What have our Ministers been trying to sell abroad? Are they seeking to convince the Afro-Asians that, despite all that has happened since Pandit Nehru's death, we still believe in non-alignment, anti-colonialism and Afro- Asian brotherhood? What concrete steps are we prepared to take to provide evidence of this continuity?

There was a time during the closing half of 1964 when it was becoming obvious that our foreign policy experts were slipping into an anti-non-aligned frame of mind, despite Afro-Asia and despite the aid that was being received from the East European countries. The zeal of the general run of civil servants who have come to the fore since Krishna Menon's exit apart, the Government was being pushed by a number of internal developments. Partly this was on account of the demoralisation which followed last year's debacle in food. In the ensuing panic, the United States was thought to be the only saviour. Intense pressure was immediately mounted on the Ministry of External Affairs to muffle all criticism of that country. A strong Minister of External Affairs could have resisted this encroachment on independent decision-making. But, to all intents and purposes, the initiative for the making of foreign policy had by then shifted from the Ministry of External Affairs to the Secretariat of the Prime Minister. It is well known that, leading up to the time of the April disenchantment with President Johnson, the permanent officials of the Ministry of External Affairs were under a cloud and policy-making was gradually being usurped by Shastri's personal advisers. There is of course not much of a qualitative difference in the general attitude of the civil servants who man the Ministry of External Affairs and those who constitute Shastri's Secretariat. But at least the former would be knowing a little bit more of the history and background of a particular situation and, therefore, in their advice on policy formulation they would be likely to be somewhat more circumspect. In contrast, the Prime Minister's Secretariat, not being inhibited by either memory or history, would feel tempted to shoot from the hip. Most of these officials in any case have pronounced pro-American inclinations; besides, they are men in a hurry. Having reached the judgment that the country's long-run interests lie in alignment with the U S A, they would like to hustle the decision-making process accordingly.

Till only a few weeks ago, these people were succeeding very demonstrably. They have now stumbled only because they had little idea regarding the volatile nature of Indian public opinion. They have also been somewhat naive in their assessment of the American Administration's general attitude to India. For this essential truth needs to be stressed over and over

again: we may willingly agree to be a vassal State of the U S, but that does not mean that the latter country would be equally willing to enlarge the volume of aid to us, or to support us down the line on all issues. With the old Cold War mould all but broken, the U S Administration does not consider it enough of an attractive bargain to alienate our Asian neighbours merely to placate us. At the more mundane level, it is not easy for even the affluent Americans to subsidise for years on end a population of five hundred million, and one which is growing annually at the rate of 2.5 per cent. Also, the Americans could hardly be blamed if they are a little wary of the fickle Indian mind; just as our short-term emotions have today arrayed us against the Chinese and the Indonesians and the Pakistanis, another series of incidents could easily turn our minds to an altogether different direction.

President Johnson's lack of enthusiasm has again forced us into a journey of re-exploring the roots of our foreign policy as it was conceived by Pandit Nehru and fashioned by Krishna Menon. But, after our recent bouts of opportunism, will it be easy to convince our Afro-Asian neighbours that we are permanently deviating back into fidelity? In our obsession with American military aid and economic succour, we have, in the recent period, tended to ignore Afro-Asia. Today the Afro Asian countries have much less need for India than we have for them. We have alienated the other three major populations in Asia. Having realised only subsequently that the direct support of the Western powers is not adequate for survival, we are now desperately searching for friends among the African and Asian countries. While no nation will chafe at being called a friend of India, certainly the Afro-Asian powers by and large would not like to make enemies of Prime Minister Chou en Lai, President Ayub Khan and President Soekarno just in order to gladden our heart. It is not only the mericans who are growing wise.

After all, while we demand sympathy and understanding from the Afro-Asian nations, we have little to offer them in exchange. China has currently a surplus in its external accounts running near to one million dollars annually. It happily provides arms to countries which are in need of them in Asia and Africa; occasionally it offers economic aid. Pakistan has a viable economy, and has just entered into a number of collaboration agreements with several Middle East countries. President Soekarno's Indonesia is not so well off, but at least it has a positive ideology and a cohesive national movement.

We have none of these. We can offer no ideology to Asia and Africa, because anyone who has studied our foreign policy of the last few years, would only be impressed by its latent opportunism. As a bankrupt nation, we are unable to offer any aid. And militarily, we exposed ourselves in 1962; and the reputation has not been enhanced by the episode of the Rann of Kutch.

Afro-Asian conference or no Afro-Asian conference, a reconstruction of the country's foreign policy is necessary for survival. And here the greatest lesson that we can learn is that of humility. If we want to contain China, we shall have to begin by admitting the fact that, compared to her, we are a weaker and smaller nation as of now. We must be able to extricate ourselves soon from the China syndrome. In the process of re-evaluation, the first task is the development of a self-reliant economy. It is only inherent strength which evokes emotion from outsiders, whether it be fear or admiration. The second, but hardly less important, task is to thwart the sabotage of our foreign policy by civil servants whose reading of history is imperfect and whose ideologies are distorted. The politicians must have the courage to tell their advisers that the country is not for sale.

Disciplining the States

AS this issue goes to the press, another series of meetings begins in New Delhi between the Planning Commission and the State Finance Ministers, individually. The issue is the States' contribution to Fourth Plan resources. The Planning Commission wants the States to produce a surplus of Rs 825 crores in their current accounts (compared to Rs 960 crores recommended by the Working Group on Resources and the figure mentioned in the Memorandum, Rs 870 crores). The States' own estimates, however, add up to no more than Rs 335 crores. No surprises are expected from the current meetings. The Planning Commission, it is safe to predict, will stick to its estimate with some concessions perhaps here and there to certain States. The figure that is finally agreed upon will be, almost certainly, around Rs 800 crores.

These figures as such do not call for any comment. The dispute is between two sets of calculations and not of policies and is more than likely that neither is based on sound scientific methods. Though some amount of comodity balancing has begun to make the physical targets more closely inter related than they used to be in the earlier years of planning, no such streamlined methods underly our financial calculations. The growth rates assumed in the financial calculations reflect, by and large, the wishes and aspirations of the authorities making them. The Planning Commission it suits to assume high rates of growth for the States' resources; the opposite suits the States. Each party wants to pass on to the other as much of the burden of raising resources as it can.

States' estimates are, of course, usually very much more irresponsible than those of the Planning Commission and the series of meetings may turn out to be the usual disciplining sessions for the States. But what is worthy of notice is that this relationship between the States and the Planning Commission has not been sufficiently criticised in the country for its terrible inefficiency. Fifteen years of planning have produced not much change in the organisational framework of Plan formulation and implementation. In a vast country with a federal government structure, the framework has to make possible effective participation by the States or other regional agencies in the process of planning. There are various ways, more or less efficient, of allowing this participation, involving different degrees and types of decentralisation within a framework of centralised calculations. Some original developments in the methodology of planning — both in organisational and computational aspects — might have been expected in this country. French planners have some valuable contributions in this sphere to their credit; they have widely experimented with operational techniques of collaboration between the Planning Bureau and associations of entrepreneurs representing particular industrial sectors and there has been a parallel development in the mathematical theory of decentralised decision-making closely wedded to actual practice. In India, however, there has been no original thinking, no experimentation in how to make the States

participate effectively in the planning process. The relationship has remined that of the controller and the controlled. The current talks are in effect bargains across the counter, with the Centre holding the purse strings and the States exploiting to the hilt their capacity to blackmail. The technique is not one of co-operation and collaboration — neither among the States, nor between the States and the Centre — but one of getting the better of each other. The game played is certain not a game-theoretic one; it does not lead to any optimality.

The fact is no action has yet been taken on the generally accepted contention that for efficient planning at the grassroots level there has to be a considerable degree of decentralisation. The facts and figures necessary for formulating efficient State level plans can only be known or fully understood by experts with local knowledge. Planners in the Yojana Bhavan and the other Bhavans in New Delhi cannot but be handicapped by ignorance and distance. What is necessary are expert bodies of planners at the State and district levels — say State level Planning Commissions with horizontal co-ordinating role with respect to the State departments and vertically dual relationship with the State Ministry and the Central Planning Commission. And yet in all these years nothing has been done to set up such State level planning bodies. In discussions between the Centre and the States the former is represented by the Planning Commission which is supposedly an expert body, and the latter by Ministers and Secretaries incapable of taking a unified, technical view of the problems of their State. The discussions thus take place between two parties neither of whom is competent to appreciate the problem in its fullness — the Central planners because of their lack of local knowledge, and the State representatives because of their lack of understanding of the problems either of their State or of the country as a whole. State planning continues, therefore, to be a most inefficient process, reflecting a compromise between the parochial selfishness of the States and the highhanded, but un-understanding, arbitration of the Centre.

Weekly Notes

Signs of Revival

THERE are signs of revival on the stock exchanges. But the little improvement that has taken place over the last two or three weeks is mainly in prices, not in the volume of business transacted. The *Economic Times* all-India index of equity prices stands nearly 2 percentage points above the lowest level reached this year, though it is still 7 percentage points below the pre-Budget high. The revival has taken place mainly in Bombay, Ahmedabad and Delhi, not in Calcutta, and is confined largely to cotton textiles, steel, engineering, sugar and electricity. Part of the returning confidence is, of course, attributable to the fact that the dividends of a large number of companies are expected shortly, since they close their accounts in March, and the dividends should be higher in keeping with the higher structure of interest rates. Tata Steel, particularly, is expected to give a better deal to shareholders this year.

Moreover, L I C has been an unusually heavy buyer of leading scrips in recent weeks and there is a well-founded belief that LIC has decided to invest a higher proportion of its funds in private securities, in order to earn a larger over-all return. In spite of the much advertised monetary stringency, at least one operator in Bombay and two (one of whom is Haridas Mundhra) in Calcutta are consistent buyers of certain scrips and have not disappointed themselves or their followers in the process. Carry-forward charges for transactions in forward shares have stabilised at relatively low levels and the current yield of over 7 per cent average on ordinary shares is attractive.

These — as they are described in market jargon — technical factors apart, there are good reasons for revival. The entry of the Industrial Development Bank in a massive way in the field of underwriting, especially for large projects requiring assistance of more than Rs 2 crores, has made a good impression, all the more because IDB is giving share brokers a slice of the underwriting commission, in addition to the usual brokerage. Most companies have reported satisfactory it not better results over the last year. The floatations of around 1960, which have been a deadweight for a long time, are going into production and some are approaching the dividend paying stage; consequently, there is some interest in cash shares also. While the foreign exchange position remains or grows more critical, there is a silver lining or two: the utilisation of the latest Consortium aid should begin soon and, at the same time, depleted stocks of some competitive imports have helped enterprises like Synthetics and Chemicals to at last sell at a profit. It is also hoped that relatively stable food prices this year would keep down wage costs and that higher costs of materials would be passed on to consumers, of which there are some indications already. There is greater confidence in the stability of the Shastri Cabinet, too.

The dust raised over the non-abolition of dividends tax and capital gains tax is tending to settle down. The dividends tax is after all a flea-bite, less than Rs 10 crores out of a total revenue of more than Rs 340 crores from companies, and the concession allowed in capital gains tax taken off much of edge. The market and tax experts have taken some time to realise that the continuation of these taxes has been offset to a large extent by the very liberalised treatment of so-called narrowly owned (i e, section 104, formerly 23A) companies. Foreign controlled public companies, all those public companies which have assets of more than Rs 50 lakhs and all companies with profits up to Rs 10 lakhs have benefited considerably from the Budget. After the traditional lag in understanding novel measures, businessmen, even share brokers, have come to appreciate that the Budget has left them very much better off. For the first time in a decade and half of planning, the tax pattern has been settled on a long-term basis and that basis is that the more you invest and sell and keep down your cost, the lower the rate of tax you pay.

Three factors, foreign exchange, tight money and border troubles, prevent the recovery from becoming a boom, and all three are inter-related. Border troubles will entail larger defence expenditure which, in the absence of significant Western military aid, will involve consistent pressure on free foreign exchange resources for the next five years or so. Industrial production grew last year at a disappointing rate, largely due to shortage of maintenance imports. Monetary stringency of present dimensions might by comparison be a passing phase but notice has been served that the reins would be kept

tight over the Fourth Plan too — if only to make sure of stand-by assistance from IMF. These are also other adverse developments like the power cut in the Bombay-Poona region. Nevertheless, for the market the worst seems to be over, though blood-curdling rumours pop up every now and then, as they will — this week, for instance, of devaluation and de-monetisation!

Unsafe Mines

ON June 1, 236 coal-miners died in one of the worst mine disasters in Japanese history at the Yamano coalmine in Kyushu, Japan's main southern island. This was just four days after the Dhori colliery explosion, the worst ever in India, which killed 270 miners according to official estimates and almost twice that number according to estimates by miners' unions. In Japan the Minister of International Trade and Industry promptly tendered his resignation assuming responsibility for the disaster. In India the Minister concerned has taken the mishap as part of the day's work and is still undecided whether even to institute a judicial enquiry or not. So much for concern for human life!

It is not the magnitude of the Dhori disaster alone which calls for a thorough enquiry into it — nothing, after all, will bring back the dead men to their hapless widows and children. Some very serious allegations have been made about its possible causes, to establish the truth or falsehood of which is absolutely necessary considering the publicity they have received. Understandably, the owners of the mine have been anxious to allay doubts that the accident might have been caused by some negligence on their part; towards this end they have raised the possibility of sabotage by workers on the basis that there had been a strike in the mines and the workers had been compelled to resume work by a government order less than a week before the explosion. However, the sabotage theory has been discounted by the Chief Inspector of Mines, G S Jabbi, after some preliminary investigations. On the other hand, some of the facts which have come to light hardly do credit to the management of the mines. The Chief Minister of Bihar, K B Sahay, who made an on-the-spot investigation, discovered that no qualified engineer had cared to check pit conditions after the strike and before work was resumed. In fact, the last time the Dhori colliery had been inspected by the Department of Mines was in July 1964.

Safety laws prescribe regular testing of air inside mines, mechanical ventilation to dilute and remove explosive gases and stone dusting of walls to render harmless coal dust. Since the Dhori mine was closed for a long time on account of the strike, it is pertinent to ask if these minimum precautions were taken. This may well prove to be crucial in view of the fact that has come to light that at Dhori miners rarely used safety lamps, using instead 'dhibris' (kerosene wick lamps giving out naked flames). Since 'dhibris' are far cheaper than proper safety lamps the managements' anxiety to make do with them is not difficult to understand but it would be interesting to know on what grounds the government's inspecting staff permitted their use.

It is, of course, no news that basic safety precautions are ignored in our mines. Compliance with them means some expenditure by comparison with which human life is cheaper — each one of the miners killed at Dhori has cost the owners of the mine a mere Rs 100 in the form of *ex gratia* (sic!) payment. And the mine inspecting staff does not seem to be averse to obliging mine managements. Only last month the Minister had read out a detailed statement in Parliament giving details of how for years many mine owners had evaded their responsibility to supply proper mining boots to their workers, preferring to expose them to serious injury so as to save themselves a few thousand rupees.

The enquiry into the Chinakuri disaster of 1958 which killed almost 200 miners revealed grave lapses in the observance of safety precautions. The same findings have been repeated by numerous courts of enquiry appointed to enquire into other accidents. The principal purpose of these enquiries is that their findings make it possible to take action to prevent accidents from similar causes. This purpose does not seem to be achieved very often. Nor do the statistics of casualties in mine accidents seem to make any great impact on the Department of Mines. The public needs a disaster of the proportions of the one at Dhori to make it aware of the problem of miners' safety. But the Department of Mines does not: it knows that, to take the latest figures available, on average there occur 7 fatal and serious accidents in coal mines on every day of the year. In a whole year in these accidents some 200 persons or more are killed and almost 15 times that number seriously injured and disabled for life.

The New Cold War

THE events of the past three months have amply illustrated a new phase in post-war international affairs, the precise significance of which is still obscure. It is almost as if we were back in the nineteen thirties and the League of Nations was gently fading away to reveal the actual scale of conflict no longer soluble through the polite institutions founded with such goodwill in the early twenties: all is commotion, excitement, gloom, but no one sees the coming cataclysm.

Then the enemy was clear — or seemed so retrospectively. Now it is not. The American response to its profound dilemma in Viet Nam has been to escalate the conflict with increasing speed through 1964 (despite protestations to the contrary), culminating in February last with the beginning of the wanton bombardment of North Viet Nam. Since then escalation has continued. U S troops in Viet Nam have risen from 16,000 'advisers' last August to (and this is a guess, owing to American censorship) about 70,000, not counting those deployed on the 126 ships of the Seventh Fleet which patrols the whole coast and supplies half the American strike force for bombing purposes. Some 25,000 men are currently landing in South Viet Nam, and the immediate prospect is that the number of U S troops would swell to 100,000, including three combat divisions. The cost has soared again, a guess that leaves out the cost of U S forces in Viet Nam paid under separate heads) to about 1,800 million dollars per year, or nearly double the sum offered by President Johnson as economic aid to South East Asia in his John Hopkins University speech. The bombing sorties on the North, begun as limited 'retaliation' for Viet Cong attacks in the South, have risen to regular missions, part of the ordinary peace-time policy of an American Government! From regular missions, they have become round-the-clock blitzkriegs on targets initially 100 miles or more from Hanoi to ones only 45 miles away. The transition to openly bombing civilians is already in sight. Now McNamara has put it on record that at no time has any responsible official of the U S Administration ever said that nuclear weapons would not be used in Viet Nam if it was felt to be in the interests of the United States.

The escalation must continue if evacuation is to be avoided, if the Viet Cong victory is to be evaded. It must continue also because a section of Washington policy-makers aim not at the soul of the South, not even at the soul of the North — the real target, for which the Vietnamese war is merely an incidental tragedy, is China. China has inherited the place left vacant by the Soviet Union on the see-saw of the Cold War — with a difference. The stability of the Cold War turned upon the equality of the contenders, the balance of terror between two nuclear giants. Yet today China can oppose the United States only from under the Soviet nuclear umbrella; the Chinese can fight the United States only with words when there is a risk of American nuclear retaliation. The East Wind blew strong only with Peking-Moscow amity. In Korea, Soviet power stood behind China; no one knows whether it does at the moment. And in Viet Nam, China must play safe, for it knows that the 'warhawk' faction in Washington argues, cogently, that Russia will no longer shield China, and that therefore now is the time, while Chinese nuclear capability is still very weak, to strike at China's industry once and for all. China's weakness without Russia is an open incitement to American ambitions.

The key change is then the extinction of the Soviet Union as the balancing factor to the United States. American power, expressed in openly lawless brutality in Viet Nam and the Dominican Republic, is predicated on the assumption of Soviet acceptance of whatever America does in the interests of preserving the Soviet-American *detente* — so far a successful assumption, since Russia did not even summon the U N Security Council when the bombing of the North began. Indeed, America could argue that its activity in Viet Nam helps Russia. If it forces Soviet intervention to stabilise the *status quo* (to the loss of the Viet Cong), together Russia and America will undercut the appeal of the Chinese position, demonstrating that peaceful co-existence is all and wars of liberation evil.

The policy has dramatically demonstrated the lack of any new post-war world order: all is as before, whether it be the gunboat diplomacy of classical imperialism or the lawless aggression of the Axis powers before the last war. The rule of law, the sanctity of negotiated settlements (the Geneva Agreements), of national sovereignty, just as the United Nations and the Organisation of American States, all have suddenly appeared to be purely contingent fictions adorning the fact of American hegemony. Even little SEATO has been left high and dry, squeaking to be so naked in public gaze. And in all the discussions, the cry of sorrow from the ordinary Vietnamese, speared on the 'balance of power' is drowned.

Will Labour Last?

Our London Correspondent writes:

THE Labour Government's hair-breath escape from defeat during the debate on the Finance Bill—it was saved, ironically, by an Opposition Chairman's vote—has raised questions about how long Labour will survive in office. If one were to believe the anti-Labour press, it is only a matter of time, and short time at that, before the Conservatives are back in office. Is the situation really as bad as that for Labour?

But despite the premature jubilation of the Tories, who already see themselves back in power, the issue is far from settled yet. The Opinion Polls still give Labour a lead greater than they had at the time of the Election and, what is more important, it is beginning to look as if Labour is at least turning the corner.

The first sign of this was the much-publicised get-together of a formidable array of Ministers last week-end at Chequers. The object of the meeting was to speed up publication of the National Plans for Economic Development to reassure the public and British industry that Labour is not content with defending its slender majority in Parliament but is taking very seriously the task of putting Britain's resources to the best use. Although it is certain that there will now be no early election, it is just possible that Harold Wilson may be contemplating an appeal to the electorate in October to ask for a mandate to implement the National Plan which aims at a 25 per cent increase in the overall rate of growth by 1970 and which will combine full employment and monetary stability. It is understood that far-reaching proposals for stimulating industrial investment and modernisation and for expanding exports were discussed at the Chequers meeting. Other key questions discussed included regional planning, optimum redeployment of manpower (particularly in view of the fact that there is likely to be a shortfall of 300,000 men if the 25 per cent growth target is to be achieved) speed up of the introduction of automated techniques and rationalisation of Britain's dock system. The Ministers and experts concerned believe that they have made good progress towards producing a first draft of what has been described as a "vigorous and viable plan". The first version of the plan is expected to be ready in September.

The scaling down of the Bank Rate from the crisis level of 7 per cent to 6 per cent was also a shot in the arm for Labour since it has been taken as indicating that the basic economic situation is improving. The move has been justified by the marked improvement in the balance of payments and the substantial strengthening of Britain's gold and dollar reserves. At the same time, the fact that the cut in the Bank Rate was linked to a tightening of hire purchase terms will reassure foreign opinion that there is to be no relaxation of the credit squeeze.

From every point of view the lowering of the Bank Rate—maintained at a crisis level for the unusually long period of six months—is to be welcomed. In the first place, a high rate maintained for so long is in itself self-defeating. Far from reassuring foreigners about the security of their sterling funds, the raising of the Bank Rate to 7 per cent in November last year so heightened their nervousness that it was accompanied by a massive flight from sterling. In recent weeks it was beginning to look as if continuance of the Bank Rate at 7 per cent would be taken by foreigners as a sign that the UK authorities were again worried about the prospects of sterling. Surely, it is high time that the Labour Government stopped attaching so much importance to such a clumsy instrument of economic control?

Passivity on Vital Fronts

THE Annual Report of the Union Ministry of Health evokes rather mixed reactions. In keeping with developments since Independence, the institutional structure of medical and professional education and research has been further strengthened during the year. The remarkable progress in the field of control and eradication of major diseases continues to be reflected, for example, in the marked reduction in the incidence of smallpox,

malaria, etc, and the emphasis progressively shifts from the attack phase to consolidation and maintenance of the gains.

However, measures taken so far to improve health have continued to be *mainly in the form of the introduction* of modern medical technology and its shot-gun spectral drugs. There are many who feel that the foundation of better health in the form of proper sanitation and hygienic environment is as yet generally absent. This is confirmed by a recent report that according to surveys the population living in filarious areas of the country is estimated to number 122 million today as against 25 million in 1953. One does not know whether and how much of this increase is due to better and/or more extensive surveys, but since proper disposal of sullage and improvement in sanitary conditions are vital for controlling filariasis, the very slow progress on these fronts in the face of growing slums in urban areas constitutes important evidence which cannot be dismissed casually. True, proper drainage in urban areas demands heavy investment of resources, but even the educational activities related to health and hygiene seem to be totally unimpressive. The Health Education Bureaus at the Centre and in the States are clearly not up to the task.

In the vital area of promoting family planning in the country, the creation of an administrative structure for the "re-organised" family planning programme in the States appears to have received the highest priority during the year. As for other matters, one is told once again, the Government has approved the proposal to *manufacture* condoms in the public sector — an approval that was first reported in the Press as early as in 1962. Three years have passed without any tangible progress on this important scheme. One hopes that the approved proposal to *manufacture* intra-uterine devices in the public sector will not meet with the same fate. The much-talked-about programme to improve the distribution of contraceptives "in every part of the country" still remains ineffective as can be judged from the fact that even in Greater Bombay condoms imported at a maximum price of about Rs 15 or Rs 16 per gross are sold at Rs 36 to Rs 48 per gross.

Incidentally, against the Ministry's proposal for a Fourth Plan allocation of Rs 396.90 crores for "Hospitals, Dispensaries, Primary Health Centres and Medical Care", the Planning Commission has tentatively allocated only Rs 250 crores. The Ministry's Report asserts that "under this reduced allocation no appreciable increase in the present scale of medical care is possible" (p 134). Of course, what is "appreciable" is impossible to appreciate; and the statement may be merely a bargaining stand vis-a-vis the Planning Commission. But if only the Health Ministry could bring itself to be a little more imaginative and the bureaucratic labyrinth of health departments at various levels can be straightened out, a better rural-urban distribution of medical personnel and proper motivation on the part of persons in the field could substantially improve on present standards of available medical care.

BOOK REVIEWS

Reality of Economic Growth in India

D S

Indian Economic Growth: Perfomance and Prospects by K N Raj, Allied Publishers 1965; pp 28, Rs 1.50.

ECONOMIC discussion in India is, like Indian agriculture; both *succumb to the* prevailing climatic 'mood'. When the going is good, as was the case during the First Five Year Plan, the votaries of planning extolled economic progress as resulting solely from adoption of planning as the instrument of *growth. Dogmatic* assertions and extravagant hopes were the order of the day. But when the economy began to run *into* heavy weather, the pendulum of economic discussion swing dramatically to the other extreme. Planning is now proclaimed as the villain of the piece. Blame for all ills—be they the foreign exchange crisis, the domestic inflationary pressures or the all-round shortages—is laid at the doors of planning and the planners. A corollary of this muddle-headedness was that a lot of energy and time of politicians and so-called economists was wasted on futile controversies—public sector versus private sector, heavy industry versus light industry and so on—without realising the real nature of the difficulties facing India or of the remedies necessary to remove them. True, *value* judgments are a *sine qua non* of scientific discussion, as Gunnar Myrdal has very persuasively argued, but what we perceive in the economic debate in India is not the use of value judgments as a basis for logical building up of argument but mistaking them for logically derived conclusions.

Problems in Perspective

At a time when one despaired of a scientific approach to current economic and political problems, this book by K N Raj came as a whiff of refreshing breeze. The book consists of two lectures delivered by the author at the invitation of the Nalanda College. The lectures are not merely a commentary on contemporary economic and political problems, they treat of the rationale and philosophy of Indian economic development in the last 14 years. Though he starts with the economic situation which has developed in the last three years, since the Chinese aggression, he analyses with relentless logic, analytical vigour and a fervour which can come only from deep convictions the whole process of Indian economic growth. In the scheme of thinking of Raj there is no room for the 'wafflers' who know nothing beyond the quantitative theory of money, who tend to ascribe all economic malaise to excessive credit creation or, put differently, excessive investment, whose mental horizon is narrow enough to confine new investment to available saving. Nor does he give any quarter to those who applaud planning with an enthusiasm and a lack of economic expertise which can do credit only to a village level politician. It is for this reason that the book commends itself as the first serious attempt by an Indian economist to study the problems of Indian economic development.

A conspicuous feature of the book is its inter-disciplinary approach. It does not treat economic problems in isolation from their political implications either in the domestic sphere

or in India's foreign policy. It shows with rare perceptiveness that both the political and the economic difficulties which multiplied in the last years of Nehru and the consequent crisis of confidence have to be seen as interlinked. If the economy falters for some reason, it has its natural and predictable impact on the political strategy. Raj argues, 'if ... the inter-relation between problems—more particularly between the economic and the political—is lost sight of, the insight gained is likely to be of a very partial character and of limited value from an operational point of view". This approach is seen at its best when Raj discusses India's growing reliance on foreign aid and private foreign investment as a way out of the foreign exchange shortage. He has exposed the myth of the shrivelling of India's international stature because of the attack by China and the subsequent explosion by China of the nuclear bomb and rightly attributed China's growing stature in world affairs to "China's show of discipline and self-confidence and the progress it has apparently made in a short period relying almost entirely on its own resources". "Correspondingly", he adds "it is the collapse of morale in India and the growing attitude of dependence on others which has been bringing down its prestige and standing in recent years". How true! Those who are dismayed by India's pathetic attempts to seek friends alternately among the Western and the communist countries could not agree more with Raj.

Answer to the Cassandras

The meat of the book is largely in the first lecture which explains the logic of the inflationary situation as it developed in the years 1962-64 against the background of Indian growth in the last decade. Raj is not apologetic about the mistakes of Indian planning. He has shown that between 1950-51 and 1962-63 the rate of growth of income in India worked out to about 3.5 per cent (compound) as against a targeted rate of 4 per cent. Even this, according to Raj, is an underestimate because of the possible understatement of growth of income from small enterprises. If the Indian achievement is seen against the growth achieved in the 50-year period prior to Independence or against Japan's rate of growth in the later part of 19th century and the early part of the 20th century, the Cassandras among our economists would not be listened to so attentively.

Why, then, all this noise about the slothful progress of the Indian economy? It is here that Raj's analysis is seen at its best. True, the Indian economy has just had its worst experience of inflationary pressures, but can we say that this was all due to the faulty strategy of planning or the rise in money supply and deficit financing? It is known that defence expenditure had sharply risen between 1960-61 and 1963-64. This, together with a normal rise in investment expenditure, accounted during this period for as much as two-thirds of the rise in national income. Considering that population in the meanwhile also increased, no wonder that prices rose as they did.

Food Stocks Wasted

The question, however, remains why the growth in national income during this period was slow. Raj rightly pins down the reasons on some of the thoughtless policies the Government has followed. He has shown with full force of facts that the food policy, as also the use of imported foodgrains under Public Law 480, were misconceived and mis-directed. The massive import of foodgrains by way of commodity assistance was not utilised for building up stocks for a rainy day out was dissipated through sale during a period (1960-62) when the internal food situation was comfortable. This led naturally to a fall in food prices, particularly wheat prices in relation to the prices of manufactured goods resulting in a change in the terms of trade against agriculture. The comparative stagnation in agriculture is thus explained by the disincentive effect of this change in terms of trade.

And yet this does not provide a full explanation for the sharp rise in food prices and the accentuation of inflationary pressures during 1962-64. The internal gap between aggregate supply of food and aggregate demand was, as Raj rightly emphasises, made the more formidable by the peculiar characteristics of Indian agriculture where small producers predominate. Their reaction to the price situation is not the same as that of the capitalist farmer so that a rise in prices of agricultural output leads actually to a shrinkage of marketed surplus which in its turn helps to fan the tinders of inflation. Even large farmers are infected with this psychosis in a period of rising food prices and they in consequence try to build up inventories through holding back new output from the market. Though most of this analysis is on the lines made known through the work of Ezekiel, Mathur, Dharm Narain, Khatkhate, etc, the ingenuity of Raj lies in the fact that he, through a skilful comparison of experience in the years 1960-62 and in 1962-64, demonstrates the total bankruptcy of the Government's buffer stock policy. We have talked, times without number, about the need for a flexible buffer stock operation but it has remained only talk all these years. Apparently, the lesson of history is that it teaches no lesson at least to the Indian bureaucrats!

Institutions and Technology

If Raj's analysis of Indian economic growth is perceptive, penetrating and persuasive, his policy prescription is far-reaching in its implications. He rightly points out that the real problem in India is to raise agricultural yield per acre. But that problem cannot be solved merely through application of technical inputs, however urgent it may seem. He shows that rent on land has shot up in areas where technical inputs are applied more intensively and that it has acted as a major disincentive to the tenant-cultivators on whose response agricultural production greatly depends. This means that if the technological innovations are to reap a rich harvest in irrigated acres, they have to be accompanied by institutional reforms — a great desideratum in Indian agricultural development.

The second of the two lectures comes as a sort of anti-climax. It begins well with a much-needed distinction between the rates of growth of new industries and old industries. It is demonstrated that the rate of growth of new industries is accelerating, which has wide implications for future growth. Raj has also given a fitting reply to the doubting Thomases of Indian planning, pointing out that between 1951-52 and 1960-61 the marginal rate of savings achieved in India was between 20 to 25 per cent, and that too not as a consequence of the rise in prices. All this needed to be said and it is said here very effectively. This discussion in the latter part of this lecture, however, goes off at a tangent into the relative merits of private foreign investment and foreign aid and grants. Not that what Raj says about private foreign investment is not acceptable and not sufficiently documented. What is disappointing is its hackneyed nature and the fact that he should have given so much attention to something which is

irrelevant to the main theme he is developing. One would have in fact expected from him a deeper analysis of the problems which Indian planners have either unsuccessfully solved or failed to tackle at all. Some of these issues may be indicated here.

One of the paradoxical features of Indian planning is the ambivalance about financial and physical planning. The planners are not tired of saying that their plan is a physical plan but when it comes to implementation, all that the planners do is to calculate in a conventional way what resources they will raise by way of taxation, borrowing, etc. This is indeed surprising considering that planning has gone far beyond the chrysalis stage in this country. It is this dichotomy which prompted I M D Little to say that the confusion between physical planning and financial planning "means that the physical plan must be regarded as a very loose jointed affair and that there is little reason to suppose that any subsequent enlargement of the plan need or should be towards a fulfilment of the physical plan". *(Oxford Economic Papers*, February 1964). Raj comes very near to saying something on this aspect when he discusses the marginal rate of saving achieved in India. It is a major issue in the context of Indian planning and should, therefore, receive greater attention from academicians in the country.

Size and Growth

An even more significant aspect is the problem of planning in a country of India's size. Whatever rate of growth India might have achieved in the last few years, it does not stand favourable comparison with what has been achieved in smaller countries like Thailand, Philippines, Malaysia, etc. Can we, therefore, say that India has suffered due to bad planning or faulty policies? This is an important question since the relationship of the size of the country to the rate of growth has not been given due weightage in discussions on economic development. Planning for growth in a small country is not on all fours with that in a big country. In the latter the problem is made the more difficult due to shortage of perhaps the most important agent of growth, viz, managerial and entrepreneurial skill. In a way, the growth of a country's economy is analogous to the operations of a firm; when the firm expands beyond the stage where available entrepreneurial ability fails to cope with the task, diminishing returns set in, as Kaldor showed in his classic article on equilibrium of the firm. So is the case with a country's economy. When the size is large, the existing managerial skill cannot tackle the problem in an efficient manner — at any rate in the initial stages of growth. It, therefore, follows that in any scheme of planning, due allowance should be made for this most vital factor.

All said and done, this little book of Raj's is conspicuous for its constructive approach to and rare insight into Indian economic development. It is refreshingly free from the tub-thumping variety of pronouncements of the economist panjandrums of the Planning Commission as well as from the sterile negativism of some academicians whose judgments spring from hunches and intuition.

A Summary and a Proposal

Ashok V Desai

International Currency Plans and Expansion of World Trade by K Venkatagiri Gowda, Asia Publishing House, 1964, Rs 18.00.

Commonwealth Common Market — Proposal by K Venkatagin Gowda, Asia Publishing House, 1964, Rs 16.75.

VENKATAGIRI Gowda is to be congratulated for extending his interests beyond the problems of import substitution, export promotion and foreign aid which, for so many Indian economists, exhaust the field of international economics. International monetary arrangements are of close relevance to us in India since they determine what role deflation should play in the correction of payments disequilibria in industrial countries, and thereby affect their rates of growth and their offtake of goods we export to them. Similarly, the change in our pattern of production is changing the potentialities of our foreign trade, and their is much scope for trading arrangements that would facilitate the export of goods we have begun producing and the import of goods we find ourselves in need of.

In "International Currency Plans" Gowda reviews various proposals for international monetary arrangements. The summary is competent, and faithful even down to the allocation of space — Triffin, who has written two books on currency problems, gets nearly half the space. The treatment is enumerative, and analysis suffers as a result. One cannot get Gowda's judgment on anything. It is nice, for example to know that Vanek thought the Triffin plan was inflationary and Bernstein thought it was deflationary, but it might have been more useful if we had been told why Vanek and Bernstein differed. Similarly, I found nothing new on other important problems in this field: the difficulty of getting countries with payments surpluses to accept any discipline, the post-war restrictions placed on countries, freedom to frame their trade policy, imposed by the IMF and the GATT, and the consequent reversion towards gold-standard conditions when the entire burden of adjustment of payments used to fall on domestic policies, the legitimacy of the distinction, rigidly made by the Fund, between short-period and long-period payments disequilibria, etc.

"Commonwealth Common Market" is a proposal — and amounts to little more. All it has to do with the Commonwealth is the recurrence of names such as the U K, India and Canada; for the rest, there is so little discussion of the specific trade patterns and needs of the constituent countries that the proposal might equally well have been one for a Polynesian Common Market. It is even difficult to know if Gowda means a Common Market when he proposes one, for while he favours a customs union arrangement as against a free trade area (p 50), he accepts arguments for tariffs and import restrictions within the area to protect infant industries and correct balances of payments (p 59). Such vagueness persists throughout the book. I feel there is little difference between Gowda's proposal and the present Commonwealth Preference and Sterling Area arrangements, but Gowda's argument is not sufficiently clear to permit such an extreme conclusion. Which is perhaps just as well, for I would have been very annoyed to read this book and find it didn't really need to be written.

OFFICIAL PAPER

Credit Control Incomplete

Trend and Progress of Banking in India 1964, Reserve Bank of India, May 1965; pp 68.

CHANGES in the Reserve Bank's credit control policy appear to follow a time-pattern, with each phase lasting about four years. Selective credit control was introduced in 1956 to combat alleged speculative build up in sensitive sectors. In 1960 the Reserve Bank realised that selective control could be successful only if it was accompanied by general restraint on availability of credit and introduced the quota system of lending to banks. Borrowings from the Reserve Bank were in this case related to the level of a bank's deposits from the public and not to that of its advances. The Bank had the discretionary power to refuse to lend more to a bank if its borrowing exceeded the limit.

The quota system was criticised on the ground that by linking the Reserve Bank's accommodation to the level of a banks' deposits, the principal purpose of credit control — the controlling of banks' advances — was lost sight of. Banks require such accommodation to replenish funds lent out and not those invested. Further, quantitative restraints do not allow the cost element to exert its influence as a restraining factor on demand for credit. The inflexibility of the system, it was pointed out, could be modified if the cost factor were allowed wider scope to check demand for Reserve Bank accommodation.

Accent on Cost

In 1964 the Reserve Bank was finally convinced that there was need for the cost of credit "to reflect more closely the relative scarcity of capital in the country so as to ensure a more meaningful employment of the factor endowments in the economy and also to induce a larger formation of savings". Emphasis then shifted from controlling the quantum of Reserve Bank's accommodation to raising the cost of such accommodation. On September 25 when the Bank Rate was raised from 4 to 5 per cent borrowing by banks from the Reserve Bank was related to the banks' liquidity position which was expressed as the ratio of their liquid assets to their aggregate deposits. Banks were allowed to borrow from the Reserve Bank at the Bank Rate as long as their liquidity ratio was 28 per cent or above; for every percentage fall in the ratio below 28 per cent, the rate of interest on the banks' total borrowings from the Reserve Bank increased by ½ per cent. Banks could reduce the liquidity ratio below 28 per cent provided they were prepared to pay the higher interest rate.

The Reserve Bank knows, of course, that the cost is obviously a weak factor in restraining credit in an economy insulated by import and other controls. The prevailing levels of profitability are such as to be able to easily sustain an increase in the cost of bank credit. The Reserve Bank, therefore, introduced a ceiling of 9 per cent on interest chargeable by banks on their lendings. This ensured that banks could not pass on to their clients the higher cost of borrowings from the Reserve Bank when their liquidity ratio sank below 28 per cent. Simultaneously, the Reserve Bank also required banks to increase the rates of interest on fixed and savings deposits to encourage saving.

Between October 1964 and January 1965 bank advances increased by Rs 130 crores and aggregate deposits by Rs 28 crores as against Rs 175 crores and Rs 44 crores, respectively, in the same period a year ago. Borrowings from the Reserve Bank increased during this period by Rs 56 crores compared to Rs 34 crores a year ago. Although the quantum of credit expansion was lower than in the previous busy season, increase in borrowings from the Reserve Bank was much higher. This indicated a strong inflationary build up in the economy.

New Purpose

The rise in the Bank Rate in U K in November 1964 had an adverse effect on realisation of export earnings. In spite of increase in the quantum of exports, the difference between the local interest rates and the rates abroad caused delay in receipt of earnings. This happened at a time when increased exports were expected to reduce the pressure on external resources. Normally, in the advanced countries a rise in central bank rates is expected to either stop flow of funds abroad or bring in 'hot' money. In India a rise in Bank Rate became imperative in order to bring in export receipts held abroad to take advantage of interest differentials — and that too in spite of exchange control regulations which require export earnings to be brought into the country within a maximum period of six months unless the Reserve Bank permits otherwise. This was perhaps the first instance of use of the Bank Rate mechanism to bring in export earnings speedily.

The September 1964 measures had little effect on the price front, though, as already pointed out, it kept the increase in bank advances a little lower than in the last busy season. Further deterioration in the price situation and the sharp decline in foreign exchange reserves finally forced the Reserve Bank to raise the Bank Rate to 6 per cent on February 17, 1965. The effect of this increase in the cost of Reserve Bank lending was reinforced by a rise of 2 per cent in the minimum liquidity ratio. Banks could now obtain Reserve Bank accommodation at the Bank Rate only if their liquidity ratio was 30 per cent or above instead of 28 per cent as fixed in September 1964. Every one per cent fall below this level raised the cost of accommodation by ½ per cent. The emphasis on the cost element in the control mechanism introduced in September last year thus remained and was further strengthened in February.

No Impact on Bank Credit

To reduce reliance on Reserve Bank accommodation banks were expected to increase their deposits and interest rates on deposits were therefore, raised. The Reserve Bank also raised the ceiling on bank advances from 9 per cent to 10 per cent in view of the 1 per cent rise in the Bank Rate and to cover banks against the rise in deposit rates.

Between February 19 and May 14 bank deposits increased by Rs 74 crores whereas advances increased by Rs 120 crores. To finance such a steep rise in advances, banks increased their borrowings from the R B I by Rs 52 crores as compared to Rs 15

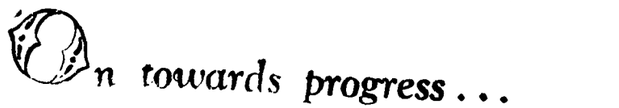
crores in the same period in the previous busy season. These figures do not indicate that the February measure had a restrictive effect on bank advances. They would even appear to emphasise the failure of the new control policy based on the cost of credit. But market reports show that the credit squeeze did take effect in spite of the increase in bank advances. This was due, first, to the dislocation of *hundi* business which was the pipeline through which undisclosed income used to operate and, second, to the brake applied on the deficit financing which effected the money flow.

Textile mills have already raised alarm over accumulation of stocks with them as a result of the trade's reluctance to lift stocks. To some extent trade used to finance its stocks with bank borrowing, but bank advances to trade have been rapidly declining over a number of years and there is no evidence that this decline has been accentuated in recent months because of the credit squeeze. The shortage of funds experienced by the textile trade was due more to the decline in *hundi* business than to contraction of bank advances to this sector. The monetary scarcity felt in the market can scarcely be attributed to the actions of the Reserve Bank in raising the cost of credit.

A justification offered by the Reserve Bank for the raising the cost of credit is that cheap credit works against economic management of inventories in industry. But is costly credit the answer to the problem? Supply of imported raw materials being increasingly restricted and local supply unable to meet increasing demand, there is inevitably a scramble to build up stocks. Counsels of economic management of inventories in such circumstances are likely to go unheeded. An increase in cost of credit cannot be expected to significantly affect demand for funds for financing stocks since prospects of profitability generally outweigh cost of credit.

Banks may be able to satisfy the Governor of the Reserve Bank by reducing advances by Rs 200 crores during the slack season as they have done in the past in 1957 and 1959. But this will not ensure that in the next busy season rise in bank advances will not behave in much the same way as it did in the busy season ended. If the sharp rise in cost of credit could not check demand in the 1964-65 busy season, there is no guarantee that it will be able to achieve the objective in the next busy season. Quantitative restrictions on bank credit must be more organically integrated with the concept of cost of credit to evolve a more dynamic credit control policy than the present one has proved to be.

C S



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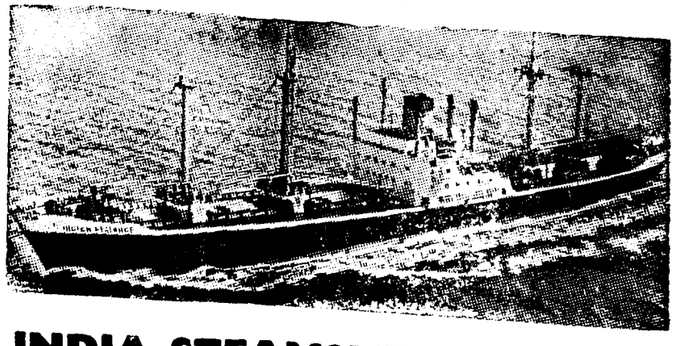
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Development Of Tribal Areas

A Aiyappan

An attempt is made here to show that the slow, piece-meal effort now made to develop tribal areas will not be effective in bridging the gap in progress between tribal and non-tribal communities.

Instead of frittering away scarce resources on fragmentary and ill-planned programmes, concentrated use of funds for large-scale agro-industrial projects, as suggested over fifteen years ago by the Malayappan Committee in Madras and recently for Orissa tribal areas by the National Council of Applied Economic Research may be more useful and productive of good for the tribes and the nation as a whole. Comparative data from other parts of the world show that the arguments of those who suggest that our tribals may not be able to participate in large-scale projects are baseless.

INDIA has a tribal population of about three crores. In other words, out of every 100 Indians, 6.8 are Adibasis. Few other countries of the world have such a large population of tribesmen. The USSR, China and USA have tribal communities, economically and educationally backward in comparison with the rest of their peoples and speaking languages and practising customs different from those of the majority communities, but in none of these countries are the tribal groups so numerous as in India. There are over two hundred major tribes and more than twice this number of minor tribes distributed in the most inaccessible and wild hill and forest tracts of India. On account of their distinctive ways of life, their general isolation from the currents of our national life and their economic and educational backwardness, these tribes are to be regarded as the weakest of our minorities. While other minorities are nationally organised, vocal and led by effective leaders, the tribal minorities are generally without pressure groups and leaders. (Exception should, of course, be made of tribes that have come under the influence of Christian missions). For this reason, the Adibasis are extremely dependent on the goodwill and sympathy of the majority communities, the Central and State Governments and the welfare agencies. Their future depends very largely on the understanding with which the people at large and the administration approach the tribal question.

In the Political Melting Pot

Some people regard the problem of the Adibasis as one of the many new post-Indepence problems. While it is true that far more attention is now being paid to the Adibasis and the Government is now more concerned about their welfare, the British Indian Government were also interested in giving some measure of special protection to the tribal people. In areas where there is a large concentration of tribal population, there were simplified types of administration and there were special laws to protect the tribesmen from exploitation. This policy of the British was one of insulation; it was also a half-hearted policy which was first discussed in the open at the time of the Round Table Conference (1934). There are now no special areas and no question of simplified administration except in NEFA. Politically all the tribes have been brought under the general administration to sink or swim with the rest. Except reservation of a few seats in the legislatures and reservation of a certain percentage of Government jobs, and scholarships for students there are no special privileges given to them. Politically and administratively, the tribes are now little insulated; they have been more or less thrown into the melting pot of national politics.

The Government of India, however, has been keenly aware of the need to protect the tribes from exploitation and of the need for giving special grants for the development of tribal areas. Briefly we might say the present Government's policy is one of gradual integration without radically altering their traditional ways.

In furtherance of the Government's policy of bringing the tribal areas from their present backwardness to the general level of development reached by the progressive areas there is the programme of intensive development in the Tribal Development Blocks for which the Government of India is committed to give special grants.

Widening Gap

The objective of bridging the gap between the tribes and the rest of the population is not possible of achievement at the present slow rate of development. The gap, instead of closing, tends to grow wider and in the handicap race the tribes will be left further behind. My suggestion, therefore, is that we have to anticipate the Fourth or Fifth Five Year Plan developments in agriculture and rural industrialization, and make an earlier beginning of these developments in the tribal areas and thus give them an earlier start.

The National Council of Applied Economic Research has made a suggestion in its Techno-Economic Survey of Orissa that agricultural estates should be started in the predominantly tribal areas of that State where land is available in sufficiently large blocks. The Andhra Government also have their plan for a Rs 10 crore coffee plantation in the Aruku Valley Mechanised farms of the type started with Russian aid in Rajasthan are also worth considering.

I have had informal discussions with the Additional Development Commissioner, Orissa, on the practicability of Agricultural Estates in Koraput district. Since climate, etc, there are not different from those of the Aruku valley where coffee growing experiments have been successful, coffee estates are agriculturally feasible. The Additional Development Commissioner suggested that cash crops such as cashew and potato, rice, and tobacco at the lower levels of the hill slopes and valley can be tried in addition, so that instead of coffee alone we may plan multi-crop agricultural estates. Ways will have to be devised to involve the tribal communities in these large-scale agricultural schemes not merely as labourers, but as partners who, in due course, will run the whole business themselves.

The tribesmen of the western and southern districts of Orissa now grow a number of commercial crops. But they suffer because of exploitation by middle-men, lack of capital, and lack

of knowledge of modern ways of increasing output. They have neither credit nor marketing organisations. The middle men advance credit and buy or rather capture the produce at prices fixed by them.

Both the Elwin Committee on tribal blocks and the Dhebar Commission have made recommendations about the urgent need for credit and marketing corporations to help the tribals. With their primitive methods of production the proposed credit facilities and marketing organizations by themselves will be of little use. Will they get enough from their little holdings to meet the needs of a fuller life? Hence it is essential that plans for modernised agricultural development, that is, agriculture as an industry should be considered for the tribals areas, and this should be done earlier than elsewhere for the reasons already stated.

Unfavourable Stereotypes

When I first made this suggestion in the course of a brief personal discussion with U N Dhebar, he told me that in the new steel towns and in Tatanagar, the Adibasis are engaged only for the most unskilled types of works as they are not considered fit to handle more complicated jobs. This is a case of giving the unwanted underdog a bad name and hanging it. The recruiting agencies in all these places have not given the Adibasis a chance. I am told there is a Santhal who is now working as a University Professor. That means he was given a chance to prepare himself for such a career. Adibasis work in the Accountant General's Office in Orissa. There are Adivasis in the Indian Administrative Services who are as good as any other government employees. Is not the translation of a tribal youth from his rural home to offices in the State capitals a sudden change? Are they not adapting themselves to the new situation? If the Government were not generous to them and if they had not been given the chance, unsympathetic critics would have continued to say that the Adibasis are unfit for high Government jobs. Several Konds are employed as skilled workers in the Rayagada Sugar Factory, Oraons and Mundas as machine men in the Bonai iron ore quarries and in the Cement Factory at Rajgangpur in Sundergarh district. The Adibasis in Tatanagar, etc have not been given a chance under fair and sympathetic conditions.

In other parts of the world, aboriginal peoples have in recent years undergone rapid transformation from very primitive conditions. Backward Papuans in New Guinea area, far more backward, primitive and isolated than any of our tribes have, during the last two decades made tremendous progress. Prof Firth of the London School of Economics mentions of a particular Papuan Co-operative society which owns a small ship to import and export goods. Then are Polynesian tribal estate owners and ship owners. If these primitive populations can make good progress, our Adibasis, too, can do likewise, but they should be given the chance, inital help and encouragement.

The old belief that simpler folk cannot make rapid adjustments to change is found to be only partially correct. Many are the cases we know of tribes whom contacts and changes ruined but the circumstances of each case would show that it was not change as such that created disorganisation but the failure to re-organise. In her restudy of the Manus people (north of New Guinea) Margaret Mead* has shown how under the dynamic leadership of Paliau, a community of about 4,000 people who lived a generation back at the stone age level gave up its old ways of life and modernised itself on the western patterns acquired by contact with American forces stationed in the area during World War II. Their housing pattern, family pattern, sex relationship and local government were all changed radically in the course of 25 years.

In India itself, the transformation by Christian missionaries of the ways of life of minority communities such as the Khasis, Garos and Nagas did not take long. The changes have been quick and since the cultural traits taken over included English language, Christianity and several western values, the transformation meant also modernization. Individuals as well as groups can and do change without deleterious effects. Both psychological and sociological theories have been veering to this point of view.

In the course of a dozen years, a serf population of Peruvian Indians, living under miserable condition were transformed to a modern community, so progressive as to serve as a model for the whole of Peru. These Vicosinos were able to change and make adjustments because the programmes were goal-directed and guided, deliberately choosen and planned. The scientific resources of Professor Allan Holmberg and his team, and the co-operative spirit of the Peruvian and American technicians and careful organisation did the job in spite of initial doubts and suspicions.

* New Lives for Old: Cultural Transformation — Manus, 1928-1953", Victor Gollanz London, 1956.

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Contribution of Agriculture to Industrialisation

A Study of the USSR and Japan

K Sarwar Lateef

Many Western economists are of the opinion that the Japanese experience "clearly offsets the commonly held view that not much can be done to increase agricultural productivity without vast institutional changes in the countryside". On the other hand, they see the Soviet experiment in collectivization as a failure both in terms of the high human costs and in the slow increase in agricultural productivity in the early years of collectivization. They therefore argue that if countries like India are to achieve their economic aspirations, they will be "well advised to reject the Soviet model, instead atlast giving the alternative Japanese model the attention it deserves".

What is very often forgotten in such discussions is the crucial historical and institutional factors that made possible the success of agriculture in Meiji Japan. The institutional and historical factors in the USSR after the 1917 revolution were not conducive to increased agricultural productivity without institutional change, and when the Soviets collectivized, it was because they had little choice if they were to secure the marketable surplus for development.

The writer believes that only a similar detailed comparative study of the institutional factors prevailing in Meiji Japan and in present day India would reveal whether in fact the Japanese experience has any relevance to India.

[The author is grateful to C H Feinstein of Clare College, Cambridge, for his invaluables comments.]

THE main purpose of comparing the role of agriculture in the economic development of two countries as different as Soviet Russia and Japan is the hope that by doing so we manage to shed some light on the peculiar features in each country's development. More specifically, in this paper, I intend to bring out the reasons why Soviet Russia had to reorganize agriculture drastically in order that it could play a significant role in the USSR's industrialization, while Japan was able to achieve vast increases in agricultural produce in the early Meiji years without any major structural changes in its agriculture.

The paper is divided into two sections. In the first, I will examine separately the contribution of Japanese agriculture to that country's industrialization in the period 1868 to 1914, and that of Russian agriculture to the industrialization of the USSR in the period 1917 to 1952. In the second section, I propose to bring out some of the crucial factors that were responsible for the success of Japanese agriculture and examine to what extent these factors were present in Soviet Russia in the years before collectivization, and whether their absence made collectivization inevitable.

I

Japan 1868-1914

Meiji Land Reform made all land freely cultivable in 1871 and freely transferable in 1872. Land titles were issued to all occupants. Thus began an era of small scale predominantly tenant farming (though there existed some peasant farming as well). Its contribution to economic development can be measured in two ways:

(i) Product Contribution

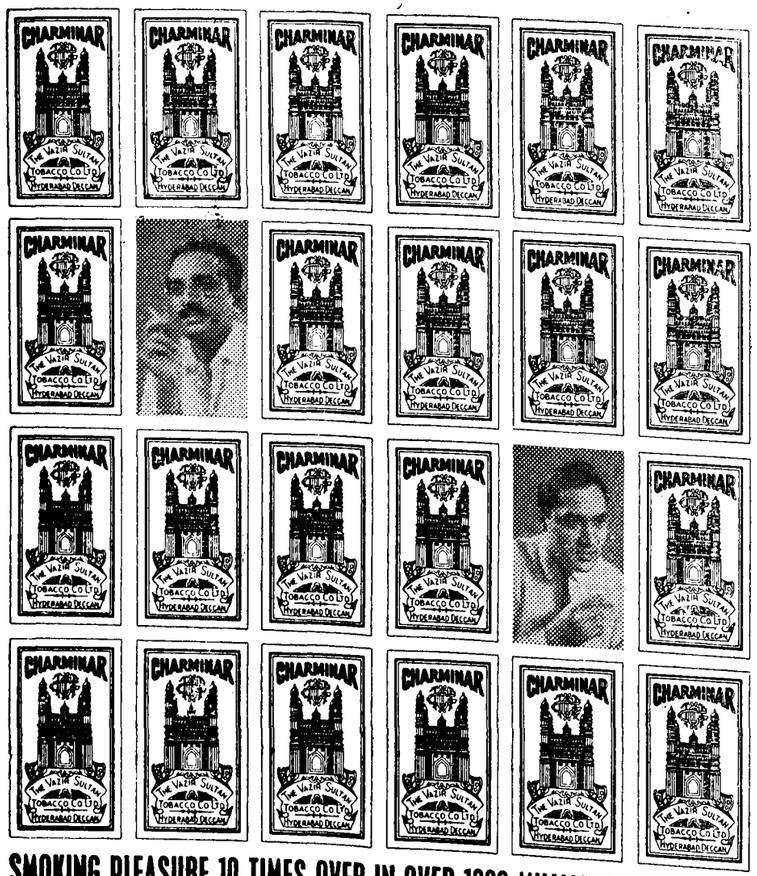
Net output increased steadily between 1878 and 1917 at 2.3 per cent per annum. Most of the increase in output was due to increased productivity. Land productivity, according to calculations made by Rosovsky and Ohkawa [1] increased by 80 per cent, labour productivity by 2 per cent per annum and area under cultivation by 35 per cent. This increase in output was large enough to meet the growing urban demand, as also the demand arising from increasing real incomes. Demand for food, it is calculated, was then increasing by about 2 per cent per annum. This equation of demand and supply was reflected in the steady terms of trade between industry and agriculture during this period. Thus the advance in agriculture permitted industrialization without significant inflationary pressures (though Japan suffered inflationary bouts due to heavy defence spending). The increased output and improved quality of commercial products also provided the foreign exchange to import capital goods.

(ii) *Factor contribution*

(a) LABOUR: In the early phases of industrialization a substantial portion of urban work force was of rural origin. In 1878-82, 76 per cent of the labour force was engaged in agriculture. In 1913-17, only 59 per cent were so engaged. But this transfer was made possible because of the rapidly rising population (44 per cent between 1881-90 and 1911-20) which enabled the increase in rural population to be shifted from agriculture to urban areas. Hence there was only a very slight decline in the rural population in this period.

(b) CAPITAL. Perhaps this was agriculture's most important contribution. Rosovsky and Ohkawa point out that since between 1887 and 1913, the economy was growing at 3.5 per cent per annum, and since they work out the capital output ratio to be 3 or 4, the rate of savings must have been about 10 — 14 per cent of the National Income. Agriculture during this period was showing an output increase of 2.3 per cent per annum. Given the low capital output ratio for Japanese agriculture, savings in agriculture (10.3 per cent) exceeded the investment required. Only 25-30 per cent of agricultural savings were invested in agriculture. The surplus was siphoned off to the non-agricultural sector. With rising agricultural productivity, the landlords were able to maintain high rents in kind. They in turn were forced to pay the new Meiji land tax (3 per cent of land value or 1/3rd produce) in cash. This was as severe as the old Tokugawa tithes. Agriculture contributed 86 per cent of total government revenues in 1888-92. Table 1 illustrates the revenue contribution of agriculture.

Until 1913-17, land tax was the most important source of revenue in both absolute and relative terms. Agriculture continued to be the most heavily taxed sector though the relative decline in its share of the rapidly rising National Income reduced its



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absolute contribution. Table 2 shows the heavy burden on agriculture.

Thus agriculture contributed heavily to the State's revenues, which were then used to finance social overhead capital, industry and defence. While defence expenditure was important, in the period 1892-1901 (which seems fairly representative), the government's share in gross domestic fixed capital formation was about 55.9 per cent and if you exclude defence investments, the government's share was 42.7 per cent.

(c) ENTREPRENEURS: Landlords invested in village and urban industry, and their sons were an important source of entrepreneurial talent, in Japanese industry.

The year 1918 proved the turning point in Japanese agriculture. The industrial spurt of World War I meant rapidly rising productivity in industry, and so the fast increasing population could no longer be absorbed in the non-agricultural sector, worsening the Man/Land ratio. Agricultural productivity declined as more resources were attracted to industry, and it was proving difficult to make further gains within the existing production function. Imports from Japanese colonies to meet rising demand for food adversely affected agricultural prices in bumper crop years. The share of agriculture in National Income declined sharply from 64 per cent in 1878-82 to 36 per cent in 1913-17, to a mere 17 per cent in 1938-42. Agriculture had played its crucial role and now found itself relegated to the position of a subsidised sector.

USSR 1917-1952

The land reforms of 1903-06 proposed to abolish land redemption payments and replace the traditional communal village ("mir") by a system of consolidated individually owned farms. This policy was inadequately implemented, and when put through it benefitted the richer areas, and meant small uneconomic farming in the overpopulated areas. The Russian government tried to subsidize migration from the poorer areas to Siberia ...but all this was too little, too late. The peasants supported the Bolshevik revolution in 1917. The Bolsheviks nationalized all land and broke up the big estates. In the period of chaos that followed, the peasants not awaiting official action seized the big estates and divided it between themselves. Workers migrated from urban areas, and soldiers left the army in the mad scramble for land. The proportion of peasant holdings in total cultivated land rose from about 70 per cent to 96 per cent. At first it meant a vast increase in the number of small uneconomic holdings. A bad harvest, the famine of 1921-22, the abolition of a free market and compulsory requisitioning all but dried up marketed surplus, and reduced acreage under cultivation. The regime retreated to the New Economic Policy—a free market and a not too severe grain tax. The government started State farms and collectives but on the eve of the First Plan, they supplied less than 2 per cent of the total grain crop, and covered less than 1 per cent of the cultivated area. Government policies to encourage better farming were half-hearted and not successful (we shall see why in Section II). By 1925-26 total agricultural area was about 95 per cent of the pre-war level, while marketed surplus was only about 70 per cent of the pre-war level. Only about 13 per cent of food-grains yield was being sent to the market. Grain exports fell drastically in order that industrial workers be fed. Industrialisation on the other hand was seriously handicapped by the fall in capital imports. In 1927-28, inspite of a good harvest, marketed surplus was negligible. Hasty government action to restore it (State trading, punishment for speculation) led to a further fall in supply, 12 million poods had to be imported. The main reason was the worsening of the terms of trade against agriculture as a result of the Scissors Crises of 1923-24, which had left its scars...and the shortage of industrial goods in 1928 brought the situation to a head. The original first plan aims of collectivising of 18 per cent of the cultivable land were thrown overboard, and full scale collectivisation was pursued.

Thus between 1917 and 1929, Russian agriculture was more a hinderance than a help to the industrialisation of the USSR. It consistently failed to supply a marketed surplus, and marketed output varied with the weather, kulak speculation and the terms of trade. Collectivisation was designed explicitly for the collection of marketable surplus amidst contracting output, an appalling shortage of consumer's goods and mass starvation. Following our treatment of Japanese agriculture, we will again assess the product contribution and factor contribution of Soviet agriculture to the USSR's industrialisation in the years of socialised agriculture.

Product Contribution

In order to understand the relationship between reorganisation of Soviet agriculture and the increased marketed surplus as a result of it, we must first examine the collective farm. Each kolkhoz's* goal was to maximise a particular product mix of the marketed output. The output of each kolkhoz was distributed according to the following priority:

(1) Government: (a) Compulsory deductions in money and kind.
(b) Fees for Machine Tractor Stations**
(c) Direct, indirect taxes.

(2) Kolkhoz's: (a) Compulsory funds, (reinvestment, staff payments etc.)
(b) Reserves.

(3) Kolkhoz-niki's: Residual after (1) and (2) have been met. Plus an individual plot of land for each family.

* Bumper year

Table 1: Land Tax—Absolute and as Percentage of Total Government Revenue in Meiji Japan

YEAR	Land Tax *'000 Yen)*	Percentage of Total Revenue	Total Revenue *('000 Yen)*
1888-92	38,446	*85.6*	**44,941**
1893-97	38,679	*80.4*	**48,096**
1898-02	44,632	*63.2*	**70,624**
1903-07	71,579	*55.8*	**141,031**
1908-12	79,541	*42.9*	**185,337**
1913-17	73,983	*37.6*	**196,811**
1918-22	73,936	*18.3*	**404,124**
1933-37	58,175	*10.7*	**541,753**

Source: Rosovsky and Ohkawa.

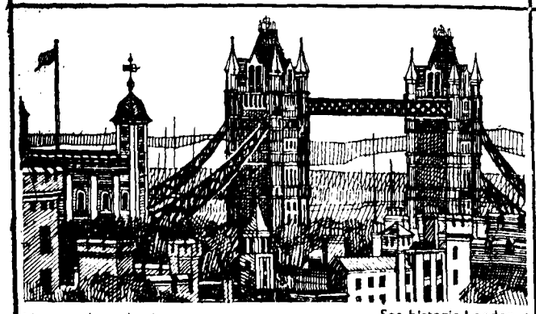
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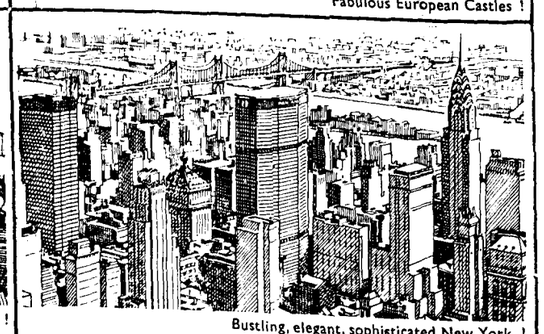
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Thus marketed surplus was collected *independent* of the terms of trade between industry and agriculture, (these being determined by the price paid by the State for produce). The size of delivery quotas was determined independently of output so a fall in output was borne by a cut in farmer's home consumption, as Table 3 shows clearly. Inspite of a drop of 20 million tons in output between 1937 and 1938, deliveries to the State dropped by a mere 2.4 m tons, and in 1939 when output rose over 1938's by a bare quarter of a million tons, marketed output increased to a mere .7 m tons less than the bumper '37 deliveries to the State. Thus the State's grain procurement was unaffected by the level of output, while peasant consumption suffered as a consequence. Collectivisation was enforced rapidly, and by mid-1936 only 1.8 per cent of peasants were not collectivised.

Marketable output of grain increased threefold between 1928 and 1961. But marketable output of livestock did not show impressive results. As a result of collectivisation, kulaks slaughtered their livestock, and this was a severe setback. [See Appendix Table (i)]. Urban per capita consumption declined in the early years as Table 4 shows.

Since newly recruited industrial workers formed a significant proportion of total industrial workers in 1937, their consumption in the urban areas was not much lower than their previous rural consumption levels. Also, it is wrong to judge collectivization solely in terms of livestock output. It is reasonable to believe that the increase in marketed grain output was sufficient to maintain urban living standards and finance vast capital imports for the first two plans.

As for gross agricultural output, it did not rise above the precollectivization year of 1928 for all years (except 1937) between 1929 and 1953. But we must remember that this was very largely due to the poor performance of livestock. Crop output seems to have increased steadily, though not spectacularly. Table (ii) shows a comparison of official statistics with those computed by Johnson for the years 1913-1940.[2]

Factor Contribution

(a) LABOUR: Collectivization made possible more organized forms of rural recruitment; the ORGANIZOVANNYI NABOR which organized rural recruitment recruited 28.7 million peasants between 1931 and 1940. Individual factories made their requirements known to this body, and it directed suitable people which wished to migrate to these factories. In order to ensure that supply did not exceed demand, the Tsarist passport system was restored to prevent peasants from leaving collectives, and a system of contracts was devised between the organized recruitment set up and the kolkhoz. Thus the release of labour was no longer solely dependant on the relative income levels in the two sectors. Between 1926 and 1939 migration from rural areas was 18.7m and 24.6m between 1939 and 1959. Thus out of a *net* increase of 73 million in urban population (taking into account war losses) 43.3 million had migrated from the rural areas. With a declining birth rate in rural areas, the natural population increase was absorbed into the towns.

An equally important contribution of labour was the training of rural workers for the handling of tractors. Some 3 million were trained between 1930 and 1939, but only 1 million remained in agriculture. Those who stayed helped substitute mechanical for animal power and thus the diversion of grain from animal to human consumption and for exports. Collective farm workers also contributed to the construction of social overhead capital, building roads, railways, as well as irrigation schemes like the Fergana irrigation canal in Uzbekistan where 165,000 kolkhozniki were mobilized.

(b) SAVINGS: Agriculture was taxed in three ways. Firstly, by setting high delivery quotas independent of output, hence reducing consumption by kolkhozniki. Secondly, by paying low prices for agricultural procurements. And finally, by setting high prices for industrial goods supplied to agriculture. Thus the demand for manufactured goods by the agriculture sector fell heavily, enabling (1) a cut in consumption goods investment, and a concentration of resources on capital goods; and (2) a diversion of consumer goods to urban areas to compensate partly for the decrease in per capita food consumption.

(c) ENTREPRENEURS : Agriculture does not seem to have provided entrepreneurial talent for industry in the Soviet Union. In fact there is evidence of the opposite trend. With the dearth of rural communists and/or trusted leaders, and the difficulty in persuading any kolkhozniki to accept responsibility, the government imported 250,000 industrial workers between 1928-38 to man kolkhoz as Chairman and senior staff. These people were completely alien to village life, and were mainly interested in meeting the State quota requirements. In the early '40s the situation had improved and 76 per cent of the chairmen had been reared in the kolkhozy.

It is often argued that the results of collectivization were (are) unimpressive, that the increase in grain output was brought about by increased acreage (some 46m hectares between 1928 and 1952), the substitution of mechanical for animal power enabling a diversion of grain for human consumption (the reduction in feed for power animals amounted to 40m tons between 1928 and 1959), the sharp drop in milk, meat and egg production during the early years also diverted grain from livestock feed to human consumption and finally that with the exception of cotton, crop yields increased only modernately between 1925-29 and 1950-54. [See Table (iii) in Appendix.] However it is clear that collectivization performed effectively its first and most important function : it provided the needed marketed surplus for industrialization.

II

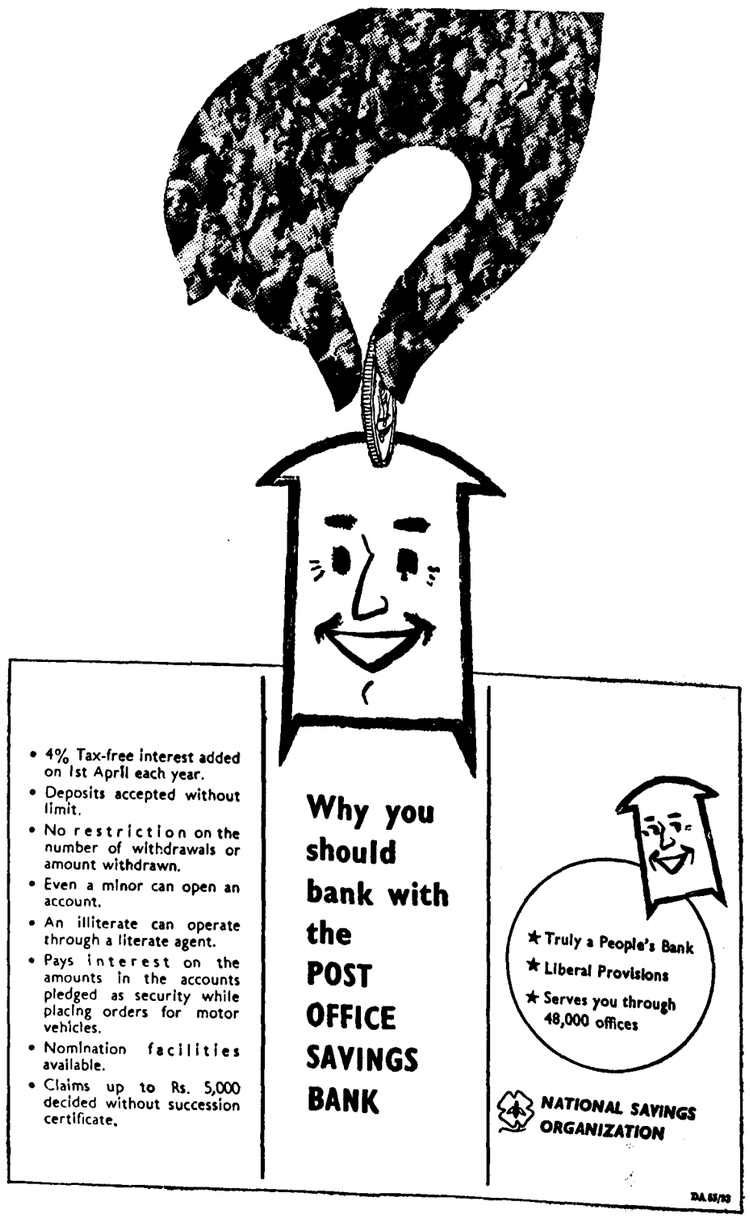
What were the factors that made it possible for Japan to expand her agricultural output without embarking on any structural reorganization of agriculture? There may be many factors which we as economists are not competent to take into account: climate, soil conditions, terrain. We know from Jasny that in the USSR collectivization was initially uneven. In mountainous South Caucasia with its non-Slavic population, by 1934 only 44.7 per cent of the peasant households were collectivized, while in the level areas of European Russia, 80 per cent of peasant households had been collectivized by that date. Maybe the terraced cultivations of Japan did not lend themselves to any reorganization. But to a people

Table 2 : Ratio of Direct Tax to Income Produced

(Percentage)

Year	Agricultural Sector	Non-Agricultural Sector
1883-87	*22.1*	*37.0*
1913-17	*12.9*	*4.5*
1933-37	*7.8*	*4.2*

Source : Rosovsky and Okhawa.



as pragmatic as the Japanese, reorganization would appear wholly unnecessary if the "existing set up" was delivering the goods. Maybe even in the USSR, collectivization might have been delayed had the "smytchka", peasant worker alliance, not broken down so completely. Why did Japanese agriculture deliver the goods in the early Meiji era while Soviet agriculture failed in the years preceding collectivization? There seem to me four main institutional factors:

Sense of Community

It is wrong to think of Japanese agriculture suddenly waking up in the 1860's. The Tokugawa period saw significant changes. Firstly there was a shift from cooperative to individual farming. Though all land belonged to the village lord, there existed peasant proprietors who gave him 50 per cent of the rice yield plus labour services, and tenant farmers. Secondly, the growth of markets in castle towns induced technical change: use of fertilizers, triple crops, new planting methods. With stagnant population, and high labour requirements, labour wages were high, discouraging large scale farming, and resulting in intricate garden like plots. The Meiji Restoration removed some of the disincentives to farming but attempted to increase production and productivity within the traditional pattern of rural organization.

Russian agriculture before 1917 shows few signs of the kind of *steady* progress made in Japan. There is evidence of considerable peasant discontent. Any sense of continuity that might have been was broken by the chaos that followed the revolution. Peasants seized the big estates and divided them up between themselves. Animals and equipment was destroyed. There was no material or political incentive to produce more and little guidance from the State. For a long time no one knew how permanent the revolution was, and this did not encourage stability in the rural areas. Thus the instability and uncertainty caused by the Revolution itself prevented the Soviets from trying to increase agricultural output within the 'traditional pattern'. There is some doubt as to whether any 'traditional pattern' existed in 1918.

Landlords

Landlords in Meiji Japan were a force for progress. This was partly because peasants lived in small, tightly packed hamlets with a great deal of community solidarity, collective legal responsibility for tax payments etc. Such communities were traditionally inclined to accept paternalistic leadership. In 1881, there was a Congress of Old Farmers in Tokyo, where the village leaders (mostly landlords) met to set up a National Agricultural Association which they would represent in their villages. The model village resembled closely a modern Chinese commune, with a communal hospital and a restaurant in the busy seasons, and many cooperative activities run by the village leaders. The landlords introduced better methods, inspected crops, made social distinctions between efficient and inefficient tenants. Most landlords were themselves cultivators. They were as much concerned with raising the standards of their own tenants as fulfilling a "paternalistic duty towards their fellow villagers". In bad harvests rents were always lowered. Rents in kind helped landlord's own incentives.

Meiji land reforms meant that the smaller peasants, unable to bear the burden of the extremely heavy cash tax payments, sold out to landlords and became tenants. Ex-samurai who were given unreclaimed land to cultivate, tried and gave up large scale capitalist farming because of high wage costs, and the relative efficiency of family labour, and turned to landlordism, renting out the land, and introducing a new dynamism into the countryside. Thus there was virtually no rural proletariat.

The USSR, on the other hand, provides a story of centuries of exploitation of the peasants by the nobles and landlords. "There were no good landlords" said one villager, and they seized all the lands. Yet they were *insecure in their new holdings* because they feared the return of the landlords in flesh (with the white armies) and in spirit. Maynard talks of: "a certain Count Stroganov who had had a terrible reputation in his lifetime for his treatment of offenders against his rights. The local peasants left all the land on one side of the river untouched, lest the Count should return from the grave and flay the trespassers".[3]

The Roman tradition of the rich helping the poor and the poor loving the rich was not highly developed in Russia. When the land was being redistributed, the big landowners bribed the surveyors and managed to get most of the land. And the saying in Russian goes: "Do not fight with the strong, nor go to law with the rich" This was still true in the early days of Bolshevik Russia. The kulaks (rich peasant) soon replaced the landlords as rural dictators. The Soviets were faced with the dilemma of having to give incentives to the kulaks in order to persuade them to release the marketable surplus and yet having to retain the support of the poor peasantry for the eventual socialization of agriculture. Unlike Japan, the Soviets could not rely on the kulaks to spread better methods. The better methods were identified with mechanization and large scale farming, and so the very poor peasants, like in Japan sold out to the rich, but unlike Japan, joined the growing rural proletariat.

In Japan, the call for nationalism found a response in the landlords, and through them the peasantry. The rich Russian peasants having derived all the benefits they could from their own social revolution, had no clear conscious or practical link with the proletarian revolution. This basic alienation was also felt by the poor peasantry.

City-Village Conflict

This brings us to yet another phenomena in Japan: the absence of any conflict between rural and urban areas. Japanese society in the Tokugawa period was highly centralized. The

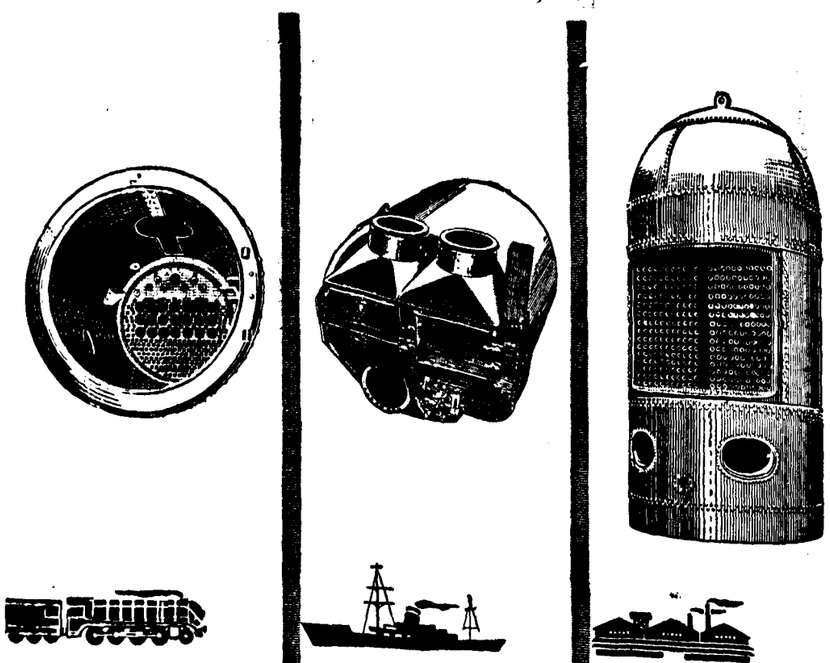
Table 3: Distribution of Collective Farm Grain Crops 1937-39

Item	1937	1938	1939
(1) Total Output (m tons)	87.02	67.09	67.35
(2) Deliveries to the State (m tons)	25.1	22.7	24.4
(3) (2) as percentage of (1)	*28.8*	*33.9*	*36.2*
(4) Distributed for labour services (m tons)	32.2	18.6	16.0
(5) (4) as percentage of (1)	*37.0*	*27.7*	*23.7*
(6) State deliveries as percentage of net output	*41.4*	*51.5*	*56.8*
(7) Distribution to farmers as percentage of net output	*53.2*	*42.1*	*37.2*

Source: Istoriai SSSR, No 1, 1962.
Note: Net output=gross output—seed feed.

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cities with highly advanced administrations were centres of fiscal and social administration and market towns for the surrounding countryside. They therefore became excellent intermediaries between rural areas and central policy. So technical change taking place in different parts of the country was communicated through Tokyo to the cities, and to their surrounding rural areas. So taxation was made easier. Because of the absence of significant industrialization, the conflict between towns and villages was negligible.

The Soviet Union is a very large country, and so does not lend itself easily to centralization. Thus communications between many villages and the cities were weak, and a large part of the USSR was, (and some still is[4]) remote. Thus under the existing system there was no quick way of spreading better farming. Collective farming got over many of these problems, because by definition it was a highly centralized operation with each kolkhoz chairman intimately connected with the Party and State organs. The proletarian revolution had also accentuated the city-village conflict. There was little understanding of village problems, and the peasant was considered as if he belonged to another species. Hence Stalin argued :

> "The great importance of collective farms lies in the fact that they are the basis for introducing machinery and tractors, for transforming the peasant, for transforming his psychology in the spirit of proletarian Socialism".[5].

A consequence of this Japanese phenomena of an absence of city-village conflict and also the long period of isolation as a result of Tokugawa policy, was the growth of village crafts in Japan to such a high stage of perfection that when manufactured consumer goods came on the market, they made little inroads into the traditional consumption patterns. This traditional labour using consumption continued to rise and absorbed increases in real income in the Meiji era.[6] Thus manufactured consumer goods were not required to compete with capital goods for scarce capital. Hence the tasks of industrialization were easier.

In Russia, on the other hand, most of the peasantry came under a subsistence economy. The rising real incomes in the period 1917-28 were felt mainly by the kulaks who had already developed an appetite for manufactured consumer goods. The demonstration effect had eroded its way into the countryside. Thus in 1928, the shortage of industrial goods on the peasant market when peasant earnings had increased resulted in the peasants cutting grain deliveries. If the peasant was to be lured into increasing marketed output, consumer goods production would have to rise, at the expense of capital goods. Collectivization by making the peasant "sell without purchasing" enabled cut in consumption goods industries investment and a concentration on capital goods. Thus while the USSR cut rural consumption of manufactured goods and agricultural goods to tap savings for investment, the Japanese did not need to cut manufactured goods consumption, and with rising productivity in agriculture, they only needed to prevent an increase in food consumption.

Role of State

The State played a dynamic role in the development of Japanese agriculture in the Meiji era. It set up a new Ministry of Agriculture and Commerce. It taxed agriculture for economic development, pursued land reclamation, export promotion and improvement of agricultural production. It sent students to the West, tried and rejected Western methods, and in the process evolved new methods, suited to Japanese conditions. It used exhibitions, national prize shows and experimental stations to diffuse widely best practices of particular regions. It set up agricultural schools and colleges, and the graduates went into local village and district governments. It set up credit societies, published bulletins for farmers, and set up local agricultural associations. Yet in 1890, total expenditure of the Ministry of Agriculture was only 1m yen (1/30th of the Ministry of Finances total outlay, and 5/8ths of this was for the Administration of the National Forests). Success at so little expenses was due to several factors.

(a) it speaks volumes for the efficiency of the Ministry;

(b) it was partly due to key intermediate role of district governments which adapted national plants to local conditions, redistributed tools, livestock, etc;

(c) there was no distrust of government as in Russia. According to Japanese tradition, "the official is noble, the people base";

(d) it was possible to appeal to nationalism, but sometimes compulsory regulations were issued to improve productivity. For instance during the Russo-Japanese war, farmers were told that rice seedbeds should be oblong in shape and 4′ wide and penal provisions were prescribed for infringement.

Thus the quality of the Japanese response to the State's plans more than ensured their success.

In the Soviet Union, immediately after the Revolution, the main purpose of Lenin's policy was to neutralize the peasants, and prevent them from going over to the counter-revolution. As Lenin said :

> "Ten to twenty years of proper relations with the peasantry, and victory on a world wide scale is assured, otherwise twenty to forty years of torture, of white guard torture."

Alas, this policy meant a tightrope walk between avoiding peasant opposition and securing peasant produce. The peasants were allowed to seize the estates and divide it up between them. At the time it suited the Revolution :

> Let them do it," said Lenin "if the lands are seized the banks will be ruined, (loss of mortgage money) if stock is taken over, the power of capital will be broken. With the control of the proletariat at the centre, the rest will follow of itself. The point is the transfer of political power to the proletariat.".

Did the Bolsheviks have a ready agrarian programme to fit this peasant

Table 4 : Urban Per Capita Consumption

Product	Actual 1927-28	Actual 1937
Meat	49.1 kg (22.6 kg)	21.0 kg
Milk and subsidiary	218.0 kg (183.0 kg)	132.0 kg
Eggs	90.7 kg (49.6 kg)	44.1 kg

Sources : 1927-28 Gosplan USSR : '27, 28; and Jasny: "Soviet Industrialisation, 1928-52". Figures in brackets show rural per capita consumption in 1927-28.

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revolution? Some say yes. Some kind of master plan is seen which ensured that the leadership of the revolution should rest with the proletariat, and that the revolution should be carried into the countryside in two stages: Stage One, where peasants are detached from the upper class and urban bourgeoisie, and given enough rope to divide the land between them and reduce the mass of the peasantry into a state of helpless independence; at which point Stage Two comes into operation whereby the mass of peasants are pitted against the rural petty bourgeoisie, and collectivization becomes inevitable. We cannot entirely discard this view. We cannot deny the Revolution's ideological commitments to collectivization, and this view helps us contrast the absence of any ideology in the Japanese picture. But there is considerable evidence that Stalin and others had decided on the slower course: "riding towards socialism on a peasant nag". Hence Stalin's frequent declarations about the "predominant role of individual farming for many years" and his condemnation of "dekulakization." The bulk of reorganization was to take place *after* and not simultaneously with the cycle of intensive industrial expansion. Hence the campaign for "smytchka through metal" rather than "smytchka through textiles". What caused the volte face:

(1) The state's tightrope walk involved a love-hate relationship with the peasantry which caused considerable fluctuations in marketed output, and once the Bolsheviks felt threatened by war from the "imperialist interventionists", this uncertainty had to be eliminated.

(2) There was a basic contradiction between a state relying on capitalist farming to deliver the goods, and the proletarian dictatorship opposed to any form of capitalism. This meant, firstly, that the Japanese solution of intensification of inputs in order to increase agricultural productivity was not open to the Soviet because of the absence of a close working relationship with the peasantry which would permit such a course. Increasing marketable surplus therefore meant large scale farming through some kind of enclosure movement. As Kondratiev pointed out: "If you want a higher rate of accumulation-then the stronger elements of the village must be allowed to exploit (the weaker)" — landless labourers. This was not only objectionable on ideological grounds, but was rejected because it might upset the political balance in favour of the kulaks. Secondly, to accept indefinitely a policy of gradualism would have seriously demoralized the party and poured cold water on its revolutionary fervour, thus weakening the regime.

(3) Finally, in 1928, with marketed surplus down to near zero ("the sabotage of grain collections by the kulaks" — Stalin) as a result of the famine of industrial goods. The choice had to be made between the two mutually inconsistent targets of the 1st Plan: doubling fixed capital and increasing consumer goods by 40 per cent. The Soviets had *either* to postpone collectivization, thus reducing the pressure on capital goods industry, and achieving the consumer goods target, thus persuading the peasants to sell more; *or* to push through full scale collectivization abandoning the consumer goods target, and imposing the required volume of savings to achieve the planned capital goods target. Under the circumstances, and despite kulak resistance, they chose collectivization. They thus succeeded in pulling the plan over the hump, and meeting party demands for socialization of agriculture. Success was made possible largely by stretching the use of decrepit equipment in agriculture, so that the capital goods industry could achieve target production without having to supply the kolkhozes with capital corresponding to their size.

Conclusion

In the years 1917 to 1928, Soviet agriculture failed to provide the marketed surplus required for industrialization. Among other reasons, this was largely due to the absence of the favourable institutional factors that explain Japanese success: the lack of continuity and gradual change essential for success in a small scale peasant farming set up; the absence of progressive elements in the rich peasantry, and the conflict between the rich peasants and the State; the failure of the proletarian revolution to understand the peasantry; the erosion of rural savings via the demonstration effect operating through the rich peasants' demand for manufactured consumer goods; and lastly, the incapacity of the State to increase productivity by co-operating with the peasantry because of the internal inconsistencies, the threat to party unity and the external danger of war. If we superimpose on this the ideological

Appendix

Table (i): Loss of Limestock due to Collectivization

(Million head)

Kind of Livestock	Individual and Kolkhoz Peasants and Kolkhozy 1928[1]	Individual and Kolkhoz Peasants and Kolkhozy 1933	Kolkhozy 1933	Individual and Kolkhoz Peasants 1933	Loss 1928-33
	Soviet Union				
Horses	33.4	14.9	10.1	4.8	18.5
Cattle	70.4	33.7	9.2	24.5	36.7
Hogs	25.9	8.9	3.0	5.9	17.0
Sheep and goats	145.9	41.8	12.2	29.6	104.1
	Kazakhstan[2]				
Horses	3.8	0.4	0.3	0.1	3.4
Cattle	7.7	0.9	0.5	0.4	6.8
Sheep and goats	26.6	1.2	0.9	0.3	25.4

Source: Official early summer data from *Agriculture USSR*, 1935, pp 517-19, 527-28 and 523-33; and "*Statistical Handbook*, USSR", 1928, pp 158-59, as quoted in Jasny: *Socialised Agriculture*.

[1] Total livestock less sovkhoz herds.

[2] The Kazakhi Muslims do not raise hogs.

Table (ii) Total Agricultural Output 1913-52 of the USSR

Year/s	Total		Crops		Livestock	
	Off'l	Jhsn	Off'l	Jhsn	Off'l	Jhsn
1913	100	100	100	100	100	100
1917	88		81		100	
1920	67		64		72	
1921	60		55		67	
1926	118		114		127	
1927	121		113		134	
1928	124	116	117	117	137	115
1929	121		116		129	
1930	117		126		100	
1931	114		126		93	
1932	107		125		75	
1928-32	117	106	122	122	106	90
1933	101		121		65	
1934	106		125		72	
1935	119		138		86	
1936	109		118		96	
1937	134	127	150	161	109	95
1933-37	122	105	140	129	87	81
1938	120		120		120	
1939	121		125		119	
1940	'141'		'155'		'114'	
1938-40	132	118	139	130	118	107
USSR acquired new territories: Second World War						
1945	86		93		72	
1946	95		100		87	
1947	122		140		89	
1948	136		158		96	
1949	140		156		109	
1950	140		151		118	
1951	130		133		126	
1952	142		148		129	

Source: D Gale Johnson "Agricultural Production" in Kuznets and Bergson (ed) "Economic Trends in the Soviet Union".

Coverage: Johnson's figures assumed 1956 prices, covered 11 commodities. Official coverage was wider, e g, fish hay and feed crops. Assumed low official estimates of 1913 output (72.5m tons).

[1] Official figures after 1940 do not take account in base of increased territories, so are not comparable with pre-1939 figures. (ed)

Table (iii) Gross Crop Yields

(1925-29=100)

Period	Grain	Cotton	Sugarbeets	Potatoes	Flax Fibres
1925-29	100	100	100	100	100
1930-34	86	72	72	101	86
1935-38	90	130	112	99	90
1950-54	99	187	114	109	62
1955-59	122	230	137	115	124

Source: D G Johnson "Agricultural Production" *(op cit)* and A Kahan". The Collective Farm in Soviet Development in E Witt "Agriculture in Economic Development".

bias of the proletarian revolution, it is difficult to see how collectivization could have been avoided.

Notes

[2] "Role of Agriculture in Modern Japanese Development" in "City and Village in Japan" (Ed) T C Smith; *Economic Development and Cultural Change,* Vol IX, No 1, Part II, October 1960.

[2] Kuznets and Bergson: "Economic Trends in the Soviet Union."

[3] Sir J. Maynard; "The Russian Peasant and Other Studies"

[4] See McAuley's "Kolkhoz Problems in Recent Literary Magazines" *Soviet Studies*, p 309, 1963-64.

[5] See David Mitrany, "Marx against the Peasant". Ref. list.

[6] Prosperity in Japan increased demands for *traditional* housing and *traditional* clothes; see Rosovsky, H: "Capital Formation in Japan".

U S Export Control

THE U S House of Representatives approved a four year extension of the Export Control Act of 1949 on June 8 along with a policy declaration against restrictive trade practices or boycotts imposed by foreign governments against other nations friendly to the U S. The measure now goes to the Senate for consideration and vote. The debate in the House centred on the efforts of the 12-nation Arab League to involve American business firms and their personal in the League's boycott of Israel.

In addition, the House adopted a further statement of policy, the sense of which requests and encourages U S firms to refuse to furnish information to any foreign government to further restrictive trade boycotts. American firms have been asked in questionnaires by Arab countries whether they deal with Israel and when they answer in the affirmative they become subject to Arab blacklisting. House debate brought out the allegation that certain Arab countries sometimes ask prospective American suppliers whether they trade with Israel, use products from that country, employ Jews or have Jews among their stockholders or managers.

The Law gives the President wide discretion to limit, restrict or prohibit entirely exports to any person or to any nation of any or all commodities, including information, to whatever extent they are of military, industrial, or economic significance, if such limitation , restriction or prohibition is found to be in the interest of national security or foreign policy.

Breakthrough in Andhra

IN contrast to what appears to be happening in many other States the Congress at the moment is consolidating its position in Andhra. It has retained all the three seats which were contested in the recent by-elections by very confortable majorities. It has its factional squabbles but they are under control and have not assumed anything like the dimensions elsewhere. It has made what looks like a breakthrough in its relation with the Centre which is perhaps the most important gain of all.

In the past Andhra could quite legitimately complain that the regional imbalance, of which it was a victim, was being aggravated. Central sector projects seemed to have developed an allergy for this State and the consequent pace of industrialisation was pitiful. Even the Nagarjunasagar project continued to cripple the State's budgetary resources, despite repeated representations that the Centre should take over responsibility for it. Now there has been a sudden turn of the wheel.

In a single week Brahmanand Reddy, the amiable Chief Minister, was able to announce that the road-cum-rail bridge across the Godavari at Rajahmundry would be coming through, that a zinc smelter plant would be located at Visakapatnam and that an electronics factory would be coming up at Seconderabad. He could also point to the Ramchandrapuram Heavy Electrical Plant, the synthetic drugs project and part of the MIG plant as acquisitions for Andhra. In the meantime, various forces are gearing themselves to launch a powerful agitation for the location of the fifth steel plant at Visakapatnam — to make things somewhat easier for Steel Minister, Sanjeeva Reddy.

It would be wrong to look at this sudden increase in industrial potential as a mere windfall. It comes as the culmination of a process. Capitalism in Andhra had, some years ago, reached the point where it could jump the barrier of petty production, where it could shake off its rural sloth. It is undoubtedly true that capital in Andhra is still rather petty — in the size of resources it commands and, consequently, in its vision and capacities. It is also true that it is still largely stuck in rural mud, that it would prefer to go in for crops, land buying and rice-cum-sugar mills. But the size of capital accumulation, scattered though it might be, has now reached a point where some minimum leadership can provoke it to change its assets-preference to industry.

It is interesting that just when the Centre appears to have woken up to the potentiality for capitalist growth in Andhra. Dharma Teja of Jayanti Shipping fame has also decided to invest in a fairly big way in his home State. He had made this decision a few years ago with his Republic Forge Company but its actual fructification takes place only now. Dr Teja is a scientist, a modernist and a man of some vision. He seems to be amply provided with funds, including precious foreign exchange, as well as with powerful connections at Delhi. Even after Pandit Nehru's death his connections are profitably strong. He has not yet evinced any desire to go in for politics — otherwise, he might have developed like Biju Patnaik of the earlier years — but he will certainly exert a powerful influence on the politics of the State, especially on the Congress.

Role of the Opposition

An indication of the increase in the development tempo is provided by the attitude of the opposition parties. They certainly take up all kinds of issues against the Government, lead various types of movements and try different methods to demarcate themselves from the ruling party. Yet a considerable part of their energy and time is taken up by the very same issues of Andhra's backwardness, the unfair deal it is receiving and its need for factories, bridges, roads and power projects. At a lower level, in the various Zilla Parishads and panchayat samitis, the situation is not very different. Corruption, of course, is a recurring theme but the jostling and jockeying that goes on has the common denominator that Andhra needs to grow. No radically different alternative is projected by any party — the contest is often a matter of personal integrity or efficiency or village-feud link-ups.

There is no doubt that the overwhelming majority in Andhra at the moment want development *per se*. They might grumble at the fact that Congress Ministers and their relatives are taking too many of the plums, that inequality is growing and that the administration is too corrupt and inefficient. But there is little evidence of any widespread desire for any basic social change. Petty property growing into medium capitalist property seems to offer an avenue for development to such vast numbers that the very atmosphere reeks with the desire for gain, for personal enrichment. And those who have medium incomes have acquired a craze for property acquisition — house, a small shop, vineyards and the like — which will soon enough put them in the race for climbing to the next rung of the ladder. i e, medium capitalism. Without property nobody seems to have any status and it seems to be fairly easy for a very large number to acquire this status. If he, why not I? — that is the prevailing mood.

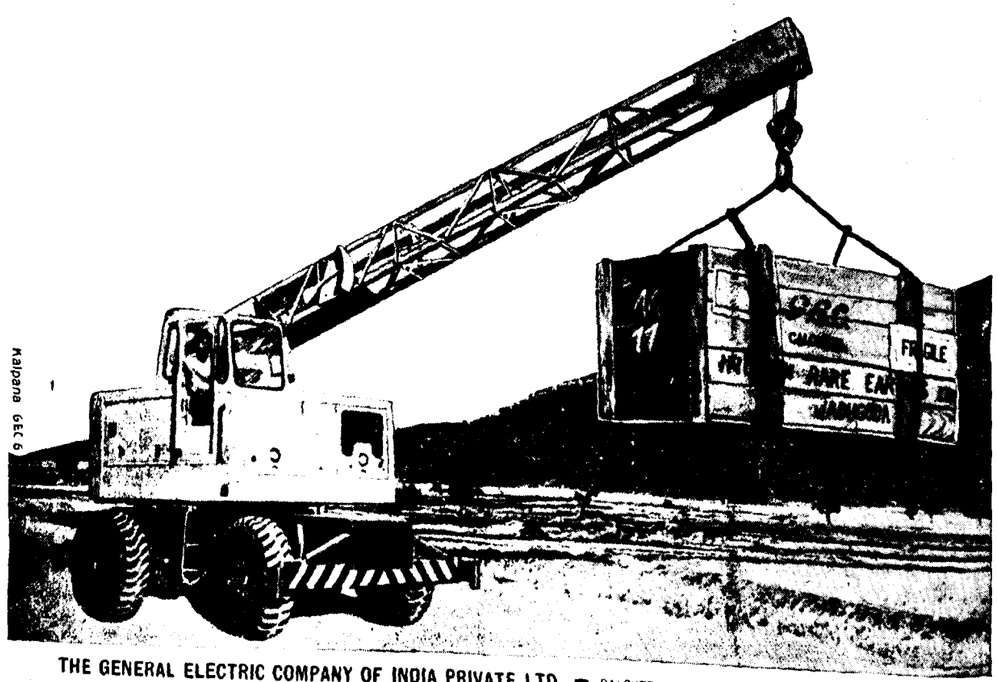
This may be good enough for capitalist development. It is also helpful at the present stage as a countervailing force to the various types of monopolists who have sprouted in different centres throughout India. At the present moment there may be no obvious clash of interests between the two groups of capitalists but conflict is inherent in the situation. The burgeoning of the newly-emerging capitalists has as its *sine qua non* the growth of the public sector, collaboration agreements with the socialist countries or government help to secure partners in the capitalist world. It is also likely to prefer the hurly-burly of parliamentary democracy to the authoritatian consistency of a Rightist dictatorship.

Yet its proliferation very seriously blunts the edge of any desire for sweeping, radical social change. Their meagre dimensions unit-wise and enormous size in the aggregate will create serious obstacles for any movement which wants India to develop along socialist lines. It is essential that powerful anti-capitalist social forces are organised which might find temporary allies in this broad stratum but which will not be engulfed by it. In Andhra these forces can only be the workers and the agricultural labourers. But they are at the moment very weakly organised and at an extraordinarily low level of consciousness. And ideas of historical initiative are very remote from the thinking of the overwhelming majority. At best ideas of resistance, of securing more of the growing cake are slowly seeping through. But these are the points of concentration for all who desire that India should avoid becoming a Mexico. There are some signs in Andhra that this idea is seizing the minds of many who hitherto had confined themselves to the middle class politics of the urban *nouveaux riche* and the *kulaks*.

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AROUND BOMBAY MARKETS

Dalal Street Moves Further Up

Wednesday, Morning

DALAL STREET was in fairly good form last week. Equities recorded further sizable gains and, what is more, the gains were widespread. Improvement was no longer confined to the speculative counters; several cash scrips participated in the rise and these included shares like Synthetics and Chemicals which had for long been one of the weakest spots. While Tata Steel continued to provide the lead, the performance of many other shares was no less impressive. The long-neglected Engineering shares once again received good attention. Rayons were particularly firm and sentiment here was aided by the marked strength in the rayon yarn market. Automobiles, Shipping and Textiles — all had their quota of bright spots.

Fairly encouraging corporate news, absence of any fresh adverse development in the political situation, the reduction in the British Bank Rate, scarcity of floating stocks and the generally low carry-forward charges at the end of the settlement and, last, but not perhaps the least important, the large volume of option business — all these factors contributed in varying degree to the further rise in equity prices. The substantial recovery in prices over the past fortnight has had a considerable influence on the general trading sentiment and this is being reflected in increased turnover.

While there has been a considerable improvement in turnover along with the rise in prices, activity continues to be predominantly professional. There is very little evidence of outside public participation and it is doubtful whether the small fry would be attracted to the stock market in face of the prevailing political and economic uncertainties and the deteriorating foreign exchange situation. The current recovery is essentially technical — an overdue correction of the post-Budget steep decline. Optimism about this recovery development into an important upward trend needs to be tempered with utmost caution.

COTTON

New Policy—When

YET another week has gone by and New Delhi has still to announce the cotton policy for the 1965-66 season. The authorities cannot be unaware that sowing operations are nearing completion in the Punjab, which, apart from being one of the leading cotton growing States in the country, is the main producer of Deshi cotton, a valuable foreign exchange earner for the country. Of course, the price policy is not of any relevance from the view-point of export in that there is no control over the price of cotton meant for export. When will the Government understand that if prices are to have any bearing on production, then the price policy must be announced before the commencement of sowing operations? Can it be that the authorities share the widely-held view that agricultural production is not very responsive to prices and that in any case on the basis of current cotton ceilings — and prices are generally near or above the statutory ceilings — Indian cottons are quoted about Rs 200 to Rs 250 per candy higher than comparable foreign cottons.

If the ceiling prices of cotton have been revised upward in recent years it has not really been for stimulating cotton production but simply to facilitate the marketing of cotton. Price control loses much of its economic meaning when the ceilings are revised upward to accommodate the unofficial premiums obtaining in the preceding season. The rising trend in cotton prices reflects the continuing imbalance between demand and supply and the gap is likely to widen with the expansion in spindleage unless a determined effort is made to increase output through improved yields. Indian cotton prices are already so very high that there is not perhaps much risk in abolishing price control altogether if only to bring about a better price relationship between different qualities of cotton.

There is very little to report about last week's developments in the cotton market which continued to present a dull appearance. The August hedge contract fluctuated between Rs 771.50 and Rs 773.75 and most of the time it was sticky around Rs 773. Activity in the trading ring was virtually at a standstill throughout the week. The turnover in the spot market was also extremely restricted, both in indigenous and imported varieties. Prices held distinctly firm.

OILSEEDS

Futures Hit New Highs

THE oilseeds market displayed amazing strength last week under the lead of linseed, which, in fact, have simply been following mustardseed where, futures trading, through banned, has assumed menacing proportions. During the week, linseed June shot up from Rs 99.85 to Rs 103.60 and the September contract moved up in sympathy from Rs 98.55 to Rs 101.50 (per quintal). Castor June advanced from Rs 80.50 to Rs 82.30 and the September contract rose from Rs 78.90 to Rs 80.30. Cottonseed September were marked up from Rs 51.75 to Rs 54. In ready, linseed oil advanced from Rs 19.40 to Rs 20.85 (per 10 kgs) and groundnut oil firmed up from Rs 24.60 to Rs 25. Castor oil Commercial was also steadier at Rs 17.

The spurt in prices was not due to any sudden deterioration in the supply position of edible oils. Nor could it be attributed to apprehensions about a possible delay in the start of the unpredictable monsoon. Prices have flared up mainly due to strong bull manipulation. Completely unmindful of the penal margins, bulls have pushed both linseed and castor beyond the second marginal lines; margin at the rate of Rs 2,500 per 10 tonnes becomes payable in linseed when the rate goes above Rs 102 and in castor bulls have to pay margin at the rate of Rs 1,600 per 10 tonnes when the contract rises beyond Rs 82. The determination on the part of bulls to pay margin has scared bears and they have been frantically covering their sales in the June contract and/or switching over to the distant September contract. Mustard oil prices have shot up by about Rs 150 to Rs 200 per tonne in a matter of days. Inquiries with the trade indicate that large amounts of unaccounted money are being utilised for speculation and speculative holding of linseed and mustardseed. The tendency to hold commodities has been steadily growing, which, among other things, is due to lack of faith in the stability of the rupee. Since the supply position of edible oils is never really comfortable — production is not keeping pace with growing requirements for internal consumption, let alone exports — holding of stocks

pays. The financial stringency does not matter much because of the large-scale employment of unaccounted money for this purpose.

Except for the normal routine business in groundnut extractions and cottonseed cake, export houses did not report any important fresh development. Locally, prices of groundnut extractions firmed up from Rs 385 to Rs 400 per tonne in sympathy with the general strength in the oilseeds market.

Money and Banking

Thursday, Morning:

DEMAND for funds in the Bombay short-term market during the past week showed a dwindling trend with the busy season almost coming to a close. Supply position was better as outstation money came into the market. The call rate ruled steady around 7½ per cent throughout the week but stray lots were done lower at 7½ per cent. The call rate in Calcutta was higher at around 8 per cent.

Bank credit during the week to May 28 was lower by Rs 8.76 crores at Rs 2,097.18. However, borrowings from the Reserve Bank of India were still high even though a fall of Rs 22.44 crores occurred during the week. Deposits advanced further by Rs 13.81 crores to Rs 2,667.34 crores. While demand deposits recorded a steep rise of Rs 11.86 crores, time deposits were higher by only Rs 1.95 crores at Rs 1,411.71 crores. Cash and balances with the Reserve Bank moved up by Rs 6.23 crores to Rs 169.62 crores. A small rise of Rs 23 lakhs was registered in investments in Governments in Government Securities. Money at call and short notice declined by Rs 3.22 crores to Rs 48.70 crores.

Foreign Securities with the Reserve Bank of India were unchanged during the week to June 4. Balance held abroad however moved down steeply by Rs 3.81 crores at Rs 3.54 crores. Active notes increased by Rs 20.94 crores to Rs 2,719.37 crores but notes with the Banking Department were lower by Rs 23.58 to Rs 29.08 crores. Total notes issued registered a nominal fall of Rs 2.64 crores to Rs 2,748.45 crores. Scheduled Bank borrowings advanced by Rs 4.97 crores to Rs 107.81 crores. Advances to the State Bank were higher by Rs 9.30 crores to Rs 121.50 crores. State Bank deposits were lower as well by Rs 2.83 crores at Rs 13.10 crores. Union Government deposits increased from Rs 64.12 crores to Rs 73.27.

BUSINESS NOTES

Electric Meter Industry

A CRISIS is in the making in the electric meter industry. Over the past few years, demand of meters has been lagging far behind production resulting in a glut in the market and fierce competition among producers. Recent reports suggest that as against the average cost of single phase house-service-electricity meter ranging between Rs 32 and Rs 37 (depending on design, features, etc.) producers have been bidding against tenders as low as Rs 24 to Rs 25 per meter. Faced with this situation, some units have had to curtail production considerably, but even then they are left with large unsold stocks.

This is indeed a disturbing situation; and if allowed to continue may result in retarding growth of new units particularly those depending entirely on meter manufacture. At stake is a fair amount of valuable foreign exchange and the savings of hundreds of small investors and employment of a large number of workers engaged therein.

It is worth while tracing the origin of this critical situation. The manufacture of electricity meters was started in India in 1952, and production has registered a remarkable increase during the past 13 years. Starting with a low figure of 34,356 meters produced in 1952, the country produced around 18,00,000 meters in 1964. This, however, is still much below the total licensed capacity, since a number of new units licensed have yet to start production.

The Planning Commission had envisaged the demand at over two million pieces per annum, and as against this, actual offtake was less than 1.1 million in 1964. The continuously widening gap between production and offtake has left large accumulated floating stocks in the market. Obviously, this situation has developed because the various power generation schemes and rural electrification programmes of the government have not been fully implemented. Demand of meters is unlikely to expand to the expected level unless these schemes come into fruition.

The electric meter industry has made several representations to the government to help it out of its sad plight. Recently, the Government of India called a meeting of the representatives of meter manufacturers in New Delhi with a view to finding ways and means of helping the industry. The government is reported to have suggested two remedies: first, the industry should fix floor prices for sale of meters in India to check unhealthy competition among producers; and secondly, to create with its own resources a pool of funds to subsidise exports to which the government would contribute an equal share. A suggestion was made at the meeting that the S T C should take from the industry all its output at cost plus a reasonable margin and sell in the home market as well as abroad. But the S T C is said to have expressed its unwillingness to accept this responsibility.

The manufacturers are considering the suggestions of the government. How far these suggestions will help the industry in over coming difficulties is to be seen. In the meanwhile, it is learnt that on quite a few occasions in the past members of the Meter Manufacturers Association of India had fixed floor prices for sale of meters but these have been violated by elements within the industry and the 'floor' has been sinking and lower. All the meter manufacturers are not members of the Association, and those outside its orbit have been free to quote lower prices in their anxiety and get aid of their stock.

Exports of meters look to be difficult unless the government offers liberal incentives to the industry, as stiff competition prevaild in the export markets.

Elphinstone Spinning

ELPHINSTONE Spinning and Weaving Mills has received a raw deal from Bombay Municipal Corporation and National Industrial Development Corporation in the matter of rehabilitation of its Moon Mills unit. The Municipal Corporation has informed the company that it will not be possible to allow it to work at the existing site under the Development Control Rules, whereas both the Government of India and the Municipal Corporation had earlier given their permission, after consultation with the Maharashtra Government, to restart theMoon Mills unit at the existing site.

In spite of the recommendations made by the Cotton Textile Loan Advisory Committee for an additional loan of Rs 37 lakhs to be given to the Company by N I D C for the rehabilitation of the said unit, the loan has yet to be sanctioned. The additional loan was recommended by the Committee after it had satisfied itself on various counts and had got the rehabilitation scheme pruned substantially. Besides, the company had agreed to finance a required portion of the scheme from its own resources and to give personal guarantees of its directors by way of additional security.

Meanwhile, the company has produced poor results for the year to December, last. Apart from the various adverse factors experienced by it as well as the cotton textile industry as a whole, the working of its leather cloth division was affected by shortage of raw materials. Owing to restricted imports, indigenous raw materials had to be used in increased quantities which cost the company more than twice the price of the imported material. Sales of cloth, yarn, waste and leather cloth decreased from Rs 3.43 crores to Rs 3.40 crores and gross profit was lower from Rs 25.19 lakhs to Rs 22.40 lakhs. After providing Rs 13.89 lakhs (12.35 lakhs) for depreciation, Rs 3.75 lakhs (5.60 lakhs) for taxation and Rs 1.60 lakhs (2.22 lakhs) for development rebate reserve, there remains a net profit of Rs 3.23 lakhs (5.03 lakhs) which is insufficient for payment of the unchanged dividends on equity and preference shares requiring Rs 7.15 lakhs. Besides, Rs 0.53 lakh (0.74 lakh) are to be allocated to development reserve. The shortfall is to be made up by drawing from general reserve. The credit of development rebate reserve at the end of 1963 has been utilised for the purchase of new machinery during 1964.

Imperial Chemical Industries

IMPERIAL Chemical Industries and its subsidiaries in U K spent about £22.3 million during 1964 on research, development and technical service. A considerable expenditure was also incurred by its associated companies and overseas subsidiaries on the same account. There has been, as a result, a steady flow of new or improved processes therefrom. The ICI's 1964 report lists some of the processes. For instance, the development of a novel process for the manufacture of vinyl acetate directly from ethylene has led to the establishment of a plant for making 30,000 tons a year. Vinyl acetate is used in a wide variety of industries such as emulsion paints, adhesives, paper and plastics. The basic process shows promise as a method of manufacture of a number of other important chemicals which have hitherto been too costly for exploitation.

A new process has been developed to the pilot stage, in which propylene is oxidised directly to propylene oxide. Hitherto, this chemical, which is of growing importance as an intermediate in the production of polyurethane foams, has usually been made by a multi-stage route whereas the closely related ethylene oxide is now normally manufactured by direct oxidation of ethylene.

I C I has devised an improved and continuous process for making aniline, based on hydrogenation of nitrobenzene. Aniline is an important chemical not only for dyestuffs but in many other fields. In addition to the continuing work in the agricultural division, two new processes for making granular fertilisers have been announced by a subsidiary company, Scottish Agricultural Industries Ltd. In one a mixed fertiliser is obtained directly from primary raw materials phosphoric, nitric and sulphuric acids, ammonia and potassium chloride, as hard spherical granules. The other process produces monammonium phosphate ('PhoSAI') in a new form. With its high plant food content, this is increasingly replacing superphosphate. In the field of olefine polymers and copolymers, a process for producing high density polythene at low pressures, using a novel catalyst system, has been developed to the plant scale, and the product is expected to become available this year. High density polythene is mainly complementary to the original ICI low density polythene made at high pressures, and ICI's product is likely to be used initially for blow moulding application and later for several other products in which the mechanical properties of this class of polymer, especially stiffness, are of advantage.

A new mechanical — rather than chemical — process resulted in the introduction of a bulked 'Terylene' yarn of particular interest to the weaving industry. This product, called type 500 'Terylene', is nearly twice as bulky as normal filament yarns of the same weight. In consequence, lighter weight woven fabrics than hitherto can be made with similar 'cover' for various types of garments such as overalls, blouses, shirts, suitings and raincoats.

Systems research has led to the greatly increased use of computers in many new applications. Arising from silicones research, a new device known as 'Flexel', which consists of an inert substrate such as glass-cloth coated with a conducting silicone rubber, is in an advanced stage of development. When electric current is passed through it, the whole sheet warms up to a steady uniform temperature. This material has many potential applications in domestic appliances such as electric blankets and in heater panels and other forms of central heating.

Kothari Textiles

IN his annual speech circulated with Kothari Textiles' 1964 report, D C Kothari, Chairman, has urged the government to remove all controls, statutory or otherwise, on prices of cloth and yarn and allow the normal economic laws of demand and supply to operate. Kothari feels that control on cloth was imposed by the government more under political pressure than to fulfil a real need of country's economy, considering that more than two-third of the total supply of cloth is available freely without any price control. He wonders how the control on prices of one-third production would hold the price line, as far as the clothing needs of the people are concerned. The cloth markets in the country for the past few months have remained in the doldrums and in spite of statutory control on prices, cloth is sold freely at prices considerably below the ceiling rates.

The Chairman adds that decontrolled cloth is sold faster than the controlled varieties, for obvious reasons. The margin of 18 per cent between the ex-mill and retail prices, according to the trade, is not sufficient to cover working expenses and yield reasonable profit for the parties constituting the distribution chain. The merchants, therefore, prefer to take decontrolled cloth where there is no such fixed margin, he says.

During the year to December, last, Kothari Textiles' performance has been excellent, with gross profit expanding by nearly a half from Rs 22.30 lakhs to Rs 32.95 lakhs, though sales turnover could rise only moderately from Rs. 2.11 crores to Rs 2.34 crores and there was a 100 per cent cut enforced on the mills for 18 days during June-July 1964. Besides, there has been rise in costs of cotton, wages, power and stores.

Good results are attributed to the large scale renovation carried out in the spinning department and economy effected in several directions. Of the profit, depreciation and tax charges have syphoned off more at Rs 19.96 lakhs and Rs 7.35 lakhs against Rs

15.10 lakhs and Rs four lakhs, respectively. Development rebate reserve has taken up slightly less at Rs 1.41 lakhs (1.57 lakhs), and there is left a higher net profit of Rs 4.23 lakhs (1.62 lakhs). For payment of the proposed unchanged dividends on preference and equity shares which require Rs 5.44 lakhs, a sum of Rs one lakh has to be withdrawn from reserves, as against Rs four lakhs transferred back in the previous year.

Raymond Woollen

WITH the tapering off of defence orders and the availability of imported raw materials considerably restricted, the woollen mills division of Raymond Woollen Mills could work only 57 per cent of its full installed capacity on three-shift basis during 1964. Of the capacity worked, a little over a fourth was run on export orders, and the balance on orders for the home market. Efforts are being made to expand exports. The management has emphasized on the government the importance of improving the quality of indigenous wool with a view to supplement at least to some extent the requirements of the woollen industry for raw materials for clothing purposes. So far, however, little effort, has been done in this direction.

Meanwhile, in 1964 the company's export sales increased from Rs 26.77 lakhs to Rs 35.10 lakhs. Export orders for the current years are expected to be to the tune of Rs 50 lakhs. Further progress has been made in developing business in other lines such as socks, jerseys, cardigans, ready-made garments etc. The company's schemes of modernisation in the wool combing division and spinning and weaving section are proceeding apace.

The accounts show that in 1964 despatches against defence orders were nearly a fourth at Rs 60.24 lakhs, and these too were made against orders placed in the previous year. The total sales turnover decreased over 21 per cent to Rs 4.01 crores from Rs 5.11 crores a year ago. After providing a little more for depreciation at Rs10.50 lakhs (9.70 lakhs), the pre-tax profit is down by nearly a third at Rs 40.79 lakhs (60.86 lakhs). But the gap is considerably narrowed at the after-tax level, since the tax liability is more than halved to Rs 17 lakhs (34.50 lakhs) mainly on account of a larger development rebate of Rs 5.26 lakhs (1.80 lakhs) allowable on new plant and machinery added during the year. The dividend maintained at twelve per cent requires, Rs nine lakhs, same as the previous year, and is covered 1.9 times as against over two-and-a half times cover in the previous year.

India Reinsurance

THE gross premium income of the India Reinsurance Corporation for the year ending December 31, 1964 for all departments was Rs 7.83 crores as against Rs 6.99 crores in the previous year. After processing this premium and after fulfilling the statutory and other retrocession obligation to companies, the Corporation wrote a total net premium of Rs 4.52 crores against Rs 3.89 crores in 1963. The total departmental reserves in respect of fire, marine and miscellaneous business totalled Rs 2.80 crores as against Rs 2.37 crores in the previous year, showing an increase of Rs 42.34 lakhs. The total funds as at end of December 1964 stood at Rs 4.04 crores as against Rs 3.53 crores a year before.

The year's trading resulted in a net profit of Rs 16.74 lakhs compared to Rs 12.21 lakhs in the previous year. Of this, Rs seven lakhs have been appropriated to general reserve and the balance to the dividend reserve out of which the proposed dividend as raised by two per cent to ten per cent is to be paid.

The Corporation is now well organised to give full reinsurance service to the Indian market. It is in a position to give large facultative covers and full technical help on rating and other matters in all branches of insurance, including specialised branches like contractors' all risks, erection, machinery breakdown, marine-cum-erection, bankers' blanket, professional indemnities, performance and other solvency bonds, deferred payment guarantees and hire purchase guarantees.

Sandoz (India)

THERE is vast scope in India for agro-chemicals. According to Government estimates, the consumption of plant protection chemicals is likely to be around Rs 100 crores by 1971 as against the present level of about Rs 13 crores. With a view to availing the opportunity that this field offers, Sandoz (India) Ltd has set up formulation facilities at Thana and is actively considering the basic manufacture of some products with the help of the parent company, Sandoz Ltd, Switzerland. Meanwhile, the company has recorded fair progress in the existing lines. The pharmaceutical department derived good benefits arising from the rationalisation of manufacturing and introduction of four new products. Extensive market research helped to highlight the needs of the Indian market, and products were developed to cater to these needs. The turnover of both the dyes and chemical departments was highly satisfactory, rising by a third in the case of former and by a sixth in the case of the latter.

During the year 1964, the company's expanded by 31 per cent from Rs 2.87 crores to Rs 3.64 crores but gross profit soared nearly three times from Rs 16.95 lakhs to Rs 48.38 lakhs, reflecting a substantial rise in margins. After providing for depreciation Rs 16.26 lakhs (12.56 lakhs), for development rebate reserve Rs 2.24 lakhs (0.37 lakh) and for taxation 19.23 lakhs (1.17 lakhs), a sum of Rs five lakhs is allocated to general reserve to which no amount could be credited last year. The provision for tax in respect of previous years accounts for Rs 1.75 lakhs, and the dividend raised by three points to nine per cent requires Rs 6.75 lakhs compared to Rs 4.50 lakhs a year ago.

Andhra Bank

SATISFACTORY progress has been recorded by Andhra Bank during 1964 when its deposits expanded from Rs 20.57 crores to Rs 26.44 crores, advances from Rs 12.32 crores to Rs 15.63 crores and investments from Rs 7.90 crores to Rs 10.19 crores. During the year, the bank took over Bharatha Lakshmi Bank, and thus 16 new branches were added though four of them were subsequently closed down. Besides, the bank opened ten more branches, some of them in big cities like Calcutta, Madurai, Cuttack and Hyderabad.

The bank's total income advanced from Rs 143.52 lakhs to Rs 167.55 lakhs of which interest and discount accounted for Rs 139.99 lakhs against Rs 18.93 lakhs and commission, exchange and brokerage Rs 22.30 lakhs against Rs 17.98 lakhs. Simultaneously, the expenditure also rose. For instance, interest paid on deposits claimed Rs 78.04 lakhs against Rs 69.13 lakhs, and salaries and allowances, bonus and provident fund Rs 59 lakhs against Rs 48.23 lakhs. But even then the bank earned a higher profit of Rs 9.40 lakhs compared to Rs 8.70 lakhs a year ago.

Deposits and Advances of Banks

SEASONAL TRENDS IN BANK CREDIT: SECURITY-WISE CLASSIFICATION

(Rs Crores)

Security	Busy Season		Slack Season		Calendar year		Outstanding as on Dec 24, 1964	Oct-Dec 9163	Oct-Dec 1964
	1962-63	1963-64	1963	1964	1963	1964			
Seasonal Advances	+140.7	+201.1	—166.4	—193.9	+ 5.0	+ 5.8	262.0	+ 51.8	+ 50.5
Paddy and Rice	+ 8.9	+ 14.6	— 11.0	— 16.2	+ 0.8	— 3.1	7.8	+ 5.2	+ 3.7
Wheat	+ 3.8	+ 3.0	+ 1.2	— 2.5	— 2.7	— 3.7	2.4	— 1.4	+ 0.4
Other Foodgrains	+ 0.4	+ 4.1	— 1.4	— 6.1	+ 1.5	— 1.5	7.9	+ 0.2	+ 0.8
Sugar and Gur	+ 26.2	+ 65.7	— 68.6	— 63.4	— 33.6	+ 9.3	32.0	+ 5.4	+ 12.4
Groundnut	+ 10.0	+ 11.4	— 11.6	— 12.1	+ 2.8	...	13.5	+ 11.8	+ 12.5
Cotton and Kapas	+ 66.5	+ 68.6	— 50.8	— 57.3	+ 25.6	+ 7.6	95.5	+ 23.9	+ 20.1
Raw Jute	+ 13.5	+ 14.1	— 7.5	— 10.4	+ 6.2	— 1.8	31.3	+ 8.8	+ 3.8
Tea	— 6.0	— 6.4	+ 7.7	+ 10.0	— 2.2	+ 4.4	39.3	— 8.6	— 7.3
Non-Seasonal Advances	+ 57.0	+151.6	+ 8.9	+ 54.0	+ 91.8	+193.4	1,255.2	+ 52.5	+ 40.4
Cotton Textiles	+ 9.4	+ 16.4	— 7.2	+ 6.1	— 0.5	+ 28.6	164.1	+ 6.1	+ 12.2
Jute Textiles	— 3.8	+ 4.0	+ 3.8	+ 8.3	+ .11	+ 12.3	42.2	+ 2.2	+ 2.3
Iron & Steel and Engineering Goods	— 5.9	+ 22.8	+ 15.3	+ 15.0	+ 7.6	+ 38.0	241.2	+ 7.8	+ 7.9
Shares of Joint Stock Companies	+ 0.8	+ 8.9	— 0.9	— 8.0	+ 3.8	— 0.5	93.8	+ 3.1	+ 1.7
Debentures of joint Stock Companies	+ 4.3	+ 3.0	— 6.8	— 1.7	— 2.1	+ 1.2	23.4	+ 1.4	+ 0.3
Government and other Trustee Securities	— 2.8	+ 2.3	— 6.7	+ 8.8	— 7.2	+ 3.4	29.9	+ 1.1	— 6.6
Gold & Silver Bullion and Ornaments	— 23.8	+ 0.8	— 0.9	+ 2.1	— 11.8	+ 2.9	21.4	+ 0.8	+ 0.8
Assets of Industrial Concerns	+ 10.7	+ 16.2	— 1.9	+ 12.1	+ 19.7	+ 27.3	122.8	+ 9.8	+ 7.8
Total Secured Advances	+197.7	+352.7	—157.5	—139.9	+ 96.7	+199.2	1,517.2	+104.4	+ 90.8
Unsecured Advances	+ 10.4	+ 23.2	+ 30.9	+ 12.2	+ 60.5	+ 37.1	296.7	+ 7.8	+ 9.6

OWNERSHIP PATTERN OF DEPOSITS OF SCHEDULE BANKS

(Accounts in thousands, Amount in Rs Crores)

		April 28, 1961			March 31, 1963			March 31, 1964		
Number of Reporting Banks		84			78			76		
		Accounts	Amount	Percentage	Accounts	Amount	Percentage	Accounts	Amount	Percentage
I	Business	6,28	564.1	*33.3*	6,84	622.3	*29.9*	7,45	675.2	*28.5*
	(a) Industry	65	*165.2*	*9.8*	76	162.3	*8.3*	85	193.5	*8.2*
	(b) Trading	5,18	230.0	*13.6*	5,67	256.0	*12.3*	6,17	217.5	*11.5*
	(c) Financial	33	149.6	*8.8*	30	179.6	*8.6*	30	189.7	*8.0*
	(d) Others	13	19.4	*1.1*	11	14.5	*0.7*	13	20.5	*0.9*
II	Personal (Individuals)	53,22	809.4	*47.8*	66,28	1028.7	*49.4*	76,40	1166.1	*49.2*
III	Professional	.....	.....	.....	78	27.2	1.3	1,22	39.7	*1.7*
IV	Government and quasi-Government Bodies	20	133.2	*7.9*	25	173.0	*8.3*	28	204.3	*8.6*
V	Others	1,44	187.3	*11.1*	1,66	232.0	*11.1*	1,88	284.9	*12.0*
	Total	61,14	1694.1	*100.0*	75,81	2083.2	*100.0*	87,23	2370.1	*100.0*

ADVANCES OF SCHEDULED BANKS ACCORDING TO PURPOSE

(*Rs Crores*)

Number of Reporting Banks	April 28, 1961			March 31, 1963			March 31, 1964		
	85			77			75		
	Number of Accounts	Amount	Per-centage	Number of Accounts	Amount	Per-centage	Number of Accounts	Amount	Per-centage
I Industry	34,933	687.79	*52.7*	43,880	921.24	*57.2*	53,859	1104.40	*59.2*
II Commerce	1,74,013	408.44	*31.3*	1,75,489	443.95	*27.6*	1,97,366	486.83	*26.1*
III Financial	18,887	67.06	*5.1*	18,225	84.08	*5.2*	16,365	99.10	*5.3*
IV Agriculture	75,371	5.48	*0.4*	50,194	4.09	*0.3*	1,20,870	8.69	*0.4*
V Personal	7,01,345	87.90	*6.7*	6,33,830	99.22	*6.1*	5,95,742	101.77	*5.5*
VI Professional	15,252	11.04	*0.8*	48,996	12.46	*0.8*	17,219	12.23	*0.7*
VII All Others	58,131	38.46	*2.9*	58,227	45.66	*2.8*	51,408	51.65	*2.8*
Total	10,77,932	1306.18	*100.0*	10,28,841	1610.70	*100.0*	10,53,529	1864.75	*100.0*

BANKING RETURNS

Reserve Bank	June 4	May 28	April 30	June 5, 64
1. Note circulation	2719.37	2698.42	2708.19	2549.53
2. Rupee coin	91.61	94.26	97.06	98.25
3. Deposits				
(a) Central Govt	73.27	64.11	53.60	50.63
(b) Other Govts	13.10	15.93	12.38	9.09
(c) Banks	93.47	104.61	96.45	87.71
(d) Others	171.15	174.86	180.67	161.10
4. Foreign securities	70.00	70.00	72.46	98.46
5. Balance abroad	3.53	7.34	10.90	10.49
6. Rupee Securities	2453.07	2453.07	2441.10	2262.27
7. Investments	162.97	163.54	131.02	219.43
8. Loans and advances to Govts	91.61	82.31	75.83	91.48
9. Other loans and advances	231.11	244.79	289.65	163.11
Scheduled Banks	May 28	May 21	April 30	May 22, 64
1. Aggregate deposits (net)	2667.35	2653.53	2640.81	2326.75
Demand (net)	1331.74	1423.58	1426.34	1128.60
2. Time (net)	1455.74	1488.30	1467.55	1285.26
3. Cash in hand	70.76	72.10	68.83	62.11
Balance with Reserve Bank	169.62	163.39	161.42	83.28
4. (2) + (3) as % of (1)	6.36	6.16	6.11	6.25
5. Borrowings from Reserve Bank	103.01	126.45	123.82	48.44
(a) Against usance bills and/or promissory notes	45.56	44.07	61.83	7.74
6. (b) Others	57.45	82.38	61.99	40.71
Advances	1766.84	1747.63	1757.72	1556.88
(a) State Bank	430.34	435.18	435.47	352.46
7. (b) Others	1336.50	1312.45	1323.25	1204.42
Bills discounted				
(a) Inland	275.22	282.93	284.87	212.97
(b) Foreign	76.69	75.37	76.46	68.02
(c) Total	351.91	358.30	361.33	280.99
(i) State Bank	55.32	55.47	56.23	24.07
8. (ii) Others	296.59	302.83	305.10	256.92
9. (6) + (7) as % of (1)	78.62	79.36	80.24	78.99
Investments in Govt Securities	721.45	721.22	719.23	620.58
1.0 (9) as % of (1)	27.05	27.18	27.24	26.67

INDEX NUMBERS OF WHOLESALE PRICES

(*Base : 1952-53—100*)

Group and Sub-Group	WEEK ENDING			
	22-5-65	15-5-65	24-4-65	23-5-64
Food Articles	*159.0*	*158.4*	*157.3*	*149.0*
Cereals	136.3	136.4	138.5	127.8
Pulses	152.6	151.7	153.9	136.8
Fruits & Vegetables	173.6	176.4	157.9	177.6
Milk & Ghee	167.0	161.7	158.3	137.9
Edible Oils	199.0	198.7	200.9	175.4
Fish, Eggs & Meat	193.9	183.8	184.9	158.5
Sugar & Gur	156.8	163.1	161.9	190.2
Others	183.6	184.1	175.7	178.5
Liquor & Tobacco	*138.3*	*139.0*	*139.0*	*122.4*
Tobacco	136.2	137.0	137.0	119.6
Fuel, Power, Light & Lubricants	*147.1*	*147.0*	*146.3*	*142.7*
Industrial Raw Materials	*175.0*	*172.8*	*173.8*	*149.9*
Fibres	159.5	158.6	156.7	135.3
Oilseeds	211.0	206.2	211.2	176.4
Minerals	129.3	129.3	129.3	103.2
Others	139.8	139.8	139.1	131.0
Manufactures	*144.1*	*143.3*	*144.2*	*133.1*
Intermediate Products:	*160.3*	159.9	159.0	146.0
Finished Products	*141.5*	*140.5*	*141.7*	*131.0*
Textiles	141.0	139.5	141.7	127.8
Cotton Manufactures	138.1	138.1	138.7	135.5
Jute ,,	145.8	139.9	147.2	98.7
Woollen ,,	170.3	170.3	170.3	168.7
Silk & Rayon ,,	140.0	140.0	140.0	141.9
Metal Products	178.9	178.9	178.9	168.1
Chemicals	124.4	124.4	124.4	119.0
Oil Cakes	212.1	210.2	209.7	185.6
Machinery & Transport Equipment	133.4	133.4	132.7	125.9
Others	126.1	126.4	125.4	127.5
AllCommodities	*156.4*	*155.5*	*155.3*	*14.38*

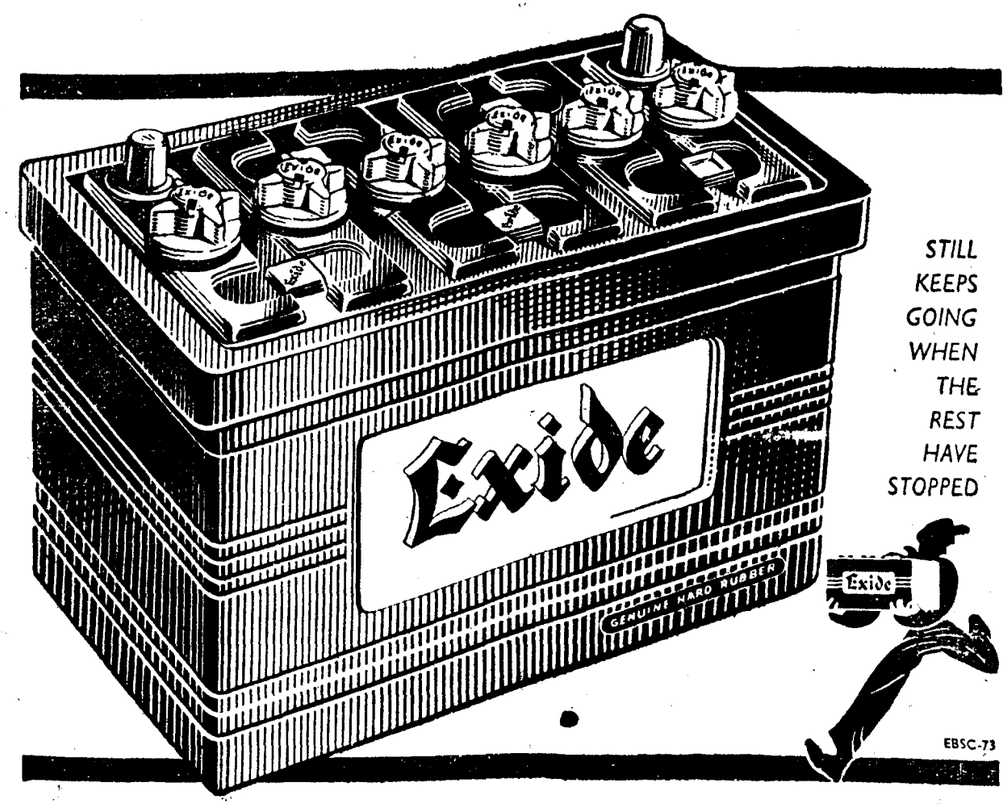
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ISSUES FOR COMMONWEALTH CONFERENCE

FALL OF A CONGRESS STRONGHOLD

INTER-STATE DIFFERENCES IN FARM INCOMES

THE HINDU WOMAN

VOLUME XVII NO 25 JUNE 19, 1965 SEVENTY-FIVE PAISE

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The Shame of Viet Nam

IT is such a pity moral indignation is about the only weapon a journal of opinion possesses. What the Americans are demonstrating in Viet Nam is nothing short of lunacy. There has been another coup last week in Saigon, and the pretence of a civilian regime has once more been laid to rest by the assumption of power by the army generals. It hardly matters though, for these generals have only a nuisance value. They represent not one segment of even the population of Saigon. It cannot even be said that they represent American wishes. If the US administration could have its way, it would have tried to foist a better lot in Saigon. But in the present exigency the Americans cannot afford to be choosy. They have to persist in the make-believe of being present there on the invitation of the local authorities. There are, however, no local authorities: what takes place every now and then is a shuffling of the sorry lot of mercenaries and imposters who are with the Americans because they are hopeful of making a quick pile while the chaos still lasts. Whoever amongst them comes on top, the Americans will have to placate him; it is a true manifestation of the cliche: the drowning man clutches at a straw.

For there is no question that the US is on the brink of a major disaster in Viet Nam. The National Liberation Front has taken over the offensive. The rains have come, the monsoon clouds are impeding the freedom of the air which the American planes had been enjoying so long, and the guerrilla elements have re-grouped themselves to deliver crippling blows on the foreign intruders. Despite the purposive black-out of news, reports indicate that casualties on the American side have been extremely severe, amounting in many areas to a total annihilation. Desertion from the so-called South Viet Nam contingents has reached runaway proportions. The Viet Cong forces are apparently ready to swoop down on American military installations, the entrenched areas around the ports and air bases, and on Saigon. When they do so, it is likely that the local populace in each area would offer them the maximum co-operation.

This would perhaps explain China's disinterestedness in getting directly involved in Viet Nam. The NLF and Ho Chi Minh must have assured the Chinese that intervention is not really necessary at this stage; time is on their side. Given the existing constellation of factors, it should be possible to complete the mopping-up operations by the end of August. That is, unless the Americans lose their heads completely and decide to turn the Viet Nam war into a nuclear confrontation.

Desperate people will go to any lengths, which is why it is not possible to rule out straightaway such a possibility. Over the next two months, the Americans could attempt to retrieve the situation by doing either of two relatively less desperate things. They could intensify the aerial attacks on North Viet Nam, hitting Hanoi and the industrial establishments up to the border of China. Messrs Bundy, McNamara and Rusk might still hope and advise President Johnson that saturation bombing would bring Ho Chi Minh to his heels. After all, all that the US administration is praying for is some token gesture from Ho Chi Minh and Chou en-Lai that they are willing to sit at the negotiating table and give the Americans a quasi-honourable 'out'. The present phase of the war has nothing to do with the saving of 'democracy' and the ensuring of 'freedom'; it is wholly and exclusively intended for the salvaging of American *amour propre*.

If blasting North Viet Nam with napalm will not do the trick, the Americans could try to carry the strategy one step further and start dropping bombs on China itself. This would however lead to the collapse of the entire edifice of peaceful co-existence, for, irrespective of ideological differences, the Soviet Union, for dear life, will have to declare all-out support for China. But there is another alternative, and one which, if recent indications mean anything, the Americans are likely to pursue. This will be the gradual elimination of the demoralised and desertion-prone South Viet Namese regiments and the

regular deployment of American troops instead. Already seventy-five thousand troops have been landed in South Viet Nam, and President Johnson has thrown hints that he would be prepared to commit up to a limit of twenty-five thousand American regulars.

This could amount to succumbing to the temptation of an invitation to a mass beheading. American troops have only limited experience of fighting in marshy, tropical tracts. The hinterland would be hostile, communications would be uncertain, and air support would be liable to continual disruption. In these circumstances, the Americans would not be much of a match for the wily Viet Namese, and the story might well turn out to be one of encirclements and annihilations. The consequences for the Johnson administration of such an unmitigated disaster can be perilous: it was Korea more than anything else which sealed the fate of the Democratic Party in the 1952 elections.

What is happening in Viet Nam is sickening, and is bound to make the U S A a deeply hated nation in Asia for decades to come. It is rarely in history that one can find a parallel to the cussedness of current American foreign policy. The only silver-lining is the fact that conscience and sense of decency are not yet quite dead even in that country, as the 'teach-ins' have shown. Fortunately for the world and humanity, there are other values beyond what the American official line represents, even if such formidable 'socialists' as Harold Wilson have not heard about them.

Joint Planning ?

IN this country one has a weakness for high-sounding words, nice shining phrases. One of the ways people make compromises with the harsh realities of life is by first creating and then becoming fascinated by words and symbols with a wealth not so much of meaning, as of vague significance. This national weakness has played not an unimportant part in our planning. Up till now in the discussions on the Fourth Plan there have not been many attempts to indulge in irresponsible slogan-mongering to captivate public imagination. One, therefore, views with concern the sudden coming into vogue of the phrase "joint planning".

The pretext for the use of the phrase is that there has been during recent weeks a few welcome trade agreements between India and some European countries. The aluminium plant at Korba is to expand its capacity from 60,000 tonnes to 100,000 tonnes with Soviet assistance on the understanding that the Soviet Union will import the additional 40,000 tonnes. There is also the agreement, recently announced by Baliram Bhagat, between Hungary and Yugoslavia on the one hand and India on the other for the assembly in Yugoslavia of Indian railway wagons. These agreements have been described officially and welcomed in certain quarters as reflecting a qualitative change in the method of planning. Nothing can, however, be farther from the truth.

To equate long-term agreements for trade and collaboration to inter-locking planning between countries involves serious misunderstanding of planning as a process. After all, any time anybody sets a target for domestic production, he implicitly sets targets also for imports and exports of the same commodity. For, what commodity balancing is meant to achieve is a correspondence between domestic requirements and total supply. Long-term trade agreements make the task of planning easier and more scientific insofar as they give sound basis for making projections for exports and imports. In the absence of such long-term agreements, one has to be prepared for all calculations being upset by the projections for exports and imports proving wrong. As is known from elementary inter-industrial analysis, the entire domestic production structure is a function of the projections made for exports and imports. Long-term trade agreements, therefore, are logically called for by any planning whatsoever.

Joint or inter-locking planning is, however, a very different thing. It ought to mean, to use technical language, over-all optimisation for a number of countries with decentralised sub-optimisation for each member country. In every day language, it should mean a painstaking joint effort to quantify comparative costs for a whole range of goods produced and exchanged by the different countries concerned based on their resource-endowment and to work out import substitution patterns best suited to each economy. It goes without saying that nothing like that is being visualised between India and any one of the countries — Soviet Union, Yugoslavia, Hungary, France, etc — with whom the recent trade agreements have been arrived at. It is also to be emphasised that there is absolutely no realistic possibility of joint planning in this sense taking place in the near future. India has not as yet got the organisation for planning capable of participating in such a venture. Also, genuine joint planning can take place between countries which have got some basic identity of interests. Whatever might be the political facts underlying the friendly relations existing between India and these other countries, that kind of basic identity of interests just does not exist.

Aid for Uganda

THE first concrete manifestation of Indian technical and economic aid to African countries is the setting up of the India-Uganda Development Agency, a new Government company with the participation of five leading Indian sugar and sugar machinery manufacturers. Earlier, in September last year, a memorandum of agreement was signed between the Governments of India and Uganda for the development of the sugar industry in Uganda. The project involves the setting up of four new sugar mills with a capacity of 25,000 tons each, with attached sugarcane estates of 20-25,000 acres. The total cost of the project is £ 10-12 mn. India will provide the sugar machinery, materials for factory buildings, etc, in consideration of which I-UDA will receive 45 per cent of the share capital of the Uganda Sugar Development Corporation. The Uganda Government will hold 45 per cent of the share capital and private investors in Uganda the remaining 10 per cent; they will jointly bear the entire expenditure outside India. I-UDA will be responsible, subject to arrangements with its Uganda counterpart, for placing orders for machinery, equipment and stores in India, for purchasing and forwarding them to Uganda, for recruiting and training staff and for arranging technical advice and facilities. India will appoint the general manager of the Uganda corporation for the initial six years of production. About 90 per cent of the employees would be Ugandans who will ultimately take over the entire management.

This is the ideal form of aid which India can extend to more underdeveloped countries. In two earlier comments on the subject (October 24 and October 31, 1964) it was pointed out that such assistance should preferably be extended by or through the public sector and that managerial, financial and technical control over the enterprises concerned should pass into local hands over a specified period of time. This is the only arrangement which would be consistent with our own attitude to foreign aid and would also assure export of indigenously manufactured machinery on a long-term basis. Indian private enterprise which is going into Ethiopia, Nigeria and other African countries is, on the other hand, motivated entirely by profits without any serious intention of repatriating them home or placing orders for local machinery — the Birla cotton mill in Ethiopia purchased its equipment from Switzerland and others are also hunting for foreign exchange under the guise of exporting a handful of machinery — or training the Africans to finally take over. Profits in Africa are large but we cannot afford to lose what little goodwill there is for Indian business by the export of, among other things, sharp practices which are already creating a bad impression over and above the traditional antipathy which Africans have towards domiciled Indians.

Since this is the first organised attempt to export Indian machinery and technical and managerial know-how, a conscious effort would be required to make an exemplary success of it. Both machinery and men would have to be the best that can be offered and maintained. Public relations, as the Russians demonstrated in Bhilai, are a key factor. The Indian personnel sent to Uganda must be carefully selected and put through an orientation course to avoid mishaps in human relations. The African may be innocent and backward but he is sensitive and eager to be accepted as an equal — just as we are in dealing with westerners. Any impression that we are out to exploit African backwardness must be avoided.

Weekly Notes

TTK and Bankruptcy

PEOPLE often say things which, on sober reflection, they wish they had not said. With Ministers this is an occupational hazard, but our Ministers have struck upon (and have overworked) a device to get themselves out of trouble — they just say they were misreported. One sincerely hopes that the Finance Minister was indeed misreported when he made the amazing assertion — amazing even to those familiar with a Minister's idea of his own importance — that as long as he was Finance Minister the country would not go bankrupt! "After me, the deluge" — shades of the Bourbons!

Presumably, the Minister was referring to external solvency. We are not bankrupt in the sense that our international cheques have not bounced — yet. We have been spared this ignominy directly through a refunding of our obligations by institutions like the I M F and by some countries and indirectly by the provision of non-project aid. The Minister possibly wishes to take credit for arranging this refunding in view of his willing acquiescence in the stern measures of internal monetary discipline which our foreign creditors are prescribing for us. But how long can we travel on that road? What happens when we use up the remainder of the stand-by credit (a mere $ 75 million now) and do not get adequate cash aid in time? The time for financial brinkmanship would then be over; we would have gone over the brink and a regular stabilisation programme would be insisted on. The Finance Minister may stay (for the nation's good, of course) but only as an agent for carrying out policies indicated in the programme.

There seems to be a queer coincidence — if it is only that — between the tenure of office of TTK in Finance and our parlous financial straits. In 1957-58 we were running through our reserves and, after starting with a comfortable reserve cushion in 1956 on the eve of his assuming office, we were forced to draw on the Fund for a sum of $ 200 million. By 1958 we had begun to pass the hat around. Internal deficit financing was also highest in 1957-58. Now, once again, his holding of the office has coincided with a severe exchange crisis. The bottom of the barrel has been scraped but we have a seemingly cheerful Finance Minister assuring us that we will not go bankrupt. That is a tribute to the resilience of the economy more than anything else. A cynic might say that we will not go bankrupt—despite the Finance Minister.

Snail's Progress

THE Ranchi snail is nowhere near the end of its long and arduous journey. Its new chairman, T R Gupta, former chief executive of Jay Engineering, appears to have brought some drive and much more optimism, but the goods are a long way off from delivery.

Four major projects come under the Heavy Engineering Corporation: the machine building project, the foundry forge and the heavy machine tools project at Ranchi and the coal-mining machinery plant at Durgapur. Of these, only the first has really gone into production; its entire construction, erection and commissioning is expected to be completed some time next year. Out of 44,000 tonnes of materials and equipment including structurals required for the plant, about 36,000 tonnes have been shipped from USSR; of the 838 standard machine tools to be installed, 690 have been received at site and 561 have been installed. The plant needs advance orders, much more than those for 40,000 tonnes of machinery and equipment which include the orders for Bhilai and Durgapur expansion, booked already. It is negotiating for further orders, of 58,000 tonnes for Bokaro and other steel plants. Gupta is confident of turning out a completely *swadeshi* steel plant by 1972-73, though less well-informed persons would like to know what precisely complete self-sufficiency in the manufacture of large plants means. For the time being, even the heavy machine building plant is bedevilled by lack of firm orders, made worse by the continuing handicap of both H E C and potential customers in designing and by the unfortunate prolonged delay in the foundry forge project.

The foundry forge plant is way behind schedule. Civil work on it is in the preliminary stages; civil construction of the main production buildings are still at 5 to 18 per cent completion stage. Out of 41,500 ton-

nes of steel structurals required, 7,000 tonnes have been received at site and 2,100 tonnes erected. Of 53,000 tonnes of equipment including refractories to be imported from Czechoslovakia, nearly 49,000 tonnes have been received. However, only 13 per cent of the grey iron foundry installation is complete. Total production during 1963-64 was 300 tonnes. Delays in completion apart, the plant is caught in a vicious circle. It does not get adequate orders and is unable to secure enough materials, particularly non-ferrous metals, to fulfil the orders received.

The heavy machine tools project, also being put up with Czech collaboration, is the farthest behind. Rough levelling and grading of plant site was completed in May 1964. Civil work has been taken up recently and about one-half of the materials and equipment to be imported from Czechoslovakia has been received. Production is expected to commence next year.

The coal-mining-machinery project with Russian collaboration at Durgapur commenced production of conveyor belts and pumping sets in November 1963. It will also design and produce coal-washery equipment. Civil work has been completed and the greater part of equipment to be imported has arrived and has been installed.

The number of foreign experts is 180 at the foundry forge, 167 at the heavy machine building project, 6 at the heavy machine tools plant and 138 at the coal-mining machinery project. The Russian and Czech credits for these plants were extended in 1958 and enlarged further in 1960, when it was decided that their capacities should be substantially larger and when it was also found that their foreign exchange component was bigger than the credits, especially in the case of the Czech-aided plants. The main causes of the delay, however, have been three: indecision about the precise pattern of production, administrative bungling, and inadequate development of designing facilities. The completion of these projects on schedule would have substantially eased the pressure on foreign exchange resources, besides inspiring confidence in the attempt to achieve technological self-sufficiency.

Don't Axe Export Credit

THE provocation to return in these columns to the harmful effects of bad foreign exchange budgeting and reporting is provided by reports appearing in the financial press of moves to insist on prompt realisation of export proceeds. At present exporters are allowed six months to bring in the proceeds to India. Recent delays in receiving export receipts could be ascribed to various causes: the possibility of profitable investment abroad and—does one dare mention it?—speculative action against the possibility of a rupee devaluation. Apart from such special factors, the lengthening of the date of payment is a feature which has marked international trade with a reversion to buyers' market conditions.

It is in the light of this development that we in India have been taking steps, especially in the new markets and for the new products, to enable our exporters to match the attractive credit terms offered by competitors. Several committees and working groups have stressed the importance of offering competitive credit terms as a factor in international trade and the need for us to do more in this direction. The E C G C's recently expanded role is a step in this direction. That is also why the R B I's eligibility rules permit an 180-day bill being offered as collateral. It is interesting to note that even as newspaper reports indicate so much concern in New Delhi over the consequences of allowing credit facilities to Indian exporters for the pace of repatriation of export proceeds, the Industrial Development Bank has relaxed the provisions of its scheme for refinancing of medium-term export credits. A press note just received from the IDB says:

> "With a view to extending the benefits of the scheme for refinancing of medium-term export credits to exporters who ship goods against contracts for amounts less than Rs 1 lakh, the Industrial Development Bank of India has decided to remove the present restriction in the scheme that such export contracts should be for a minimum amount of Rs 1 lakh. This relaxation, it is hoped, would help small exporters to offer competitive terms to their customers abroad...".

Clearly, there is a case for larger and cheaper export finance which would enable the exporter in turn to offer better credit terms. Panicky action to curb such credit extension taken to meet a short-term crisis can only upset the good work done to broaden the credit facilities our exporters can offer foreign buyers.

EEC and Developing Countries

ATTENTION has been focussed on the European Comon Market's relations with developing countries by certain events of the last few days. The EEC Council of Ministers has decided to permit its Executive Commission to re-open negotiations with N i g e r i a on new and more hopeful terms. The Commission has also begun a specific study of India's trading problems with the ECM; the recently-published annual report of the ECM for the first time makes more than a passing reference to India.

The ECM is the largest single customer for the developing countries as a group. Its imports are 10 times as large as those of the Soviet Union, twice as large as those of the U K, and considerably larger than those of the U S A. Though the developing countries are not satisfied with the record of the ECM, yet its imports from that group increased from $6,800 million in 1958 to $9,800 million in 1963. The ECM has in fact been running an increasing trade deficit with the group of developing countries.

Hitherto France has exhibited a relative lack of concern for the trading problems of developing countries, excepting the former French colonies. She has not yet signed the new chapter of the GATT which lays down that the developed countries should no longer insist on reciprocity in their trade relations with the under-developed countries. Since last year Nigeria has been negotiating with the EEC for associate-member status. Almost a month ago the negotiations reached a deadlock because the French demanded greater reciprocity from Nigeria than the latter thought was justified in the light of the new chapter of the GATT. Perhaps the real reason for the French opposition was the desire to have the former French territories of Morocco and Tunisia admitted before Nigeria. However, the other EEC countries seem seriously concerned about the criticism that they might be helping to perpetuate the old colonial divisions of Africa. Though the EEC Excutive Commission has been given a new mandate, the final success of the negotiations with Nigeria is not certain yet, especially because so far official talks with Morocco and Tunisia have not been authorised.

It is believed that Kenya, Uganda and Tunisia are also eager to obtain a special trade or an associate-member relationship with the ECM. If Nigeria and these countries do succeed in their efforts, India's trade with them will suffer. This possibility adds further urgency to India's own negotiations with the ECM. Since the collapse of Britain's EEC entry negotiations, India has submitted five notes requesting the EEC to consider her specific problems. Now at last there is some hope that such attention may be forthcoming. However, though the EEC Commission seems to have been impressed by India's problems and the proposals India has made to tackle them, there are indications that it would like to delay action till some global solution for the developing countries as a group can be devised.

Dastur Restored?

A Correspondent writes:

THE Union Cabinet, on the recommendation of the Cabinet Secretary who was asked to look into the matter, has decided that Dastur and Co will be "associated" with the construction of the Bokaro steel plant as far as possible and that it would remain a private firm without Government participation. The precise extent and terms of association have not been spelt out but Dastur might be offered such of the engineering and designing work as would not require Soviet expertise. This, *if* interpreted in the right spirit, is what should have been made explicit at the time of signing the agreement with USSR. There was no question ever of Dastur designing the equipment to be supplied from abroad because it is always the supplier who undertakes the design and supply of equipment and the responsibility for its performance. The buyer chooses his own consultants to advise him and coordinate the project which in the case of Bokaro involves a fairly large amount of work since 35 per cent of the equipment, apart from civil construction and procurement, would be domestic. Surely, it was not the Steel Minister's intention that the domestic part of the construction should also be handled by Soviet experts? What is required now is not just a vague association of Dastur with Bokaro but a clear spelling out of its responsibilities as Government consultants.

Part of the damage has already been done since Dastur has retrenched about 400 of its 900 engineers—and many of the rest have accepted cuts of up to 75 per cent in their emoluments which is a tribute to the team spirit that has been built up in this firm. But it has the Durgapur alloy and steel plant to its credit and also a contract for a steel mill in Pakistan. The dangers to which Dastur has been exposed bring out the difficulties of a single major consultancy firm which has to maintain a large staff on its payroll. In other countries, consultancy firms enjoy the advantage of division of labour through farming out sub-contracts and casual employment of specialised personnel. This activity has hardly developed here, largely because foreign collaborators are given or take turn-key jobs, not all of which have turned out to be satisfactory, to put it in mild terms. Dastur and the Designs Organisation of Hindustan Steel are the swallows which definitely do not make the summer. Now that Dastur has been restored to its rightful place (so one hopes), Government and private entrepreneurs must look about to encourage promising consultancy and design teams in other industries.

New Thinking on Corruption

SOME recent developments, if pursued, hold out hope that something may yet be done to fight corruption both at the political and administrative levels. The current *impasse*, especially with regard to political corruption, cannot be allowed to continue. A variety of **ad hoc** expedients have been devised in the past to look into cases of corruption at the ministerial level. This was unavoidable in the absence of an independent high-powered machinery to look into them. It was, therefore, gratifying to hear the Home Minister tell the last session of Parliament that the Government's experience of handling the corruption charges against the Orissa leaders, Biju Patnaik and Biren Mitra, "called for rethinking" about the procedure for enquiring into allegations of corruption against political leaders. While Nanda maintained that in the Orissa affair no independent body could have come to a conclusion different from that of the Cabinet Sub-Committee, he conceded that the Sub-Committee could not be considered an independent agency. Hence, according to him, the Prime Minister was thinking in terms of a new approach.

The Home Minister's statement gave a fillip to the demand for an ombudsman which has found support among leading jurists and men in public life. The Chief Justice of the Supreme Court has generally welcomed the idea as has the former Attorney-General, M C Setalvad. The Committee on Administrative Reforms appointed by the Rajasthan Government has recommended an ombudsman for the State. The subject has also come up in Parliament more than once. During the last session, the Minister of State for Home Affairs, Jaisukhlal Hathi, announced that a consultative group of Members of Parliament drawn from all parties would consider the setting up of a suitable machinery for redressal of public grievances. This was in the course of the debate on a non-official resolution calling for the setting up of an ombudsman. Hathi reverted to this subject on Wednesday this week to disclose that the report of the Parliamentary study group on ombudsman would be ready in about two months.

With regard to corruption at the administrative level, the Central Vigilance Commission and its counterparts in many States have completed a year of quiet existence. Nittoor Srinivas Rau, the Central Vigilance Commissioner, revealed at the end of a three-day Conference of Vigilance Commissioners at Bangalore last week that neither at the Centre nor in the States had theire been a single case where the advice of the Vigilance Commission had been rejected by the Governments. All the same, he pressed for an independent and statutory basis for the Commissions. As he put it: "To assist the Government in the maintenance of discipline of services, it is essential to establish proper coventions and traditions which, while enabling the commissions to function with independence and detatchment, will ensure harmony and understanding between the Commissions and the administrative machinery and also help strengthen public confidence in the vigilance organisation all over the country". This advice, based on a year's experience of handling corruption cases, cannot be lightly brushed aside. If it is conceded, a very important step will have been taken in the fight against corruption.

Local Finances

IN a developing economy with decentralisation of power, local bodies must necessarily shoulder more and more responsibility. On how adequately such bodies in India are equipped to perform their functions, we have had hitherto very little in-

formation. The Reserve Bank's study of local finances (summarised in the Bank's **Bulletin** of May 1965) covering selected ports, city corporations and municipalities over a period of ten years is, therefore, a useful contribution to the study of this significant segment of our public sector.

A general expansion of the activities of local bodies is only to be expected; what is of interest is their approach mobilisation of resources and the extent to which their expenditure is development-oriented. Among the three categories of local bodies studied in the Reserve Bank survey, city corporations predominate and their finances are, therefore, of special interest. While the total income of all the three categories increased from Rs 67.9 crores in 1951-52 to Rs 230.1 crores, that of city corporations jumped from Rs 35.7 crores to Rs 148.4 crores. Likewise, city corporations' expenditure rose to Rs 180.0 crores in 1962-63 from Rs 34.8 crores in 1951-52. From the comparison of revenue from various sources given in the Table one can see that city corporations have certainly stepped up their tax efforts and that profits from remunerative enterprises have also gone up and contribute significantly to revenues.

Taking all local bodies together there has been a more than fifteen-fold increase in expenditure on public health, public works and public instruction between 1951-52 and 1962-63. The shift in expenditure towards welfare and developmental activity is even more pronounced in the case of city corporations. For the 17 corporations considered, while general administration accounted for only 3 1/3 per cent of total expenditure, public health and convenience, public works and public instruction together accounted for 45 per cent. Expenditure on new construction of roads, buildings, machinery, equipment, vehicles and general repairs, which may be taken as an approximate index of capital formation, came to 18.5 per cent in 1962-63 for all local bodies.

Concurrently with the expansion of their activities, the corporations have come to depend more on governments for their finances. In 1960 borrowings from governments was just about half of market loans; in 1962, on the other hand, it was twice as much.

Share of Different Sources as Per Cent of Total Revenue of City Corporations

	'61-62	'62-63
Taxes	20	40
Rates	10	7
Profits from remunerative enterprises	7	14
Receipts from property	2	2
Grants from Government	6	7
Loan Receipts	10	18

LETTER TO EDITOR

Export Promotion through Import Entitlement

I HAVE read with great interest I S Gulati's article, "Export Promotion through Import Entitlement", in your issue of May 22, 1965. He has certainly brought a certain amount of clear thinking on the problem which is of vital interest to the country. Broadly speaking, the modified basis suggested by him for import entitlement substitutes bonus entitlement at 36.5 per cent of the export earning against the present scheme which gives import entitlement by way of twice the import content of an export product, subject to a ceiling of 75 per cent of the F O B value of export, with certain specific modifications on either side. It may be mentioned that the present scheme of import entitlement is based on the actual requirements of the export trade as analysed and examined by the Ministry of Commerce. With varying degrees of competition of various products exported, and with varying values of the import content of the same, some kind of *ad hoc* arrangement has been arrived at. A product by product examination to know the value of net foreign exchange earned in each case would, therefore, be of great value so as to focus attention on those items where a variation in the import entitlement is likely to achieve greater results. Also, unnecessary detailed work may be avoided in the case of minor items where gains in foreign exchange may be negligible. This may be an empirical approach, but it is likely to yield results.

Regarding Gulati's suggestion of fixing bonus entitlement at 36.5 per cent (with a view to ensuring that it is within the limit set by our present restraint), I would like to make a reference to Table 3A of his article. Under the modified scheme, exports of items falling under E, F and G are likely to be severely handicapped, as the bonus entitlement at 36.5 per cent of the export earning is less than the value of the import content of the exported articles. Even in regard to the other items, say item D, practically the whole of the value of the bonus entitlement would be taken up in the value of the import content of the article with the result that there would be no incentive to the producer to export this product if the internal price is higher. We need not discuss at this stage why the internal price is higher. Would not Gulati's scheme, therefore, have a retrograde effect on the total volume of exports under the entitlement scheme?

There is another point which has not been touched upon in the article under consideration. This is the question of the importance to be attached to imports which are allowed to the exporters under the existing bonus entitlement scheme which can be sold by the exporters in the internal market. It should be appreciated that these articles are not imported for fun. There is a genuine shortage of a large number of goods in India which have to be imported as a necessity and not as a luxury. If they are not allowed to be imported under the Export Promotion Scheme, they would have to be imported in any case. It is, therefore, not quite correct to say that the total outlay and not the increase in outlay on bonus entitlement should be taken into account in making the appraisal of the outgoings against bonus entitlement. If this factor is taken into account, the value of the entitlement schemes will be found to be much higher than made out in the article.

Finally, I do not see why a bonus voucher scheme on the lines of Pakistan should not be tried. Pakistan gets away with it although she is a member of the International Monetary Fund. If such bonus vouchers are allowed on all exports except those which move on their own merits without assistance, and are freely saleable in the market, a good deal of administrative drudgery could be avoided and exporters would know exactly where they stand. The use of these bonus vouchers could also be restricted to the import of raw materials, components and other goods considered essential for the life of the nation. Perhaps Gulati would like to study the Pakistani Bonus Voucher Scheme and express his views on it.

R G SARAIYA

Bombay,
June 7.

FROM THE LONDON END

Issues for the Commonwealth Conference

THE Nehru Memorial Exhibition which was opened officially by Harold Wilson on June 10 served as a useful curtain raiser to the Commonwealth Prime Ministers' Conference beginning in London on June 17. For, as the British Press never tires of telling its readers, Nehru was indeed the founder of the new Commonwealth. Wilson in his speech said, "...and next week when the leaders of Commonwealth countries assemble round the conference table...unspoken perhaps but not unrealised, will be the recognition that the Commonwealth...owes more than any of us could ever say to the work of free India's first Prime Minister". The same theme was echoed in Lord Mountbatten's speech, "The form in which the Commonwealth exists form an empire of many races and religions into a Commonwealth of free nations. It was his idea to give the Queen the new title of 'Head of the Commonwealth'."

While the Agenda for the Conference has not been issued, it is easy to guess the issues that will be discussed. Chief among them, of course, will be Rhodesia. This was an explosive issue at the last Conference presided over by Alec Douglas-Home and certainly the African members of the Commonwealth are extremely concerned about what they consider a general softening of the Labour Government's attitude to the Rhodesian question. All the African Commonwealth members are determined to resist any policy that will transfer power to the present Rhodesian Government, irrespective of what guarantees might be included in an agreement between the British Government and the Rhodesian Prime Minister, Ian Smith. The criticism of British policy may indeed be sharper this year as most African countries had hoped for a more favourable attitude from the Labour Government. Apparently there has been a great deal of concern in African Governments over a statement made by Wilson in the House of Commons on June 1 in which he said, "There is no difference between the two sides of the House over Rhodesia". Even a moderate African statesman like Albert Margai, Prime Minister of Sierra Leone, reflected the attitude of most African states to this issue when he said on his arrival in London, that if British policy forces African leaders in Rhodesia to set up a "Government in exile" the African members of the Commonwealth "may well be compelled to support it". Unless Britain takes steps to ensure majority rule in Rhodesia, he made it perfectly clear, Sierra Leone was prepared to take the initiative in demanding that "Britain intervene directly by suspending the Rhodesian Constitution".

The British Government will be left in no doubt about feelings on this subject. Kenneth Kaunda of Zambia has predicted that the Rhodesian issue will be a "bit of a hot cake" at the conference. "To us Rhodesia is a matter of great concern", he said, "not only because 4 million people are oppressed today, but from our own selfish angle, we are directly concerned. I believe all of us are bent on seeing that we find a peaceful solution. That to me means majority rule." In view of the sentiments that have been expressed there can be no doubt that the Commonwealth would be strengthened or weakened according to the outcome of this issue.

Commonwealth immigration will be another live issue at the Conference. Much to the disappointment of many of the developing countries in the Commonwealth, it looks now as if the Labour Government is going back on its immigration policy, sticking instead to the policy initiated by the Conservatives which in essence means imposing control over all coloured Commonwealth immigration. It is hoped that the Mountbatten report, prepared after visits to a number of Commonwealth countries to discuss with their Governments the possibility of controlling immigration at their end, will be ready before the Conference and will provide the basis for discussion of this difficult issue. Rumours are, however, circulating that the Labour Government is likely to put a virtual ban on further coloured immigrants though it is unlikely that an announcement to this effect will be made until after the Commonwealth Prime Ministers have met.

While there is no doubt at all that the Labour Government, and particularly Harold Wilson himself, are strongly attached to the idea of closer Commonwealth relations, particularly as they believe that the first Labour Government was the initiator of the modern Commonwealth, it remains to be seen what concrete steps can be taken in this direction. Wilson was not slow to taunt Alec Home and the Tories about their readiness to sell the Commonwealth down the river to join the Common Market, but recent moves by Wilson himself at Vienna to build a bridge between E F T A and the Common Market have raised doubts in the minds of Commonwealth leaders as to where, in practice, this policy will lead and whether it means that the Labour Government is also beginning to turn its back on the Commonwealth and move towards a closer integration with Europe. It will be recalled that in the Labour Government's Manifesto it was declared that "though we shall seek to achieve closer links with our European neighbours, the Labour Party is convinced that the first responsibility of a British Government is still to the Commonwealth".

Another key question that will be discussed at the Commonwealth Prime Ministers' meeting, therefore, will be that of Commonwealth trade and aid. Here again, a number of thorny issues arise. It is well known that Wilson is anxious to increase intra-Commonwealth trade. But when in his speech during the Commonwealth debate in the Commons he talked of the need to reverse the decline in Commonwealth trade, it was British exports to the Commonwealth he was thinking of, not Commonwealth exports to Britain! Wilson has indicated to the Commonwealth Relations Office that during the customary discussions on trade and economic matters he will have an important speech to make, but as yet there is no indication of the initiative that he may be planning. Whatever it is, Wilson cannot ignore the fact that Britain's trade with the Commonwealth is slumping sadly even though Commonwealth trade as a whole is growing.

In the autumn of last year the Labour Manifesto said: "We shall build a formal basis for extending trade by introducing long-term contracts and commodity agreements providing guaranteed markets for Commonwealth primary products at stable prices." Yet the stringent controls imposed by the Labour Government to protect Britain's balance and payments have hit the developing countries in the Commonwealth quite severely. To begin with, the surcharges which the Labour Government was forced to impose has affected export of manufactured goods to Britain and since many developing countries in the Commonwealth rely on manufactured goods to increase their

foreign exchange earnings, this has created a severe problem for them. Again, there is this business of quota restrictions on imports of textiles from developing countries in Asia. More concessions on this point will be sought but the attitude of the textile lobby here is certainly far from helpful.

The impact of the budget, particularly of the clauses in the Finance Bill relating to overseas investment, is bound to be dampening on exports of British capital to developing areas in the Commonwealth. The restrictions come at a particularly difficult time for these countries since balance of payment difficulties of both Britain and America are already impinging on Government-to-Government aid. Discussions will certainly centre on means of increasing such aid. Many developing countries in the Commonwealth expect a great deal from the new Ministry of Overseas Development though it is not known what new proposals Barbara Castle will make to increase the flow of assistance to Commonwealth countries. There is some talk of more assistance being channelled through the Commonwealth Development Corporation.

The move to set up a Commonwealth Secretariat was initiated at the last Commonwealth Conference at the request of the African members of the Commonwealth. Not much progress has been made and even the Secretary-General has not yet been appointed. The names that have been mentioned at different times for this post include those of Robert Jackson, an Australian official now with the UN Special Fund, George Ivan Smith, another Australian also with the U N, Alistair McIntosh, a New Zealand civil servant, Arnold Smith of Canada and Malcolm MacDonald. Interestingly, all the candidates are white, a fact which will not go unnoticed. At one time is was hoped that this appointment would be made before the Conference but this has not been possible. However, it is now expected that the Secretariat will be created and the first Secretary General appointed at the Conference. No details have been worked out about the role of the new body, except that it will be responsible for convening and servicing future Prime Ministerial conferences and will also act as a clearing house for information.

Britain's role in Vietnam is likely to come up for serious criticism at the Conference. There is much disappointment that the Labour Government is giving such unqualified and uncritical support to the US in Vietnam. Nearly all independent African States have expressed their opposition of American action in Vietnam and so have the three Asian states as well as Cyprus. It is likely that Wilson may be considering the possibility of using the Conference to launch a fresh appeal for the ending of the war in Vietnam and for unconditional negotiations. The appeal of the 17 non-allied countries provide a basis, and what better opportunity would there be for Britain to initiate some constructive moves than the Conference where 7 of the countries which signed the appeal will be present.

A CALCUTTA DIARY

Another Freedom Gone ?

IT would not make news in most other parts of the world; in Calcutta it does. And so, for the last few days, most people have been discussing the Government of West Bengal's proposed ban on travelling on the footboards of buses and trams. There was recently a more than usually nasty road accident, involving a State bus and killing six. Not content with issuing an order, of which no true Bengali would normally take the slightest notice, the Government is said to have asked the police to enforce the order. As if the travelling public did not already know, advertisements have been appearing in the Press that such travel is dangerous. From June 15, therefore, each bus and tram car will be required to carry only so many passengers sitting and so many standing, none on the footboards. Should this come about, which few consider probable, public transport in Calcutta will be very different from what it has been for at least a quarter of a century. And, of course, a city's public transport and manners on the road reflect certain objective conditions and certain general attitudes. Will these change too?

Unlikely. The State Transport Authority has promised no increase in its number of buses. In advance its spokesman has let it be known that it cannot promise even to put on the road a larger proportion of its existing fleet; a large percentage is idle, for spares cannot be bought without the foreign exchange the Centre will not release. Expansion of the tramway service has been virtually unknown in recent years: the idea of three-coach trams instead of the present two was successfully resisted by the Calcutta Police on the valid plea that such three-car monsters would further slow down traffic in Calcutta, slow enough already. The city thus has all the old problems — and only a new order.

Especially in the current extreme heat, nobody — not even mad dogs, let alone Englishman — in Calcutta travels by tram or bus unless he must. At least during the peak hours, therefore, there is unlikely to be a sudden decrease in demand to correspond with the decreed decrease in transport's carrying capacity. What then is going to happen? Elementary, Watson. Even under the pressure of World War II it was found impossible to work out a scheme of staggering office hours; the rush hours will thus remain as "rush". For the first three or four days at least, the police will make an effort to make the public feel that there is a new order, accepted elsewhere as part of life. But most bus and tram users being in the middle or lower middle brackets of employment in the Government or the commercial houses, it very much remains to be seen whether the dread of the traffic cop will triumph over the traditional trauma administered by the departmental head's grim, smiling remark, "Babu, unless my watch is all wrong, you do manage to get to work early, don't you?" The babu washes his face with an unclean end of his dhoti and mutters, "Sorry, sir.".

This is where we come to more general things, applicable perhaps more to Calcutta than to other parts of India. The administration in Calcutta, even after the capital was transferred to Delhi, was represented by the policeman, whose identification with British commerce was complete. The two were one and equally feared and respected or despised. This neat little unwritten co-ordination came to an end around 1947. The Bengali today does not know whom to fear and whom to disregard, the cop or the commercial employer.

To the whole Calcutta traffic scene, never a homage to geometry as in Moscow or to aggressive abandon as in Paris or to homicidal madness as in Tokyo, has been added an element of imbecile officiousness which excels in making things worse for all around. The other day some bright traffic cop thought up the idea of having "lanes" all along Chowringhee, now Jawaharlal Nehru Road. Empty oil drums were installed outside the arcade of a big hotel; and all was chaos. The traffic was not regulated or accelerated but just inefficiently ordered about to the inconvenience of all concerned. A squeal from the Press; and the drums went.

There is reason to believe that the latest order on footboard travelling will also go the way of all flesh. Those who believe in the superstition of going to work on time will do so, on footboards if necessary — come what may. Some policemen will pretend to enforce the order; and then there will be clashes between police and public. In Calcutta the police never wins; the public always loses. Unpleasantness is the permanent factor, constantly inviting intensification.

There then, in miniature, is the whole problem of West Bengal today, which in varying degrees may be applicable to the rest of the country. Not enough room nor resources; not enough self-discipline; not enough will power (which comes of that old-fashioned thing, moral force) in the administration to enforce what it believes to be right. The fourth factor to be taken into account is the modern Bengali's weird notion of freedom and right; the freedom to travel, suicidally, on footboards of buses and trams will strike many Bengalis as a fundamental right which the Government — always "agin' it" — is seeking to stifle. Down with it all! Few in Calcutta will be surprised if in the next few days there are fewer buses and trams, both being easily perishable by fire.

About half a century ago Tagore wrote of trams, not minds (because of the language barrier, English), connecting Bengalis and their schools. To thinking Bengalis, therefore, the odd English phrase "transports of joy" has always seemed ironical or insulting. The recent ban on dangerous footboard travelling, apparently to avert fatalities, symbolises the basic, tragic, heartbreaking contradiction of all planning in India — a pathetic attempt to save life in face of an embarrassing over-abundance of it fast overwhelming the country's stagnant or dwindling resources. Many years ago Andre Malraux asked a Communist gathering about the fate of the man run over by a tram car and was given the chilling answer that in a perfect socialist society there could be no traffic accidents. In India's very imperfect socialistic society, the ban on footboard travel may only lead to more accidents.

— Flibbertigibbet

BOOK REVIEW

Pathetic Women

Ashok Rudra

Indian Women through the Ages by P Thomas; Asia Publishing House, 1964; pp x + 392, price Rs 25.00.

DENIAL of life that has been the basic value principle underlying most of the customs, conventions and morals of Hindu society down the ages, has meant for man inhibition of self-expression, non-realisations of potentialities, crippling of faculties, extinction of any joy in the fact of living; it did not, however, mean the total extinction of his personality. The Hindu man did acquire a personality and a character, the object of awe as well as of abhorrence of those of other more humanistic civilisations. But did the Hindu woman ever acquire a personality, a character? A corollary to the question is, have the so-called emancipated women of modern India got any personality, any character? The second question does express a doubt, but the first is more rhetorical. In the case of the woman, the world view of life denial was indeed carried by traditional Hinduism to the extreme point of total extinction of her personality, nay, to the point of making a supreme value of suicide, physical annihilation of self in the literal sense.

Mass Brain Washing

There is something breath-takingly impressive in the sight of a person taking his or her life, not out of desperation, not to get relief from any unbearable mental torture, but for a cause. Socrates drinking hemlock, Joan of Arc burning at the stake, Gandhi facing the assassin's bullets—these are edifying spectacles of spirit triumphing over matter, of life cheating death. But very much more staggering and not at all edifying is the spectacle of men and women taking their lives, not for any cause, but as a matter of principle, according to to the dictates of some code of conduct. The Japanese soldier of a suicide brigade, holding on to a torpedo and directing it to the bottom of an enemy boat and himself to a death worthy of an insect, is one of the rare examples from outside India of the practice of suicide as a supreme value. But the largest body of evidence of this value in practice is provided by the history of Indian women.

The spectacle of the Hindu widow mounting the funeral pyre of her deceased husband is, of course, the most effective if gruesome symbol of her role in Indian history, but it is not just the symbol. The *sati* is very much a real part of Indian history, an essential aspect of traditional Hindu culture and we shall not understand our history and culture so long as we treat the phenomenon as peripheral. It symbolises the ultimate and supreme triumph of matter over spirit, for it involves intelligent living beings acting as automatons in response to suggestions to the point of acting contrary to the very life-principle, the very basic and primal will of all living beings, namely, the will to live. It represents the supreme victory of that subtle, non-violent technique of persuasion practised by the Hindu law-givers which elsewhere I have characterised as a form of "brain-washing" on a mass scale. * This technique succeeded so thoroughly well in the case of women that men did not have to impose their domination over them. The women of India have prided themselves in their total subjugation to men; by making chastity and fidelity the most important, if not the only, virtue to be strived for, they have joyfully denied

* "Myth of Tolerance", *Seminar*, March 1965. C Rajagopalachari has taken objection to this characterisation (See *Seminar*, April 1965). But can we explain rational beings being persuaded by rational arguments to overcome the will-to-live?

themselves any personality. The task of monitoring and disciplining, to the meagre extent that it was ever necessary, was left to women themselves: the husband had often to protect the wife from tyranny of the mother-in-law. The role of handling down the lesson from one generation to another was also left to women; it is the Indian mother who groomed the daughter to become what she became; mother, daughter and daughter-in-law all agreed to accept as true the law-giver's view that women are basically wicked, vile and lustful.

The State of the Emancipated

Can there be any understanding of the mind of modern Indians except in the light of a social history of India that could be written from the point of this technique of brain-washing? How can we have any appreciation of the problems of the "emancipated" Indian woman unless we connect her up with her ancestors who climbed into the funeral pyre of their husbands or who, in the case of *Kulin* Brahmins, saved their womanhood by marrying men whose profession it was to "save" hundreds of women by marrying them and who spent their days travelling from one wife's place to another, returning to the same wife only at intervals of years and only for a few days? No such social history has been written and consequently no understanding has been acquired about the behaviour pattern of modern Indians. That has not, of course, stopped us from talking glibly about Indian socialism and the socialist pattern of society as if the transformation of a society and change-over from one value system to another can be effected without any change in the minds of men but merely by setting up steel plants and playing about with capital output ratios.

The essential feature of the behaviour pattern of modern Indians is, of course, that *there is no pattern*. This is true of both men and women, but more so of women to the extent that in the past they were subjected to very much more severe restrictions than men ever were. Let us take the case of the emancipated women. Until the days of her grand-mother there were definite and precise laws governing the lives of women. There were elaborate systems of do's and don'ts based on certain fundamental premises that had remained invariant ever since the days of the epics: Women were not to have any social and professional life; their place was in the kitchen and the bed-room; their duty, to serve their menfolk; their ethics, to be totally loyal to their husbands, but not to expect the same in return. The emancipated woman does not accept any of the above premises. She goes out to work, has dealings with men other than her husband and has accepted in theory the idea of divorce and remarriage. The old system of do's and don'ts that sufficed to guide the life of her grand-mother has no more any relevance, but no new system has taken its place. There are no "rules of the game" to follow and in this respect she is at a great disadvantage compared to her Western sisters, who even when being extremely bohemain have got definite rules to fall back upon.

The emancipated Indian woman lives in a world haunted by ghosts of ancient moral ideas and codes of conduct, anachronistic and inconsistent, echoing back to different periods of history, some with significance for primitive and tribal times, some for the changed social conditions brought about by the Muslim invasion, and some for 19th century England, but many more for the world in which she moves and lives. The inadequacy of the ancient codes of conduct, the contradiction between them and modern values, not indigenously developed but borrowed from Europe, bedevils her life at every step and gives rise to fatal misunderstandings and dire tragedies. In this sense the lives of modern Indian women are much more *lawless* than those of even the most shockingly enterprising of European women. The only philosophy that can be practised by them under the conditions is, of course, existentialism, each individual making her own rules and creating her own morals. What actually happens, however, is that each individual, not having the character to live existentially, makes for herself a bundle of do's and don'ts from among the welter of moral ideas that surround her, some of them harking back to mediaeval and ancient India, some fresh from post-war Europe! The bundles differ from individual to individual, from family to family, and thus do not give rise to any social behaviour pattern, to any moral laws valid in general.

The social history of India that will trace back the ghosts of moral ideas haunting modern Indians to their origins and thus lay bare the fantastically lawless character of their lives, has not yet been written. There are, of course, social histories written by scholars, but they are more of learned chronologies than anything else; the authors themselves are too much a part of the situation discussed above to be able to make their histories bear upon the predicament of modern Indian men and women. Even less satisfactory are the inspired accounts of India's past written by such of our modern thinkers who have taken upon themselves the task of inspiring fellow-Indians with pride and self-confidence. Their zeal to salvage the image of India from the slanders cast by unsympathetic foreigners have made them indulge in considerable white-washing. Quoting isolated examples of a Maitreyee discussing high philosophy with Yagnavalkya or a Tara Bai leading soldiers on horse back, they would have us believe that Indian women have after all enjoyed a high status in society and played an important part in Indian history. A particular variant of this line of argument takes the position that the subjugation of Hindu women dates to and resulted from the Muslim invasion.

Modern Outlook

Thomas's book is also not the social history that we need to have. In particular he fails completely to take any view of the position of Indian women during the post-British period which he has called the age of emancipation. His last chapters are the most uninteresting in the whole book, being records of social reforms and enactments for the benefit of women. But what makes the book exceptionally fresh is a remarkable, I would say rare, detachment and a truly modern outlook on women, sex, marriage, and associated questions. He sets out to "give the reader a connected account of the gradual subjugation of women in India, which started from very early times and continued right down to the eighteenth century . . .", and does not hesitate to give the badge of "age of subjection", to this entire period. Thomas is indeed a courageous writer, for he has run the risk of being accused of not only lacking in patriotism but, far worse, of being un-understanding or intolerant of Hindu values, being a Christian. This placidity is impressive: there is nowhere any sign that he has been inspired by any frustration or bitterness so common among middle class Indians or by any shallow runaway enthusiasm for Western history and values. Thomas writes the most unkindest things about Hindu values all through this book but nowhere does he give the impression of being a Christian zealot or a petty snob. He has a mild style of writing, straight-forward and descriptive lit up with a pleasant sense of humour, completely free of any ideological or educative zeal, but with a very consistent point of view — that of the modern man who regards freedom as the supreme value. The book is full of interesting quotations from scriptures and delightful anecdotes about the sexual adventures and curiosities of the holy law-givers of ancient India. It is these qualities which make the book eminently readable and worthy of note. Otherwise, of course, it is no more than a bed-side social history, a book written by an amateur for the benefit of lay readers.

As one goes down the dismal record of the progressive subjugation of Indian women, one is struck by an irresistible, staggering thought. If the general body of women in India present a sorry spectacle, bereft of any dignity, a pathetic procession of crushed souls marching on their way to the funeral pyre, there was at all points of history an alternative spectacle — that of the gay, accomplished, artful and artistic courtesans. It would indeed be extremely galling for any virtuous Indian woman to admit that if there ever was any social class of women who have left an imprint on Indian civilisation that was that of the courtesans. The virtuous women of Indian history have left nothing for posterity. Their contribution was strictly limited to the continuation of the race. But India, nay the whole world, owes a great debt to the Indian courtesans. It is they who have cherished and preserved the arts of music and dance. It is they who could provide civilised feminine company — so necessary for creative activity — to poets and artists, for the virtuous women were all steeped in ignorance. But much more important than the services rendered to the Muse was the fact that they, among all women of Indian history, could and did deal with men on equal terms. They might sell their favours in bits and pieces, but they did not sell their souls for all time as their virtuous sisters did. Moreover, being fallen women without any hope of redemption, they alone could snap themselves free of the noxious influence of pernicious moral values. They alone could acquire personality and character; they alone could afford to be truthful in their lives.

OFFICIAL PAPERS

Science and Technology for Development

Pravin Visaria

Science and Technology for Development: Report on the United Nations Conference on Application of Science and Technology for Benefit of Less Developed Areas; United Nations.
Vol I — **The World of Opportunity,** pp viii + 267, $2.40 (paper bound).
Vol IV — **Industry,** pp. viii + 265, $7.50 (cloth bound).

THE UN conference on the application of science and technology for the benefit of the less developed areas which met in Geneva for 12 days beginning February 4, 1963, was probably the largest such conference and certainly unique in many ways. The Conference, presided over by Professor M S Thacker, had brought together 1,665 participants from all scientific disciplines and the number of papers submitted for its deliberation exceeded 2,000. Since the publication and perusal of such a large number of essentially technical and scientific papers would be an immense task, it is commendable indeed that the highlights of contributed papers as well as of the Conference discussions have now been summarised in a comprehensive eight-volume official report of the Secretary General of the U N. The Report, prepared with the advice of an Editorial Advisory Committee, is non-technical in style and is very "readable", which is what it was intended to be.

The breadth of coverage of the Conference is evident from the titles of the six volumes of the Report not under review here: natural resources (vol II), agriculture (vol III), people and living (vol V), education and training (vol VI), science and planning (vol VII) and plenary proceedings, list of reports and papers and index (vol VIII). In fact, the scope of the conference was even broader than indicated by these titles. To illustrate, the volume on industry covers the main issues in industrialisation, the pattern of particular main groups of industries, transport and communications. And on every subject, the potentialities as well as the unsolved difficulties of the application of the most recent scientific and technological progress are outlined, with numerous illustrations from the actual experience of some countries.

Excellent Summary

The first volume of the Report is general and introductory and is divided into three parts. The first part introduces the Conference and the Report with a terse discussion of the natural features of the earth and the effects on them of human interference through irrigation, burning of fuel for energy, hunting of animals, water-pollution, etc. A most interesting though brief reference is made to the non-conventional sources of energy and their promise for the future. The revolution of rising expectations is presented in the context of the gap in income-levels of countries, the scientific and technological revolution, and the role of the conference as a gathering to take stock of the potentialities of science and technology and to focus attention of the scientific world on the urgent need "to combat poverty, chronic disease, illiteracy, and to raise more than two-thirds of the world's population to a condition compatible with human dignity".

Part II of the first volume is its core, consisting of a 149-page summary of the proceedings of the entire Conference. It is sub-divided into 12 sections corresponding to the broad areas under which the papers and deliberations were grouped. While this summary is excellent, the fourth volume on industry can better illustrate the nature of the Conference discussions and the Report.

Diversity of Views

As mentioned above, the volume on industry covers, *inter alia*, a discussion of major issues involved in industrialisation as well as in developing specific industries. Among the issues discussed here are the need to integrate an industrialisation programme with a

general plan of economic development, decision on priorities, choice of techniques and the role of small industry, industrial location, training of managerial and executive personnel and operational efficiency in production. On every aspect, there was a wide diversity of views and, not unexpectedly, the lines were drawn according to the nationality of the contributor of the paper or the discussant. Thus while a paper from the USA cautioned against viewing "heavy industry as the key to affluence" on the basis of the experience of the Soviet Union and other developed countries, a paper from USSR criticised the priority given in some countries to consumer goods industries. The latter were said to slow down "the achievement of the economic independence" and to aggravate "the balance-of-payment deficit". Another Rumanian paper emphasised the role of the engineering industry as "the most dynamic and productive industrial branch" in establishing a base for industry. Experience of various other countries naturally suggest gradual stage-by-stage progress in industrialisation associated with shifts in emphasis. Similar differences are evident on the subject of small scale vs large scale production, the role of the State, etc. It is an impressive achievement of the report in keeping with the policy of the UN, that differences of opinion have been recorded faithfully. While this may confuse a layman, it will certainly stimulate further enquiry and study in the intellectually curious.

A remark by Soviet contributor, noted in volume IV, is worth mentioning here. He criticised the Indian government "for allowing imports to rise more rapidly than production, and for producing a situation in which the bulk of industry is working below capacity" and attributed this to the "failure to give sufficient initial priority to the key machine-building sector" (p 17). Presumably the reference is to the priorities in the First Five Year Plan; but in a summary report the perspective of the argument naturally tends to be blurred. Also a reader who is not closely familiar with the Indian developments may tend to accept this remark as essentially correct despite the fact that in 1951-52, the first plan appeared quite a monumental undertaking. Further, can one argue that an earlier emphasis on the machine building industry would have avoided a more rapid rise of imports than of production? Would it not have merely hastened the appearance of the foreign exchange crisis — except probably for its possible contribution towards ensuring the use of the then available sterling balances for capital goods imports? These questions are raised here not so much to criticise the Soviet contributor as to point out that illustrative material based on case histories cannot, in a report of this nature, do full justice to the complex processes and problems involved in applications of scientific or technical knowledge and in development planning. One should not even expect this. Only the broad outlines of the particular case histories can be taken as valid.

Relevance for Development

This is not to suggest that the reporting is uncritical. In fact there is a remarkable candour and in the discussion of "food industries" it is clearly stated that "the conference papers on food preservation and processing were concerned with techniques, rather than with their transference, and barely touched the crucial question of how to introduce technological change" (p 99). Besides this, the report is valuable not for its contribution towards enlarging the competence of a specialist in his own field but for informing him of developments in other fields and their relevance to economic development. Thus, for example, an economist will find it interesting to learn of the latest techniques in transporting and handling cargoes such as the use of pipelines to move coal (pp 178-9) or the basic principles underlying teleprinters and television (p 187) and the possibilities and problems of using earth satellites for a world wide communications network (pp 210-15).

One might naturally ask at this stage what the value of this conference for the actual progress of developing countries in the next few years is. This is briefly discussed in Part III of Volume I. While the conference had no power to adopt resolutions, it informally forwarded a proposal to the UN Secretary General for "the creation of a new specialised agency of the United Nations to service the less developed areas in the field of science and technology". The UN Secretary General, however, recommended to the Economic and Social Council not a new agency but only a further development of and stronger co-ordination among the existing agencies. The heads of various agencies accepted in May 1963 continuing responsibility for follow-up action. They decided to establish and to continue in existence "for such time as may be necessary", a sub-committee on science and technology. The role of the UN, however, is to stimulate action. The support for projects involving financial resources for implementation must come chiefly from governments, either on a bilateral basis or in the form of regional co-operation.

Role of Entrepreneurs

Industrialists of various countries can also contribute a good deal if they recognise and attempt to seize the numerous challenging opportunities outlined at the Conference and mentioned in this Report. (For example, to satisfy the UNESCO's estimate of a minimum requirement of five radio receivers per 100 inhabitants in a country, about 400 million radio receivers would be required for Africa, Asia, excluding Japan, and Latin America. The UNESCO has also drawn up the specifications of a low cost transistor radio set priced at from $5 to $10 and powered by ordinary torch batteries. The aim is to at least assemble the radios in countries where they will be used.) Thus the ultimate achievement of the objectives of this conference seems to depend on whether the natural as well as social scientists and entrepreneurs, administrators and planners, both in developed and developing countries will show sufficient imagination, enthusiasm, initiative and spirit of co-operative endeavour to harness the mighty forces of science and technology for the benefit of that segment of mankind which has so far been denied the fruits of scientific progress.

To conclude, a perusal of the two volumes under review convinces a reader that at a time when it is extremely difficult to keep abreast of developments even in one field and when the malaise of "two cultures" is present almost everywhere, this eight-volume Report promises to provide an excellent comprehensive outline, simple and readable, of the relevance of the scientific and technological revolution to the problems of development in underdeveloped countries. The Report deserves wide distribution, publicity and perusal because many of the applications of science and technology described here to be at an experimental and preliminary stage will make an important contribution to the development of several underdeveloped countries.

Use of Rural Manpower for Development

V S Vyas

For formulating a practical programme of using rural manpower for development it is necessary to take a dis-aggregated view of the unemployment and underemployment situation in the rural areas. The charcteristics of the problem and consequently the solutions relevant will differ depending on whether we are considering one section of the rural population or another.

The broad approach suggested below is to encourage cultivators to take to more intensive cultivation and to supplement it with dairying and similar activities.

For agricultural labourers a programme on the lines of the rural works programme included in the Third Plan, with a portfolio of quick-maturing projects which will also make intensive agriculture possible, is proposed. The programme will have to provide for training to form elementary skills and develop organisational abilities.

The artisan classes should be covered by a programme of rural industries which will take into account their existing skills and will aim at developing and diversifying them with remunerative employment throughout the year.

A MAJOR concern of planning in this country has been, and must remain, the proper utilisation of manpower for economic growth and for providing gainful employment to the population in the working age-group. While setting the objective of fuller employment the consideration of economic welfare has also been kept in mind since, because of the very size of the work-force in our country, it will never be possible to provide workers an adequate living except by giving them gainful jobs to do. In spite of all the concern with the problem, this is precisely the field in which planning has made the least impact. The fact of mounting unemployment is too well-known to need any elaborate statistical evidence. Yet to suggest the broad dimensions of the problem, one may mention that the Second Plan began with a backlog of 5.3 million unemployed. At the beginning of the Third Plan, unemployment, rural and urban, was reckoned at 8 million. There has been an addition of 17 million to the country's labour-force during the Third Plan period. But employment opportunities created do not seem to have exceeded 13 million or so. Thus 4 million more unemployed have been added to the backlog of 8 million with which the Third Plan started, making a total of 12 million. Nor is there in the draft of the Fourth Plan any evidence to suggest that a significant dent will be made on the backlog of unemployment. According to its framers, the Plan would be considered a success if it could provide jobs to the new entrants to labour-force, numbering about 23 million.

The lack of gainful opportunities for employment is common both to the urban as well as rural areas, though the nature and characteristics of the employment problem differ in the two areas. The acuteness of unemployment in urban areas becomes obvious because a large part of the unemployment is overt. The problem is not less serious in the rural areas where most of the unemployment is in the guise of under-employment coupled with meagre purchasing power.

Of the total rural work-force, numbering nearly 162 million workers (in 1961), about 79 per cent were engaged in agricultural activities. Of these, nearly 60 per cent were cultivators and 19 per cent agricultural labourers. Of the rest about 6 per cent got employment in household and cottage industries, and the remaining 15 per cent were engaged in construction, trade, commerce and service, etc. To provide adequate employment to this labour-force needs very careful planning. There are economic as well as social factors which have to be given due recognition in any attempt at rural manpower utilisation. The unemployment or under-employment situation among different categories of rural workers differs as it does from one industrial category to another. The problem, therefore, has to be disaggregated.

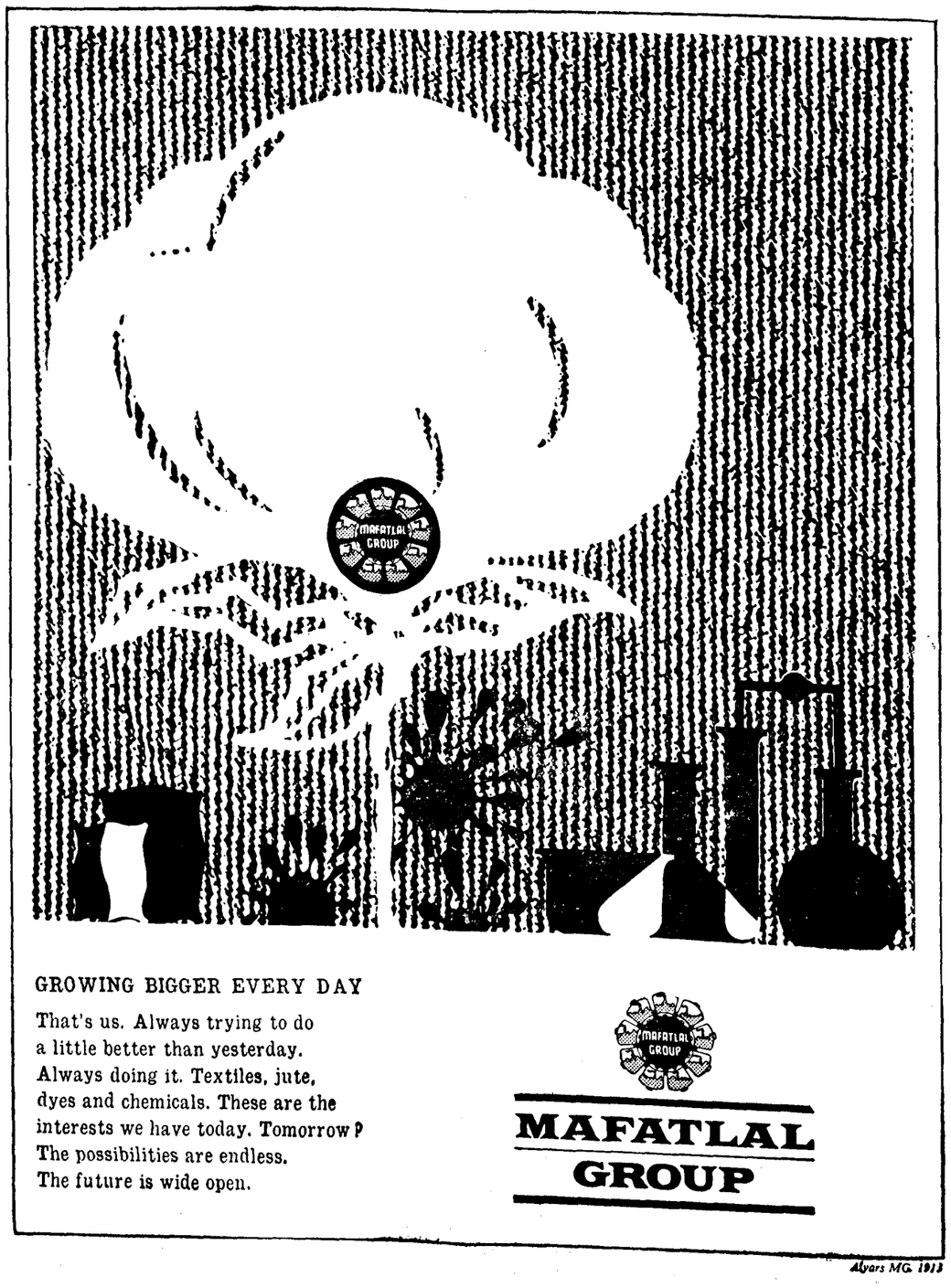
Cultivators Should Stick to Farming

From data collected during the Farm Management Surveys in eight States, Maharashtra, Madras, Punjab, U P, West Bengal, Andhra Pradesh, Orissa and Bihar, it seems that on an average effective work on the farm ranges from 100 to 250 standard days (of 8 hours). The number of days in a year when the farm family worker is unemloyed ranges from 100 to 150 standard days. It will be wrong to conclude from this data that most farm family labourers will be available for off-farm jobs for all these days. This is because the days of unemployment are arrived at after totalling the hours of employment each day and converting them into standard days of eight hours To these are added hours (converted in to standard days) spent on social activities and hours (again converted in to standard days) when the respondent was not available for work due to sickness, etc. The residual figure is considered as the unemployment during the year. Thus, hours of unemployment are spread practically through-out the working days of the year though with differing intensity. It is not as if a continuous period of 100 to 150 days is available for off-the-farm jobs.

Even if it were possible to have a continuous period of 100 to 150 days of unemployment it is doubtful if the cultivators would opt for off-the-farm employment if they could help it. Several studies by the different Agro-Economic Research Centres, other institutions and scholars clearly show that from the social point of view cultivators above the rank of marginal farmers, the latter being strictly agricultural labourers rather than cultivators, consider it "beneath them" to offer themselves for non-farm employment, specially in construction type of activities.

Even if they accept employment in the cottage industries during the intermittents periods of unemployment, it is doubtful if it would be of much avail. Even in these traditional industries it is desirable to aim at skill-formation which comes with continuous work on a job for a long period of time. Off-and on employment in a traditional industry will not be of much help to farmers economically nor will it expand the pool of skills in the industry. What is worse, it may affect the efficiency of agricultural operations adversely.

Economically more justifiable would be a programme for intensifying agriculture by the introduction of irrigation, intensive use of inputs and better care of land. Coupled with the intensification of agriculture stress will have to be laid on encouraging supplementary occupations like dairying and animal husbandry. In the Farm Management Surveys it has been clearly shown



that differences in the number of days employed on irrigated and unirrigated farming is quite considerable. For instance, in case of wheat, gram, jowar, cotton, cholam and ragi, man-hour employment on irrigated crops is easily 2 to 3 times that on unirrigated crops.

Two conclusions emerges from this. In the first place, distribution of attention and time among various occupations which are not integrally related with each other is not very helpful. Second, the most important measure to give fuller employment to cultivators is the spread of irrigation and intensive use of inputs. As supplementary vocations, the cultivators should be encouraged to take to dairying, animal husbandry, pisciculture and poultry.

The next important group of rural workers, agricultural labourers, faces the problem of unemployment and low income in a more acute form. According to the 1961 census, agricultural labourers numbered more than 305 lakhs. By now their number must have increased at least by 10 per cent. This is undoubtedly the most disadvantaged section of the rural population. Several studies in this field suggest that employment of agricultural labourers is no higher than that of the cultivators; in fact it is lower. And per capita income of agricultural labourers is much lower than that of cultivators which itself is meagre.

There are two or three characteristics of agricultural labourers which should be kept in view while devising any programme of rural manpower utilisation affecting this section of the labour-force. In the first place, this is not only economically the weakest section but is socially on the lowest rungs of the rural society. It is in fact a floating mass not particularly attached to any vocation and can be, with some persuation, mobilised for any type of unskilled labour. Because of the low aspiration level, this section is supposed to be characterised what has come to be known as "the backward-sloping supply-curve of labour"—it responds inversely to rise in employment opportunities and higher wages once the minimum needs are satisfied. This characteristic, however, is fast disappearing with the impact of urbanisation and modernisation to which even agricultural labourers have not been immune. Therefore, they should be considered as available for any type of un-skilled work. For the present, however, the employment opportunities as well as wage-levels of these workers are directly related to the profitability of agriculture in the particular area.

Agricultural labour faces a continuous period of unemployment which more or less, coincides with the slack season in agriculture. The duration of the slack season in various parts of the country ranges from two to eight months depending largely upon irrigation and the crop pattern. For the larger part of the country, the latter figure is more relevant; it also indicates, broadly, the period of unemployment faced by agricultural labourers. The continuous period of unemployment spread practically through the slack season facilitates mobilisation of this work-force for gainful employment.

The above characteristics of agricultural labour provide certain guidelines for a programme of utilisation of this section of rural manpower. The programme devised has to be, perforce, highly labour intensive. It should be dispersed in such a way that it is within walking distance of the population it seeks to cover. This condition is particularly necessary to overcome inertia and apathy. It should be a programme which can be completed within the duration of the slack season in the particular region and should strengthen agriculture. It will have an indirect impact on under-employment of cultivators and will promise fuller employment to labour in agriculture. Of course, in the choice of programmes a degree of flexibility will have to be maintained, depending largely on the population and the area to be covered.

Failure of Rural Works

Since 1960-61 a Rural Works programme has been in operation with more or less the same objectives as I have mentioned above. This programme unfortunately has not met with any perceptible success. As against the target of providing employment for 100 days to 2.5 million workers in the Third Plan, total employment generated till 1964-65 is not more than 3.5 lakhs. It is envisaged that during the fourth Plan, the programme will receive high priority. More than 1,500 blocks are likely to be covered and something like Rs 250 crores will be spent on it. The target is to provide 5 million rural workers employment for 100 days by the end of the Plan. This target in itself seems quite impressive, but in view of the dimensions of the problem of unemployment and under-employment even if it is fulfilled it will bring only modest relief. It is all the more necessary, therefore, that rigorous standard should be set in coverage of population, selection of areas and choice of projects.

It follows from what has been said above that agricultural labourers qualify for this type of programme more that any other section of rural population. Therefore, the existance of a large number of agricultural labourers should be the most important criterion for the selection of areas. Similarly, the projects selected should be such as create the potential for future development of the region and fuller employment of labour so that the programme does not remain merely a relief programme but becomes an economic programme in the true sense of the term. The selection of the projects will be conditioned by several consideration, viz, they should be labour-intensive, quick maturing, and, preferably, conducive to development of more intensive agriculture in the area.

There is another aspect which also should be kept in mind, namely the objective of skill-formation. The programme should be so devised that at least the elimentary skills, e g those of masons, brick-layers, ordinary surveyors, etc, should be imparted to the workers on the site, so that the programme will be helpful in transforming the outlook of the participants and in enhancing their capacities. Development of organisational skills and leadership should also find a suitable place in the programme. As the programme is phased over five years, it should be the aim that at least in the later years the skilled or semi-skilled workers needed are recruited and trained from among the workers who came to work in the earlier years.

In this connection it will be worthwhile to experiment with a labour crop employed all the year round in the construction of works of quick-maturing nature This crop should be organised in those areas where the problem of surplus agricultural labour is particularly acute. In such areas it may happen that the prospects for intensive agriculture and consequent increase in agricultural labour requirement may not be there and so structural changes in the economy have to be initiated. This will be facilitated by a labour crop working all through the year in construction projects and attracting to their ranks even the small and marginal farmers who may, if assured year-round employment, dispose of their tiny bits of land. In this way the programme can indirectly help in initiating radical structural changes. There is no desire to deprive

agriculture of its normal labour requirements.

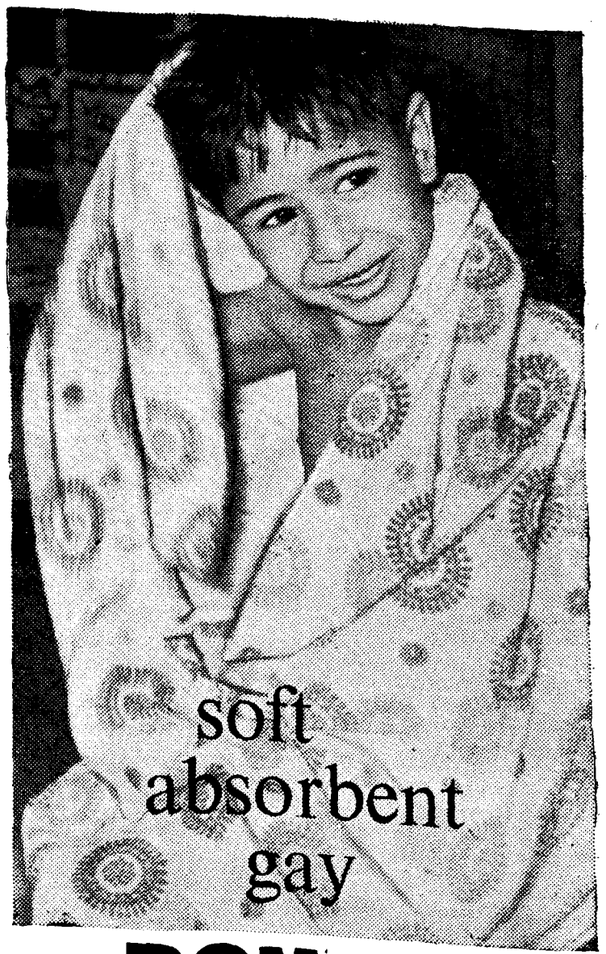
Artisan Classes

Another important group whose labour-time can be utilised for development is that of the artisans and craftsmen. They constitute about 6.1 per cent of the total rural labour-force. They pursue a number of crafts, most of which have not received any direct aid or support from government or quasi-government agencies. It is for this group that the programme of cottage and rural industries should be specially oriented.

The artisans have the tradition of such activity behind them. The identification of occupation with caste is still a real phenomenon in the rural areas. It will be difficult to interest any major group in the rural areas in rural industries with as much ease as the artisan castes. Further, they can pursue these activities exclusively and round the year which, again, no other group in the rural areas will be able to do. The advantage of the year-round pursuit of one particular activity as against division of interest has already been pointed out. Third, the artisans have the elementary skills for the type of industries which can be developed with little effort and attention. Wherever small scale or cottage industries have developed rapidly the artisan castes have been the first to take the advantage of them. In Punjab and in parts of Gujarat where such industries are becomming important the artisan castes have taken the lead. Finally, a class of people fully devoted to and specialising in small industries in the villages will also help, indirectly, in encouraging farmers to use ordinary mechanical appliances which can supplement human and bullock labour more fully since the servicing and minor repair of these appliances will no longer be a deterrant.

Conclusion

For formulating any practical programme of utilisation of rural manpower for development, it is necessary to take a dis-aggregated view of the rural unemployment and under-employment situation. The characteristics of the problem and consequently the solutions offered differ from one class to another and have to be viewed in the specific context of the locality and the region. The broad policy approach suggested is to encourage the cultivators to go for more intensive cultivation and supplement it by dairying and similar activities. For agricultural labourers a programme on the lines of the rural works programme uncluded in the Third Plan with a portfolio of quick maturing projects, which also help make intensive agricultural possible, for each locality, is proposed. The programme must provide for training which may lead to formation of elimentary skills and development of organisational abilities. For the artisan class it is proposed that they should be covered by a programme of rural industries which takes into account their existing skills and develops them further while providing them remunerative employment round the year.



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THERE BYE-ELECTIONS III

Fall of a Traditional Congress Stronghold

Rushikesh Maru

The Rajkot by-election to the Lok Sabha in 1963 underscored the great importance of the organisational factor in the outcome of elections.

Where the Congress party is dominated by one leader for a long time, the result is a highly personalised support structure and lack of institutional expression of political loyalties. Once the original condition of efficiency —the domination of the particular leader—is removed, or weakened, the Congress is suddenly found without depth or energy, greatly divided and lacking in drive and resources.

This state of internal organisation reflects the large gaps in the social base of the Congress party's support —gaps between the masses and the ordinary leadership which had relied all the time on the "great leader's" appeal and the failure to accommodate certain important segments of the social structure.

For the opposition to take advantage of such a situation, it is necessary for it:

(a) to close its ranks and present a united front;

(b) to isolate the sections alienated by the Congress party and secure their support; and,

(c) to sustain such a support by imaginative field organisation, with the help of influential key men and continuous pressure on voters either individually or in groups.

In organising such an effort, it is vital to put into effect existing influence-networks based on kinship, caste and caste associations, traditional loyalties and economic relationships.

It is this inter-twining between organisational factors on the one hand and a sharply differentiated social structure on the other, which provides the context in which a traditional Congress stronghold like Rajkot votes an opposition party to power.

THE defeat of the Congress candidate in Rajkot came as a shock to both the local and the national leadership of the Congress, which had considered Rajkot as a stronghold of the party. The Congress had won this parliamentary constituency in all three elections. Its vote rose from 61.44 per cent in 1952 to 71.65 per cent in 1957. It held all of the seven legislative assembly seats that form part of the parliamentary constituency in the first two elections. However, in the 1962 election, although the parliamentary seat was retained, the Congress lost in two assembly constituencies and its strength diminished in four other constituencies. As shown in Table 3, the anti-Congress vote in Rajkot city constituency was more than double that of the Congress and although the opposition was divided, one of the opposition candidates succeeded in dislodging the Congress. The Congress was also dislodged in the Paddhari Assembly Constituency, while the opposition secured a sizeable votes in Jasadan, Dhoraji and Uplita constituencies. The domination of the Congress was thus already on the decline by the time of the third General Election; the decline turned into defeat in 1963. The Congress vote fell from 71.65 per cent 1957 to 55.24 per cent in 1962 and 44.4 per cent in 1963.

However, a closer look shows that while the Congress position was no doubt weakened in 1962, it was still substantial in the parliamentary constituency and district as a whole. The Congress was still the only organised political party, a position it had acquired through a long period of domination. The State People's Movement for popular government was directed against the ex-ruler of Rajkot as long back as 1921. The association of Gandhi himself with this movement and the fact that Gandhi was born in Saurashtra gave an advantage to the Congress in Saurashtra. This identification was made more concrete by a net-work of constructive programmes initiated in the early 1920's. This tradition of constructive work was carried over even in the post-Independence period. U N Dhebar, who has been the leading spirit behind these activities, came to power as the first Chief Minister of Saurashtra State in 1948. He emphasised the importance of constructive work in providing a network support to the Congress. Such a structure of support was further reinforced by a very successful governmental performance during his regime. The opposition failed to gain any strength in this situation. Inspite of the success of a few independent candidates in the 1962 elections, the Congress continued to be powerful in the district, and the opposition parties continued to be weak Considered against this background, the elec- Congress debacle in the 1963 by-election cannot be explained by the trend set in 1962, but rather by the breakdown of the Congress organization that took place at the time of the bye-election. What alarmed the Congress leadership when the outcome of the election became known was not so much the victory of the Swatantra party, but the paralysis in the organization of the party, as reflected in the failure to mobilise adequate workers, and the lack of direction and drive in the election campaign.

How is it that the Swatantra party, which had no local organization to start with on the eve of the election, and who had nominated an outsider, could unseat the Congress in its own fortress? Was this due to the Swatantra Party's superior election strategy, its financial resources, the candidate's own national image, the support it got from traditional interests, or the ideological impact of the Swatantra programme on certain sections of the voters? These were no doubt some of the factors that influenced the outcome of the election. Though important in themselves, however, they provide little assistance in explaining the Congress organisation's failure to match the opposition attack. Only

a detailed examination of the organisational factor can help our understanding of the overall situation in which the election took place.

The Congress Organisation

In trying to explain the Congress performance in 1963, we advance the hypothesis that a party structure based on a network of personal loyalties under a dominant and powerful leader, while it proves highly successful in the short run, becomes dysfunctional to the party, once the leader ceases to provide a symbol of common loyalty. The role of U N Dhebar, former President of the Indian National Congress, in the political development of the district provides a key to the understanding of the present position of the Congress in Rajkot. A close associate of Gandhi, Dhebar rose to the stature of an all-powerful leader in the district during his tenure as the Chief Minister of the former Saurashtra State from 1948 to 1955. He combines within him the qualities of a dynamic leader, a realist in administration and politics, and a strict Gandhian in personal life. The combination of these qualities made him a successful organisational leader as well as a revered mass idol. The success of his career as Chief Minister lies in the direct link that he maintained with the people, a link that had been forged during the period of "constructive work" before Independence. This direct link had two important consequences. On the one hand, it raised the personal prestige of Dhebar and nearly turned him into a charismatic leader. On the other hand, however, it undermined the role of the party organization as a liaison between the people and the Government.

The whole structure of support for the Congress in Saurashtra was built out of an elaborate chain of personal loyalties, finally merging into a common identity with the leader. It must, of course, be emphasised here that such a diffused and personalised communication network under the domination of a powerful leader was very much in tune with the traditional culture of Saurashtra: a society which was divided into 222 small feudal states and was used to personal governance. The new government's success was mainly due to its ability to convey a modern theme through the traditional communication channels. Although this is a tribute to the genius of a pragmatic leader, it should be conceded that in the long run such an organisation of power perpetuated a situation where political relationships could not get institutionalized.

As an illustration of this general point, let us take the structure of Congress leadership in Rajkot district. The core of the district leadership initially came from Rajkot city and that too from the educated urban middle class, which has since continued to dominate, as shown in Table 4. It controlled the majority of the D C C and governmental positions. Dhebar and his colleagues in the government kept direct contacts with the rural leaders who did not challenge the control of the D C C by urban leaders, partly because of the novelty of their experience under a democratic system, and partly because they could always look forward to Dhebar for the satisfaction of their local demands. They thought they could satisfy the needs of their own local communities through their direct link with the top-most leader without needing to control the D C C. On the other hand, the urban leaders in control of the D C C gradually lost whatever contact they had with the rural voters and leaders, because, once again, their strength was dependent on their capacity to retain the confidence of Dhebar.

In 1954, Dhebar was invited to take on the Presidentship of the Indian National Congress. He resigned from the Chief Ministership of Saurashtra and presided over the historic Avadi session of the Congress in January 1955, and continued in the same position till 1958. In November 1956, Saurashtra State was merged with the bilingual Bombay State. These two developments called for an altogether different role on the part of the D C C leaders, a role that they were not equipped to play. The physical shift in the governmental decision-making centre to Bombay and a substantive change in the position of the Saurashtra ministers as subordinates under a larger set-up at once created a gap between the people and the government in Saurashtra. The district Congress organisation failed to fill this gap because it never had the status or the experience to act on its own. There was thus created a political void in Rajkot (thus underlining the critical importance of the Congress organisation in the Indian political system). Dhebar's absence from the district — no doubt raised the status of the district organisational leadership. On the other hand, Dhebar himself had also to depend on the organizational leadership at the district level for his own communication with his supporters. With this elevation of the status of district organizational leadership, there followed a competition among various aspirants for the Number Two position under Dhebar.

Here was a chance to create a heirarchy of leadership at the district level. But the compulsions of maintaining his own leadership over that of all others, and as acceptable to all factions, did not allow Dhebar to decide his next man. He kept the situation fluid so as to see that no one could gain a decisive advantage over anyone else. The resulting position, which still continues, was that there came into being four factional leaders within the D C C, each claiming to be *the* district leader. Meanwhile, the new rural leadership which had emerged under new pressures from the countryside challenged the urban leaders' monopoly in the D C C, and claimed representation in the Legislature. This further disrupted the unity of the urban leaders, each of whom tried to build his support in different sectors of the rural elite.[2] Thus the failure to institutionalise a clear line of authority resulted in acute factionalism and the consequent lack of direction to the Congress rank and file, a fact that was strikingly brought home during the 1963 bye-election.

Nature of Factionalism

The factions that emerged during 1957-62 were built around powerful individuals competing for capturing a decisive position in the district Congress. It is true that Dhebar continued to dictate the relative positions of these factions in the power structure of the district, but in so doing, he had also to take into account the comparative support potential of these

Table 1: Rajkot Parliamentary Constituency — Votes Polled by Candidate in the 1963 Bye-election

Name of the Candidates	Party Affiliation	Votes Polled
Jethalal Harikrishna Joshi	Congress	69,214
Minocher Rustom Masani	Swatantra	83,365
Nanji Savji Bhalodi	Independent	3,425

factions. The principal contenders in the district were the leader who ultimately got the Congress ticket for the parliamentary seat vacated by Dhebar (referred to here as faction leader A) and the leader who was President of the D C C until 1962 (faction leader B). B had sought to eliminate all except his own supporters during his tenure as President of the D C C. This resulted in all other factions joining in a common front against his domination. The "outgroup" gradually became a majority group. Its leadership was claimed by faction leader A. In December 1962, a change in D C C presidentship was affected under the guidance of Dhebar. This time the President was chosen from among the rural leaders. Faction leader D, representing a majority community in the rural sector, became the D C C President. This move was in part motivated by the growing need to contain the rural-urban cleavage in Rajkot district. But the change was also acceptable to the faction leader A because the new president had also joined with the majority group that ousted B from power (Leader C had also lost in importance in the course of this struggle).

When the bye-election was to be held in 1963, an uneasy alliance between these various factions was worked out by Dhebar. However, the mechanics of keeping together these diverse elements in one common front of action created an imbalance in the oranisation which dissipated energies. Although D was the D C C president, B was made the Chairman of the District Election Committee. This arrangement was dictated by B who, though not occupying a formal position was yet very powerful in district politics. He had his own supporters well entrenched in Municipalities, Local Boards and Panchayats. In order to solicit his support, he was given this important position in the election setup. This frustrated faction leader D who felt deprived of his power. The result was that he did not exert his own influence fully in the rural sector, confining his activities merely to his own home town. On the other hand, faction leader B, though he was given formal charge of the election organization, did not give sufficient attention to the organization of the campaign. His conflict with faction leader A, the candidate in the election, influenced his own behaviour. Although, he himself did not ask his supporters to sabotage the election, he did not take the necessary pains to mobilise all his resources. The factional alliance worked out by Dhebar thus resulted in inaction on the part of those who held responsible positions in the election machinery and consequent lack of direction of the Congress campaign.

Such inaction at the top resulted in free play of conflicts lower down. In each Assembly segment of the parliamentary constituency there were two groups, the in-group and the out-group. The out-group was a direct consequence of local elections in which there were more claimants for power than could be accommodated by the Congress. In the cities and town conflicts centred round the municipality whereas in the villages it was around the panchayats and taluka panchayats. In both urban and rural areas, there were also disputes on the distribution of the Congress ticket for seats in the State Legislative Assembly. In all cases, but more seriously in the rural areas where Panchayati Raj had been implemented, there were big splits in the Congress party, resulting in the emergence of a dissident group. The out-group either openly assisted the opposition or sabotaged the Congress campaign from within. The two patterns are well illustrated by factional

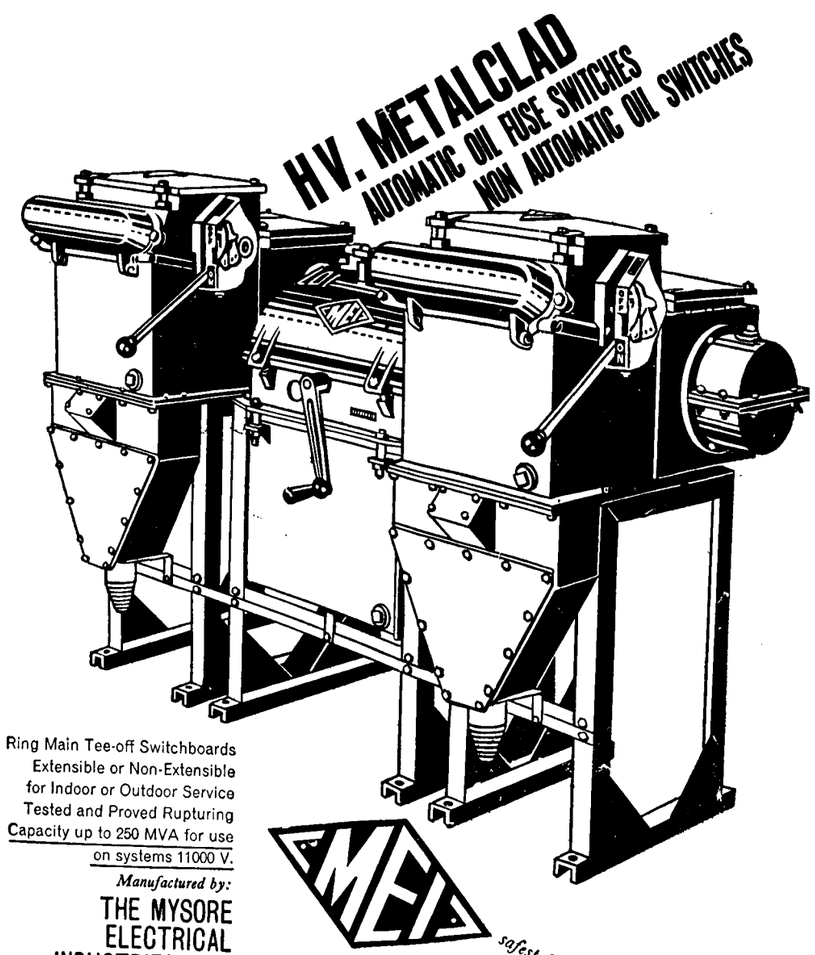
TABLE 2: Analysis of Party Position and Voting in Rajkot Constituency since 1952

Year	Electorate	Total Valid Votes Polled in the Constituency	Votes Polled by Congress: Valid Votes Polled as % of Col 2	Votes Polled by Congress: Votes Total Polled	Votes Polled by Congress: Total Votes as % of Col 3	Votes Polled by Congress: Swatantra	Votes Polled by Opposition Parties: Khedut Sangh[1]	Votes Polled by Opposition Parties: Other Parties[2]	Votes Polled by Opposition Parties: Total Votes[3] Polled	Votes Polled by Independents: Total Votes as % of Col	Votes Polled by Independents: Total Votes Polled	Non-Congress Votes: Total Votes as % of Col 3	Non-Congress Votes: Total Non-Congress Votes	Non-Congress Votes: Total Non-Congress Votes as % of Col 3
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1952 General Election	3,12,441	1,39962	51.0	86,003	61.44	...	29,766	19,210	48,976	34.74	4,985	3.56	53,961	38.3
1957 General Election	3,73,121	1,45045	38.91	1,03,906	71.65	...	...	8,460	8,460	15.82	32,679	22.53	41,139	38.35
1962 General Election	3,90,228	1,85253	47.21	1,02,344	55.24	...	...	...	...	...	82,909	44.76	82,909	44.76
1963 Bye-Election	3,93,279	1,56004	39.9	62,214	44.4	83,365	...	...	83,365	53.04	3,425	2.2	86,790	55.6

[1] After 1952, Khedut Sangh has been disbanded as a political organisation. Most of its leaders were provided with positions in the Congress. A few of the ex-Khedut Sangh leaders who could not get positions in the Congress remained inactive due to lack of any substantial following. These scattered individuals helped the Swatantra party during the 1963 bye-election.

[2] In Col 9 votes for 1952 are those polled by Hindu Mahasabha and Kisan Mazdoor Praja Party. In 1957 the votes are Hindu Mahasabha votes.

[3] There was one Independent candidate in 1952, one in 1957, two in 1962 and one in 1963. Of the 82,909 total votes polled by the Independents in 1962, the editor of the local opposition daily, an immediate rival of UN Dhebar, the Congress candidate, polled 61,3111 (33.10 per cent) votes. He hleped the Swatantra in 1963.



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behaviour in two of the Assembly segments, namely Upleta and Jetpur. In Upleta, the *Sarpanch* group which was the out-group, worked against the MLA group (the in-group), openly defied the DCC directive, and assisted the opposition.[3] The conflict was so acute that the constituency got physically divided into two regions one consisting of out-group controlled villages, the other having villages under the influence of the MLA group. (Table 5 sharply brings out the concentration of Swatantra gains in booths where out-group was influential.) Such a clear expression of the conflict allowed the in-group to put all its strength in the campaign without any fear of backdoor sabotage. The result was that the Congress had the biggest lead in Upleta, in spite of acute internal factionalism. In Jetpur, the MLA's group and the group led by the President of the Taluka Panchayat were pitted against each other. Here however, the MLA group was the out-group. The MLA remained away from the constituency throughout the election. His supporters remained inactive and some of them even sabotaged the election.[4] Here factionalism took a more underhand form, prevented open confrontation, and resulted in the opposition securing nearly the same vote as the Congress in a constituency where the latter had a majority of about 16,000 votes in 1962.

Another interesting example of factionalism could be seen in Jasdan, a Congress stronghold, where the Congress lost by about 7,000 votes to the Swatantra in 1963. The root of the conflict goes back to the 1957 elections to the Assembly, when a local Congress leader in Jasdan was rejected in favour of a leading Muslim advocate of Rajkot (originally belonging to Jasdan) for nomination as the Congress candidate. The Jasdan Congress leader did not support the official Congress candidate who, however, got the support of the royal family of Jasdan because of his personal ties with the latter, and won the seat by a margin of more than 8,000 votes. After the elections, the dissident local Congress leader gained strength through an alliance with faction leader B at the district level. The former was brought back to a position of power by making him the President of the District Local Board, and subsequently of the Zilla Panchayat. His re-entry into local politics with renewed strength created conflict between him and the official MLA, who had also emerged as a very popular leader, and was made a Deputy Minister in the newly formed Gujarat State. The former eventually succeeded in removing the MLA from Jasdan through a carefully planned strategy in which he had the support of faction leader B at the district level. At the time of nominating the Congress candidates in 1962, he was given a ticket outside Jasdan, in Paddhari constituency, under the pretext of providing a safe seat in Jasdan to a women candidate. He lost to the Prince of Rajkot in Paddhari, as was indeed expected. Out of frustration, he left politics and took up the Chairmanship of the Public Service Commission. The Prince of Jasdan who had all along helped the Congress because of his close relations with the local MLA was very much annoyed by this move of the Congress, which in turn contributed to his decision to support the Swatantra in 1963. At the same time, with the exit of the MLA from district politics, his supporters within the Congress were gradually alienated. They helped the opposition in 1963. The cost of the alienation of the Jasdan Prince on the one hand, and the ex-MLA group, on the other, was very heavy for the Congress, whose loss in

TABLE 3 : Party Position in Legislative and Parliamentary Constituencies—General Election 1962 and Bye-election 1963

Name of the Assembly Constituency (Under the Parliamentary Constituency	1962 General Election						1963 Bye-election		
	Votes Polled by Legislative Assembly Candidates		Congress gain (plus) or Loss (—)	Votes Polled by Parliamentary Candidates		Congress Gain (plus) or Loss (—)	Votes Polled by Parliamentary Candidates		Congress Gain (plus) or Loss (—)
	Congress	Non-Congress[1]		Congress	Non-Congress		Congress	Non-Congress[2]	
1	2	3	4	5	6	7	8	9	10
Rajkot	12,655	27,293	—14,638	14,853	25,728	—10,875	9,248	20,001	—10,753
Paddhari	11,026	19,026	—8,000	12,321	18,331	—6,010	11,289	11,501	—212
Gondal	12,431	5,487	6,944	11,806	6,383	12,423	7,788	7,503	285
Jasdan	11,186	9,059	2,127	12,176	8,765	3,411	8,191	15,185	—6,994
Jetpur	16,705	3,084	13,621	15,018	4,894	10,124	9,078	8,881	197
Dhoraji	16,046	8,958	7,088	15,791	9,616	6,175	10,020	9,213	807
Upleta	19,974	9,167	10,807	20,347	9,183	11,164	13,595	11,061	2,534

[1] Opposition votes for Rajkot constituency were polled by two Independent candidates. Out of the 27,293 votes, 15,638 were polled by one Independent candidate who won the election. The other candidate who polled 11,654 votes was a Jan Sangh leader who had contested as an Independent. His election was managed by Jan Sangh. In the final analysis, his votes were Jan Sangh votes. In Paddhari constituency, out of 19,026 votes, the Prince of Rajkot, the successful Independent candidate polled 16,151. In Jasdan, the major opposition rival to the Congress was a PSP candidate who secured 6,504 votes. In Dhoraji and Upleta the immediate rivals to the Congress, both Communists, polled 7,855 and 7,072 votes respectively. All these opposition party candidates and Independent, except Communists, supported Swatantra in 1963 bye-election.

[2] Here, Non-Congress votes indicate only votes polled by the Swatantra candidate. Apart from the Swatantra candidate, there was one Independent who polled just 2.2 per cent of the total votes. This was negligible and our main purpose was to compare Swatantra with the Congress. His votes, therefore are not included in the non-Congress votes mentioned here.

Jasdan by 7,000 votes (from a lead of about 8,000 in 1962) was bigger than in other legislative constituency.

The example of Jasdan brings out the important relationship between factional movements within the Congress and its support base outside the party. The former, when carried too far, alienated the latter.

In the past, such conflicts, whether or not they were resolved, did not work against the Congress, because of the direct relationship of the several factional leaders with Dhebar at the top, who was considered to meet to their respective demands in a more or less impartial manner. This prevented them from operating outside the party channels as they were primarily engaged in pressing Dhebar to gain their own ends. In 1958, Dhebar ceased to be the Congress President and his position in central politics gradually became uncertain. Secondly, with the emergence of Gujarat State, he had to compete with Morarji Desai, who emerged as the undisputed leader of the congress in Gujarat. Dhebar did, of course, try to restrain Morarji Desai's influence by a calculated strategy, but the outcome was a further decline in his political prestige at the national level, and indirectly at the State level also. With his stock with Nehru at a low ebb, and his political standing uncertain, Dhebar decided to resign from the Parliament and from organizational posts in the Congress. Although it was officially announced that he was resigning from these positions in order to take up the Presidentship of the All-India Khadi Commission, the political factors behind the change was obvious. The change had its ramifications right till the level of Rajkot politics. On the one hand, his image as a leader who could satisfy the demands of all factions because of his position at the State (Chief Minister of Saurashtra) and national (as President of the Congress) levels was seriously affected. On the other hand, there was a feeling of helplessness in Rajkot district as a whole, in the Congress as well as among the people, who had always derived a sense of gratification from their identification with Dhebar and his role in central politics.[5] These reactions at the psychological level influenced the behaviour of the factional leaders during the bye-election. In spite of Dhebar's personal attempts to effect a compromise between warring factions, the conflict manifested itself in a variety of forms ranging from open hostility to complete indifference. The inability of Dhebar to contain these factions during this bye-election strikingly brought out the nature of his power which, though it may have been partly charismatic, was mainly political. It was based on his influence and control over resources which could be used to satisfy different groups. Once he was out of this controlling position, district politics semed to slip away from his firm grip.

Our analysis brings out the ambivalent role of factions in democratic politics. In Rajkot, these factions were woven around individual leaders seeking power positions in different political institutions. Factions based on individual power complexes would tend, in the long run, to paralyse the party machinery. So long as they are contained and resolved into an internal balance, factions play a very useful role of conflict articulation. This can take place either through institutional channels or the existence of a powerful leader who resolves the conflicts within the party framework. Where both are lacking, however, the opposition may gain an advantage, either through a direct split in the ruling group, or through submerged expressions in the form of either inaction or sabotage on the part of the "out-group". Even here, as shown by the contrast between Upleta and Jetpur, an open expression of the out-group's hostility is preferable to internal sabotage or non-co-operation. In other words, if factions have to become efficient categories of politics, they need to be expressed in an efficient manner, either through proper internal channels, or through a known and open split.

Organisation of the Election

If we now turn from long term to short term factors, we find once again the critical role of party organisation in the outcome of the bye-election. One of the crucial factors in the bye-election was the timely, efficient and unified organisation of the election campaign. As the Swatantra Party had practically no party machinery in the district to start with, their performance was solely dependent on the efficacy of their campaign organisation. The Congress organisation too was in bad shape and had to be properly mobilised to win the election. Thus the Rajkot bye-election has to be studied as, on the one hand, a case of organizational paralysis of the Congress, and, on the other, as one of speedy establishment and masterly conduct of the campaign organisation by the Swatantra party. The existence of these short-range conditions allows us to empirically test our hypothesis about the role of the organizational variable in the bye-election[6]

Before we discuss the campaign organisation it should be pointed out that even the permanent party organization of the Congress was not in good shape. Except in Rajkot city, there were no regular party offices, not even at Taluk headquarters. The D C C active membership has remained static over the years. They have no paid full-time workers, except one in the Rajkot

Table 4 : Rural and Urban Representation on Different Offices of the Rajkot District Congress

Years Election Held	D C C Offices Bearers					
	President		Vice-President		Secretaries	
	Urban	Rural	Urban	Rural	Urban	Rural
1953	1			1	2	1
1955	1		1		2	1
1957	1		1		2	1
1959	1		1		2	
1962 (1-4-62 to 25-12-62)	1			1	2	
26-12-62 to 19-7-63		1	1		2	
20-7-63 onwards		1	1		2	

Note : Table shows the concentration of urban control in the District Congress Committee.

central office. One of the reasons for not starting separate branch offices employing more full-timers is lack of adequate finance. This has resulted in absence of efficient co-ordination between D C C and other Taluk Congress Commitees. Congress executives at all levels, including the D C C, are nominated. Internal organizational elections have not been held for a long time. The D C C is completely ineffective both in composing internal conflicts or in guiding party activists in the district. The Taluk Committees behave as autonomous units which do not feel a sense of loyalty and accountability towards the D C C. Such a state of party organization could continue because its functions were suspended in favour of a personalized party structure. The growing political competition in the District Congress put a heavy strain on the existing arrangements. Existence of a powerful leader who is able to contain the conflicting needs of different groups and a non-competitive political environment in all sub-areas of the district were two pre-conditions for the smooth functioning of such a personalized party structure. Once these conditions were removed, the lack of any regular party channels for the expression of conflicts, such as organizational elections and regular meetings of the Executives, were bound to lead to distortion and anaemia in the party structure. It is against this state of permanent party machinery of the Congress that we have to consider the organisation of the election campaign by the opposing parties and candidates.

Delays marked the Congress campaign from the very beginning, with the selection of the Congress candidate taking much time. All the important leaders were considered for the candidature, but some of them refused to contest on personal grounds, others who offered themselves as candidates were rejected, either out of factional considerations or because they were thought to be too junior to claim this status. Finally, as a last resort, Jethalal Joshi, a prominent district and sitting member from Rajya Sabha, was asked to contest the bye-election.[7] The time taken in reaching a decision on the selection did not leave enough time for preparation of the campaign.

The Congress campaign was formally inaugurated by a public meeting on April 28, and nominations filed on April 30. But no election organization was established till May 12 when the full election committee was constituted, and Faction Leader B, ex-President of the DCC, ultimately given charge of the whole campaign. The delay was caused due to acute differences within the DCC on this issue, which had delayed the formation of the DEC till May 9. The Taluka leaders were also waiting for a clear directive from the DEC. After May 11, one senior Congress leader, not belonging to the local area, was sent to each of the seven Assembly constitutencies to supervise and direct the local campaign. As it turned out, however, even after May 12, these leaders had to mainly devote their energies to factional fights in each constituency. The final network of coordinated organization could not be created till only a few days before May 26, the day of the election.

While the Congress leaders were struggling with their factional problems, the Swatantra campaign had already started penetrating into the district. After May 18, the Swatantra campaign created great impact and took such momentum that the Congress was compelled to leave half-way the task of organizing the basic network, and to rush in an *ad hoc* manner to patch up the cracks in their own strongholds made by the Swatantra inroads.

Swatantra Party Organisation

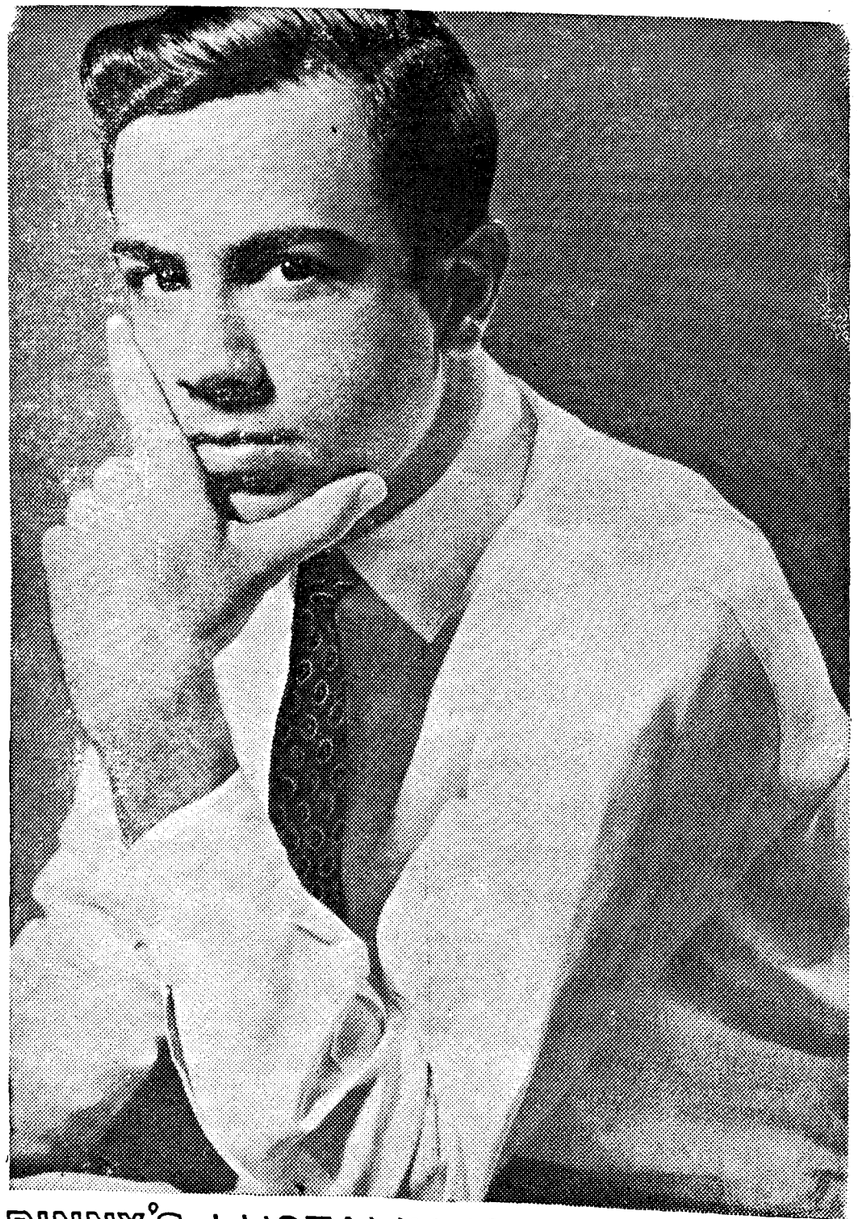
The Swatantra party had established election offices from May 1, thus scoring a lead of ten days over the Congress in organising the campaign. They had from the very beginning put all the Swatantra leaders in charge of different assembly segments. At the same time, their district election office was staffed by personnel brought from their central office at Bombay. This turned out to be a very business-like office organization besides which the Congress office run wholly by volunteers made a poor comparison. Even the public meetings and group contact meetings were better planned by the Swatantra party. Its managers had from the very beginning emphasized the value of group meetings. Separate meetings were arranged with leaders of different sections of the voters. If it was known that even within one section of the voters, there were two or three different groups, separate meetings were arranged for each group. The Congress organization did not show such imagination. They based their hopes on the influence of the ward leader or a "key-man" whose loyalty to the Congress was uncertain, given the fluid state of support for the official candidate. Even public meetings were better organized by the Swatantra. Their selection of the speakers and the timings of the meetings were in tune with the changing mood of the campaign. The Congress had no advance planning and, therefore, had to rush to call whoever was available from the national headquarters to counteract the Swatantra campaign. While most of the Congress leaders from outside did not devote more than one or two days to the campaign, none of the Swatantra leaders stayed in the constituency for less than 4 days.[8]

The availability of an efficient volunteer force was an important factor in sustaining the tempo of the election campaign. The Swatantra were fortu-

Table 5 : Votes Polled by Congress and Non-Congress Candidates in Booths Where the 'Outgroup' was Influential in Upleta Segment—1962 and 1963

1962 General Election[1]				1963 Bye-Election[2]			
Total Valid Votes Polled	Party Affiliation of the Candidates	Votes Polled	Total Non-Congress Vote	Total Valid Votes	Party affiliation of the Candidates	Votes Polled	Total Non-Congress Vote
	Congress	2,983			Congress	1,395	
4,222	Independent	851	1,239	4,829	Swatantra	3,332	
	Independent	388			Independent	102	3,434

Note : Booths where the 'Outgroup' was influential were 18, 19, 20, 29, 35, 36, 54, 55, 59, 61, 92.
The table indicates the total votes polled in these eleven booths.
1 In 1962 the 'Outgroup' was with the Congress.
2 In 1963 the 'Outgroup' worked against the Congress.



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nate in getting a disciplined group of volunteers from the local RSS and the Jan Sangh. At the same time, the President of the Gujarat Swatantra Party, who happens to be a pioneer in many fields a powerful figure, and till today the leading light in the opposition, brought with him a substantial group of University students from his own Kaira district, where he had himself created a rural University after the name of Sardar Vallabhbhai Patel. A portion of the Swatantra volunteers were employed on daily payment. The Congress had also to hire volunteers, but inadequate finances restrained their capacity to compete with the Swatantra. It was really striking that even after 15 years of control over all governmental, social and educational activities in the district, the Congress found it lifficult to mobilize the younger generation. There were reasons for this. Till 1959-60, the powerful Youth Congress controlled student associations and other social institutions in Rajkot. Once these student leaders matured into active politicians, however, they came in to conflict with faction leader B, who was controlling the D C C. B made every attempt to split the youth movement controlled by Youth Congress Workers by supporting the rival youth faction which was composed of Jan Sangh of socialist-oriented youth workers. In the event the Jan Sangh and socialist youth leaders increased their hold over students and youth associations. This proved a great loss to the Congress organization. The inability of the Congres to mobilize these sections these had its roots in the internal disputes in the party.

Mobilization of Voters

In the sphere of publicity and finance too the Congress lagged behind. The main medium of publicity was the press. Out of the three daily newspapers published from Rajkot, two were Congress sympathisers, the third one being an all-out supporter of the opposition. The daily which supported the opposition is the oldest newspaper in Saurashtra. It is also superior to the Congress press in finance, circulation and editorial capacity. The Swatantra had no difficulty in getting huge sums for election expenses. Not only did their total financial resources exceed those of the Congress, their planning and utilization was more efficient. The Congress on the other hand, could not, in the absence of any prior estimate of the expected amount, put the large sums of money that ultimately arrived to effective use. This reflected the debility of the Congress mobilisation machinery in general.

The real measure of Swatantra's organizational superiority is not to be found in the formal campaign arrangements but in its penetration of different sections of voters. This penetration was affected either by exploiting existing social and political cleavages and articulating them into bases of support, or by systematically rendering different groups to pressure and influence from outside, or by a combination of the two techniques.

A remarkable feature of the Swatantra party's electoral organisation was its ability to mobilise support on the basis of old as well as new cleavages. Before describing how such an operation was successfully put through, however, it will be useful to spell out the existing economic and social divisions within the district, and the reflection of these in groups consciously opposing each other.

The State of Saurashtra (now part of Gujarat) was formed in 1948 out of the integration of 222 princely states. The transition to an integrated democratic State was effected successfully. However, the princely past left its legacy and structure of loyalties and divisions. The main cleavage even before independence was between the petty princes and *girasdars* on the one hand and the urbanised middle classes which provided the leadership of the States' Peoples' Movement, and later on of the Congress. To this was added another cleavage after independence as a result of the government's implementation of land reforms and protection of tenants' and cultivators' interests against the interests of the land-owners. The result was an alignment between the urbanized leadership of the Congress and the rural peasantry, in the process alienating the landed gentry and their numerous hangers-on.

Within the rural community there had always been a great distance between Rajputs on the one hand and other low-caste Kshatriyas such as Kolis, Kathis, etc. The Rajputs were at the top of the Kshatriya heirarchy and controlled political as well as economic power before Independence. The State-wide reform movement of the Kshatriya Sabha did not make much headway in Saurashtra owing to this social distance, as well as divergence of interests between the Rajput landowners and the others. This divergence grew sharper after the implementation of land reforms. The Congress also retained the support of other depressed and minority communities, and especially of the Harijans and Muslims. Harijans are scattered all over the constituency,

Table 6 : Rural - Urban Break-up of Votes Obtained by the Congress and the Swatantra in all Assembly Segments—1963 Bye-election

Name of the Assembly Segment	Valid Votes Polled	Congress		Swatantra	
		Urban Votes	Rural Votes	Urban Votes	Rural Votes
Jetpur	18,528	836	8,245	2,955	5.926
Gondal	15,706	1,787	6,001	4,004	3,3499
Dhoraji	19,718	3,006	7,014	4,661	4,552
Upleta	25,256	2,273	11,322	2,586	8,476
Jasdan [1]	24,035	415	7,776	1,979	13,206
Rajkot [2]	29,381	9,248	...	2,001	...
Paddhari [3]	23,357	...	11,289	...	11,501

1 Jasadan is an exception to our general analysis. Congress has also lost heavily in rural area. This could only be explained in terms of a very substantial impact of the Prince and Princess of Jasadan on the rural voters.
2 Rajkot is an urban constituency.
3 Paddhari is a rural constituency. Although, Congress has not been able to score a lead, it has substantially improved its position as compared to its performance in the 1962 General Election. (Refer to Table 3.)



whereas Muslims are mainly concentrated in the Dhoraji-Upleta segment of the constituency.

Some of the ruling families, indignant at the Congress policy of land redistribution, contested against it in the elections held in 1949 to the Saurashtra State Council but, even with the limited franchise then, did not cut much ice. The Congress emerged as the all-powerful political force and was very popular in the rural areas. However, once the land reforms were accomplished and a few years had passed, the girasdari element came to terms with the new situation and the old cleavage began to blunt a little. Loyalties towards the princely order began to be restored. New grievances began to take place of the old ones against the princes — against the administration, the Congress, and specific factions within the Congress. Elections — State and local — helped in this process. The change was strikingly brought home in 1962 when some of the princes, pushed by the Swatantra Party and the changed political climate, made bold to contest against the Congress. The Prince of Rajkot was one of these. He succeeded in defeating the Congress for the first time in *Paddhari* constituency, and that too with a majority of 5,125 votes. It seemed as if old loyalties had once again revived, the "masses" standing more behind their Prince than behind the Congress. The alienation by the Congress of the girasdari element and its failure to accommodate them had now begun to prove costly. It is against this background that the Rajkot bye-election took place.

In the urban areas, caste and other social divisions were not the bases of groups. For the urban voters, occupational categories were more meaningful. There are mainly two broad occupational groups within the middle class — the "service" class in government and private employ and the "commercial" class representing business and trade. After these, there are the artisans, the labourers and other menial workers, including the Harijans.

As for political divisions, these were mainly on party lines, mainly Congress and non-Congress. Among the opposition parties there were CPI, Jan Sangh and PSP. Before taking a final decision to contest the parliamentary election, Masani had come to Rajkot and negotiated with all the opposition parties (except the Communists) and the independent members of the Legislative Assembly. He tried, by stages, to mobilize the support of all the opposition parties and independent members of the legislature. The process required considerable political acumen and bargaining. The opposition parties in Rajkot had all along been divided against each other. It goes to Masani's credit that he could keep them together for the whole election. This gave Masani a considerable base to start with.[10]

Feudal Element Strong

Masani had also realised that the feudal elements, specially the Girasdars and the Princes, could provide valuable material assistance, and what was more important, their traditional status in the rural areas could be exploited to make an impact on the masses. He brought some ex-rulers of big States from outside the constituency who had considerable influence on the small local rulers. The princes of Rajkot, Jasdan and Gondal actively supported the Swatantra campaign. The Girasdar Association which had fought the Congress in the 1949 interim elections to the Saurashtra State Council now supported the Swatantra party in the bye-election[11] The Jasadan prince and his sister moved from house to house and asked the people to defeat the Congress. The fact of the Prince and the Princess coming out of their palace and mixing with the people made a great emotional impact on the voters. The active participation of these traditional interests was an important factor in influencing the outcome of the election. The Congress called F P Gaikwad, former Maharaja of Baroda, to counter this move of the Swatantra party. However, his task had been made difficult as all others had decided to support the Swatantra party.[12] He had also been for long too closely identified with the Congress, and had in fact himself become a rank and file Congressman. In consequence, he did not carry the same weight as he formerly carried among the princely and Girasdari elements.[13]

The Swatantra party could also divide the votes of the minorities, which were traditionally the preserve of the Congress. The independent MLA from Rajkot, who had defeated the Congress in 1962, after defecting from it, was a leading spirit of the Harijan Sevak Sangh, controlled by the Congress. When he resigned from the Congress, he was also compelled to resign from Harijan Sevak Sangh. But his personal influence among the untouchables was very great, and with his help the Swatantra candidate penetrated into this sector. The Muslims also got divided because of an internal feud within their own community, which resulted in one rection supporting the Swatantra candidate.

The most remarkable achievement of Masani was his use of the economic and financial network in mobilising his support in the urban and peri-urban areas. This was, of course, reinforced by an ideological affinity between the business community and the Swatantra party. In the urban sector, especially in Rajkot city, the party successfully articulated the growing dissatisfaction of the business, professional and other middle classes against high taxation, rising prices, gold control and other policies. The corruption and inefficiency of the administration was also a factor that helped the Swatantra.

However, the bigger impact was along other lines. Masani's campaigners employed all tactics and pressures to mobilise the vote in his favour. The plans were worked out in great detail and the approach imaginative. Active workers and sympathisers of the Swatantra party belonging to different communities and different regional and language groups were brought to the constituency. Tamils, Biharis, Parsees, Mohammedans, all were approached in this way. Although Rajkot has a very small number of Gurkha voters, a Gurkha worker was brought from outside to mobilise their votes. The same was done for the various professions. Leading lawyers, doctors and bankers were brought to help Masani get the votes of their fellow professionals. The outsiders were asked to keep in constant touch with their own regional communities residing in Rajkot. Businessmen of Rajkot who had business connections at Bombay, Calcutta, Baroda and other such big business centres received personal letters from their counterparts requesting them to support Masani. The actual network went much further down. Letters from business and industrial houses in Bombay and elsewhere were addressed to commission agents, sales representatives, stockists, and even small salesmen in smallest towns and suburbs. Copies of all such letters were sent to Swatantra headquarters in Rajkot for them to follow up. Certain representatives of big industrial concerns at Bombay were asked to devote most of their time for Masani's campaign. Masani himself has wide-ranging contacts in the business world. He comes



from the Parsi community which is known both for its pioneering role in the industrial field, and for its cohesion and communal loyalty. Some of the leading banks in Rajkot have Parsi managers at the top. Their clients were personally requested by the Agents to help Masani, and to spread the hint further. In Gujarat where the business network is so widespread and efficient, such a strategy was bound to pay handsome dividends. The strategy of exerting influence through the economic structure which Masani operated proved even more successful than the government and patronage machinery available to the Congress. In the urban areas, the Congress was completely routed as shown by Table 6.

The leaders of the Gujarat Kshatriya Sabha worked hard to get the support of the Kshatriya masses for Masani. We have noted above how, with the tenancy legislation now being a matter of the past, the old distance between the Rajputs and lower Kshatriya communities began to narrow. This was symbolised by the fact that the Rajput leaders of Saurashtra had accepted the Prince of Jasdan, who was a Kathi, as one among them. Thus the revival of old loyalties and the strategy of building a numerically large support base by the Rajputs helped the Swatantra party, through its close identification with the Gujarat Kshatriya Sabha, to make inroads in the rural vote, which had so far always gone to the Congress. Even so, the Congress retained considerable support in the rural areas, compared with what happened in the urban areas.

Conclusion

The foregoing analysis brings out the great importance of the organisational factor in the outcome of elections. The main points that emerge are:

(i) The performance of the Congress in the elections depends on homogeneous party organization which, in turn, depends on the structure of leadership;

(ii) Where the party is dominated by one leader for a long time, the result is a highly personalised support structure, and lack of institutional expression of political loyalties. Once the original condition of efficiency is removed or weakened, the Congress is suddenly found without depth and energy, greatly divided, and lacking in drive and resources;

(iii) Such a state of internal organisation reflects great gaps in the social base of the party's support, gaps between the ordinary leadership and the masses (relying all the time on the "great leader's" appeal), and a failure to accommodate certain important segments of the social structure;

(iv) For the opposition to gain from such a situation, it is necessary for it: (a) to close its ranks and present a united front, (b) to isolate the sections alienated by the Congress and secure their support; and (c) to sustain such a support by imaginative field organisation, with the help of influential key-men, and through continuous pressure on the voters, either individually or in groups;

(v) In organising such an effort, an important element is putting into effect existing influence networks based on kinship, caste and caste associations, traditional loyalties, and economic relationships;

Notes

1 Masani does not belong to Rajkot district. He had no previous contact with the constituency. Bombay has been the base of his political career all along.

2 We can only say that this competition resulting in alignments at different levels will finally institutionalise these diffused personal relationships. The process has just begun.

3 The conflict had its origin in the elections to the taluka panchayat which preceded the bye-election.

4 Here, the whole operation of sabotage was more complicated. The Jetpur Municipality is controlled by a group of opposition independent candidates. The minority Congress group in the Municipality is composed of supporters of the MLA group (outgroup in the bye-election). Before the election, the Municipal opposition independent candidates enrolled themselves as Congress members and claimed representation on the election committee. They exploited the rift within the taluka Congress and posed as supporters of the President of the Taluka Panchayat. They occupied some important positions in the election organisation. While the MLA group remained indifferent or hostile, and the Panchayat group worked earnestly for the Congress candidate, these sympathisers from the opposition sabotaged from within the election campaign.

5 The whole constituency felt reduced in importance and stripped of its role in national politics. This was manifested in the election through the candidate orientation of the voters, who could not reconcile themselves to the Congress candidate, Jethalal Joshi, who was a district leader replacing a national leader. From this psychological angle, Masani, who is considered a national figure, had an advantage over his rival.

6 We define the "organization variable" as representing essentially two functions of the campaign organization, namely the efficiency of the formal election machinery and its capacity to mobilise different sections of the electorate.

7 The opposition, exploiting this situation, told the voters that even if they elect Masani, they are not going to lose Joshi as their representative because he was already a sitting member of Parliament.

8 Thus C Rajgopalachari himself toured the constituency from May 20 to 28. The last pre-election public meeting of the party, a historic meeting in Rajkot which attracted a record crowd was addressed by Rajaji, Acharya Kripalani, Atalvihari Bajpai of Jansangh, and Masani. Kripalani had come directly after emerging victorious from the Amroha bye-election.

9 The editor and the Managing Director of this newspaper had contested from Rajkot Parliamentary Constituency as an independent candidate in 1962 general elections, against U N Dhebar. Although Dhebar won by a considerable majority, the 61,311 votes polled by the editor showed a substantial following.

10 Refer to Table 2 and Table 3 for non-Congress support. 1962 General Election results analysed earlier give us an idea of the opposition strongholds: Rajkot city, Padadhari, a few pockets in Jasdan. The Communist party which has some following in Upleta offered to support the Congress. The Congress response to their offer was not very encouraging. They not did not realise the importance of exploiting this offer.

11 We have already referred to the feeling of antagonism created among these traditional interests when the Congress government introduced land reforms for the first time in 1948. The Girasdars and princes were pitted against the Congress in the interim elections to the State Council. After this solitary attempt, they were compelled to withdraw from active opposition by the increasing popularity of the Congress government in Saurashtra. It should not be forgotten that though Congress gave jobs to some of the more influential ex-rulers, it never consciously attempted to bring other elements under the party fold. Most of them were enrolled as members of the Congress, but never integrated with the active party work. This was partly a result of Congress party's complacency in judging their initial withdrawal as a permanent move, and partly of the increasing dominance of the cultivating class in the Congress.

12 On the other hand, Congress leaders kept accusing the Princes as reactionary. In an interesting comment on this sent to the A I C C, the Maharaja of Baroda strongly resented this and said that he found it "highly embarrassing". In the same statement he also castigated the Congress for its dualist approach to the role of the Princes in which "the Princes in the Congress are good while the others in the opposition are bad."

13 This point of "identification" is very important. We notice that even within the constituency there was great difference between the impacts created by the Prince of Rajkot and the ruler of Jasdan. The former, who had carried the day gloriously in 1962, proved less effective in 1963. Upon his election to the Legislative Assembly, he ceased to be a Prince and began mixing with other MLAs and with the constituents like other representatives. While this made a good impression on the educated who applauded the fact that the Prince was behaving like a citizen and a democrat, among the traditional population his statutre declined. Even though he remained popular, the impact of his traditional image gradually decreased. On the other hand, the Prince of Jasdan had come out in the open for the first time. This created a great impact. As a result, whereas the Congress recovered its position in *Paddhari* between 1962 and 1963, (reducing its loss from 5,125 to a mere 202) it lost heavily in Jasdan (where its majority of 8,765 turned into a loss of 6,994).



Factors Influencing Regional Variations in Farm Incomes

Tara Shukla

Wide variations in farm incomes from region to region are common in an underdeveloped economy. They gives rise to inefficient use of productive resources which an underdeveloped economy can ill afford and also evoke corresponding disparities in human welfare. Plans for economic development have, therefore, the objective of narrowing down the regional dispatities in farm incomes.

Interest in the study of regional distribution of farm incomes also stems from the fact that investible resources are limited in supply and cannot be evenly spread out our different regions. Their regional location on the basis of market indications is in most cases likely to accentuate the disparities in regional distribution of farm incomes. If these tendencies are to be countered it is necessary to indentify the factors that influence the regional distribution of farm incomes and operate upon them.

In this paper an attempt is made to study regional distribution of farm incomes — gross and net — and through correlation analysis to try to identify factors associated positively or negatively with income distribution.

IT is necessary to define (i) regions and (ii) gross and net farm incomes before proceeding with the analysis. Most purposeful definition of an economic region would be based on location pattern of production. The location of product is supposed to be predominantly influenced on the one hand by soil-climate complex and on the other by facilities for transport of product from the producer to the consumer. The second factor is relatively less important in an underdeveloped economy where production is primarily for consumption within the family and predominantly within the rural community. Of two sides of the market — demand and supply — the latter may thus have the dominant influence in the regional mapping of production. It has not been possible for us to divide the country into homogeneous areas in terms of soil and climate for this study due to non-availability of adequate data for it. The data as available, relate to administrative divisions of the country, viz, the States. As these are not homogeneous areas in terms of soil and climate, we shall not be able to keep out the influence of these two factors while analysing the influence of other factors. But the counterveiling advantage of this analytical framework is that most of the economic policies including the Five Year Plans are framed and implemented on the basis of the administrative divisions.

Besides, it is also recognised while studying this problem that individual States are too big an area to observe uniform operation of any of the economic characteristics. For instance, within two different states with, say, 25 per cent area under tenancy, we might get widely varying proportions of subregions (districts) with different degrees of extent of tenancy. Hence the aggregations available at State-level may lose much of their significance. These two serious limitations of selecting States as units of study cannot be easily overcome. The results of our analysis, therefore, would be more in the nature of *'a priori* indications' rather than definite conclusions.

We need to define farm income at least from two different angles. Knowledge of factor-income distribution is essential for any programme to achieve increased efficiency of resource use. Hence a complete picture of factor-income distribution for different States would be preferable to the regional distribution of income to any one factor. However, land being a scarce factor relative to capital or labour in India, distribution of gross and net income per unit of land may give us some policy clues to maximise farm income of the country by manipulating the other two factors where possible. Besides, land is also an immobile factor and hence less amenable to manipulation.

Alternatively, income can be defined in terms of net returns to labour. Though labour is an input for production, it is also a unit of consumption. If incomes to labour tend to equal the consumption levels of families as is believed to be the case in subsistence economies, the labour income distribution would not vary much regionally unless the relationship between earners and other members of the family is uneven. This may happen, for example, when in the same region social traditions inhibit work by women on farms.

State-wise data for gross and net output per acre and net income per worker are available for the year 1960-61.[1] Suceptibility of farm production to weather changes is known. Data for one year, therefore, may not lend to precise estimation of the relationship. In so far as the gross product is concerned the estimates of regional incomes are less dependent on guesses and inferences, since production data are independently estimated for individual State. Prices for farm products are also available separately for each States. On the other hand, a degree of guess work enters in the estimates of net incomes. Net incomes are estimated as difference between the values of inputs such as cost of seed, manure, feed for livestock, water charges, market charges and repair, maintenance and depreciation of implements and other fixed assets. Data for these inputs are based on various sources such as NSS Reports No 32 and 65, Fertiliser Statistics, Rural Credit Survey Report, various reports on "Economics of Farm Management", etc. However, the estimates of inputs so calculated do not show large variations from region to region and the gross estimates and the net estimates per acre are highly correlated with each other. However for the purposes of correlations with various factors we have used both gross and net output per acre data.

Total regional incomes from crop production are divided by total cultivated area to obtain per acre incomes for different States. Land in this case is measured in surface units, quality differences are thus ignored. To obtain per worker farm income, total farm income from crop production is divided by working population in farm sector in each State. In rural areas a section of the working population is employed in non-farm occupations for a part of the year. However, this proportion is not known. If it varies widely from State to State, it will vitiate the estimate regarding association of farm incomes with other factors.

Besides, these farm income data relate to crop production only. Animal husbandry, fishing, and forestry which are allied to farming are not taken account of. This might also vitiate the estimate of degree of association of farm incomes with other factors. Of course, some of these limitations may not be serious. However, their overall impact may be quite significant. These limitations may be kept in view while assessing the conclusions.

Factors Associated with Farm Incomes:

The following factors can be believed to have an impact on the levels of farm incomes:

(i) stock of capital;
(ii) extent of literacy;
(iii) pressure of population as indicated by man-land ratio;
(iv) crop pattern;
(v) extent of tenancy as indicated by proportion of area under tenancy to total cultivated land;
(vi) extent of concentration of cultivated holdings;
(vii) extent of use of improved seeds; and
(viii) extent of use of fertilisers. To these is added the factor of association of farm wages and farm incomes where casual relation is expected from the latter to the former. There may be several other factors influencing farm incomes but the data are not readily available regarding them.

Stock of capital includes irrigation, bullocks used for work, implements and machinery. The latter include assets like ploughs, carts, tractors, oil engines, electric pumps, etc. As non-traditional inputs like improved seeds and fertilisers are not included in this index, we have studied separately the relationship of income with both these factors. Data regarding the use of fertilisers and improved seeds[2] are based on estimates prepared by V K R V Rao on the basis of information available in the Third Five Year Plan.

For relative evaluation of the cropping pattern of different regions and its impact on the income levels, it is necessary to have crop index for different regions. For this purpose, we have used the crop pattern index constructed by J G Anand.[3] We have correlated this index with the output per acre and per worker in different regions, on the basis of indexes for these two items available once again in Anand's work. It may be mentioned that these two indexes refer to gross output only.

Literacy data are obtained from 1961 Population Census. These give no information on the extent of schooling. But in rural areas it is safe to assume that only a few persons advance beyond secondary schools.

Data regarding farm labour wages are drawn from the Second Agricultural Labour Enquiry Report of 1956. There is thus a time lag between farm incomes which relate to the year 1961 and wages which are available for 1956. However, if the wage rates as obtained in different regions during 1956 are raised upward for the price change during the period up to 1960-61, their relative positions will not change unless the regional variations in prices are sharp and of different order. This limitation of the analysis is, however, minimised by substantiating the observation based on these data with others obtained from some of the field studies.

Hypothesis

We now formulate the hypotheses thus: Factors like (i) stock of productive capital (ii) superior cropping pattern (iii) extent of use of fertilisers (iv) extent of use of improved seeds, and (v) extent of literacy, other things remaining the same, would help raise the level of agricultural incomes both per worker and per acre. On the other hand, factors like (i) extent of tenancy (ii) extent of concentration of land in cultivated holdings (iii) pressure of population on land, other things remaining the same, would affect adversely the level of farm incomes per worker and per acre.

Five of the above factors expected to have positive relation with farm income per acre and per worker are in the form of resources. They include, to repeat, capital, better crops, seeds, fertilisers and literacy. Combining more resources with given amount of land and labour would normally result in increased output. The diminishing returns would only diminish the successive rates of growth of output.

There can, however, be no unanimity regarding the impact of the other factors listed above. For instance, increased concentration of land in cultivated holdings, it can be argued, may lead to increased output. It implies larger propensity to save by big holders. But the management capacity of the family labour is accepted as a constraint and size of holding may not be closely associated with level of land productivity. There is, on the contrary, a likelihood of adverse relationship between size of holding and per-acre yields. This may obtain if in large holdings relatively poorer land is concentrated and *vice versa*. Thus the concentration of holding may in an important sense be the result of soil composition and irrigation facilities. In such cases concentration of operated land may not necessarily be positively related to per acre or per worker product.

Tenancy is traditionally believed to curb the incentive to increased production. The extent of tenancy is, therefore, expected to be negatively related with levels of output per acre or per worker. At the same time, it is not an uncommon experience that in regions with low production potential the area under tenancy is low, probably because contribution of land in the product here being low, it pays the owner to cultivate land himself and earn perhaps larger income than what can be earned from rent.

Pressure of population on land, according to conventional belief, is expected to depress per worker earnings in view of diminishing returns. Low per worker earnings would imply low capacity to save and perhaps therefore low per acre incomes too.

The above set of hypotheses has been tested very broadly with the help of available data. We have preferred a relatively less sophisticated tool of analysis, *viz* Spearman's coefficient of rank correlation for the reason that the factors which are not examined such as climate, soil, etc, and the errors in measurement of the factors that have been examined may introduce imprecision to invalidate any precise measure such as regression coefficient. For rank correlations, since they relate only the ranks of the States to the factors considered, the errors of observation and omissions would not introduce large bias in understanding relationships unless the influence of the disturbance is large enough to alter the ranks. The results of these rankings, given in a decending order, are stated in Table 1. The detailed information regarding each of the factors is given in the appendix.

The data in Table 1 yield some very useful observations. In the first place, except two, all other coefficients have positive signs. Factors like extent of

tenancy and pressure of population on the basis of widely held belief were expected to have negative relationship with both per acre and per worker income. The results are contrary to expectation. The negative sign belongs to improved seeds and concentration of cultivated holdings. Since the value of coefficient is low for seeds we cannot attach much weight to its sign. If, however, one takes a bold view, the meaning of the negative sign would be that in the areas where incomes are relatively low, enthusiasm for improved seeds obtains to a greater extent. This is not unexpected; improved seed is in most cases a neutral technology in its effect on factor-combination. Besides, its benefit/cost ratio is expected to be high. Further in specific cases like wheat, sugar cane, etc, improved varieties replace local varieties where the latter are frequently attacked by diseases or where the former are very superior to the latter as in case of cotton.

From the above analysis, considering the values of coefficients, 11 relationship out of 29 in all turn out to be high and of significance. Stock of capital is consistently highly related with both per-acre output and per-worker income when irrigation is included in the former. This should not surprise us. Even if we assume that larger output is traceable to an extent to better soil and climatic conditions, the fuller exploitation of such favourable conditions is made possible only when larger stock of capital is associated with it. When irrigation is taken out of the capital stock we find closer association of stock of capital with only per-acre output and not with per-worker incomes. This clearly implies that irrigation facilitates employment of larger capital per worker thus raising returns for the latter. In dry areas labour seems to be a closer complement to the capital stock making increased input of capital per worker difficult.

The pattern of cropping or crop combination seems to influence per-acre gross output, since greater the share of highly valued crops in the total cropped area better will be the per-acre return. The value of coefficient of rank correlation between the two is fairly high, it being 0.715. Against this, crop combination seems to have little influence on per-worker income. This would suggest that highly valued crops like sugar cane, rice need larger labour inputs and, therefore, do not necessarily give better returns to labour.

The improved inputs considered by us are improved seeds and fertilizers. To these we can add the literacy level of workers. Literacy level is expected to influence the workers' skill to operate and through it land and labour productivity. Thus all the three can be expected to have close relationship with land and labour productivity. In the relationship we have run we find rank correlation coefficients to be rather low for all the three. Not only that, for improved seeds both the coefficients have negative signs. These results are rather enigmatic. We can probably argue that the rise in literacy level is recent and it would require some time to make an impact on productivity. The same probably applies to fertilizers. Their use has spread only recently and the knowledge regarding how to use them and in what dose to make a perceptible impact is yet not perfected to suit conditions of soil and climate in India. Improved seeds, however, do not fall into this category. The research work relating to them stretches now over several decades, we are then left to make our own guess regarding this input and we have analysed this phenomenon earlier.

Of the three factors connected with land, viz (i) man/ratio (ii) concentration ratio and (iii) extent of tenancy, the first is very highly related with both land and labour productivity. The other two have relatively higher rank correlation with per-worker productivity rather than with per-acre productivity. According to the conventional hypothesis, stated earlier, the increased pressure of population should reduce incomes and savings. But such a phenomenon is not borne out of the observations. This demands rethinking on the subject. In traditional agriculture, pressure of population on land will depend on the carrying capacity of the latter. Population in low-rainfall-poor-soil regions is likely to be sparse unless otherwise warranted. With the techniques of cultivation that obtain in India, population seems to have concentrated in regions where land productivity is high. This shows that labour and capital are complementary to each other in traditional agriculture. With autonomous increases in labour, relative returns to capital increase, resulting in strong inducement to save and invest on part of the farmers.

The second important observation that challenges the conventional hypothesis is the positive and somewhat

Table 1: Values of Coefficients of Correlation between Various Factors and Levels of Income in Different Regions

Relevant Factors	Gross Output per acre	Net Output per acre	Net Income Per Worker
(1) Capital stock (A) (Rs)	0,786 (2%)	0,739 (5%)	0.619 (5%)
(2) Capital stock (B) (Rs)	0.643 (5%)	0.620 (N.S.)	0.286 (N.S.)
(3) Area under improved seeds	—0.19 (N.S.)	—0.285 (N.S.)	—0.476 (N.S.)
(4) Area under fertilisers	0.429 (N.S.)	0.310 (N.S.)	0.191 (N.S.)
(5) Man/land ratio	0.858 (1%)	0.881 (1%)	0.881 (1%)
(6) Crop pattern index	0.715 (5%)	N.A.	0,334 (N.S.)
(7) Concentration ratio for cultivated holdings	—0.239 (N.S.)	—0.191 (N.S.)	—0.643 (5%)
(8) Percentage of cultivated area under tenancy	0.358 (N.S.)	0,453 (N.S.)	0.620 (5%)
(9) Literacy level: number of literates per '000 persons	0.334 (N.S.)	0.358 (N.S.)	0.334 (N.S.)
(10) Agricultural labourer's wages (Paise)	0.453 (N.S.)	0,453 (N.S.)	0.858 (1%)

Capital stock (A) includes irrigation, bullocks, implements and machinery.

Capital stock (B) excludes irrigation but includes rest of the assets.

Levels of significance are given in the brackets; N S=not significant; N A=not available.

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high relationship of net income per worker with the extent of tenancy and the extent of concentration of cultivated holdings. Positive association of extent of tenancy with the per worker income, even if cautiously interpreted, would imply that the fact of tenancy by itself does not seem to curb incentive to increased production in a perceptible way. This might surprise many and, therefore, needs an explanation. The result obtained cannot be attributed to inaccuracies of data. In fact we get fairly consistent results. Punjab, Assam and West Bengal are among the areas which have tenancy well above 34 per cent. They rank as the first three States also in regard to wages of labour, income per worker and concentration ratio. A supplementary check on this observation is provided by various studies in the economics of farm management carried out in different parts of India during the period 1955-56 to 1957-58. These data also give high values of coefficients of correlations between the extent of tenancy and the values of gross and net output per acre.

Implicitly, therefore, the alternative or non-conventional hypotheses derive substantial strength from these results. One of the alternative explanations can be like this. Either due to assured rain or extensive irrigation and fairly fertile land, it is possible to combine more labour to given land (measured in surface area) than is available in the area with marginal productivity of labour diminishing at a slower pace. If the supply curve of labour is equally inelastic during rush seasons in both the areas, owners of land would be faced with relatively higher wages in potential high demand but low supply regions. The system of renting of surplus land brings about a shift in the supply curve of labour since it makes it possible for the tenant to use part-time labour of his family which can add proportionately greater amount to the total labour income. This arrangement then proves of advantage to both the leaser and the leasee. The tenant gets as his share income in the pre-change position (before leasing in) so also the land owner who gets more by way of his share in the products (after leasing out) than the pre-change surplus going to land. This has, therefore, a further implication that share rent is not the device particularly to pass on the uncertainty and risk of output varying from year to year to the less privileged class. Our analysis would show that where such risk is greater and marginal product to labour would diminish more rapidly, there will be fewer persons willing to rent land as tenants.

There might be other alternative explanation too. Expansion of industries and net out-migration from landowner class may necessitate tenancy. It is, however, difficult to relate net out-migration with labour productivity positively. The push factor whose dominance is suggested in poor countries would rather suggest a negative relationship between migration and productivity. In any case, West Bengal and Assam are not areas of high out-migration.

We should enter in at this stage an important caveat. The explanation for relationship between factors and productivity in inter-regional comparisons would not bear identity with intra-regional comparisions between farmers, unless the same or similar physical conditions obtain for the units compared.

Wages and Income per worker

So far our search was for factors that influence the regional distribution of agricultural incomes. We now take up the problem of impact of regional distribution of farm incomes on inter-class income distribution. For this we examine, in particular, the relationship between per farm worker income and wages of farm labourers.

In our analysis we find fairly the high value of 0.858 as rank correlation coefficient between wages of agricultural labour and net income per worker in agriculture. The wage data as stated earlier, are drawn from the Second Agricultural Labour Enquiry undertaken in 1956 and relate to casual male worker. The net income data relate to all workers who include self-employed cultivators' families which are overwhelmingly dominant in the total farm structure. This observation too is not surprising. If daily wage represents value of marginal product, an annual wage, which also is a value of marginal product, will be closely related to annual income per worker. We also get comparable results from data at levels below the State. The Farm Management Studies for different districts for the period 1954-55 to 1956-57, with 17 observations in all, give 0.7892 as the value of rank correlation coefficient (highly significant at 1 per cent level) between farm business income of the cultivating families and the wage rate per worker. For the individual years the value of coefficient ranged between 0.171 to 0.614 mainly because the farm business income will be influenced by weather conditions to a greater extent than the wage rate.[4] These results of Farm Management studies take us a step further. Farm Business Income is not necessarily the annual wage and hence not the value of marginal product of labour. It rather reflects the level of prosperity of farm families and hence their paying capacity. These results therefore suggest that wages of farm labourers are closely related to the paying capacity of cultivating families.

Rise in wages may result in reduced employment if the relative shortage of labour is due to the leftward shift of labour supply curve. We would then get a negative relationship between wages and employment. So also if increased employment is a mere concealment of unemployment — reduction in productivity and wages would result from it, once again giving a negative sign. However, on the basis of the data drawn from the Second Agricultural Labour Enquiry 1956, we get a high and positive value of rank correlation coefficient between labour wages and total employment per labourer. It works out to 0.619. This discounts any indication of labour exploitation in the present labour market. On the contrary, it implies that labour income (wages x employment) would be high in regions where income of farmers is high. If farm labour income is low the remedy lies, therefore, in increasing labour productivity through investment and not so much in fixing minimum wages.

It is also important to note that the wage rate showed a much weaker relationship with average productivity of land. One would ordinarily expect that larger income of farm families and high wage for labour are the result of larger per acre yield. But if higher wages are primarily the result of relative shortage of labour supply compared to demand for it, the relationship between wages and per acre yield may not be very close.

Conclusion

The study, with its several limitations, leads to important conclusions. We set out to search for factors that might explain the regional distribution of gross and net output per acre and net income per worker in agriculture. We listed as many as ten factors which divided themselves into three groups (i) durable capital (ii) improved inputs (iii) factors relating to land.

We observed that improved inputs — seeds, fertilizers and literacy level of farm population — did not show a close relationship with either per acre yield or per worker income. From group (iii) tenancy and concentration of land holdings showed close relation (latter with negative sign) with pre-worker income but not with per-acre yield. Pressure of population on land showed very close relationship with both the income variables. Of the two measures of stock of durable capital, one including irrigation showed close relation with both the per-worker income and per-acre yield, the other consisting mostly of traditional assets like bullocks and implements showed close relationship with per-acre yield only.

The pattern of influences that emerges as a result of our observations is somewhat uncommon. Factors relating to land like tenancy — and pressure of population which are supposed to be hindrances to increasing production are not found to be so. They are more in the nature of results rather than causes of the pattern of regional income distribution. Similarly, new and improved resources are expected to contribute to production but probably they have not reached the stage when they can make a perceptible impact on production.

We are then left with only one factor, viz, stock of durable capital, which explains regional income distribution. Regarding this too, it seems that only when land-substituting capital like irrigation is made available, is a perceptible impact on per worker income made. Stock of other forms of capital seems to be complementary to labour and, therefore, influences only the per-acre output.

That in a traditional agriculture, traditional forms of capital together with labour contribute to production to a major extent is too obvious to need explanation. Its importance lies, however, in the fact that it puts at a discount other hypotheses regarding role of land institutions, pressure of population or quality of land in explaining spatial income distribution. The latter hypotheses, unverified, have often resulted in misdirection of efforts and mixing of issues. Solution of the problem of tenancy, for instance, is unlikely to raise labour productivity where it is low. Nor will fixation of minimum wages help in that direction. Narrowing of variations in regional income distribution can be achieved only through a purposeful investment programme, through exploitation of investment potentialities. Where the latter do not exist, probably the only solution would be a long run one: that of either evolving suitable farm techniques or drawing labour out of agriculture through expansion programmes. Basically, this is a problem of the technological barriers of traditional agriculture.

Notes

National Council of Applied Economic Research: "Agricultural Income by States 1960-61", Occasional Paper No 7, New Delhi.

[2] V K R V Rao, Presidential address, to the Annual Conference of the Indian Society of Agricultural Economics, *Indian Journal of Agricultural Economics*, Vol XVII, No 1, 1962.

[3] In his article on "Measurement of the Actually Realised Agricultural Productivities Per Acre and Per Worker in the Different Crop Regions of India" *Agricultural Situation in India*, Annual Number 1964, p 401.

[4] Studies of three villages in Gujarat by the Agro-Economic Research Centre, Vallabh Vidyanagar, also suggest rank correlation coefficient of 0.80 between wages and per capita income of farm families. *Quarterly Bulletin of Economics and Statistics*, Vol IV, No 2, April-June 1964, Government of Gujarat.

Appendix : Ranks of Different Factors

	INCOME			CAPITAL				
	Gross Output Per Acre	Net Output Per Acre	Net Income Per Workers	A Per Acre	B Per Acre	A Per Worker	B Per Worker	Area Under Improved Seeds
	(1) (Rs.)	(2) (Rs.)	(3) (Rs.)	(4) (Rs.)	(5) (Rs.)	(6) (Rs.)	(7) (Rs.)	(8) (Rs.)
Assam	370.87 (1)	347.78 (1)	620 (3)	425.7 (2)	131 (2)	392 (4)	210 (5)	9.6 (6)
Bihar and Orissa	197.52 (5)	171.16 (4)	395 (7)	175 (5)	104 (4)	338.3 (7)	201 (6)	10.7 (5)
Bombay	152.67 (7)	134.42 (7)	522 (4)	70 (8)	51 (8)	262 (8)	192 (7)	8.7 (7)
Punjab	175.83 (6)	155.55 (6)	861 (1)	221 (4)	56 (6)	968 (1)	246 (3)	16.8 (4)
Madras	213.57 (3)	219.76 (3)	447 (6)	158 (6)	52 (6)	355 (5)	118 (8)	32.7 (2)
M P	125.29 (8)	106.10 (8)	360 (8)	109 (7)	87 (5)	338.5 (6)	269 (2)	16.9 (3)
U P	199.88 (4)	167.09 (5)	479 (5)	245.4 (3)	123 (3)	485 (3)	244 (4)	41.9 (1)
West Bengal	348.84 (2)	313.21 (2)	284 (2)	260 (1)	148 (1)	534 (2)	310 (1)	7.3 (8)

	Fertilizers (Tons Per Lakh Acre)	Area Under Irrigation	Percentage of Cultivated Area under Tenancy	Level of Concentration Ratio	Prsessure of Population Per Acre	Crop Pattern Index	Literacy Number of literates to 1000 Persons)	Average Daily Wage (in M.P) of Male Casual Labourer in 1956-57
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Assam	2.5 (5)	2.8 (8)	34.63 (3)	.4571 (1)	1.70 (3)	152.03 (3)	373 (4)	154 (2)
Bihar and Orissa	2.2 (7)	12.2 (4)	27.05 (4)	.5371 (7)	1.40 (4)	133.13 (3)	322 (6)	89 (5)
Bombay	4.7 (3)	6.5 (5)	18.01 (7)	.5339 (6)	0.615 (8)	77.80 (8)	415 (1)	87 (6)
Punjab	2.3 (6)	13.5 (3)	48.60 (1)	.4650 (2)	0.676 (6)	86.71 (7)	330 (5)	198 (1)
Madras	11.1 (1)	22.6 (2)	22.62 (5)	.5998 (8)	8.19 (1)	108.28 (5)	395 (3)	85 (7)
M P	0.7 (8)	3.7 (7)	19.91 (6)	.5101 (4)	6.17 (7)	88.03 (6)	270 (8)	76 (8)
U P	6.6 (2)	28.5 (1)	8.61 (8)	.5198 (5)	1.19 (5)	114.48 (4)	273 (7)	92 (4)
West Bengal	3.1 (1)	5.4 (6)	34.95 (2)	.4914 (3)	1.75 (2)	148.12 (2)	401 (2)	143 (3)

Ranks are given in the brackets.

AROUND BOMBAY MARKETS

The Recovery Continues

Wednesday, Morning

WHILE Dalal Street last week managed to make a new high mark in the current recovery phase and pushed slightly beyond its previous month's high, the going was far from being very smooth. Though bright spots did emerge now and then, they were few. And not many shares were able to retain the gains registered during the week. Several shares wound up the week with small losses, which, however, were due mainly to corrective profit-taking. With anxious short covering nearly over and outside public support remaining almost conspicuous by its absence, it was only to be expected that the pace of advance should slow down. In view of the fairly impressive recovery over the past few weeks, it should cause little surprise if the market were to take a pause and consolidate its position before pushing its way further up. What is really surprising is that the market should have completely ignored the 16 per cent power cut in the Bombay-Poona region, which, if continued for long, can adversely affect industrial production and costs.

Not many weeks ago, nothing seemed to please the stock market, not even substantial buying by the Life Insurance Corporation. But now, the market is willing to take comfort even from the reported move for a meeting between Lal Bahadur Shastri and Chou En-lai. This is an indication of a considerable improvement in the general trading sentiment. Technical considerations apart, market sentiment recently has been aided by the absence of any adverse political news; it has been all quiet on the borders for some time. Shri Subramaniam's optimistic assessment of the food situation has also perhaps had something to do with the turn in market sentiment.

The stock market has no doubt staged quite an impressive recovery from its May low. Massive buying by the L I C has resulted in a marked shrinkage in the volume of floating stocks of several scrips. There have also been some indications of revival of selective investment inquiry in cash shares. The corporate news remains, by and large, fairly encouraging. It is not unlikely that the current recovery may be further extended with intermittent setbacks. But it is extremely doubtful whether the recovery in equity prices will lead to any marked revival of market activity because of the various political and economic uncertainties. Import restrictions resulting from the deteriorating foreign exchange position can have serious repercussions on industrial growth and few can take much comfort from TTK's assurance that the country would not go bankrupt as long as he was the Finance Minister.

COTTON

Prices Above Ceiling

COTTON futures last week pushed through the marginal line of Rs 775 (per 3 quintals) and touched a high of Rs 779.25. That speculators should be willing to pay an exhorbitant margin of Rs 10,000 per 100 bales to 'bull' cotton is not the least surprising. For even after allowing for the high cost of money, the hedge contract is cheap compared to the prevailing spot prices. There is hardly any variety of cotton which can be had at or below the statutory ceiling rates. Unofficial premiums range between Rs 25 and Rs 125 per candy. Superior cottons like Digvijay and 197/3 are commanding fancy premiums which is due only partly to the delay in the announcement of the global import quota. Mills have been keen buyers of the available foreign cotton; purchases of indigenous cotton have continued to be restricted to the bare minimum needs because of the acute financial stringency. That cotton prices should be quoted well above the statutory ceiling in spite of the fact that mills have been experiencing considerable financial strain due to the piling up of large stocks with them of both cloth and yarn is an indication of the imbalance between supply and demand. With demand steadily growing with the increase in spindleage, the gap between supply and demand is likely to increase further unless domestic production of cotton improves appreciably. Prospects of securing larger supplies of foreign cotton than what the country has been getting in recent years cannot be regarded as promising.

The cotton trade has been feeling quite uneasy for some time due to reports indicating that New Delhi was thinking of taking over the export trade in order to eliminate avoidable competition in a commodity which has a reasonably assured market abroad. It is no less perturbed by the Government's decision allowing the Indian Cotton Mills' Federation to import directly about 7,000 bales of global cotton under an *ad hoc* licence.

The monsoon seems to have made a promising start. Sowings have been nearly completed in the Punjab and Marathwada has had timely rains for sowing operations. Since the production of cotton, as also of other agricultural commodities, depends almost entirely on the unpredictable weather one can only pray that the monsoon will progress satisfactorily this season. Cotton production remains miserably short of the Plan targets.

Export sales of Bengal Deshi have already exceeded 2,18 lakh bales and the country does not have much more to sell this season because of the partial failure of the Deshi crop. Actual shipments between September 1 and June 5 total 190,407 bales against 196,626 bales in the same period last season. Out of this, Japan's share is 143,118 bales against 141,444 bales. The second biggest customer has been the U S A with 17,996 bales against 15,867. The other buyers of Indian Deshi cotton in order of importance are the Continent, Hong Kong and the U K. Arrivals of foreign cotton during the same period total 656,491 bales against 506,818 bales. Of this, American cotton accounts for 307,381 bales against 240,628 bales. Imports from Egypt aggregate 143,390 bales (142,595 bales). Imports from East Africa are considerably larger at 80,329 bales against 26,885 bales, but imports from the Sudan are lower at 60,101 bales against 87,455 bales. Pakistan has also been an important source of supply this season, accounting for 50,528 bales against only 4 bales in the corresponding period last season. Syria has supplied 6,411 bales against nil last season. Imports from other countries add up to 8,351 bales (9,311 bales).

OILSEEDS

Prices Rise Further

THE oilseeds 'bull' was in an aggressive mood last week. Undeterred by the prohibitive margins and caring little for the onset of the monsoon, he

rigged up the June contract in linseed as well as castor. Linseed June was bid up to Rs 105.50 and castor June to Rs 85 (both per quintal) — new highs for the season. With linseed June rising beyond Rs 104, bulls had to pay margin at the rate of Rs 5,000 per 10 tonnes which works out to nearly 50 per cent of the actual price of the spot material. Likewise, margin at the rate of Rs 2,400 became payable in castor June when the contract moved beyond Rs 84.50; here the margin works out to nearly one-third of the prevailing price of the spot material. Inability on the part of bears to tender goods against their sales in June has emboldened bulls to tighten their grip in the maturing contract. The spread between June and September contracts has increased further because of the virtual squeeze in the maturing contract. However, the distant contracts also have continued to display remarkable strength and they have been pushed beyond the marginal lines. After being marked up to Rs 81.90 castor September receded to wind up the week at Rs 81.50, thus showing a net gain of Rs 1.30 per quintal over the week. Linseed September, however, was virtually unchanged over the week at Rs 101.55, though it had been bid up to Rs 102.10. Cottonseed futures firmed up in sympathy with linseed and castor though sentiment was also aided by the remarkable strength in cotton. The September contract rose from Rs 53.75 to Rs 55.50 and eased later to Rs 54.50 on corrective profit-taking.

While the spot market continued to hold quite firm, it displayed very little of the excitement in the futures market. Linseed oil was bid up to Rs 21.25 (per 10 kgs) but the week-end quotation was lower at Rs 20.75. Groundnut oil held steady-to-firm between Rs 24.75 and Rs 25 and castor oil Commercial was only a little better at Rs 17. Oilcake prices were slightly subdued in the absence of any important export business. Since the supply position of edible oils does not appear to be uncomfortable, prospects of any further big rise in prices are generally discounted, provided, of course, the monsoon makes satisfactory progress. Inquiries with the trade indicate that fairly large stocks of oilseeds are being held by growers and cooperative societies in the hope that they would be able secure the high prices which prevailed towards the end of last season. That will be possible only if the monsoon fails. The growers would not wish that to happen; only the stockists can hope to gain from bad weather.

Money And Banking

Thursday, Morning

CREDIT conditions in the Bombay short-term money market displayed a fairly steady trend last week. Demand was good throughout the week with only limited funds being left over at the end of each day's transactions. Yet borrowers were able to obtain their requirements fairly easily at quoted rates which were around the previous week's levels. At close on Wednesday the rate was quoted at 7¾ per cent. In Calcutta the call rate ranged between 9 and 8¾ per cent.

Bank credit has begun to contract by stages. This trend is evident from the scheduled bank returns for the week ending June 4. Net bank credit was lower by Rs 3.94 crores at Rs 2,093.24 crores. Aggregate deposits were lower as well by Rs 6.55 crores at Rs 2,660.79 crores. Demand deposits declined by Rs 8.08 crores to Rs 1,247.55 crores but time deposits rose by Rs 1.53 crores to Rs 1,413.24 crores. The contraction in bank credit was largely due to a fall in purchase and discounting of inland bills by Rs 15.65 and foreign bills by Rs 81 lakhs. Inter-bank borrowings were higher by Rs 7.59 crores. Borrowings from the Reserve Bank were higher by Rs 3.38 crores at Rs 106.39 crores while cash in hand and bank balances declined by Rs 6.07 crores to Rs 163.55 crores. Investment in Government securities was slightly better by Rs 40 lakhs at Rs 721.85 crores. Money at call and at short notice contracted by Rs 81 lakhs to Rs 47.89 crores.

Notes in circulation declined by Rs 14.06 crores to Rs 2,734.39 crores, according to the statement of affairs of the Reserve Bank for the week ending June 11. Notes held by the banking department contracted as well by Rs 10.28 crores to Rs 18.79 crores. Foreign securities remained at Rs 70 crores. Balances held abroad were lower by Rs 86 lakhs at Rs 2.67 crores. Central Government deposits at Rs 75.11 crores were higher by Rs 1.84 crores. State Government deposits also rose by Rs 1.06 crores to Rs 14.16 crores. Scheduled bank deposits were better by Rs 5.37 crores at Rs 94.95 crores. Advances to governments increased by Rs 5.64 crores to Rs 97.25 crores but advances to scheduled banks fell by Rs 1.44 crores to Rs 106.37 crores. Investments at Rs 158.47 crores were Rs 4.50 crores lower than in the previous week.

BUSINESS NOTES

Tata Mills

THE process of replacing old and worn out machinery and making additions to plant and equipment for expansion and for balancing was continued by Tata Mills during 1964 when equipment worth about Rs 38 lakhs was installed. The additions included a fancy yarn doubler, high speed spoolers, warptying machines, super-automatic pirn winder, automatic looms, drying range, etc. The government has sanctioned installation of 13,640 spindles against the company's application for 20,000 additional spindles to balance production. Of the 192 automatic looms for replacement for which the company has received permission, 92 looms have been installed and the remaining 100 are awaiting installation. The company has embarked on a capital programme of further renovation and rehabilitation costing about Rs 1.10 crores for the purpose of balancing and for improving the quality of cloth production. The management is considering the question of implementing only the spinning part of the expansion of capacity sanctioned by the Government in 1963 for the cotton textile industry. This will involve an additional capital expenditure of about Rs 13 lakhs. Besides, expenditure on building in connection with expansion of production and processing is expected to be about Rs 52 lakhs, thus bringing the aggregate expenditure to about Rs 1.75 crores to be incurred in the near future.

The 1964 results show sales of cloth, yarn and waste at around the previous level of Rs 6.09 crores. But the gross profit is up from Rs 32.04 lakhs to Rs 36.21 lakhs. With both depreciation and development rebate reserve requiring large amounts of Rs 22.14 lakhs and Rs 6 lakhs against Rs 13.79 lakhs and Rs 4.50 lakhs, respectively, net profit is down by more than a third at Rs 8.07 lakhs compared to Rs 12.74 lakhs a year ago, even though there is no provision for taxation for which Rs 1 lakh were provided in the previous year. For payment of the unchanged dividend of Rs 4.50 per share plus Re 0.375 per share on new ordinary shares, a sum of Rs 3.60 lakhs is to be withdrawn from reserves.

Ahmedabad Advance

AS a diversification of its activities, Ahmedabad Advance Mills proposes to set up a plant at Navsari in Gujarat for the manufacture annually of 3,600 tons of cold rolled steel strips of 25 to 40 swg. per shift. The steel strips will be used for manufacture of certain items used in the textile industry. The plant will also manufacture other items like bicycle rims, stamped hardware, concrete sheathings, etc. The capital cost of the project will be about Rs 69 lakhs excluding working capital of about Rs 12 lakhs. The capital cost includes the cost of import of the Sendzimir mill for rolling ferrous alloys together with other equipment and accessories from the US at a cost of about $ 700,000 for which purpose the ICICI has sanctioned a foreign exchange loan equivalent to approximately Rs 34 lakhs. The plant and equipment is expected to arrive in India at the end of the next year. The raw materials required will be hot rolled strips manufactured at Rourkela by Hindustan Steel.

The company installed during 1964 new plant and machinery worth about Rs 19 lakhs to further improve the quality and output of cloth. The main items were automatic and ordinary looms, stentering and drying range, auto copser winding machine, scouring and chemicking equipment and drawing frames and carding engines. Of the 240 automatic looms for replacement permitted by the government, 142 looms were installed and 98 were awaiting installation. Under the expansion scheme, the company has been permitted to instal additional 3,617 spindles and 101 looms, but the permission has not been utilised due to lack of space and heavy financial commitments.

During the year 1964, the company's production suffered to some extent as a result of the dismantling and erection of looms because of the continuous reorganisation taking place in the mills. The financial results were affected mainly due to an all-round increase in cost of production, particularly in wages. Sales of cloth, yarn and waste brought in Rs 3.86 crores against Rs 3.79 crores a year before, but gross profit was lower at Rs 13.90 lakhs compared to Rs 16.44 lakhs. With depreciation charges alone claiming Rs 14.40 lakhs (Rs 9.81 lakhs), the accounts show a deficit of Rs 0.50 lakh. Last year, there was a net profit of Rs 2.73 lakhs even after setting aside Rs 3.55 lakhs for development rebate reserve and Rs 0.35 lakh for the tax liability. The ordinary dividend is lowered by a point to Rs 9 per share but since the new bonus shares have also become entitled to half the dividend rate, the total requirement on this account is Rs 4.95 lakhs (5 lakhs). Preferential dividend amounts to Rs 0.71 lakh as before. For paying-dividends Rs 5.40 lakhs are to be withdrawn from general reserves.

Orissa Cement

THE refractory industry continues to face difficulty in securing sufficient orders. Much surplus capacity has been created as a result of continuous expansion without realistic assessment of demand for different types of refractories. These conditions are reflected in the working of Orissa Cement's refractories unit in 1964 when it suffered a further setback and its operations resulted in a loss. One of the basic tunnel kilns had to be closed down and the other operated below capacity. The general increase in manufacturing costs due to underutilisation of production capacity was aggravated by the rise in costs of fuel, railway freight and wages.

There has been a continuous downward trend in demand for silica bricks since 1961 due to the rapid conversion of open hearth furnaces from silica roof to basic roof. Production and despatches of steel quality silica bricks went down further in 1964. The company was, however, able to manufacture and supply a larger quantity of coke oven silica bricks. Production of fireclay refractories has been higher than in 1963 but the available capacity could not be fully utilised due to lack of balancing equipment which could not be imported for want of foreign exchange. Production and despatches from the chemically bonded section have, however, shown a welcome improvement during the year. The demand for these refractories is expected to increase further in the current year.

The working of the cement and cement products units has resulted in a slight improvement in profit due to higher production and despatches. Clinker production rose from 3.39 lakh tonnes to 3.45 lakh tonnes, cement production from 3.53 lakh tonnes to 3.71 lakh tonnes and cement despatches from 3.53 lakh tonnes to 3.64 lakh tonnes. Production and despatches of spun pipes as well as prestressed products have been substantially higher. The company has been granted a licence for manufacturing 1.5 lakh tonnes of Pozzolana cement subject to the condition that the total production of both Portland and Pozzolana cement should not exceed the installed capacity already licensed for Portland cement by more than 30,000 tonnes per annum. Manufacture of this cement is expected to start during the current year.

The company's financial results show sales lower from Rs 518.07 lakhs to Rs 502.35 lakhs and gross profit down from Rs 98.77 lakhs to Rs 88.25 lakhs. After providing Rs 53.96 lakhs (Rs 35.39 lakhs) for depreciation, Rs 7.34 lakhs (Rs 2.80 lakhs) for development rebate but nil (Rs 38.05 lakhs) for electricity charges relating to previous years, the pre-tax profit is better at Rs 26.95 lakhs compared to Rs 22.54 lakhs a year ago. To this is added a sum of Rs 11.08 lakhs (Rs 0.45 lakh) transferred from development and rehabilitation reserve. The tax charge takes away Rs 18 lakhs (Rs 9 lakhs), development and rehabilitation reserve Rs 3.42 lakhs (Rs 3.34 lakhs), contingency reserve Rs 5 lakhs (nil) and reserve for bad and doubtful debts Rs 0.15 lakh (nil). The remaining surplus of Rs 11.46 lakhs (Rs 10.66 lakhs) is allocated to dividend reserve from which will be paid the unchanged dividend of a rupee per share on ordinary shares and Rs 5.85 per share on preference shares, together requiring Rs 24.84 lakhs.

Indore Malwa

BEARING in mind the frequent stoppages of power supply and dislocation in working due to the continued programme of modernisation and renovation, the 1964 results of Indore Malwa United Mills are good. Despite only a marginal increase in sales from Rs 3.82 crores to Rs 3.87 crores, the gross profit has shown a fair improvement from Rs 20.39 lakhs to Rs 23.29 lakhs. Of this, depreciation requires Rs 16.31 lakhs against only Rs 9.30 lakhs previously. Though allocation to development rebate is lowered from Rs 4.55 lakhs to Rs 3.75 lakhs and there is no provision for taxation, which took away Rs 3 lakhs in the previous year, the disposable profit is slightly lower at Rs 3.24 lakhs against Rs 3.54 lakhs a year ago. After taking credit for Rs 0.59 lakh being refund of taxes, provision is made for paying the unchanged dividend of Rs 8 a share. This requires Rs 4 lakhs.

The Elphinstone Spg & Wvg Mills Co Ltd

Address by the Chairman Shri N K Jalan

THE following is the Address by Shri N K Jalan, Chairman, The Elphinstone Spinning & Weaving Mills Company Ltd, at the Annual General Meeting of the Shareholders of the Company held in Bombay on June 17, 1965.

Ladies & Gentlemen,

I extend to you all a warm welcome to this Fortysixth Annual General Meeting of your Company, and with your permission I will take the Directors' Report and the Audited Statement of Accounts as read.

The gross trading profit for the year under review was Rs 25,58,390. The results have to be viewed in the background of the higher cost on all counts on the one hand and uneconomic prices of the products on the other. The dividend on Ordinary Shares has, however, been proposed to be maintained at 18% subject to tax.

The Cotton Textile Industry, the premier industry of India, has been working under a number of avoidable handicaps and its disabilities are only increasing every year.

Mounting Wage Bill

Year by year in the past, I had to invariably express my anxiety before you over the continuously mounting cost of this industry. The most disturbing factor of all is the increasing wage bill, especially of the Bombay cotton mills. The average rate of dearness allowance payable to Bombay mill workers for 26 working days, which was approximately Rs 92 in 1962, went up to Rs 96 in 1963 and jumped to Rs 115 in 1964. It shot up to as high as Rs122 in last May. Incidentally it may be pointed out that this rate is perhaps the highest in the country including that for the unskilled worker though at one time the rate of dearness allowance in Ahmedabad was higher than that in Bombay. It is difficult to understand the logic of such a steep rise in D A for Bombay mill workers. The average total earning of a mill worker of Bombay per month was approximately Rs 149 in 1960 which progressively rose to Rs 183 in 1964. In last May it was as high as Rs 190.

With the alarming rate at which the dearness allowance is going up year by year and especially after the re-adjustment of the consumer price index number by the Government of Maharashtra on the basis of the Lakdawalla Committee's recommendations it is not known whether there will be any limit to such a serious development. Such high wages, having absolutely no relation to productivity or to the level of wages prevailing in other industries in this centre or elsewhere, are bound to enormously affect the smooth working of the other industries not only in the private sector but in the public too. It should be a matter of serious consideration for the Bombay mill interests and the Government of the State to see that suitable measures are taken to arrest this unhealthy trend in proper time if it is desired that the Bombay Cotton Mill industry should not lose its competitive capacity both inside and outside the country.

The Second Wage Board for the Cotton Textile Industry has been set up by the Government of India to consider, among other things, the question of a further revision of the wage structure in the industry. It is only to be hoped that the Wage Board will make its recommendations fully bearing in mind the impact of high wages on the economy of the nation as a whole and will not be instrumental in perpetuating the vicious circle of high wages and high prices.

And along with high direct wages, the liabilities of the industry towards the workers had been increased considerably only recently by way of enhanced contributions to Provident Fund and the Health Insurance Scheme and by the substantial increases in the benefits of additional leave with wages.

High Prices of Cotton

Another constant bugbear of this industry is the high price of cotton payable by the mills. Apart from the generally inadequate and uncertain availability, the prices payable are very high. The prices of all varieties had pierced the ceilings towards the end of the year under review and only the scheme of restricted stocks and purchases by the mills introduced by the Indian Cotton Mills' Federation could check the prices for the time being.

The behaviour of cotton prices this year, especially in relation to the statutory control on cloth prices, has once again established the futility of fixing ceilings for the prices of cotton. Fixing of ceiling can have a meaning only if the Government were to evolve suitable machinery for enforcing these ceilings. Unfortunately, they could never be enforced in the past and they have only been instrumental in creating undue hardships and misunderstandings between the interests concerned.

It has been suggested that the present ceiling should be raised for the next season. This will not, however, bring about the desired results at all. Only the past history will be repeated and the new ceilings will be pierced once again and create a further demand for still higher ceilings. In all such cases, the maximum prices fixed by the Government have more often than not tended to be the minimum prices and prevented the law of supply and demand from functioning even when conditions otherwise warrant a price decline. The Agricultural Prices Commission has for this very reason recommended to the Government that no ceilings should be fixed for foodgrains and I trust the Government will take a clue from these recommendations.

The mill consumption of cotton has been continuously increasing and if proper and effective steps are not taken to increase the yield of cotton in this country which is still very poor, to the level of the world average, it will only lead to further hardships. Adoption of modern methods of production and plant protection should necessarily be helpful in the direction of getting adequate and assured supplies of cotton.

High Excise Duty and Controls

Unfortunately, the mill industry is being meted out a stepmotherly treatment as against the powerlooms and handlooms. Very high rates of excise duties are payable on mill cloth, especially on fine and superfine varieties. Against this, from the very beginning, the powerloom sector has been granted concessional rates of excise duty by the Government. And even these concessional rates have been drastically reduced in the 1965 budget with the result that the duty paid by the mills today is almost a hundred times as much as the duty payable by the powerloom units of up to 49 looms. This discrimination would naturally lead to the inevitable result of drastically cutting down the competitive capacity of the mill industry with the powerloom sector.

Besides, only the mill made cloth has been brought under the purview of production and price controls while powerlooms and handlooms have been enjoying the facility of being absolutely free from these controls. The mill industry has to struggle hard between its increasingly mounting cost and the fixed controlled prices with the result that its profitability is being continuously squeezed out and it will be no wonder if a time comes in the near future when a number of mills will find it unprofitable to continue to work.

As a matter of fact, it is very necessary for the Government to help this industry, which is the third largest earner of foreign exchange for the country through its exports, by allowing it to earn sufficiently with a view to be able to finance adequately its continuous requirements of rehabilitation and modernisation with the help of its own resources and this can be done only if the industry is freed from the rigours of all controls. Ultimately, only higher production would help the consumer to get his requirements at reasonable prices and the industry to function in a smooth manner. Controls act as a deterrent to higher production.

Low Priority

Next to food, cloth is the most essential need of the people and high priority should therefore be assigned to this industry. Unfortunately, however, continued low priority is given to the cotton mill industry. The industry has been denied, inspite of repeated representations, the 10% rebate of tax conceded to certain other industries which occupy an important place in our economy, according to the Finance Minister. It is beyond comprehension as to why this essential industry should not also be treated as occupying an important place in the economy of the country.

Besides, this industry has been relegated to the ranks of those industries which will be eligible to get the benefit of only 15% Development Rebate consequent on the standard rate of Development Rebate having been cut down from 20 to 15% in the last budget. As a matter of fact, this important industry should have been grouped together with certain other specified industries in whose cases the rate of Development Rebate has been enhanced from the present 20 to 25% with effect from 1st April, 1965.

Levy of 10 Per Cent Duty

Added to all the adverse factors mentioned above, the recent levy of 10 per cent regulatory duty on imports will very much affect the working of the mills. It will considerably raise the cost of machinery required for modernisation and expansion, foreign cotton, stores, colours and chemicals. As it is, the Textile Industry has been facing severe competition in export markets owing to high prices of cotton which have been ruling above the world parity and the very high cost of labour, machinery and other materials. Cheap and sustained supplies of cotton and the availability of modern machinery at reasonable prices, among other factors, only can help the industry to successfully compete in the foreign markets. The new additional import duty, however, it is feared, will rule out all the chances for the industry to gain the competitive strength in the world markets.

The sudden impost of this additional levy has resulted in considerable losses in the sales made in the foreign markets. The compensatory benefits that would accrue to the exporting mills on account of import incentives had been duly taken into account while effecting sales for exports at highly sacrificial prices. The payment of extra 10 per cent duties on the imported material against the import incentives earned through these exports have upset all the original calculations and have ultimately turned the marginal profits into losses.

This drastic measure is also self-defeating inasmuch as the Government is otherwise intent on taking suitable measures to check inflation and to bring down prices while the added levy can only result in increasing the cost all round. I only hope the Government will repeal it at the earliest opportunity.

Drawbacks

The Government is intent on boosting the exports and is making all efforts by introducing several Export Promotion Schemes. It is, however, necessary to see that the exporters are enabled to cash the compensatory benefits without undue delay. The procedure of fixing up the quantum of draw-back rates has been made so very rigid and complicated that inordinate delay is caused in enabling the manufacturer exporters to obtain their dues which in some cases are pending since 1963. Effective steps should, therefore, be taken by the Government to remove these handicaps for the exporters.

Stock Accumulations

The recent steep increase in the bank rate has resulted in making the industrial borrowings very costly. Cloth and yarn markets have become dull and there have been heavy accumulations of stocks with the mills owing to considerably reduced offtake following the acute stringency in the money market consequent on the curbs on credit.

As against the stock of 209,800 bales of cloth at the end of February, 1964, there was a stock of as many as 381,000 bales at the end of April. The yarn stock was 85,900 bales at the end of February, 1964, and it increased to 149,100 bales at the end of April.

Bonus

In response to the Appeal made by the Chief Minister of Maharashtra, bonus was paid on account for the year 1963 in October, 1964, calculated at the rate of 4 per cent of the consolidated wages pending final adjustment in this behalf at a later date. The payment of minimum bonus of 4 per cent of the consolidated wages in the bonus formula as suggested by the Bonus Commission and accepted by the Government, even in cases where the establishments do not make any profit or even incur losses, was opposed by the employers' representatives as it is tantamount to a straight increase in wages.

Besides, the minimum of 4 per cent of the consolidated wages in fact works out to over 10 per cent of the basic wages which formed the basis of payment hitherto. It is beyond all canons of justice to force such excessive obligatory payments on companies even when they have incurred losses and there is absolutely no justification for saddling the companies with additional losses especially when some of them may be suffering from continuous losses for a number of years and may only be struggling for survival. Such arbitrary imposition of payment of bonus is even beyond the terms of reference given to the Bonus Commission.

The provision for guaranteeing the existing benefits of bonus wherever they were higher than what is provided under the formula suggested by the Bonus Commission, resulting from the persistent representations on behalf of the labour is also not fair to the employers and it will only create a number of complications and industrial disputes with the result that the very purpose for which the Bonus Commission was appointed will hardly be served.

In this context, the reported objections raised by the Law Ministry on these two important features of the bonus formulas were highly significant. The Law Ministry was reported to have pointed out that the provision for the payment of a minimum bonus ran counter to the provisions of the Constitution relating to fundamental rights and the provision guaranteeing existing benefits would be discriminatory.

Inspite of these and the most reasonable pleas of the employers' organisations to make realistic modifications, the Government ultimately chose to promulgate an ordinance on the 31st of last month for payment of bonus including the above benefits and thus the Parliament and the public have been presented with a *fait accompli*, no scope being left to them to have a free and frank discussion on a vital economic issue like this.

Restrictive Policy

I have referred to the continuously mounting cost of wages, social benefits and fringe benefits to workers. Cotton prices are going up every year as also of stores, colours and chemicals. In the background of these unceasing and relentless increases all round the fresh levies like the Bombay Municipal Octroi, the proposed exorbitant rates of inspection fees made payable compulsorily by mills on all cloth produced by them, with effect from March 1965, etc may only prove the last straw on the camel's back and it is, therefore, essential to cry a halt to all these factors leading to increased cost and the levy of fresh imposts day after day. I am constrained to say that this industry is being treated like the proverbial milch cow and if the powers-that-be do not take the remedial measures in time, they will soon kill the hen that lays the golden eggs.

As you all know money market at the present is very tight and credit for trading is not readily available. The object behind the policy of a curb on credits was perhaps to reduce the holding power of traders with a view to bringing down the prices. It is, however, apprehended that such stringency in the money market instead of helping to bring down the prices, would tend to affect adversely the production in the mills and also to increase the production costs for obvious reasons.

It is apparent that the Government is increasingly spending huge sums of money on defence and planned programmes of development thereby putting larger and larger amounts of money in circulation. Retardation of production of consumer goods at the same time due to ill-conceived restrictive policies, will only serve to further aggravate the scarcity of essential goods like cotton fabrics on the one hand and intensify the pressure of inflation on the other.

The absence of any provision for more flexibility in the fixation of cotton cloth prices has been also a great deterrent factor. If no latitude is allowed to the cotton textile industry to make adjustment in prices of controlled cloth varieties to recover the rising cost of production and raw materials, it is bound to have great adverse effects on the production of all cotton mills. In fact, due to the restrictive policy of the Government, mills are forced to produce inferior varieties of cloth for which there is rather limited market and restrict the production of better quality fabrics which are usually in great demand. As a result, the stocks of inferior varieties of cloth are mounting up. These are the reverse of what controls were designed to achieve.

I, therefore, fervently hope that the Government will take a more realistic view of the serious situation in which the mills are now placed and will relax the present restrictions, which I am sure, would have the effect of encouraging production, particularly of quality goods, and thereby bringing prices down to a reasonable level.

Other Adverse Conditions

On account of acute shortage of water, processing works are being hampered very badly.

It is regrettable that in addition to the various handicaps under which the industry is working, we have been asked to curtail our production by about 16% owing to power shortage. This will mean closure of oud mills once a week apart from the usual holidays. It is inconceivable that in this modern world, we are forced to cut out production due to shortage of electricity.

Leather Cloth Division

Inspite of our difficulties in securing adequate quantities of basic raw materials, we have been able to increase our production of Leather Cloth by about 70%. Owing to the restrictions on the import licences, indigenous raw materials had to be used in increased quantities at more than double the prices of the imported stuff which has adversely affected the earning capacity of this Division.

Modernisation and Renovation

During the period under review, the implementation of the Company's modernisation programme has proceeded apace by the installation of new machinery valued at Rs 10.65 lacs. Further orders for new machinery costing Rs 12½ lacs have already been placed and some of them are due to be received in the current year.

In the Finishing Section, the Company has placed order for a Shrinking Range with Felt Calender which will enable the Company to cater to the market requirements of particular types of finishes which are very much in demand. The Company has now also provided for the finishing of Tery-cotton fabrics and special equipment for finishing and dyeing of these fabrics which was ordered earlier is now under installation.

Note This does not purport to be a record of the proceedings of the Annual General Meeting.

Foreign Trade Of India

Principle Sources of Imports in 1964-65

(*Rs crores*)

	1964-65	1963-64	1962-63	1961-62
African Countries	**65.75**	**50.77**		
Congo	2.05	1.26	2.09	1.45
Kenya	7.43	3.41	5.66	11.68
Mozambique	10.79	8.06	5.34	5.69
Rhodesia	1.16	2.42	2.61	3.83
Sudan	9.01	8.52	17.11	10.56
Tanganyika	6.73	4.99	5.64	2.47
Tunisia	1.62	1.00	0.61	0.64
Uganda	2.20	0.80	1.30	1.60
United Arab Republic	17.35	15.25	9.78	12.04
Zambia	3.25	0.86	2.56	9.44
North America	**462.66**	**473.94**		
Canada	26.52	23.97	14.70	18.35
United States of America	436.14	449.97	315.26	255.54
Latin American Countries	**4.69**	**1.27**		
Peru	3.31	0.24	0.12	0.08
Other American Countries	**0.07**	**0.36**		
E C A F E Countries	**196.17**	**189.18**		
Afghanistan	5.56	4.97	5.26	1.82
Australia	24.49	17.92	22.86	24.17
Burma	8.76	8.45	8.71	11.24
Ceylon	5.65	5.93	8.18	4.50
Indonesia	2.66	1.69	1.37	1.78
Iran	28.81	47.99	45.88	47.35
Japan	77.33	65.87	62.75	59.45
Malaysia	14.26	17.43		
Nepal	7.21	5.39	0.02	0.03
Pakistan	15.75	9.35	16.67	13.86
Thailand	2.81	0.84	0.95	2.04
Other Asian and Oceanic Countries	**23.30**	**32.03**		
Aden	1.94	2.20	2.00	2.48
Bahrein Islands	2.45	5.11	5.06	4.35
Iraq	3.01	1.63	2.01	2.33
Saudi Arabia	13.46	21.18	11.72	18.91
East European Countries	**143.86**	**129.26**		
Bulgaria	2.41	3.74	2.33	0.96
Czechoslovakia	19.84	17.33	19.71	15.02
German Democratic Republic	8.92	9.80	7.94	5.64
Hungary	6.90	6.65	2.91	5.61
Poland	15.09	10.54	7.84	9.16
Rumania	1.77	1.82	2.61	3.83
U S S R	77.98	68.46	55.50	39.94
Yugoslavia	10.95	10.89	7.35	7.46
E C M Countries	**169.36**	**141.01**		
Belgium	8.69	7.98	8.30	11.86
France	16.70	14.42	12.99	16.78
Federal Republic of Germany	108.69	90.46	96.48	122.88
Italy	21.70	17.42	21.81	26.33
Netherlands	13.58	10.74	12.84	13.25
European Free Trade Area Countries	**192.88**	**202.19**		
Austria	3.62	3.39	2.85	6.41
Denmark	2.40	2.11	2.28	1.85
Sweden	11.18	11.81	8.40	14.34
Switzerland	11.65	12.07	10.23	10.75
United Kingdom	162.11	171.46	178.31	200.15

Notes : Sub-totals of imports from different groups of countries are not available from official statistics for years prior to 1963-64. All groups of countries indicated in the latest official statistics have been included in the above table; the figures for them are printed in bold type. However, only those countries are shown separately, the value of imports from whom in 1964-65 was at least Rs 1 crore.

Source : Department of Commercial Intelligence and Statistics, Government of India, Calcutta.

Principal Imports in 1964-65

	1964-65	1963-64	1962-63	1961-62
Food	**248.48**	**214.40**	**152.33**	**147.07**
Milk and cream	6.67	8.54	8.14	8.43
Butter	3.55	0.53	...	...
Fish	3.34	5.48	6.15	3.85
Wheat and spelt	175.53	134.84	91.86	93.87
Rice	26.12	37.50	21.26	18.73
Maize	2.64	2.94	1.92	3.09
Cereals, milled, except wheat flour	3.33	3.34	1.52	0.44
Fruits and nuts, fresh	19.53	15.43	13.82	10.15
Dried fruits	6.00	2.91	4.13	4.15
Beverages and tobacco	**0.77**	**1.11**	**1.66**	**1.65**
Crude Materials, inedible, except fuels	**125.07**	**124.45**	**126.70**	**129.89**
Hides and skins	3.12	3.36	2.76	2.24
Oilseeds, oil nuts and kernels	7.04	9.16	10.01	9.43
Crude rubber, including synthetic and reclaimed	5.43	9.75	10.23	10.10
Wood	1.55	2.04	2.19	2.28
Pulp and waste paper	7.97	9.65	9.51	6.69
Wool and other animal hair	9.64	15.72	12.15	12.18
Cotton	58.08	48.84	59.91	62.66
Jute	7.37	2.06	3.35	6.27
Vegetable fibres, except cotton and jute	1.41	1.47	1.02	1.24
Synthetic fibres	2.66	3.46	1.67	0.28
Fertilisers, crude	3.90	3.12	2.98	2.74
Crude minerals, excluding coal, petroleum, fertiliser materials and precious stones	11.80	10.16	9.01	7.86
Non-ferrous metal scrap	1.27	0.68	0.68	1.31
Crude vegetable materials	2.05	1.64	1.84	2.12
Mineral fuels, lubricants and related materials	**68.66**	**104.49**	**87.98**	**95.86**
Petroleum, crude and partly refined	27.23	46.17	30.15	42.36
Petroleum products	41.33	50.22	57.51	53.29
Animal and vegetable oils and fats	**5.62**	**4.87**	**5.63**	**8.62**
Vegetable oils	4.80	4.20	3.96	5.42
Chemicals	**90.75**	**95.88**	**100.41**	**89.76**
Inorganic chemicals	13.96	13.07	16.68	13.20
Organic chemicals	20.80	19.04	21.11	22.40
Coal-tar dyestuffs and natural indigo	5.23	5.26	8.92	11.18
Dyeing and tanning extracts and synthetic tanning materials	2.74	1.57	1.75	1.44
Pigments, paints, varnishes and related materials	1.28	1.21	1.49	1.84
Medicinal and pharmaceutical products	8.27	8.64	9.24	11.30
Fertilisers manufactured	25.38	34.52	27.26	12.22
Explosives	1.40	2.18	2.46	2.61
Miscellaneous chemical materials	10.59	9.52	10.50	12.14
Manufactured goods	**221.81**	**200.41**	**198.48**	**221.16**
Rubber manufactures, n e s	1.17	1.75	1.54	3.35
Paper and paper board	12.85	12.25	13.06	15.59
Textile yarn and thread	12.78	10.70	13.06	13.26
Special textile fabrics	1.68	1.72	1.60	1.49
Made-up articles, wholly or chiefly of textile materials	1.08	0.57	...	0.34
Clay construction materials and refractory construction materials	2.45	0.99	1.46	2.73
Mineral manufactures, n e s	3.04	2.59	2.13	3.31
Precious and semi-precious stones	1.64	1.72	1.92	1.22
Iron and steel	107.35	93.14	86.65	107.81
Copper	24.41	26.04	25.24	23.45

Principal Imports in 1964-65

	1964-65	1963-64	1962-63	1961-62
Nickel	1.54	1.81	1.44	1.46
Aluminium	7.24	6.46	10.50	7.93
Lead	4.62	3.35	2.69	2.59
Zinc	11.29	9.86	9.02	7.35
Tin	7.90	6.42	5.10	5.78
Miscellaneous base metals	1.30	1.11	1.01	0.80
Manufactures of metals, n e s	16.23	14.81	17.77	16.74
Machinery and transport equipment	**472.68**	**436.93**	**372.38**	**367.52**
Power generating machinery	43.78	38.83	42.75	30.49
Agricultural machinery and implements	2.01	1.46	1.07	0.68
Tractors other than steam	7.13	5.26	4.62	4.91
Office machinery	4.11	1.86	1.65	3.66
Metal working machinery	59.34	52.81	39.39	45.19
Mining, construction and other industrial machinery	199.94	180.90	157.66	151.82
Electric machinery, apparatus and appliances	88.77	84.80	62.16	65.91
Railway vehicles	22.15	27.17	22.58	15.50
Aircraft	8.52	11.51	12.47	12.97
Ships and boats	3.36	3.68	1.78	1.86
Miscellaneous Manufactured articles	**22.10**	**33.54**	**2501**	**21.69**
Scientific, medical, optical, measuring and controlling instruments	9.70	8.11	7.78	8.22
Photographic and cinematographic supplies	4.21	3.92	4.04	4.09
Printed matter	4.07	3.38	2.92	2.90
Manufactured articles, n e s	2.67	16.57	8.19	3.79
Miscellaneous transactions and commodities' n e s	**6.18**	**6.70**	**6.51**	**6.84**
Postal packages, not classified	2.69	2.36	2.64	2.47
Returned goods and special transactions	3.40	3.77	3.68	3.36
GRAND TOTAL	**1263.31**	**1222.85**	**1077.09**	**1090.06**

Note : All sections indicated in the official classification of imports are included in the above table and are printed in bold type. However, only those groups of commodities have been included whose imports in 1964-65 were at least Rs. 1 crore. N e s stands for 'not elsewhere stated'. Two dots (..) denote imports less than Rs. 1 lakh.

Source : Department of Commercial Intelligence and Statistics, Government of India, Calcutta.

BANKING RETURNS

(*Rs crores*)

Reserve Bank	June 11	June 4	May 14	June 5, 64
1 Note circulation	2734.39	2748.45	2784.22	2576.73
2 Rupee Coins	91.35	91.62	92.39	98.25
3 Deposits				
(a) Central Govt	75.11	73.28	51.78	50.63
(b) Other Govts	14.16	13.10	18.20	9.09
(c) Banks	98.73	93.47	104.13	89.94
(d) Others	170.47	171.15	178.37	158.86
4 Foreign securities	70.00	70.00	72.46	98.45
5 Balance abroad	2.67	3.53	8.78	10.48
6 Rupee securities	2458.07	2453.07	2485.61	2262.26
7 Investments	158.47	162.97	139.10	215.39
8 Loans and advances to Govts	97.25	91.61	74.86	63.17
9 Other Loans and advances	233.67	231.11	284.89	154.99

Scheduled Banks	June 4	May 28	May 7	June 5, 64
1 Aggregate Deposits (net)	2660.79	2667.35	2626.35	2341.60
Demand (net)	1321.02	1331.74	1309.46	1140.18
Time (net)	1459.69	1455.74	1434.51	1290.48
2 Cash in hand	71.76	70.76	69.12	64.13
3 Balances with the Reserve Bank	91.80	98.85	96.57	87.39
4 (2)×(3) as % of (1)	6.15	6.36	6.31	6.47
5 Borrowings from Reserve Bank	106.39	103.01	161.15	36.28
(a) Against usance bills and/or promissory notes	46.48	45.56	60.61	7.78
(b) Others	59.91	57.45	100.54	28.50
6 Advances	1786.96	1766.84	1780.43	1566.03
(a) State Bank	...	...	...	...
(b) Others	...	...	...	...
7 Bills discounted				
(a) Inland	259.56	275.22	281.14	203.10
(b) Foreign	75.88	76.69	76.96	68.45
(c) Total	335.44	351.91	358.10	271.45
(i) State Bank				
(ii) Others				
8 (6)×(7) as % of (1)	78.67	78.62	80.46	77.89
9 Investment in Govt Securities	721.85	721.45	718.30	620.56
10 (9) as % of (1)	27.13	27.05	27.35	26.50

INDEX NUMBER OF WHOLESALE PRICES

(*Base : 1952-53=100*)

Group and sub-group	MONTHLY AVERAGE		
	May 1965	April 1965	May 1964
Food Articles	*159.8*	*156.3*	*147.8*
Cereals	136.8	139.5	126.8
Pulses	153.4	154.2	135.8
Fruits & Vegetables	172.9	157.6	173.8
Milk & Ghee	163.6	154.1	138.7
Edible Oils	198.5	195.2	174.3
Fish, Eggs & Meat	188.3	185.3	156.6
Sugar & Gur	159.6	160.3	183.6
Others	185.1	175.3	178.0
Liquor & Tobacco	**138.6**	*138.6*	*122.5*
Tobacco	136.6	136.6	119.7
Fuel, Power, Light and Lubricants	*145.7*	*146.4*	*142.7*
Industrial Raw Materials	*174.2*	*169.9*	*149.7*
Fibres	159.0	152.2	135.6
Oilseeds	209.5	205.5	175.5
Minerals	129.3	129.3	103.2
Others	139.6	138.8	130.8
Manufactures	*144.0*	*142.7*	*233.1*
Intermediate Products	*159.8*	*157.9*	*146.2*
Finished Products	*141.3*	*140.2*	*131.0*
Textiles	140.7	139.3	127.9
Cotton Manufactures	138.4	138.8	135.7
Jute Manufactures	144.1	137.3	98.9
Woollen „	170.3	170.3	166.2
Silk & Rayon „	140.1	139.9	141.9
Metal Products	178.9	178.9	168.1
Chemicals	124.4	124.5	119.3
Oil Cakes	212.5	208.5	184.1
Machinery and Transport Equipment	133.4	132.6	**126.1**
Others	126.4	126.8	**127.5**
All Commodities	*156.1*	*153.8*	*14.13*

E.I.D.-PARRY IN THE FIELD

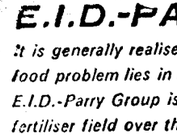
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THE ECONOMIC WEEKLY

JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

ALGERIAN REVOLUTION'S LAST HERO GOES

PROFITS OF FOREIGN COMPANIES

PERSONALITY FACTOR IN LOCAL ELECTIONS

CROSSCURRENTS IN TAMILNAD

VOLUME XVII NO 26 JUNE 26, 1965 SEVENTY-FIVE PAISE

THE CHANGING

Kulti. Neighbour to a steel town. Precursor of a proud tradition. It all really began at Kulti way back in 1870. Here was the oldest successful unit in India producing pig iron by modern methods. With production upgraded at Burnpur the blast furnaces closed down in 1958. But obsolescence never overtook Kulti. Its integrated iron, steel and non-ferrous castings foundry is still one of the largest in the East—the spun pipe foundry one of the best. Kulti's present consumption of pig iron exceeds 20% of that for the whole of India; it can, in fact, take in more, if available.

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Algeria without Heroes

THE night was not kindly, and Achmed Ben Bella's removal was not brought about with any particular gentleness. With the Afro-Asian Conference barely a week away, it was an embarrassing moment to undertake the coup. But Houri Boumedienne did not wait for the passing of the prestigious Conference before striking. One possible interpretation is that he was apprehensive that Ben Bella might use the Afro-Asian Conference to strengthen his domestic position. Other conjectures are equally in order. For example, last week's putsch could have been organised to forestall a rapprochement between Ait Ahmed, languishing in prison, and Ben Bella, or simply because Boumedienne was exasperated by Ben Bella's consistent down-playing of domestic interests and obsession with winning friends and influence abroad. The deadly game of capturing power in a one-party State ends with the winner taking all, and therefore even history from now on will tend to follow closely Houri Boumedienne's version of this murky affair. The rest will be oblique inferences and dark innuendoes.

What fills one with awe — and also a little bit of sadness — is the abruptness with which Ben Bella was dethroned. True, the denouement was somewhat less distasteful than a typical Middle Eastern coup d'etat, with its invariable concomitant of a lot of bloodshed. But it did not quite resemble the quasi-civilised manner in which regimes are nowadays made to topple in socialist countries either. Even in the East European countries, when it is decided to do away with a leader, at least the Central Committee of the Party is called to make the formal decision: Boumedienne did not care to call in the Committee of the FIN, possibly because, even at this stage, his followers do not constitute the majority there. Once he decided that the brother President needed to be eliminated, he had the strength to move into action immediately, and could ignore the Central Committee. No doubt the Committee too is now being purged.

The Algerian coup leaves a bitter but significant lesson behind. Once a revolution is completed, the heroes do not really matter, and sooner or later the commissars take over. Ben Bella provided the charisma of the Revolution; his was the romantic image of the movement. But it was Boumedienne who rallied the peasants and the workers during the turbulent years of 1955-61, and hammered out the militia. While every revolution needs a hero, it also needs a leader; the respective attributes do not always coincide in the same individual. Achmed Ben Bella was the hero, but Boumedienne led and made the Revolution. He was the planner, the organiser, the builder of the army, and also the man who gave the movement a positive and coherent socio-economic content. The Army of National Liberation was from the beginning completely under his control; if anything, it is more so today. It is possible to infer that he has seen to it that by now the civil administration too is adequately infiltrated by his men. Ben Bella, the crowd-charmer, was thus, in the aftermath of the Revolution, in many respects the redundant head of the movement, somewhat without a profession, somewhat miscast. Unlike the other heroes of the Revolution, he nevertheless lingered, for Boumedienne still had need for him in the difficult early days following Independence. Conceivably, he also trusted Ben Bella a little bit more than he trusted the others: after all, Brother Ben Bella is from his own *wilaya* and comes from the same peasant stock.

It looked like an ideal diumvirate: Boumedienne was the quiet consolidator of the Revolution, re-organising agriculture, charting industrial growth, pacifying the countryside, and generally looking after domestic stability. Ben Bella, on the other hand, was the man with the aura of fame, whom the outside world could look at and admire, whom the intellectuals and the urban bourgeoisie could worship—the perfect romantic foil to the desiccated realism of the army chief.

Like all beautiful understandings, this one too did not last. Perhaps Boumedienne had come to suspect some latent bourgeois deviation in Ben

Bella; perhaps he reached the conclusion that, in the present phase, what Algeria needs is internal consolidation and not external adventure; or perhaps it was just a case of falling out of two antipodal personalities. Inevitably, we slide back into the realm of speculation.

The Algerian Revolution has thus been made to shed its last and most eminent hero. In the process, Afro-Asia has been dealt with a shock extremely severe in impact. As we go to press, it is still not quite clear whether the Afro-Asian Conference will be postponed or not. But for the confusion following the coup, Harold Wilson's desperate attempt to salvage his—and the Labour Government's—reputation through the device of the Commonwealth Peace Mission for Vietnam would have come to nought, for leaders of the Afro-Asian world, who were to have assembled at Algiers, would certainly have asserted themselves and taken over the initiative. If the Conference is now postponed, the Commonwealth Mission will inherit the opportunity. However, in the face of the violent reaction of Peking and Hanoi, the Mission can achieve little—what Anthony Eden could pull off in 1954 is beyond the capability of Wilson in 1965, a capability which has been hopelessly compromised by the Labour Government's all-out endorsement of President Johnson.

If the Afro-Asian Conference does not meet on June 29, it will thus mean that any effective proposal for concerted action to bring succour to the hapless Vietnamese will not yet have been put into concrete shape. This will be, in the short run, the most grievous external consequence of the coup which has toppled Ben Bella. But, provided Algeria does not deviate from the socio-economic goals of the Revolution, the really significant issues will soon sort themselves out. Last week's development in Algiers is a pity, but there is little reason to call it a calamity yet.

Prescriptions, Spurious and Dangerous

RAPID and frightening deterioration in balance of payments, an economy strained by shortages at many vital points and a defence build-up the burden of which is, if anything, likely to grow more crushing over the next few years— that is the economic reality that faces the country at the end of its first decade and a half of planning. A great deal of optimism is necessary at this moment to avoid dismal prognostications about planning and development.

Consider the balance of payments position. We are now virtually scraping the bottom of the foreign exchange barrel and have come to a stage when we have to borrow to repay earlier loans: three-fourths of the latest credit from the International Monetary Fund is being used to repay past loans from that institution. Some new non-project, untied loans may be forthcoming, following fresh agreements with our creditors, and with these it may be possible to stave off the worst for the moment. But this balancing act will have to come to an end sooner than later.

The foreign exchange crisis is remarkable for coming in the wake of a spectacular upward surge in exports. In the initial enthusiasm over the rise in exports, what was not realised, however, was that commodities exported did not mean foreign exchange earned. It is being realised only now that export earnings have lagged behind shipment of goods and that the lag is actually becoming longer. What has not been explained is why this was allowed to happen when the country has an elaborate system of exchange control. Present regulations require an exporter to surrender export proceeds within six months to the exchange control authorities. Apparently the Exchange Control Department has slipped up and badly. Occasional cases where the invoice value of exports declared at the time of shipment of goods is higher than the proceeds subsequently realised may be unavoidable, but when this becomes the rule one should expect that the Exchange Control Department and its master, the Finance Ministry, will act to locate the loophole in the system. Instead, the public has been treated to an endless and futile debate over the discrepancies between the Customs data on exports and the Exchange Control figures. The sprawling machinery of exchange control is apparently worse than useless since it cannot discharge its principal function.

The tragic part of the foreign exchange crisis it that it cannot be ascribed to an acceleration of the pace of economic development or to a change in its strategy. The 1958 crisis was sought to be explained as the result of a lapse in plan formulation which led to under-estimation of import needs. Are we now to be told that imports requirements have been under-estimated once again? And if after the experience of the Second Plan import needs were under-stated and the possible extent of import substitution exaggerated in the Third Plan, what value is one to attach to the estimates that are currently being made for the Fourth Plan? If the Planning Commission's "Memorandum" is any guide it is likely that all the mistakes will be repeated over again.

Turning to the domestic scene, the hollowness of glib phrases like 'development with defence'—suggesting that the two are complementary—has been adequately exposed. The experience of the last three years is enough to disillusion us about the contribution of defence to development. The defence build-up has meant, on the one hand, a diversion of a substantial part of the economy's real resources, including foreign exchange of course, from development uses and, on the other hand, an increase in money incomes which has left the Third Plan's precious commodity balances high and dry. The implications of defence spending are not going to be any different in the next Plan.

Coming to the means which are being suggested for lifting the economy out of the doldrums, it is obvious that the foreign exchange crisis, alarming though it is, cannot be cured by devaluation, however tempting this simple solution may seem. It is possible to draw the inference from black market rates that the rupee is overvalued, but it is not a general overvaluation in the sense in which one talks of the problem in the context of the advanced countries. And for the problems of such partial over-valuation—e g, in relation to exports of manufactures — there are effective enough solutions in export subsidies, in whatever form. The tax credits are waiting to be tried out properly and the import entitlement scheme is not beyond reform. There are other devices which combine the merits of selective devaluation and administrative simplicity.

The pressures that are currently being exerted on us do not stop with trying to impose spurious solutions to our balance of payments problem but extend to trying, with a measure of success, to thrust the domestic economy into a strait jacket by untenably linking the foreign exchange difficulties to internal

pressures. It may be true that we ourselves are quite aware of the lack of any such connection and that if we have accepted the euphemistically termed 'stabilisation programme' it is not out of any faith in the merits of the programme but because the high priests of the IMF would insist on nothing less before approving stand-by credits. Yet let us not kid ourselves that the price we are paying is negligible or small. The possibility of a further tightening of credit in the slack season has been held out by the Reserve Bank Governor even though the severe import restrictions and the credit squeeze have already begun to tell on industry and, besides hampering growth, have substantially raised unutilised capacity. During the worst years of agricultural stagnation in the Third Plan, industrial expansion maintained a steady rate, but this may not now continue.

All this needs pointing out, and particularly now when the Finance Ministry is frantically seeking a way out of the exchange crisis. For even the economic experts in the Ministry have apparently ceased to be 'growthmen' and become 'stabilisers'. The danger of this change in attitudes is that we may lose growth in the long run without in the short run achieving stabilisation. The experience of so many countries which have undertaken stabilisation programmes at the behest of the Fund is ominious enough for India.

Weekly Notes

Spinning Out the Soul of India

BOTH Government and industry seem to be getting down to brass tacks in tackling the problems of cotton mills and cloth export. The Indian Cotton Mills Federation has earmarked Rs 15 lakhs for a project to improve cotton farming practices. This is a small beginning for an industry established more than a hundred years ago but it is, nevertheless, a worthwhile direct effort. So far the industry was content to pay an annual cess levied for the benefit of the Indian Central Cotton Committee, the continued existence of which as a separate entity is doubtful. The Committee did useful work but in a very limited field, namely the introduction of new varieties and longer staples; it did not or could not pay much attention to improvement of crop yields or the large-scale adoption of better practices. Such mundane activities have passed under the all-embracing umbrella of community development and national extension but no tangible results have emerged. In the meanwhile, raw cotton remains scarce and costs 20 to 40 per cent more than in other countries; the advantage which our industry had in international markets has been lost. Consequently, there is an annual foreign exchange drain of Rs 60 crores for raw cotton imports, which has turned the industry into a net spender of foreign exchange.

There is a strong case for improving the materials and equipment base of the industry, a relatively small investment which can earn high and quick returns. The plea made by Ramnath Podar, Chairman of the Federation, for better maintenance of machinery and training of supervisors is unexceptionable, though similar pleas have been made sporadically at annual gatherings since the twenties. What one does not appreciate equally is Podar's placement of the industrial soul of India in cotton and jute textiles, just as the industrial souls of USA, Switzerland, Germany and Japan are to be found, in his opinion, in automobiles, watches, steel and chemicals, and electronics, respectively. This metaphysics is not really necessary in the course of arguing for tax concessions on a high priority basis. As running and well established concerns, cotton mills get the maximum benefit from existing tax concessions while new enterprises in new industries do not make sufficient profits to avail themselves fully of them.

The domestic manufacturers of textile machinery, some of whom belong to groups which themselves have a large interest in cotton mills, are presenting mills with leaves out of their own book. Machinery is defective (for which allowance can be made up to a point); models are out of date, after-sales service is inadequate and "the scant respect paid to grievances gives rise to a feeling of despair rather than anger", mainly because order books are full for the next two years. In a slightly different context, one hears rather similar complaints about the quality of cloth sold by many of our mills. If the soul itself is weak, how can one blame the flesh?

From the Government, there is another useful Joshi report, which unreservedly accepts the need for modernisation (which was quite unthinkable ten years back) and goes further to stress the need for training workers to handle modern equipment (and, inevitably, setting up training institutes). The Committee has found that at present only 48 mills are equipped to produce quality goods for export but another 108 out of the total of 287 composite units could be added to this number. There is unfulfilled demand abroad for poplins, shirtings, dress materials in piece-lengths longer than normally supplied by mills, widths of over 60 inches, and pre-shrunk cloth for ready-made garments. To meet this demand at competitive prices, the Committee feels that there should be a few mills with completely modern equipment from blow-room to finishing and devoting most of their output to exports. This idea was put forward earlier in embryo form—for mills of a relatively small size—in the first Joshi report on modernisation in 1958. The economics of such mills (leave aside Bombay Dyeing, the giant established way back in the 1870's, which exports nearly 70 per cent of its output) has never been fully investigated, let alone established. If that had been done, one would have expected the Industrial Finance Corporation to have sanctioned some assistance for a project of this nature; one doubts if it has received any such proposal. The investment in fixed assets and in creating a new sales organisation abroad involved in a new enterprise will be enormous. Only the existing mills can undertake a task of this magnitude and that, too, over a period of time. It is better to concentrate on the installation of wider-width automatic looms (which have to be imported), standardisation of export qualities, manufacture of longer pieces and cloth pre-shrunk by native processes which are being widely adopted as the 'sanforized' trade mark registration is about to expire.

Oil Imports and Exchange Waste

AN excellent case for replacing imports of petroleum products through the Western oil companies with imports from the rupee payment area—mainly the Soviet Union—existed long before the present foreign ex-

change crisis forced the Government of India to take the step in March this year. Liberal supplies of the particular products we need — high speed diesel, kerosene and fuel oil — have been available against payment in rupees ever since the Soviet Union emerged as a major petroleum seller to the non-communist world. And while it may not have arrived at today's crisis point, India's foreign exchange position during these years has never been too comfortable to make the prospect of saving some fifty crores of rupees of free foreign exchange not worth bothering about. Payment in rupees apart, the comparative prices of oil from western sources and from the Soviet Union alone should have been reason enough to maximise imports from the latter. An idea of the price differential can be had from the fact that last year in terms of quantity 17 per cent of our imports of kerosene came from the rupee payment area, but the cost of these imports was only 10 per cent of the total cost of all kerosene imports into the country. In the case of lubricating oils, again, imports from the rupee payment area were 15 per cent of total in terms of quantity but only 11 per cent in terms of value.

What economic wisdom had suggested for years economic necessity finally forced the Government to accept and from the beginning of the current financial year import of kerosene, high speed diesel and fuel oil through the private oil companies has been stopped and import from the Soviet Union stepped up. The oil companies have, predictably, refused to distribute Soviet oil, ostensibly on the ground that in principle they could not handle oil which was "politically priced" but really to exploit the situation created by the public sector's lack of storage and distribution facilities. With the limited facilities that Indian Oil, the public sector refining and distributing company, has been able to build up, cessation of imports through the private companies and hence curtailment of distribution through their outlets was bound to dislocate movement of supplies and create scarcities in many parts of the country. But the oil companies have not depended entirely on the inadequacies of Indian Oil to create the scarcities which they hoped would force the Government to resume imports through them. They have sought to aggravate the scarcities by holding up the normal distribution of the output of their refineries in this country. The Oil Minister has affirmed this and a press note issued by the Ministry reveals that "after a study of the movement of kerosene and HSD from the coastal refineries to different parts of India, it was found that in recent months there has been a significant decline in the volume of these movements" and that "evidence has come to the Ministry that some companies have been deliberately restricting their normal supplies to dealers and agents although adequate stocks were available". The evidence finally compelled the Government to take powers under the Defence of India Rules to regulate distribution of the output of private refineries.

The Government has, however, still to find an answer to the problem of distributing oil imported from the rupee payment area. Burmah Oil has offered to distribute these products in Assam and other parts of the eastern region, but the other companies have stuck to their conscientious objections. That these objections can be overcome with appropriate pressure is proved by the BOC's offer. Even Esso has agreed to process crude oil imported from the Soviet Union in a refinery set up by it in Italy in collaboration with ENI. The Government need not, therefore, regard the companies' 'no' as final. Given sufficient firmness it can avoid the considerable national waste involved in the oil companies' storage and distribution facilities lying partially idle while Indian Oil struggles to create new parallel facilities.

The response of the oil companies to the decision to step up import of oil products from the Soviet Union holds an important lesson. Some at least of the refineries proposed to be set up in future will be established in collaboration with western oil companies on the model of the Cochin refinery. At Cochin while the agreement with Philips Petroleum is more favourable to us than those under which the existing private refineries operate, even Philips has been given the right to import all the crude for the refinery from sources of its own choice. If other future collaborators are given the same right it would mean tying the country down to crude imports from sources over which the Government has no control and which have to be paid for in foreign exchange and generally at higher prices than from other sources. Just now, for instance, however grave the foreign exchange situation the Government has to find some thirty to forty crores of rupees worth of exchange annually for imports of crude oil for the private refineries. It is imperative therefore that in the new refineries to be set up the Government must retain control over crude supplies. While this would very considerably reduce the attractions of participation to the private companies, they can be persuaded to accept it as a last resort as the example of the Esso-ENI refinery in Italy shows.

Legalisation of Abortion

LAST week, while delivering the convocation address at the Demographic Training and Research Centre, Bombay, the Union Education Minister perhaps surprised his audience by his firm assertion that "although I am aware that not many in this audience will agree with me, I am entirely in favour of legalising abortion". In support of his view Chagla cited the remarkable success achieved by Japan in the form of an almost 50 per cent reduction in the birth rate during 1949-1957.

Actually, the issue of legalising abortion has been a subject of considerable discussion during the past year or so. At its meeting in Bombay in August 1964, the Central Family Planning Board had set up a committee to study the question of liberalising the abortion law as a measure to promote family planning. (The Committee is yet to submit its report.) Earlier, in June 1964, the Union Health Minister had stated in the Rajya Sabha that although she was against legalising abortions entirely, "there are certain cases where it becomes very difficult to decide what is moral and what is immoral". There has also been a seminar in New Delhi to examine the pros and cons of this complex issue.

It is most unfortunate that on this very important and controversial subject, the facts are not very widely known. Abortion is legalised not only in Japan, but, *de facto*, also in Sweden, Denmark, Finland and Switzerland, and, *de jure*, in U S S R, Bulgaria, Poland, Hungary, Rumania, Yugoslavia and Czechoslovakia. Also, abortion has been just as important in Eastern Europe as in Japan in regard to its contribution to lowering the rate of live births. Each of these countries has prescribed certain conditions for permitting abortions. While these conditions and their observance in practice vary from country to country, the very diversity of the situation promises to hold useful lessons for a country like India in its search to formulate a reasonable policy regarding abortion.

It is well known that an abortion under proper hygienic conditions and adequate medical care is not a hazard to health. Mortality among women undergoing abortion in countries of Eastern Europe is substantially lower than that normally associated with reproduction and that observed in a country like Denmark or Sweden with *de facto* legalised abortion. The serious limitation imposed by the limited number of well trained medical practitioners in India can probably be met by specifying that legal abortion can be had only in certain institutions or in certain areas with adequate medical personnel. Some screening committees, including doctors as well as social workers, can also be appointed to scrutinize the applications for abortion. Further, as is the case in some countries of Eastern Europe, abortion can be forbidden if the applicant had undergone an induced abortion during a specified period prior to the present application.

The moral repugnance to abortion as a part of the family planning programme is largely irrational and needs to be overcome in view of the serious implications of unwanted additions to the family for the mental as well as physical health and welfare of the parents and other children. The Union Education Minister's strong support for legalizing abortion is a happy augury for rational thinking on the subject. It is to be hoped that careful studies of the incidence of spontaneous and induced abortion in India as well as in other countries will now be encouraged to provide the factual data essential for framing a proper policy on the subject.

Hope in Kutch

THE proposed joint declaration on the Kutch issue is expected any time between now and June 27 when Lal Bahadur Shastri returns to Delhi. Pakistan has conceded a return to the *status quo ante* as on January 1, 1965, and has ceased to insist that the Kutch problem can only be considered as part and parcel of the whole Indo-Pakistan border situation. India has agreed that the precise details of withdrawal of forces, of police patrolling and the setting up of posts shall be left unspecified until after the joint declaration.

The agreement between India and Pakistan amounts to a decision to return to the *status quo ante* without specifying what each country means by it. The British Government has apparently managed to whittle down the area of disagreement between India and Pakistan to points of detail. It is reported that India has made it clear that Pakistan may not have any standing post at Kanjarkot or anywhere else in Indian territory; she is, however, willing to let Pakistani police patrol the Ding-Kanjarkot-Surai track.

So far, so good. But what is to be made of reports that India is willing to abandon her posts in her own territory, including those at Sardar (two miles south of the boundary), Vigokot (few miles south of the boundary), and Karimsahi? Does a return to the *status quo ante* mean that Indian territory near a crucial international boundary should be left unpatrolled and open to incursions? Of course, in any international agreement there has to be a certain amount of give and take. In the present case, Pakistan has agreed not to link the Kutch issue with Kashmir. (However, since she has lost her platform at the Afro-Asian conference in Algiers, where she had threatened to air her grievance, Pakistan's capitulation on this point is not surprising.) In return, India has agreed to leave parts of her territory virtually unpoliced. Will Pakistan take this as a sign of weakness?

Assuming that the two countries don't get bogged down in the details of implementation, what can we hope for the future? That each issue at stake will be discussed separately without having to bring up all problems simultaneously; that India and Pakistan will honour an international boundary agreement; and that the two countries will move a fraction closer to some kind of understanding.

AIR Musical Chairs

ON Sunday the-then acting Director-General of All-India Radio, Y N Verma, made the wholly welcome statement that less coverage would henceforth be given to Ministers' speeches in AIR's news bulletins; on Tuesday it was announced that V K Narayana Menon had been appointed Director-General. It is to be hoped that this was no more than a coincidence. A statement by the Director-General would hardly have been enough to reduce the importance given to Ministers' speeches, nor would such a step have improved the plight of the AIR much; but the very sentiment is so right and its utterance by an AIR man so unexpected, that we cannot help wishing it is not just a flash in the pan.

The publicity attracted by Verma's statement is a sorry indication of how little used we are to the idea of the AIR boldly making its own policy. The AIR is a colony of the Ministry of Information and Broadcasting, and susceptible to political interference from the Minister; further, it has, as an arm of the Government, become a potent source of patronage and hence subject to pressures from other Ministers and political interests. While it has undoubtedly fared better under Indira Gandhi, she has not shown, whether in Parliament or outside, the determination to protect the AIR against external pressures; nor do the new appointments betray any interest in making the AIR a professional organisation. And where Indira Gandhi has failed, lesser Ministers can hardly be expected to be effective.

The present status of the AIR is positively inimical to its fulfilment of the task of informing, educating and entertaining listerners. This is not to say that its transformation into a public corporation will remedy its mercenary quality and lack of imagination. The BBC is looked upon as a paragon of broadcasting in this country, but even the BBC had to drop "That Was the Week that Was", a weekly television programme of political satire, owing to political pressure last year. The introduction of private television nearly a decade ago and the allotment of a third TV channel last year were both hotly debated political issues in the U K which engendered some very messy lobbying.

Nevertheless, the BBC does not have to withhold or doctor news at political behest, and its day-to-day programmes are entirely its own business. And the cause of its independence is not merely its status or the public morals of British politicians. It also lies partly in the way the BBC gets and uses its personnel. No one apart from the Governor of the BBC is appointed by the Minister; all other appointments are made by the organisation itself, which thus affords an attractive career ladder to its personnel. A BBC man can rise all the way without having to please a Minister or a Secretary. Further, the BBC does not look to the Government for fresh personnel; it recruits directly from the press, the theatre, the arts and the universities.

The independence and vigour of BBC are not beyond the AIR. There is no inherent difficulty about turning it into an independent corporation; it can be made financialy independent by being given the control of radio licence fees or allowed to take adver-

tisements and it is a large enough organisation to provide its members a fulfilling career. But this is a far cry from the game of musical chairs we are now witnessing.

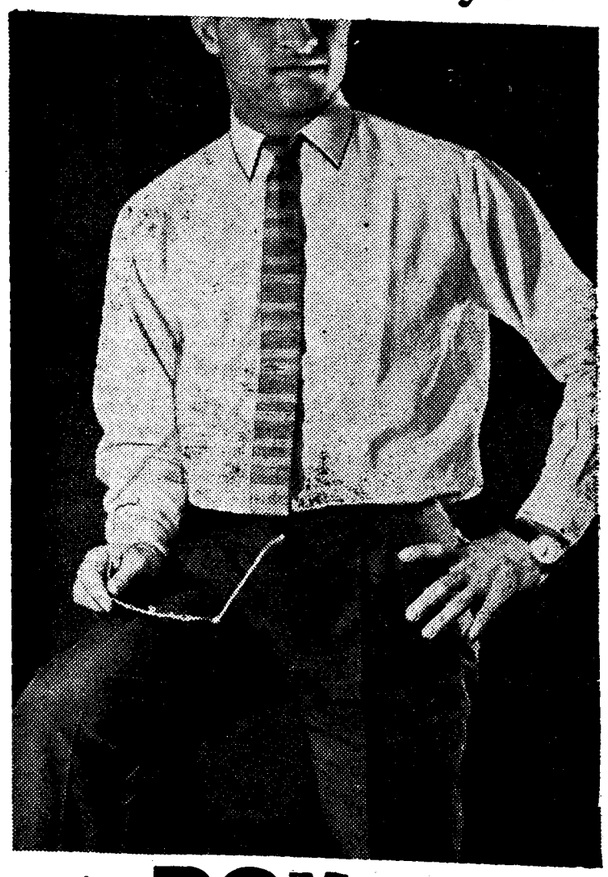
Yields Slightly Higher

THE terms of the two new Central loans for an aggregate amount of Rs 250 crores indicate that Government and the Reserve Bank have decided to keep the floor interest rate at 4.5 per cent. The 6-year 4.5 per cent issue offers a redemption yield of 4.58 per cent, which is slightly higher than the yield on comparable existing securities; the 25-year issue at 5.5 per cent is similarly more attractive than the 1989 loan. The downward adjustment required of the securities market is marginal. There has been no sudden jerking up of the structure of interest rates corresponding to the rise in bank rate from 4.5 per cent to 6 per cent, which would have involved a considerable depreciation in security prices. That the actual depreciation has been relatively small is mainly attributable to two reasons: banks have preferred to hold back their short-dated investments or to support their market prices instead of suffering a capital loss by outright sales; and the Reserve Bank has, through switching operations, ensured a modicum of stability in security prices. In the absence of bulk sales and purchases, market prices are nominal, and yields are out of alignment with the bank rate. The Reserve Bank and the market are both groping their way towards a new structure of interest rates.

It can be taken for granted that the Reserve Bank will have to extend a large measure of initial support to the new loans. The outstanding amount on the 3.5 per cent 1965 loan is Rs 154 crores, all of which is not likely to be offered for conversion. Government can retain subscriptions upto 10 per cent in excess of the amount offered. Banks will make hardly any net subscription except for the purpose of maintaining a safe cover over the minimum statutory requirements; their absorption will come later during the slack season when the Reserve Bank sells the new loans on tap—at slightly higher than the issue prices. Provident funds are expected to subscribe about Rs 80 crores over a period of time. The Life Insurance Corporation is likely to contribute Rs 20 crores, mainly by conversion of its treasury bill holdings. LIC changed over to this form of short-term investment when banks were debarred from paying interest on call and short notice deposits from the public. In other words, the loans will make very little impact on current liquidity. The impact, if any, will come only when banks start absorbing the loans in the next few months and then too only if the return flow of funds is as substantial as the Reserve Bank would like it to be.

There was a time when individuals and companies were fairly significant buyers of government securities. That class of subscribers has practically disappeared, partly because, in the case of individuals, investment through provident funds has replaced direct investment while companies have turned net borrowers.

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Wilson's Not Disinterested Move

VIETNAM was the dominant issue in British politics last week. The American style "teach-in" at Oxford lasted some eight hours and the speakers included Britain's Foreign Secretary, Michael Stewart, and Henry Cabot Lodge who flew in especially from the United States. Of course, there were no distinguished speakers to put the other side of the question—no one from North Vietnam, the National Liberation Front of South Vietnam, Russia or China. There was little doubt that the bulk of the Oxford audience was certainly anti-American, and remained singularly unconvinced by Cabot Lodge. It was remarked, in fact, that Michael Stewart put up a far better defence of the American point of view!

Shortly following on this marathon "teach-in" came Wilson's dramatic announcement of the setting up of a Commonwealth Mission on Vietnam. The idea of using the Commonwealth Prime Ministers' Conference as a springboard for a new initiative in Vietnam was entirely Harold Wilson's own idea and certainly came as a surprise to the assembled Commonwealth Prime Ministers. Unfortunately, in view of the uncritical support that the British Government has given to the American line in Vietnam, there have been serious doubts about Wilson's motives for initiating such a move. While no one would wish to deny that Wilson, like everyone else, is anxious to see some peaceful solution of the Vietnam crisis, there is the suspicion in the minds of many people that the main reasons for this initiative are political. As one well-known Left-Wing member of the Labour Party said: "I do not know whether this is really a mission to get peace in Vietnam or peace in the Labour Party". It is a fact that the growing discontent in the Left-wing of the Labour Party of the British Government's servile support to the Americans was beginning to cause alarm. By launching a Commonwealth initiative, Wilson hoped to soothe his Left-wing followers.

The plan, as originally announced, envisaged the setting up of a Commonwealth Peace Mission consisting of Wilson, President Nkrumah, the Prime Minister of Nigeria, the Prime Minister of Trinidad and Tobago and the Prime Minister of Ceylon. There was a general feeling at the Conference that Wilson had bulldozed the assembled Prime Ministers to make a dramatic announcement on the very first day. The Labour Party attaches more importance to the Commonwealth than the Tories, and here was a heaven-sent opportunity to prove that it was more than a mere talking shop and could take joint political action on a burning issue. Here was concrete example of the utility not only of the Commonwealth itself, but of the periodic gathering of Commonwealth Prime Ministers.

Second Thoughts

Many of the assembled Prime Ministers, however, began to have second thoughts about Wilson's proposal. There was a very strong feeling that with Wilson as a member of the delegation, it could not possibly be an impartial one. The British stand on Vietnam has clearly been pro-American and so the delegation was bound to be suspect as being pro-American. This point was made very forcibly by a number of African Prime Ministers—particularly President Nyerere of Tanzania who at one stage of the proceedings stated that he disassociated his Government from the communique announcing the mission, since it appeared to be too one-sided.

Wilson explained to the assembled Prime Ministers that his inclusion in the peace mission was not as Prime Minister of Britain, but as Chairman of the Commonwealth Prime Ministers' Conference. Diplomatic negotiations continued over the week-end and after a great deal of discussion is seems likely that the four-member Commonwealth mission will shortly start on its task.

There have been, however, many alternatives and modifications. Ceylon has dropped out of the mission, ostensibly because the Prime Minister is not well enough to join. Had it not been for President Nkrumah's decision to go on the mission, the whole project might well have collapsed. But in order to obtain the suport of President Nkrumah an appeal has been issued by the four members of the Commonwealth mission calling on all the parties involved in the Vietnam war to "show the utmost restraint in military operations as a step towards the total cease-fire which the mission hopes will be established at the earliest possible opportunity." This statement is significant in two ways. By referring to *all* parties, it leaves the mission free to deal with the Viet Cong, further, it also reflects the desire of many Afro-Asian countries that American bombing of North Vietnam should cease.

During the discussions Shastri made it quite clear that merely setting up a mission was in itself no use and that what was necessary was to establish the guidelines on which it should operate. These should include insistence on the cessation of bombing by the U S A, the ending of hostilities on all sides, and eventually the withdrawal of outside forces and a cease-fire and perhaps an international group of Afro-Asian countries to see that the cease-fire was strictly observed. These are laudable objectives and any step that eases tensions in Vietnam is to be welcomed; but it seems doubtful if the Commonwealth mission will really achieve much. In the first place, it will certainly be difficult for it to look like anything but a pro-American gimmick—despite African representation on it.

Disappointment Over Rhodesia

The Commonwealth Conference itself is at the time of writing in for a stormy time with the explosive issue of Rhodesia coming up to be discussed. There is no doubt about the very strong feeling on this subject and the definite disappointment of a number of African countries about the attitude of the Labour Government on this question. There is a general feeling that the U K Government is not prepared to be tough enough with Ian Smith and that it is going back on the attitude it took in 1961 when it criticised the 1961 Rhodesian constitution for failing to provide adequate African representation or to ensure that the Government did not practise racial discrimination. Very justifiably, some African Governments are suggesting that if the Commonwealth Prime Ministers' Conference could issue a special communique on Vietnam, why could it not also issue one on the crucial question of Rhodesia?

On the announcement of the fall of Ben Bella's Government in Algeria, the Afro-Asian heads of State at the Commonwealth Conference held a private meeting. At this meeting the

Afro-Asian leaders suggested that the conference of Afro-Asian countries in Algiers should be postponed and also issued an appeal that the life of Ben Bella should be spared on humanitarian grounds.

How much will be actually achieved at the Commonwealth Prime Ministers' Conference remains to be seen, but since the very first day it has been making the headlines.

CAPITAL VIEW

An Ill-Fated Conference

Romesh Thapar

THERE is a prolonged moment in the Indian summer when it is impossible to think of anything but the heat and dust which are all-pervasive. Such a moment is the present which brings news of Ben Bella's fall from power in Algeria and the chaos which threatens to overtake the Afro-Asian Conference.

Perhaps, in a sense, the sequence of events in Algeria is almost fortuitous. It has helped to focus attention on the inhibitions, weaknesses and confusions inherent in the kind of conference which had been projected. Bandung within a specific setting yielded political dividends for Afro-Asia. Algiers could have had the opposite effect.

Unwarranted Optimism

In saying this, I am not being influenced by the mood in our Foreign Office. On the contrary, a certain optimism prevailed despite the contradictory statements made by the Prime Minister on the Vietnam situation in Moscow, Ottawa and London, statements which could get us into trouble in Algiers. The optimism was based on the reports of our roving envoys who claimed majority support for our proposal to seat the Soviet Union and Malaysia in the conference and indicated that Chou En-lai's last visit to Africa had almost turned out to be a diplomatic disaster. Japan's support had been consolidated. Algeria, too, had assured her vote. These were important gains, and seemed to mark a turning point in Afro-Asian thinking.

The optimism, I feel, was unwarranted. We failed to take note of the opposition of several African States to the inclusion of the Soviet Union on the plea that the conference would become a battleground for communist ideologies. This opposition, skilfully exploited by China and Indonesia, could certainly frustrate the taking of a decision. A retreat on this front, in the interests of the inevitable consensus, could damage the capacity of the conference fully to resist the pressures exerted by the adventurist elements led by China and Indonesia.

President Nasser, unfailing in his ability to sense the mood of emerging nations, was obviously most concerned about the 'fall-out' from a sharp and explosive collision in the conference. His effort to arrange a friendly meeting between Lal Bahadur and Chou En-lai must be viewed against this background. He hoped for a 'disengagement' between India and China. The impatient dismissed these moves as unrealistic, but Nasser knows the Chinese to be highly flexible when short-term objectives are sought. And there was no reason to believe that India would be the looser in this diplomatic doodling.

Delhi's confidence in its capacity to out-wit its tormentors was like the weather — oppressive but mercurial, heady but uninspiring. The optimism at the Foreign Office, notwithstanding, Prime Minister Lal Bahadur seemed to be shy about attending the confabulations at Algiers. He refused to be committed. He let the impression gather that V K Krishna Menon would be accompanying him. At the same time he shot down a proposal that Menon attend the opening of the Nehru Exhibition in London, presumably because it was so close to the Commonwealth Conference and might have given Menon an opportunity to prolong his stay. Foreign Minister Swaran Singh, on his part, did not want Krishna Menon anywhere in the neighbourhood of Algiers.

And when the delegation to Algiers was announced, particularly the non-official membership, it was clear that Lal Bahadur had been carefully using political gossip to neutralise the demand that he take a strong and able team with him to the conference. Tactically, he is most adept at this kind of operation. The delegation assembled for Algiers was distinguished by its undistinguished character. And some of the gentlemen included were even unsympathetic to Afro-Asian aspirations!

Developments of this kind no longer cause surprise in the Capital. Lal Bahadur has come to be regarded as a man concerned solely with preserving his own position and bothered very little about evolving viable policies for the era now unfolding. He has no perspectives. At best his aimless wandering might land him in a vantage position. And even then he might fail to exploit the advantage. It is a most unsatisfactory situation, but it will persist so long as Lal Bahadur relies only on the limited capacity of his bureaucrats and refuses to surround himself with more independent and potent expertise.

No Great Loss

As for the conference in Algiers, it matters little whether it is held or postponed — or abandoned altogether. Apart from the repercussions of Ben Bella's downfall, which will influence developments in the Arab and African States in a less positive and progressive direction, the Algiers Conference has already been blunted by the activity of those of its members who have participated in the Commonwealth talks in London. The controversial initiative on Vietnam, under Harold Wilson's prodding, has already compromised their role in the larger assembly of Afro-Asian States.

The feeling, long suppressed, that the non-aligned nations should concentrate their energies on forging a new political and economic role for themselves at a time when the two major blocs are being eroded will come to the fore. Afro-Asian jamborees had some relevance when the concept of non-alignment had yet to take full form. Today, however, these demonstrative gatherings tend only to dissipate national energies and divert attention from the crucial issues on which the non-aligned must intervene in their own interest.

Whether these implications are understood by the Prime Minister and his colleagues remains to be seen. Lal Bahadur will be back in Delhi by the end of the week. A lot of home-work has to be done, political home-work which the Congress Party is for ever seeking to avoid. These summer months certainly provide oceans of

time for just this sort of solid preparation.

A Pointer? A few months before their entry into NEFA in October 1962, the Chinese abruptly stopped the building of their half-finished Embassy in Chanakyapuri. A few weeks ago they resumed construction work . . .

A CALCUTTA DIARY

A State of Darkness

IF the smokescreen of Congress unity had not blacked out the truth, the Governments of West Bengal and Assam would have been screaming today that, on the subject of border vigilante, they had been overruled by the Centre which has not so far bothered to explain the arbitrary decision. Since so little is publicly said in this country about these things, it has to be mentioned that, from all accounts, the debacle in the Rann of Kutch followed a prize bungle by the civil border police which led to considerable embarrassment for the army. To turn to the east now, in Dahagram the civil border police acquitted itself admirably and perhaps gave the Pakistanis a little more than what it got. Faced with these local variations, New Delhi expounded the theme of a centralised border force under a single command: and all the border States were made to swallow it. That the decision was right New Delhi will have to prove as it works out the details which are in border defence no less important than general policy.

That a uniform and centrally commanded border force should have been thought of almost eighteen years after Partition is a measure of the sentimentalism with which both India and Pakistan decided to part—especially in the east. Travel was free until October, 1952. (Except for annual Urdu mashairas, the illusion of oneness in the west had ended in 1947.) In India border defence was transferred from the district police forces only in 1962 and placed under the control of a DIG, when it was found that West Bengal's PR (Public relations) was not quite enough for the EPR (East Pakistan Rifles) and Ansars.

Before Delhi Moved

The answer now found by New Delhi has to be examined in the context of West Bengal's own troubles. The police force, long divided between the West Bengal Police and the Calcutta Police, now found itself confronted with a third contender—Border Police. The unstated hostility of the earlier entities may have been countered only with a rare combination of personal courage, integrity and tact which can hardly be taken for granted for all time to come in every incumbent holding the post. In Assam there must be further complications of which the present writer has no detailed knowledge. From the point of view of the Indian polity as a whole the proposed reorganisation of the border force poses a series of questions with no ready answers. As far as one can see, which may not be far enough, the army is not immediately involved, as it perhaps should not be. Involved is G L Nanda's Ministry of Home Affairs, a monster of a set-up whose menacing visage is hidden only behind Nanda's sadachari mask. The time may have come to say that India does not want a C I A. Or, is there already one?

Uniform Doubts

There need be no deviation from India's declared adhesion to secularism to suggest that the problem of guarding the border is made infinitely more complicated by the existence of a very large number of Musilims in the border villages, many of whom came to India only in recent years. Last year this reporter motored extensively in the border districts and was bored by the monotony of one Muslim village after another; slightly scared too. What, then, is essential is what a newspaper has charmingly called "greater demographic diversification of the border"; what the coiner of the euphemism had in mind is early eviction of illegal immigrants, infiltrators, and the planting in the border villages such other citizens whose loyalty nobody will have any occasion to question. In varying degrees the problem exists in West Bengal and Assam; and it cannot be tackled without the cooperation of the State Governments.

It is obvious enough that the border States are not uniformly competent to take care of their borders with Pakistan; State politics can easily jeopardise the best of official arrangements. Yet it is rather late in the day to take the Centre's efficiency for granted. New Delhi has its duds; it has its own politics, plus State politics. The wisdom of the Centre's take-over of border control will thus have to be proved with other arguments.

The Gains

The first result of the take-over will be that the Centre will foot the entire formidable bill; West Bengal at least was beginning to find the cost of the border police very heavy. Secondly, border forces will now be better equipped, for under State control the border forces could not import their equipment without Central sanction which, when given at all, was tardy, often delayed and grudging. If Pakistan did not hesitate to use American tanks in the Rann of Kutch, there is no reason to think a border force equipped with the Army's rejects is enough. In Dahagram too the Pakistanis used mortars.

In India a military take-over seems unlikely for a long, long time, although the it-can't-happen-here is one of the stupidest of political attitudes. Yet even in a democracy there is a sort of balance of power; there is a line beyond which additional strength to a particular agency, civil or military, has to be watched in the interests of democracy itself. Following the Chinese attack, India's armed forces have been given enormous funds; they themselves constitute tremendous additional power over the country's economy — to say nothing of the accretion of what in the absence of a better term can be called political bargaining power. The same criteria must be applied to the Ministry of Home Affairs; chasing Left Communists and financial crooks at all levels has given the ministry's officials access to many private affairs of the country's citizens. Then there is security in whose name Gulzarilal's men — India's G-Men? — can get away with almost anything. The friend of a Calcutta police official was recently told, in confidence of course, how the frequency of some individuals' visits to a particular woman, demi-monde, was being carefully recorded in the books of the police. An undeclared police State is in some ways worse than a military regime.

—Flibbertigibbet

LETTER FROM SOUTH

Crosscurrents in Tamilnad

THE Tamilnad Congress Committee's conference held recently in Coimbatore presented an interesting study of contrasts. There were the glimmerings of a new vision in the speech of Kamaraj as well as in the resolution on democratic socialism. As a counterpoise there was the thoroughly wooden, bureaucratic and authoritarian approach of the Chief Minister, Bhaktavatsalam. Yet neither the dais nor the audience appeared to notice the sharp difference. There was no opposition, no debate on either of the two attitudes. Undoubtedly, Kamaraj's appeal was far greater but none could be sure as to whether this was due to the legend around him or to the ideas he was propounding. In passing, it can be noted that in Kamaraj the common man, not only in Tamilnad, sees a combination of simplicity and power which is what he desires, above all else, in a politician. Such a combination is rare enough in India to give the Congress President quite an unique status.

The only Congress leader from outside Tamilnad who attended the meeting was Indira Gandhi. And very popular she proved, too. Kamaraj's insistence on her presence stemmed from two closely related considerations. The first was the need to create a sense of continuity, of carrying on the Nehru approach as the true destiny of Congress evolution. The other was the desire to make clear the Tamilnad Congress choice in the present conflict of policies and personalities in which the ruling party is embroiled. Evidently, the Congress President wants to sharply demarcate himself from the 'syndicate' clique with which he was unfortunately involved in the first months after Nehru's death.

English Must Go Quickly

Kamaraj made a strong appeal for the removal of English. This could be done fairly quickly, and as the first step, at the regional level. He said that he had already spoken to the UPSC about the possibility of speedily introducing Tamil as an exam medium. In the State itself strenuous efforts would have to be made to ensure that those who received their instruction in Tamil would find it profitable to do so. This commonsense and patriotic approach was followed up by a slashing attack on "English lovers" who opposed Hindi on the ground that it was alien, conveniently overlooking that English was the language of spiritual conquest and even more alien.

The supporters of English, the Congress President said, were the upholders of wealth and privilege. They represented the forces of reaction and of big property who were still a considerable power in the land. These were the forces which also opposed socialism, since through the implementation of this ideal the Congress sought to better the living conditions of the poor and ensure equitable distribution of wealth. If the Congress was to be correctly criticised it should be from the angle that both on the language issue as well as on economic policy it had failed to move swiftly enough to make the common people the real masters of India. He took up Rajaji's challenge and said that the Congress was quite ready to face any combination that the Swatantra leader's hatred for the Congress could bring together. This challenge would not be met by any retreat but by still more vigorous advance towards socialism. In other words, the menace from the right would be met by hewing a left-ward course.

Resolutions, But No Programmes

This encouraging attitude was reflected in the two major resolutions, other than the one on language, passed at the conference. The first was a firmly worded statement of approval of the policy of non-alignment as not only inherent in India's evolution as a free nation but also as her best contribution to ensure a world at peace and rid of colonialism. The other was on democratic socialism. In this resolution the need was emphasised for the public sector undertaking the entire distribution of foodgrains, for the supply of free food, books and dress to students at all levels and for providing free house sites to the landless poor in the rural areas. The resolution also stated that not only the basic industries but also units for the production of essential commodities should be taken up either by the public or cooperative sector. Moving this resolution, Union Food Minister Subramaniam stressed that socialism envisaged equitable distribution of newly-created national wealth. Distribution through private trade could not subserve this process. He added that it would be improper to ask the poor of this country to be years for the improvement in their conditions.

While all this is refreshingly unambiguous, what was totally lacking was any immediate programme of action to concretise the declaration of faith in terms of policy decisions. There are rumours that Kamaraj is moving towards accepting the idea of the nationalisation of banks. But there was nothing in the resolution even to remotely suggest that radical institutional changes were being contemplated. Similarly, the fiscal policies of the Government need to be geared to the goal of equity but the sponsors of the resolution do not appear to have given this matter any thought. The same was the case with land reforms or agricultural income-tax. The emphasis seemed to be on the equitable distribution of newly-created wealth and not on disturbing the highly unjust existing property and income relations.

Wrong Approach

Far more disturbing than this lack of a programme of action was the speech of Bhaktavatsalam. He was concentrating on the language problem. Making hardly any attempt to present a rational and partiotic case, he stated that he had complete lists of all teachers and students who were likely Resolutions, But No Programmes to create trouble again on August 15 on the instructions of the DMK. These people would be severely dealt with and the trouble would be scotched. "We know how to tackle such a situation", he roundly declared in Kamraj's presence, seemingly obvious to the fact that the Congress President had publicly criticised the manner in which the administration had "tackled" the anti-Hindi agitation only some months ago.

Relying on police reports and police bullets would be the surest way to ensure a swift rise in the popularity of the DMK-Swatantra-Muslim combine. Not only would it alienate large sections of the people, but it would mean further concentration of power in the hands of the top echelons of the police and administrative services — implaccable foes of the push towards equity socialism envisaged in the other resolution. It was a pity but characteristic that no attempt was made, even by implication, by anybody to repudiate this petty man's cussedness.

Bureaucratic Discretion and Economic Development

Arthagnani

Foreign Enterprise in India : Laws and Policies by Matthew J Kust: Oxford University Press, 1965; pp 498; Rs 35.

AS is described in the Foreword, this is a study "of the legal environment for foreign investment" in India. Necessarily, it is a compendium of legal provisions and administrative decisions on its subject-matter, and, being such, is uneven in its ability to hold interest. For example, the chapters on "Historical Background" and on "Basic Legal Structure" must, to any person conversant with India, sound elementary, and appear necessary only to the extent that may make the book appear all-inclusive.

However, even a compendium can throw up interesting details, and the best parts of the book to this reviewer are those relating to the evolution of the erosion of property rights through constitutional amendment (pp 93-107), the particular applications of the Industries (Development and Regulation) Act, 1951 (pp 144-155), and the historical survey of the Indian Government's attitude to patent rights (pp 419-431), an issue which even now does not appear to be settled.

Indefiniteness of Law

One of the essential features of the Indian legal system, particularly in the post-planning legislation, is the indefiniteness of the legal provisions and the vast amount of discretion which the bureaucracy vests in itself through legislation. Under this system, there is no legal provision stating that a citizen has certain rights if he satisfies certain conditions. Rather, all decisions — the giving of a licence, the vesting of a right — are left to be taken by bureaucrats on merits, which is the euphemistic name given to the vegaries of decisions taken by bureaucrats in their discretion. This would be most clear to any one who reads the Industries (Development and Regulation) Act, 1951 and the rules framed under it, as also the import and the capital issues control legislation.

Taking only the Industries (Development and Regulation) Act, 1951, the author describes fairly the provisions of the Act, and the rules made thereunder. Here is what the author says about it:

> "The act is characterized by its brevity (consisting of only twenty pages) and its skeletal nature. It provides the legal framework within which the policies and procedures are to be worked out by its administrators. The policies are derived from the imperatives of economic development and thus susceptible to change from time to time as these economic imperatives dictate. This gives the entire structure a flexibility highly desirable for the difficult task of economic development in an underdeveloped country." (p 113).

What does this flexibility come to in actual practice?

Time Lost in Bargaining

The author refers, particularly on pp 148-150, to cases where foreign enterprises were allowed majority shareholding in their Indian ventures. He gives the (official) justification for these decisions, but here is the reason (in the author's own words) why the English Electric Company Limited was allowed 100 per cent shareholding in its Indian venture: "Finally, hard bargaining and persistence played its part. In the words of an English Electric executive, 'We just kept insisting on 100 per cent ownership for fourteen months until we got it.'" (p 148). This clearly is the sorriest example of the use of bureaucratic discretion. Is this likely to inspire confidence in foreigners? Was the time lost in bargaining worth the results achieved? Is this to form the basis of India's massive effort at industrialisation?

For, it has to be recognised that not only does administrative discretion lead to varying (if not inconsistent) decisions but also to much loss of time, and a consequent slowing of the development process. It is not possible to list all cases where administrative negotiations have slowed down decisions: one has only to refer to Esso's offer of setting up a lubricating plant, which has remained unanswered for almost four years. In the meanwhile, we continue to import lubricating oil and have managed to run into two foreign exchange crises (May 1962 and now) involving delays or cuts in import licensing.

Matter for Political Decision

The author, being a foreigner, tries to gloss over the implications of vesting discretion in bureaucrats — he even adduces justification for this, as in the quotation given above. But if we are interested in a massive effort at development, it is necessary to ask ourselves whether our machinery and procedures conduce to this end. Is it impossible to codify rules on these subjects (industrial licensing, foreign participation and so on) and limit bureaucratic discretion? Perhaps, the bureaucrats are too much in love with the powers they have acquired to want to do it. What the bureaucrats managed to do, for example, was to reduce the import duty on cars from 150 per cent to 60 per cent in 1963, so as to enable each civil servant who had stayed abroad to bring in a car, but they have never provided the rules for the automatic issue of an import licence for a car to ordinary citizens who satisfy the specified conditions. These, however, are matters, reform of which cannot arise out of bureaucratic initiative. They are matters for political decision.

It is doubtful, therefore, how far the author's exercise in describing Indian law would be helpful to foreigners. So also, the chapter on taxation in some respects has become outdated by the changes introduced by the 1965-66 Budget. These are hazards which a book like the present one cannot avoid. What is necessary is to provide for annual supplements to notice changes in the exercise of administrative discretion and in the framing of laws.

The author is an authority on taxation, and his chapter on the subject is illuminating. Necessarily, the book holds interest in varying degrees: to those who know the subjects, the chapters might appear elementary; to those who do not know but are likely

to operate in India, the information would need to be supplemented by the special treatises on the subjects.

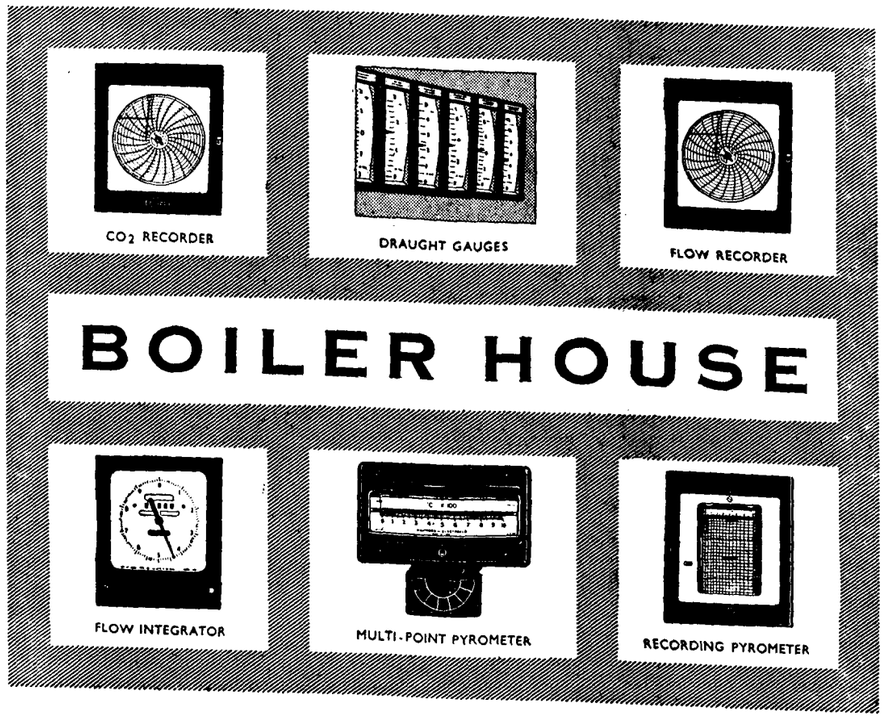
In a book of this type and size, some inaccuracies are bound to creep through: for instance, managing agencies are *not* permitted in banking and insurance (p 278); and Kaldor advocated a maximum tax rate of 45 per cent (not 50-per cent) on personal incomes (p 364).

But, allowing for all this, this is a useful, well-documented compendium. It would be necessary, though (despite the simplicity of its style) stern, reading for an intending foreign investor on his plane journey to India. But, as in the mystery stories one reads on such journeys, the ultimate conclusion of his own mission given the system of bureaucratic discretion in India, will come as a surprise to him.

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The Personality Factor in Local Politics

A Study of the Calcutta Municipal Election

Robi Chakravorti

The Calcutta Municipality held its first election on the basis of universal adult franchise in March this year. A study of the election yields some interesting insights into voting behaviour.

Voters in constituencies with communally mixed populations tended to vote community-wise, supporting candidates of their own communities. The different political parties had apparently anticipated this and had chosen their candidates accordingly.

The elections also revealed the importance of what may be described, in advertising terminology, as "the circulation and pulling power" of the candidate. In the general elections a constituency covers an area three times the size of a municipal ward and, therefore, personal contacts can be neither so tangible nor so intense as in municipal elections. In the latter, both the size of the constituency as well as the issues raised make the personality of the candidate and his personal pull on voters decisive, rendering his political affiliations a factor of secondary importance.

THE Calcutta Corporation's history can be traced back to 1726 when a Royal Charter established a Corporation, consisting of a Mayor and nine Aldermen and a Mayor's court exercising civil, criminal and ecclesiastical jurisdiction over British inhabitants. This was, however, a far cry from local self-government which had not made even a modest beginning until Surendra Nath Bannerjea introduced his Municipal Bill in 1921. The franchise under the Bill was restricted to occupiers of houses who paid a rent of Rs 25 per month and hut-owners in bustees who paid at least Rs 12 during the year preceding the election year, and of course, payers of municipal rates, or tax of at least Rs 12. The Calcutta Municipal Act of 1951 saw the next major expansion of the franchise as a result of which not only payers of rate, tax or licence fee (of any amount) or rent (Rs 4 or more per month in case of a bustee dweller, Rs 8 or more in case of a pucca house resident), but also all citizens who had passed Matriculation examination or an equivalent State examination or a diploma examination in any State-recognised technical or vocational institution became eligible to vote.

Through these stages of slow 'escalation' of the franchise, Calcutta eventually arrived at adult franchise on March 28, 1965 when elections of Municipal Councillors were held on this basis for the first time in the Municipality's chequered history. The electoral rolls prepared for the 1962 General Elections were used for these elections with additions following applications by intending voters. Many, therefore, saw in these Municipal Elections an outline of the shape of things to come in the next General Elections.

There were 100 seats in the Municipal Elections, with three major parties contesting: The Congress; the United Citizens' Committee, consisting of both wings of the CPI, RSP, RCPI and Forward Bloc (Marxist) and the Progressive Citizens' Bloc, dominated by the SSP and PSP. The final party position after the elections was: the Congress, 49; the UCC, 35; the PCB, 8; the Jan Sangh, 1; and Independents, 7. Among the elected were six detenues held under the Defence of India Rules—five from the UCC, therefore, Communists; one from the PCB. Percentage-wise, Congress polled 44.3 per cent of votes cast; the UCC 36 per cent, Independents 10.8 per cent and the PCB 7 per cent. In the 1962 General Elections to the State Assembly from Calcutta area, the Congress bagged 14 and the CPI—Left combination 12 of the total of 26 seats, as against 7 and 19, respectively, in 1957.

Communal Voting

On March 27, 1965, the night before the elections of Councillors to the Calcutta Municipal Corporation were held for the first time on the basis of adult franchise, this writer happened to pass through a constituency in South Calcutta. Some of the streets, poorly lit before, were ablaze with flourescent tube lights, fixed a couple of days before at the initiative of the local Councillor who was seeking re-election. The Councillor, who had once won election on the Leftist ticket, had since crossed over to the Congress ranks, and in the election on March 28, he was re-elected. Neither the change in the basis of franchise nor the fact that the Councillor was a turncoat made any difference in his political fortunes. This instance proves that any hasty conclusion about the voting behaviour of the people would not do. Yet, the election results, analysed polling booth-wise in relation to the composition of the constituency and the character of the candidate and his election campaign, do give some pointers to the voting behaviour of Calcutta's electorate.

One of these pointers is that voters in constituencies with mixed communities tended to vote community-wise. Several instances of this communal trend of voting could be cited. In fact, the parties fighting the elections clearly anticipated this trend and chose candidates accordingly.

Instance no 1: Ward no 27 has a minority, but a substantial one, of Hindi-speaking voters. The Bengali candidate, Krishna Kundu rode to a handsome victory chiefly on the strength of Bengali voters, on which his campaign managers outspokenly banked. One of them, in fact, confidently predicted his victory on the election day, because, as he said, "Bengalees constituted a majority in the ward and they will all vote for Krishna Kundu". Kundu won 6,000 votes against 1,625 won by his Hindi-speaking rival. The fact that Kundu is a popular figure in the area and belonged to the Left-dominated United Citizens' Committee, was not so much a determinant of voting behaviour of the constituency as the fact that he was a Bengali engaged in a straight fight against a Hindi-speaking candidate.

Instance no 2: Ward No 6 has a number of Hindi-speaking voters scat-

tered over the constituency, with a sizeable concentration along Cossipore Road where a medley of Hindi-speaking workers live in wayside slums or as shopkeepers run little shops. The contest here was three-cornered—a U C C candidate who won (4,309 votes), a Congress candidate (4,013 votes) and an independent Hindi-speaking candidate (2,457). The independent candidate's votes were almost wholly from pockets of Hindi-speaking voters. The breakdown of voting in the polling both covering Cossipore Road is a clear proof of this voting pattern. In this section of the constituency, the voting was as follows:

Ward 6

Cossipore Road Section

Total votes	3,143
Votes polled	1,973
Congress	647
U C C	441
Hindi-speaking independent	885

This happens to be the only polling area in the constituency where the Hindi-speaking candidate won a majority of votes against both the winning U C C candidate and the Congress candidate who came a close second.

Instance no 3: Other things being equal, the communal pattern of voting held good in mixed Hindu-Muslim areas also. As in the case of ward no 27, where a Bengali candidate defeated his Hindi-speaking rival, a Hindu candidate defeated two Muslim candidates in ward no 30, where Muslim voters had a numerical edge over Hindu voters. The Muslim votes were, however, split between the U C C candidate and the Congress one, and through this split the Hindu candidate belonging to the Socialist-dominated Progressive Citizens' Bloc slipped through to victory. The voting was as follows:

Ward 30

P C B (Hindu)	3,169
U C C (Muslim)	3,103
Congress (Muslim)	2,422

It may be assumed that a Muslim candidate would have won this seat, no matter which party ticket he had carried, if there was a straight fight between a Hindu candidate and a Muslim one.

The communal pattern of voting was, however, only one aspect of the Municipal Elections, held on the basis of electoral rolls prepared during the General Elections, 1962. The other and a more important feature was what can best be described in advertising terminology as the 'circulation and the pulling power' of the candidate. A candidate who circulated well in the locality and had been able to project the image of a personality with a pulling power had a better chance of winning than a candidate who may belong to the right party in the majority's view, but lacks in these two qualities.

The Personality Factor

What these two qualities are capable of achieving was dramatically illustrated in the election result in ward no 87. Here, all the parties, formed for the civic elections, put up their candidates—the Congress, the U C C and the P C B, and even an independent candidate. But the person who very nearly stole the show was an outsider, belonging to a splinter Marxist party, the Socialist Unity Centre which had broken away from the Communist-dominated United Citizens' Committee (U C C) not so much on ideological issues as on that of selection of candidates in constituencies which the S U C thought favoured them. The S U C candidate in ward no 87. Ranjit Dhar is a young bachelor of around thirty, who circulated well in the locality. He is well-known in the area as the moving spirit behind an organization, Sanghashree, which has made a name for itself throughout Calcutta for colourful staging of Durga Puja, the most cherished annual festival of Bengali Hindus. He mixes well with young people of the area, has a corps of devoted workers to help him, whether it is the Municipal election or the 5-day-long Durga Puja festivities. The fact that he had the ticket of a breakaway small party did not seem to matter at all in the election campaign which was based almost entirely on his youth and popularity. His popularity was enhanced by the fact that the two main parties, the U C C and the Congress, concentrated their attacks on each other, neglecting the S U C candidate who they thought did not have a chance. Dhar, thus free of any mud which stuck to the U C C and Congress candidates during the election campaign, presented to a large number of voters a healthy 'third force'. The basis of this force was, however, his personal popularity, not his party affiliation. The Congress candidate won the seat, but only by a squeaking margin. Dhar lost by 148 votes. Since he was a candidate of a Leftist party, it is valid speculation that he would have defeated the Congress candidate by a handsome majority if there were no contestant from the U C C. This is supported by the following breakdown of voting in this constituency:

Ward 87

Congress	
Ranjit Dhar	3,752
U C C	3,604
P C B	1,676
Independent	209
	64

The neighbouring contituency, ward no 88, which this writer studied more closely than any other, because of his residence in the area, confirmed the importance of the circulation and the pulling power of the candidate in a communally "pure" constituency. There was a straight fight between two 'freshman' candidates: Haimiprasad Basu and Anil Chatterji. Neither had fought an election for public office before. Basu, about 40, is a popular physician whose consulting rooms have always been thronged by patients, a large number of whom come from the next-door bustee areas and lower middle class homes. He was arrested along with several Left-CPI members and supporters all over the country. He sent his nomination paper from jail and fought and won the election from there.

Chatterji, around 45, a prosperous contractor is, like Dr Basu, an old resident of the area. He is no less personally popular than Dr Basu. Dr Basu's popularity was built on his medical practice and social activities, such as helping people in distress, putting up vaccination centres in his home during epidemic seasons and organizing a private Durga Puja at his residence for the past few years. Dr Basu, always very polite, would sit in front of his house during the five days of the Puja and would not let you pass by without having partaken of the *prasad*. Chatterji is also well-known in the area for his help to people in distress. A man of great politeness and charm, his home is the hub of social activities as much as Dr Basu's. He is associated with at least a dozen clubs in the area and is the secretary of the committee which celebrates the annual worship of the Goddess Kali at the famous Keortala crematorium. He was also the chief patron of the annual Durga Puja held in the little park adjacent to his house. Both candidates were, thus, evenly matched in circulation and pulling power.

Before we go into an analysis of the voting pattern in the constituency, a

word about its political tradition is in order. This ward, constituting one-third of an Assembly constituency, has consistently voted Communist in the last two General Elections, although in the last Municipal Elections, held under the restricted franchise of Corporation rate-payers, a Congress candidate had won. The record of voting in this area in the last General Elections (1962), obtained from the Congress candidate's file, compares as follows with that of the voting in the Municipal Elections on March 28:

Ward 88

	General Election 1962	Municipal Election 1965
Congress	4,095	4,226
Communist	6,442	5,347
Margin of victory	2,347	1,121

It is risky to draw general conclusion from this reduction in the margin of the Communist candidate victory. The electoral roll being the same in the two elections, one thing is clear, that less people voted Communist in the Municipal Elections than in the General Election and the Congress candidate polled a few votes. The total votes polled have fallen, but this fall affected the Communist candidate's poll comparatively more than the Congress candidate's. A detailed analysis of voting, however, yields some interesting results.

Sahanagar Road and Chandra Mondal Lane are like two arms, going east to west of the constituency, the former skirting the Congress candidate's house, the latter passing very near the Communist candidate's residence. Chandra Mondal Lane which, like Sahanagar Road is peopled by a large number of bustee dwellers and lower middle class people, voted communist as it had in the General Elections, the margin remaining virtually identical. The contiguity of the candidate's house did not make much difference. But Sahanagar road voted Congress in the Municipal Elections while it had voted overwhelmingly Communist in the 1962 General Elections. The table below gives the comparison:

Ward 88

	General Election 1962	Municipal Election 1963
Shahnagar Road		
Congress	344	572
Communist	770	535
Chandra Mondal Lane		
Congress	378	333
Communist	693	639

The only plausible explanation of the Congress gain in Sahanagar Road can be that the Congress candidate's popularity must have been felt very strongly in his immediate neighbourhood. The candidate is the moving spirit behind the most important social festival of the neighbourhood, namely the Durga puja which draws into its vortex his next-door Hindu neighbours. The relation between the contiguity of the candidate's residence with the polling area and the pattern of voting is further proved by the interesting fact that all along the Pratapaditya Road which runs north to south, the Congress candidate lost, excepting in that stretch which passes in front of his house. In the distant part of the road, he polled 148 votes against the Communist candidate's 230; in the near part, he polled 233 votes against Dr Basu's 150 — almost the reverse. In the part in between the voting was: Chatterji 233 and Basu 291.

Class, Not an Important Factor

The class composition of voters seemed to have little bearing on voting trends. As has been shown earlier, although the Sahanagar Road and Chandra Mondal Lane have virtually the same composition in terms of economic classes, they voted differently. Likewise, Pratapaditya Place which is the more affluent part of the constituency, consisting mostly of middle, middle-middle and some upper-middle class people, voted strongly for the Communist candidate, 321 against 161. Tollygunje Road, on the other hand, is almost entirely inhabited by the poor class; and yet, here the Congress greatly improved upon its performance in the 1962 Election.

Ward 88

Tollygunje Road

	General Election 1962	Municipal Election 1965
Congress	975	1,221
Communist	1,863	1,315
Margin of victory	888	94

The shift in the voting pattern in this area may have been due to the planned, intensive and far-sighted electioneering by the Congress candidate. The Congress candidate carried out good social welfare work in the area. When, for instance, the Railways acquired some land in the area hereby displacing some inhabitants, the Congress candidate saw to their rehabilitation outside the constituency. These voters had remained on the electoral rolls and were brought by the Congress candidate to the Constituency the night before the election. The Congress candidate had thought that his social work in this area will bear dividend in the form of a big margin in his favour; but, as it turned out, the Communist hold on the area was substantially weakened, but not enough to give him victory. The Congress campaigned throughout the ward on the basis of the candidate's popularity and the theme was that the issue was not politics but practical solutions for the particular civic problems of the area. "He is a good candidate. The Congress is in power in the State and it will come to power in the Corporation too. So, you ensure your civic interests by voting for this good, popular, keen and social service-minded gentleman." This, in brief, was the approach of the Congress campaign.

The Communist campaign, on the other hand, linked the specific civic failures with what they alleged to be the generic degeneration of the Congress. "Throw the rascals out," this was their campaign theme. This was underpinned by the propaganda that the Communist candidate was unfairly put in jail. Appeals were made to the sentiments of the householders on this point. Womenfolk of the candidate's family visited the voters' homes and were heard pleading that if the candidate was elected, he might be released from wrongful confinement. It is difficult to assess precisely how far the fact of the Communist candidate's arrest helped or hindered his victory. The Communists played up the fact of his arrest to the full. Not only in ward no 88, but in other wards as well where jailed communists stood for election, big hand-painted posters with a picture of the jailed Communist leader were displayed with a message from him. In ward no 88, the candidate was shown behind bars, with a statement that he had been a physician busy with his practice, and he still not know why he had been arrested at all. In ward no 7, in the northernmost part of Calcutta, the UCC candidate's campaigners displayed a large picture of the local Left-communist leader, an MLC, who is in jail, along with a statement demanding a trial to prove the allegations on the basis of which he had been arrested under the Defence of India Rules.

The appeals were made not only to the sentiment of the voters but also

to his sense of fairplay and justice, and these may have moved some voters' minds. But, it would be incorrect to regard these appeals down as an important factor that swayed a large number of votes. If these appeals were so important, the votes for the Communist candidate in ward no 88 would have exceeded those obtained by his partyman in the 1962 General election for the Assembly seat. The jailed Communist got less votes in the municipal elections than his comrade got in the General Elections.

The personality of the candidate and his pull on the voters, therefore, seem to be more important factors than the candidate's political affiliation or sentimental appeals to voters. This pull cannot be built up overnight, nor can it make itself felt without planned election moves, such as intensive electioneering and preparing its basis through social work and contacts. The significance of voting pattern in ward no 88, which this author studied more closely than the others in his random sampling of constituencies, lies in the clue it gives to the importance of the personality of the candidate which depends not so much on his party affiliation as on his contacts with his constituency. In the General Elections, a constituency covers an area three times that of a municipal ward and, therefore, personal contacts cannot be made so tangibly concrete and concentrated as in the case of a municipal ward where each voter is within a couple of minutes' walking distance from the candidate's house. Also, general political issues which the Congress shelved as irrelevant in the Corporation elections figure prominently in the General Elections. The political aspects of the candidate's personality will, to that extent, have a weaker role to play in the General Elections.

This does not mean, however, that the personal image of the candidate bolstered by careful contacts with key pockets of the constituency over a period of time and with the help of social organizations cease to have an important bearing on voting behaviour in the General Elections, when political issues and party image come much more to the fore than they do in Corporation Elections.



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Taxation and Profits of Foreign Companies in India

Anant R Negandhi

This article studies the two most important factors which determine the climate for foreign investment in India — taxation and profits of foreign companies operating here.

The rates of personal and corporate taxation may be high in India compared to those in other countries, but if the many tax incentives and concessions are taken into account the actual tax burden on companies in India proves to be much less than what the formal tax rates would indicate.

This and the high profitability of investment in India make for the fact that profits, after taxation, of foreign companies operating in India are among the highest in the world, higher than in many developing countries and generally higher than in the companies' home countries.

This fact of high profitability of investment in India is established both by factual data as well as by interviews with business executives in the United States and India.

THIS paper analyzes two of the most important factors determining the Indian investment climate, namely, taxation and profits of foreign companies operating in India. It is realized, however, that the foreign investment decisions are much more complex and dependent upon many factors other than these two variables. The company investing in a foreign country, besides seeking profits and an expanding market, also looks for the security of its capital, which in turn depends upon the socio-economic and political environment in the host country and the attitude of the host government toward foreign private investment. To evaluate, therefore, total investment climate in India, these various factors were investigated in a research study recently completed at Michigan State University.

The findings of this research seem to suggest that the following factors are favourable in India:

(a) Indian economic growth and stability;

(b) Indian socio-economic and political conditions;

(c) Market potential for foreign companies;

(d) Indian Government's attitude toward foreign private investment; and,

(e) Indian remittance and repatriation policies.

These factors have been analyzed by the author elsewhere.[2] In this paper we shall concern ourselves with the remaining two factors: taxation and profits of foreign companies in India. To gain a fuller perspective, an attempt has been made to compare taxation and profits of foreign companies in India with those of other advanced and developing countries which are competing to secure American private investment.

Indian taxation is very complex and it is beyond the scope of the present paper to review the entire tax structure. Only some of the important elements of this policy which directly impinge upon the private foreign investor in India have been discussed and analyzed here. There are four elements of Indian taxation policy which directly affect foreign investors in India. These are:

(a) Personal taxation — the income tax;

(b) Taxation of company profits (corporate taxation);

(c) Taxation of intercorporate investment; and,

(d) Taxation of patent royalties.

Although most foreign investment comes from corporations abroad, personal taxes impinge upon foreign investment due to the fact that some foreign personnel always accompany investment from abroad. Also, India, like many other developing countries, is in short supply of trained technical and managerial personnel. Therefore, if foreign technical and administrative personnel consider personal taxation in India to be too much higher than other countries, they may decide to go somewhere else where the take-home pay is higher. In this context, therefore, the incidence of personal taxation assumes special significance.

The maximum marginal rates of personal taxation are much higher in India than in many developed and developing countries. For example, the tax rate for earned income of Rs 300,000 is 74.75 per cent in India, 62.1 per cent in the United Kingdom, 35.0 per cent in the United States, 44.6 per cent in Canada, 49.4 per cent in Japan, 66.9 per cent in Pakistan, 72.7 per cent in Burma, 33.2 per cent in Malaya, and 26.6 per cent in Brazil. The tax rates in India are also much higher as compared to those in these countries in the range of incomes in which most of the salaries of foreign personnel lie (i e, Rs 30,000 to Rs 150,000).[3]

Similarly, the total tax burdens on companies in India are very high as

Table 1 Maximum Marginal Rates of Taxation on Undistributed Profits of Large Companies

Country	Maximum Marginal tax Rate *(Per cent)*
India	70.00
Developed Countries:	
France*	56.00
United Kingdom*	53.75
United States*	52.00
Austria*	51.92
Germany*	51.00
Canada*	50.00
Netherlands*	45.00
Denmark*	44.00
Ireland*	41.66
Greece*	40.25
Luxemburg*	40.00
Australia*	40.00
Sweden*	40.00
Finland*	38.00
Italy*	36.00
Norway*	30.00
Switzerland*	8.00
Japan**	50.00
Developing Countries:	
Malaya**	40.00
Pakistan**	49.80
Philippines**	46.80
Egypt**	22.20

Sources :

* *Tata Quarterly:* "A Review of Economic and Financial Conditions", January 1964, p 11.

** "India: Business International Roundtable Conference", *Business International*, New York, 1961, p 43.

compared to those in many developed and developing countries. It can be seen from Table 1 that the maximum marginal tax on undistributed profits of companies in France is 56 per cent; United Kingdom, 53.75 per cent; United States, 52 per cent; Australia, 40 per cent; Germany, 51 per cent; Japan, 50 per cent; Philippines, 46.80 per cent; and Egypt, 22.20 per cent. The corporate tax rate on branches of foreign companies is fixed at 65 per cent on earnings. As shown in Table 2, Indian corporate taxation on foreign branches compares unfavourably with that of other advanced and developing countries.

In addition to the basic income tax and surtax on corporate profits as discussed in the preceding sections, the foreign investor must pay taxes on the dividends received from India. Since foreign investment generally comes in the form of a two-tier structure—a company in a foreign country investing in another company in India—it attracts a double burden of taxes. (Whether it be a subsidiary or a minority shareholding in an Indian company, there is income tax and surtax on the profits of the Indian enterprise, and also tax on the dividend income that flows to the investing companies abroad.)

During 1963-64, the tax rates on intercorporate dividends varied from 25 per cent to 50 per cent, depending upon the company's date of registration in India. The foreign companies registered before April 1, 1959, paid higher taxes than newer foreign companies in India. However, the budget proposals announced on February 29, 1964, abolished this discrimination. Now all foreign companies in India will be taxed on their intercorporate dividends at a fixed rate of 25 per cent.

Still, the rate of 25 per cent on intercorporate dividends compares unfavourably with the tax provisions of other countries. In most other countries, dividends from domestic intercorporate investments are either completely exempt from taxes or attract a much lower rate than India. Countries that do not impose any such tax are: The United Kingdom, Australia, New Zealand, Canada, Ceylon, Malaya, South American Republics, Belgium, Norway, Finland, Greece, and Japan. Several countries exempt dividends if the recipient company participates substantially in the equity capital—25 per cent or more of the company distributing dividends. Such countries are: Austria, Holland, West Germany, and Switzerland. In the United States, the effective tax on domestic intercorporate investment is only 7.8 per cent. In France, it is 12.5 per cent when the investing company holds more than 20 per cent of the capital.[4]

The high incidence of tax on intercorporate dividends places India in an unfavourable position compared with other countries. The total tax burden on the foreign subsidiary making 100 per cent dividend distribution is higher in India than in many advanced and developing countries. This is shown in Table 3.

India, like many other developing countries, needs to import technical and managerial know-how from the industrially advanced countries. In view of the great importance of technical know-how for industrial expansion, the trend toward foreign technical collaboration will continue. However, to secure foreign technical collaboration, India has to offer attractive returns to the collaborator. The returns incurred from such technical collaboration depend upon two factors: (1) the rate of royalty which must have approval of the Indian government, and (2) the impact of Indian taxation on the gross royalty remittance.

The royalty rate for straight licensing agreements approved by the Indian government varies from 2 per cent to 7.5 per cent on total sales. The Indian government will approve higher rates in some cases where technical know-how is of major importance in developing a particular industry. The tax rate on royalties transmitted has ranged from 50 per cent to 63 per cent. It was 63 per cent for agreements made before April 1, 1961, and 50 per cent for agreements made on or after April 1, 1961.[5] The budget proposals of 1964-65 have made the tax rate uniform of 50 per cent. However, even the new rate compares unfavourably with the rates in other countries. This can be seen from Table 4.

Table 2: Corporate Tax Rate on Foreign Branches

Advanced Countries	Tax Rates on Foreign Branches (Per cent)	Developing Countries	Tax Rate on Foreign Branches (Per cent)
Japan	49.00	Philippines	50.00
Australia	40.00	Malaya	40.00
United Kingdom	53.75	Peru	37.00
France	50.00	Columbia	40.00
Canada	51.5	India (Budget of 1964-65)	65.00

Source: National Council of Applied Economic Research, "Foreign Investor and Tax Reforms", 1964, p 28. Datafor India from "Budget Proposals of 1964-65", *Economic Times*, Bombay, March 1, 1964, p 3.

Table 3: Total Tax Burden on Foreign Subsidiary Making 100 per cent Dividend Distribution

Country	Total Tax Burden (Per cent)	Country	Total Tax Burden (Per cent)
India	62.50	Canada	51.50
Japan	44.00	Venezuela	45.00
Australia	49.00	Peru	49.50
New Zealand	50.00	Colombia	43.60
United Kingdom	53.75	France	57.50
South Africa	35.25	Italy	38.00
Philippines	35.25	Netherlands	47.00
Malaya	40.00		

Source: National Council of Applied Economic Research, "Foreign Investor and Tax Reforms", 1964, p 33.

High Profits

It is quite evident, then, that Indian tax rates are much higher than those in most of the developed and developing countries. However, for the Foreign businessman contemplating investment overseas, taxation is but one important factor. The other equally important factor is profitability of his venture. This second factor, therefore, will be discussed in this section.

Foreign private investors in India have been, and are making good profits. For example, the average net profit, after taxes, of American subsidiaries in India was 12 per cent in 1958. Union Carbide (60 per cent US owned) made a net profit, after taxes, of 26.4 per cent, and Indian Aluminium (65 per cent Canadian owned) made 23.3 per cent profit in 1959.[6] These compared very favourably with the net profits made by the same companies in the home countries. In 1959, Union Carbide made 11.21 per cent profit after taxes in the United States, while the Aluminum Company made only 4.78 per cent profit in Canada.[7] In 1962, Union Carbide earned 22 per cent of its net worth after taxes, Indian Aluminum 18.5 per cent, Dunlop Rubber 19.9 per cent; ESSO 12.2 per cent, and Caltex 9.9 per cent.[8]

A United States Department of Commerce survey shows that in 1962 the rate of earnings, after foreign taxation, of American investments in manufacturing enterprises in India was among the highest of any country in the world. American companies received an earning ratio of 20.6 per cent on some 63 million dollars of these investments in India. This compares very favourably with 9.1 per cent in Japan, 6.3 per cent in France, 18 per cent in the Philippines, 7.5 per cent in Italy, 20 per cent in Germany, and 10 per cent in the United Kingdom. The earning ratios of the American companies in Latin America, Europe, and the Far East are shown in Table 4A, B and C. A recent survey of 78 large manufacturing companies in India showed that the average profit made by these companies was 22 per cent after taxes, yielding a return of 11.4 per cent of net worth. This was one of the highest in recent years.[9]

There is also ample support for the hypothesis of higher profitability of foreign firms in data relating to individual companies. It can be seen from Table 5 that the three companies, namely, Unilever, Imperial Chemical Industries, and Metal Box, have made higher profits in India year after year than in their respective home countries.

The satisfactory profitability of Indian ventures also was confirmed in research interviews conducted in the United States and India. Of the 54 executives interviewed, some 44 (81.4 per cent) were satisfied with their rate of return in India. Only 2 executives (3.7 per cent) were not satisfied. The detailed breakdown of the responses of the executives concerning profitability in India is given in Table 6.

Summary

This article analyzes two of the most important factors determining the climate for foreign private investment in India, namely, taxation and profits of foreign companies in India. The research findings suggest that Indian taxation, as compared to many developed and developing countries, is much higher. However, India offers many tax incentives to the foreign investor, and if various tax incentives are taken into consideration then the Indian tax burden will be much less than what mere aggregate figures indicate. The justification of higher tax rates in India lies in the necessity of mobilizing resources for the country's economic development plans. The Indian government also justifies the high incidence of tax on company profits by the fact that companies in India are enjoying much higher returns on their invested capital as compared to many other countries where taxes are lower. The higher profitability in India was confirmed by both factual data and the viewpoint of business executives.

Table 4: Tax on Royalty Payment to Nonresidents in Selected Countries

Country	Tax Rate (Per cent)	Country	Tax Rate (Per cent)
Argentina	19 (approx)	India	50
Australia	40	Italy	18
Brazil	28	Japan	15
Canada	15	South Africa	9
France	17 to 19.2	United States	30

Source: National Council of Applied Economic Research, "Foreign Investor and Tax Reforms," 1964, p 36.

Table 4A: Earnings Ratio of United States Manufacturing Companies in the Far East in 1962

Country	Investment (millions of dollars)	Earnings Ratio (Per cent)
India	63	20.9
Indonesia	12	25.0
Japan	110	9.1
Philippines	89	18.0

Table 4B: Earning Ratio of United States Manufacturing Companies in European Countries in 1962

Country	Investment (millions of dollars)	Earnings Ratio (Per cent)
Belgium-Luxemburg	169	21.9
Denmark	21	38.1
France	460	6.3
Germany	747	20.2
Italy	187	7.5
Netherlands	95	5.3
Norway	23	13.0
Spain	29	13.8
Sweden	21	9.5
Switzerland	123	18.7
Turkey	3	33.3
United Kingdom	2305	10.0
India	63	20.9

Source: United States Department of Commerce, "United States Private Investment Abroad", Washington, 1962, quoted from *Business International*, October 11, 1963.

Table 4C: Earnings Ratio of United States Manufacturing Companies in Latin American Countries in 1962

Country	Investment (millions of dollars)	Earnings Ratio (Per cent)
Argentina	283	17.0
Brazil	543	7.9
Chile	27	11.9
Colombia	94	4.3
Mexico	414	6.8
Panama	12	16.7
Peru	37	13.5
Uruguay	22	18.2
Venezuela	196	6.1

Source: United States Department of Commerce, "United States Private Investment Abroad", 1962.

Table 5: Net Profits as a Proportion of Net Worth–Indian and Parent Companies Compared for Three Major Groups, 1956–1961

Year	Unilever		Imperial Chemical Industries		Metal Box	
	Home Country	India	Home Country	India	Home Country	India
1956	16.4	15.7	7.2	19.0	—	—
1957	12.7	14.7	8.1	9.2	—	—
1958	13.7	19.0	4.8	3.5	9.3	13.9
1959	15.2	29.7	8.9	10.1	10.5	16.0
1960	12.8	25.6	7.1	23.4	11.2	21.8
1961	—	—	—	—	*8.3*	*18.3*
Average	14.1	20.9	7.2	13.1	9.8	17.5

Sources: Michael Kirdon, "Behaviour of Foreign Capital: Its Methods of Control in India," *The Economic Weekly* Special Number, July, 1964, p 1265.

Table 6: Experience with the Indian Investment (Interview Analysis)

Executive	Very Satisfactory No	Per cent	Satisfactory No	Per cent	Not So Satisfactory No	Per cent	No Answer No	Per cent	Total No	Per cent
American Executives in United States	7	87.5	1	12.5					8	100.0
American Executives in India	2	15.4	8	61.5	1	7.7	2	15.4	13	100.0
British Executives in India	3	18.7	9	56.3	1	6.3	3	18.7	16	100.0
Indian Industrialists	6	50.0	6	50.0					12	100.0
United States Consulting Firms	2	40.0					3	60.0	5	100.0
Total	20	37.0	24	44.4	2	3.7	8	14.9	54	100.0

References

1 To collect data for this study, a questionnaire survey in the United States and personal interviews both in the United States and in India were conducted. The questionnaire was sent to some 188 American companies and 82 executives of the Indian, American and British companies were interviewed. The entire field research was undertaken between the months of July 1963 and April 1964.

2 See Anant R Negandhi, "The Indian Foreign Private Investment Climate," *California Management Review*, Summer *1965*.

3 "Foreign Investor and Tax Reforms," National Council of Applied Economic Research, New Delhi, India, 1964, pp 7-9.

4 *Ibid*, p 32.

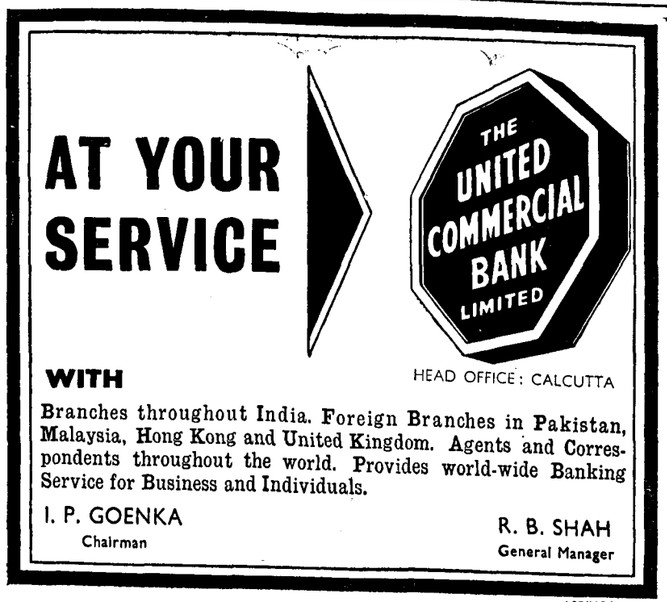
5 *Ibid*, p 36.

6 "Investing and Licensing Opportunities in 37 Countries", *Business International*, 1963, p 217.

7 Calculated from data appearing in "Mooddy's Industrial Manual", New York, 1960, p 246 and 1940.

8 "Investing and Licensing Opportunities in 37 Countries", loc cit.

9 *Business International*, December 4, 1964, p 3.



Problems of Gramdan

A Study in Rajasthan

T K Oommen

Some 5,000 gramdan villages all over the country are at present reported to be in the process of building up the non-violent social order which is the Bhoodan movement's ultimate objective. In recognition of its importance, the Government has extended official patronage to the movement by bringing donations of land received by it under the purview of law by offering special pecuniary and other incentives to Gramdan villages.

It is doubtful, however, whether either the agencies which are in charge of carrying forward this approach to rural reconstruction or the Government which has formulated policies to encourage the spread of the movement are adequately aware of the socio-economic and political problems which have arisen in Gramdan villages.

It is intended here to discuss some of these problems.

BORN out of the violence of the Telengana peasant riot[1] the Bhoodan-Gramdan movement has attracted world-wide attention. Ever since the first land-gift made by Ramchandra Reddy of Pochampalli village in Telengana to Vinoba Bhave the growth and achievement of the movement has been regularly reported in the national press and exclusive communication forums[2] have been established to propagate and strengthen the movement. Bhoodan (land-gift) has developed into Gramdan[3] (village-gift) and at present over 5,000 Gramdan villages are reported to be in the process of transformation. Experiments in bringing about a non-violent social order is underway in these villages. Government recognition too has been extended to the movement by bringing the donations of Bhoodan-Gramdan under the purview of law and by offering special incentives for Gramdan villages. However, it is doubtful whether either the voluntary organizations which sponsor and carry forward this line of rural reconstruction or the Governmental policies which are framed to facilitate the spread of the movement,[4] take cognisance of the socio-economic and political problems that have arisen in these villages. This paper attempts to uncover some of these problems. In order to appreciate these problems in their manifold ramifications we have to look for their genesis. Are they endogenic or exogenic to the movement? The evidence that we have indicates that the problems faced by the Gramdan villages are created by the way in which the movement is engineered. We start with an analysis of the nature and types of Gramdan villages to support our hypothesis.

Table 1 attempts to make a comparison of the size of Gramdan villages with other villages in the country. It is clear that the Gramdan village is far smaller in comparison with the typical villages in all States and in certain States like Kerala an average village is 75 times bigger. The questions to be asked at this juncture are: Are Gramdan villages, villages at all? How are they rendered atypical?

Are these Villages?

In order to unfold the problems that are faced by the Gramdan villages and to examine the causes of the atypicality of these villages we propose to subject the gramdan villages in one of the States in India (Rajasthan) to a systematic analysis. Of the 236 Gramdan Villages in Rajasthan 65 have been brought under the Rajasthan Gramdan Act 1960.[5] The near absence of any reliable detailed data regarding the villages which are not brought under the Act compels us to limit our analysis to the 'declared cases'. Only 11 districts have any Gramdan villages (there are 26 districts in Rajasthan) and of these 3 districts do not have any village brought under the Act, while as many as 62 villages are concentrated in 5 districts in the State and hence our discussion will be focussed on these 'Gramdan pockets' and the implications worked out are mainly applicable to them.

It is clear from Table 2 that the size of the Gramdan villages in terms of the area of land, number of households and population stands in sharp contrast to an average village both in the districts and in the State. Let us concentrate on the 65 Gramdan villages brought under the Act.

Table 3A shows that a mere 10.7 per cent villages own more than 1,000

Table 1: Gramdan Villages — All-India Position in 1961

State	Total No of Viilages	No of Gramdan Villages	Average Acreage of Land per Village		Average No of Households Per Village	
			General	Gramdan	General	Gramdan
Andhra	27,084	587	2308.8	49.8	230.9	11.0
Assam	25,702	414	1106.5	62.5	79.5	7.0
Bihar	67,665	85	542.1	144.4	112.9	48.0
Gujarat	18,584	148	2421.8	218	152.1	46.7
Jammu and Kashmir	6,559	N.A.	5095.2	N.A.	81.1	N.A.
Kerala	1,573	403	5920.9	N.A	1591.3	21.0
Madhya Pradesh	70,414	153	1401.9	105.9	79.9	4.3
Madras	14,124	254	2090.3	N.A	380.4	N.A
Maharashtra	35,851	282	1905.8	442.3	154.0	60.6
Mysore	26,377	58	1584.5	128.1	127.9	33.7
Orissa	46,466	1929	733.9	128.0	72.0	16.0
Punjab	21,269	6	1323.0	379.3	129.8	45.3
Rajasthan	23,241	234	2405.5	297.4	97.2	7.0
Uttar Pradesh	112,624	57	576.6	218.2	107.4	21.0
West Bengal	38,454	25	511.8	91.0	128.0	32.2
Delhi	276	Nil	953.6	Nil	178.8	Nil
Himachal Pradesh	10,438	4	581.5	N.A	23.2	N.A
All-India	567,338	4640	1249.1	148.1£	121.5	18.8£

Note: All-India general averages have been worked out on the basis of 1961 Census data and the All-India Gramdan averages have been worked out on the basis of the data supplied by the Secretary ,Akhil Bharat Seva Sarva Sangh, Kashi.

£ Jammu and Kashmir, Madras, Delhi and Himachal Pradesh, excluded for working out the average.
N A—Not Available.

acres of land and the land owned by 38.5 per cent villages is as little as 200 or less acres. Similarly Table 3B shows that only 4.6 per cent of the Gramdan villages have more than 100 households, and as many as 50.8 per cent are constituted of 25 households or less. Again Table 3C reveals that only 6.2 per cent villages have a population over 500 and as many as 33.8 per cent villages have only 100 or less people. Table 4A gives information on types of Gramdan villages. Of the 65 villages 52.3 per cent are exclusively tribal, 6.2 per cent are predominantly so, 18.5 per cent villages are single — caste ones while 7.7 per cent villages are having only two caste groups. However, 15.4 per cent villages have three or more caste groups. It may, therefore, be inferred that Gramdan villages are, socially, less complex.

Table 4B explains how Gramdan villages emerged. While 46.2 per cent villages are brought under the Act without any change in their strucrure and composition, 41.5 per cent villages are but hamlets which have been conferred the status of Gramdan villages and 12.3 per cent villages are new colonies established on common land donated either by Government or by private philanthropists.

Our main interest in the present context as has been indicated at the outset is not to present a typology of the Gramdan villages as such but to work out the implications of their emergence and existence. Generally speaking a typical Rajasthan village has a number of parts attached to the village-core or the central village. The definition of the village for the purposes of the Rajasthan Gramdan Act 1960 was the same as given in the Rajasthan Land Revenue Act 1956. According to this, parts of villages whether called a hamlet, 'thok', 'patti', 'dhani', 'pra', 'fala', 'wada' or otherwise are included in the village and are not considered as separate units. In tribal areas it may be the castes — which inhabit this village-core and the different hamlets are occupied by the Adiwasis or tribals. But such a clear-cut residential clustering of cultural groups is not easily found everywhere[6] However, the village-core may often be inhabited by an erstwhile caste along with the artisan and serving castes while the peasants may form hamlets in proximity to their agricultural fields. In non-jagirdari area it may be an economically dominant caste which usually occupies the village-core. Notwithstanding the territorial separation between the hamlets and the village-core the latter with its temples, shops, panchayat ghars and other common social centres offers sufficient opportunity for the members of the entire village community to interact with considerable frequency. This results in developing a sense of belonging to the village. This social-historical background has been adverseiy affected by the emergence of several Gramdan villages which were bifurcated from the old revenue villages. This in turn has created a number of economic and political problems.

Types of Cases

To facilitate discussion we note the types of cases involved below:

(1) Cases where all the hamlets have been given the status of revenue village separately under the Act and the village-core has remained outside the fold of *Gramdan.*

(2) Cases where some of the hamlets and the village-core have been brought under the Act as new separate revenue villages and the remaining hamlets have been left out.

(3) Cases where only certain hamlets have been brought under the Act and rendered revenue units while the village-core and the remaining hamlets have continued as they were.

(4) Cases where all the hamlets and the village-core have been brought under the Act not as as one unit but as several separate revenue villages.

Voluntary action being the basis of Gramdan the application of coercion has been theoretically ruled out and hence if persons inhabiting certain parts of the revenue village want to be under Gramdan such a desire cannot be ignored and the only way to recognize their desire in the governmental framework is to bring that part under the Act separately. However, even those villages, where all the hamlets and village-core wanted to be under Gramdan, have been bifurcated into different units. The atypicality of the Gramdan villages in terms of size as revealed earlier is the result of conferring the status of full villages to mere hamlets and the bifurcation of villages into a number of new units. The actual number of Gramdan villages is thus larger than the number of revenue units that have opted for Gramdan. In fact many of these are not villages at all. The problems created by this situation are discussed below.

Donation can only be made of privately owned land for, in Rajasthan villages, the pasture land, the culturable waste land, the abadi land, (the village-site) the waste land, etc, are under the common possession of the village, the ownership being vested in the Government. When the different parts or any one of the parts have been assigned the status of a new village the problem of dividing the common land between the new units comes up and it has not yet been possible to work out a formula for effecting this division. A number of boundary disputes between the new villages created by Gramdan have been noted by the author. Thus paradoxically enough the major value, that the land belongs to society (i e a new system of property relations), on which the entire philosophy of Gramdan is being built up itself has received a blow as a consequence of the creation of these new villages which are anxious

Table 2: Gramdan Villages in Rajasthan

Name of the District/State	Average Acreage Per Village		No of Households Per Village		Population Per Villages	
	Gramdan	General	Gramdan	General	Gramdan	General
Chittor	318.5	1201.8	23.4	65.9	126.6	217.2
Nagpur	1016.4	3563.7	26.0	119.6	152.0	679.1
Jaipur	430.9	1253.5	21.8	93.5	121.9	520.5
Dungarpur	434.3	1139.0	46.0	87.3	235.5	472.4
Baswara	524.0	874.0	55.0	57.3	284.3	315.8
All India	511.7	2405.5	40.0	97.2	210.5	523.3

Note: The District-wise analysis is confined to the five districts where there is a high concentration of Gramdan villages. Of the 65 villages brought under the Act 62 are distributed in these districts. While the general averages have been worked out on the basis of the information provided by the Superintendent of Census operations, Rajasthan, the district-wise Gramdan averages have been worked out on the basis of data collected by the author.

to demarcate their respective land boundaries especially in regard to common lands. This poses a major problem as to whether the village can successfully operate in a set-up where the predominant values are contrary to the goals sought by it.

Political Problems

The political problems created by the bifurcation of villages are still more complicated. When a Gramdan village is brought under the Act it is bifurcated from the vikas and nyaya panchayats to which it belongs. The gram sabha president with considerable powers replaces the existing sarpanch and ward panches.[7] A number of villages constitute a vikas panchayat and quite often a few villages under the panchayat or parts of certain big villages are brought under the purview of Gramdan. The sarpanch of the vikas panchayat ceases to have jurisdiction over villages or parts of villages which come within the fold of Gramdan. Such situations have resulted in conflicts between Gram Sabha office-holders and the panchayat personnel, who man the affairs of the non-Gramdan part or parts of the revenue village.

The power in a Gramdan village is vested in gram sabha or village parliament constituted of the entire adult population of the village. The Gramdan village is not directly linked with the vikas panchayats or nyaya panchayats through the mechanisms of election or nomination. But provision has been made in the Act that one representative per thousand persons in the Gramdan villages can be sent to the *panchayat samiti.* This provision presupposes the existence of certain factors like the existence of the requisite population in Gramdan villages in one compact area, the possibility of consensus of opinion amongst the people in different Gramdan villages in regard to sending a representative, etc. As is evident from the data presented above a typical Gramdan village is very small and only a few such villages can have as many as 1,000 persons. It is also unlikely that these villages will be located in a compact or contiguous area and that they will have sufficient communication between them so as to be able to select a representative for the panchayat samiti. The legal provision creates two problems.

(1) The Gramdan representatives may capture a number of seats in a Panchayat Samiti in areas where there are a large number of Gramdan villages thereby converting these villages into 'political power-hives'. For example the Dungarpur panchayat samiti with a population of 62,996 has 31 sarpanches, i e, 1 sarpanch represents 2,032 persons. The Gramdan population of 6000 in the panchayat samiti is, on the other hand, legally entitled to have 6 representatives.

(2) There is the possibility of the Gramdan vllages being reduced into 'political isolates' due to the absence of the requisite size of population in one village or in a compact gramdan area so as to earn representation at the panchayat samiti level. This is the situation in districts like Jaipur, Nagaur, etc.

Both the problems noted above are equally damaging for the *Gramdan* movement. The possibility of securing representation directly at the panchayat samiti level would motivate frustrated village politicians to try their hand at bringing more villages under the Act without necessarily commiting themselves to the ideology of Gramdan movement. On the other hand, the absence of systematic linking of Gramdan villages with the local governmental structure might relegate the economic and social interests of these villages into the background especially in regard to the allocation of resources for developmental purposes.

Let us examine the possibility of getting out of this difficulty. The Gramdan village is not linked with the vikas panchayat or nyava panchayat but can have representation at the *panchayat samiti* level directly provided it fulfils certain qualifications, e g, a minimum of a thousand persons living together. As we have noted, the typical Gramdan village is too small (the average Gramdan village in Rajasthan has a population of 210) to have direct representation at the panchayat samiti level. Even in one panchayat samiti area there may not be enough villages to constitute the requisite population to earn representation in the panchayat samiti. If we assume that there are enough Gramdan villages in a panchayat samiti to secure representation in the Samiti these may not be a compact area and may not, therefore, have sufficient inter-communication to agree upon the choice of a representative. In such a situation representation of Gramdan villages in the vikas panchayats seems to provide the answer. This makes it possible for the Gramdan village or villages to have a representative on the vikas panchayat even when their population is much less than a thousand. Similarly if there are enough representatives of Gramdan villages on the vikas panchayat they can select a representative of theirs for the panchayat samiti. Such an arrangement will probably resolve the present difficulties.

The difficulties faced by the Gramdan villages at the operational level bring us to the general point that any social reconstruction programme if it is to be successful, should operate in a sufficiently big, compact and contiguous area. However, while this is a necessary condition it may be a suffi-

Table 3: Size of Gramdan villages

(A) Size by Area of Land

Land in Acres	No of Villages in the Group	Percentage of Villages in the Size-Group
Upto 100	11	16.9
101—200	14	21.6
201—500	21	32.3
501—1000	12	18.5
1001—3000	6	9.2
3001 & above	1	1.5
	65	100.0

(B) Size by Number of Households

Households	No of Villages in the Group	Percentage of Villages in the Size-Group
Upto 5	3	4.6
6—15	14	21.6
16—25	16	24.6
26—50	17	26.1
51—100	12	18.5
101 & above	3	4.6
	65	100.0

(C) Size by Population

Population	No of Villages In The Group	Percentage of Villages in the Population Size-Group
Upto 50	6	9.2
51—100	16	24.6
101—200	24	36.9
201—500	15	23.0
501—1000	2	3.1
1001 & above	2	3.1
	65	100.0

Note: The data presented in the Tables 3 and 4 were collected by the author.



cient one. Let us examine the meaning of this proposition.

One of the pre-requisites for bringing a village under the Act is that a minimum of 51 per cent of the privately owned land should be donated by the villagers. Generally, this condition laid down in the Act is observed. However, in quite a few cases it is not. The implications of non-observance of this requirement deserve notice. In one of the Gramdan villages in Chittor district, of the 452 acres of land individually owned as much as 292 acres (i e nearly 65 per cent) are owned by persons who do not belong to the village, and these absentee-owners refused to donate their land. This means that only 35 per cent of the land under individual ownership has been donated. The instance of one of the Gramdan villages in Nagaur district is more revealing. While it has 1,547 acres of land under private ownership only 240 acres of land (i e a little over 15 per cent) is owned by the villagers and the rest belongs to outside owners who did not donate their land. Such cases render the working of gram sabhas nearly impossible. The Act gives considerable powers to the gram sabha. These, however, cannot be effectively exercised in cases where a large majority of land owners of the village do not subscribe to Gramdan community life.

Table 4: Types of Gramdan Villages

(A) Classified by Caste

Types	No of Villages	Percentage of Villages in the Group
Unicaste	12	18.5
Bi-caste	5	7.7
Multicaste	10	15.4
Castes and Tribes	4	6.2
Tribe	34	52.3
	65	100.

(B) Classified by Origin

Origin	No of Villages	Percentage of Villages in the Group
Revenue villages brought under the Act as they were	30	46.2
Hamlets conferred the status of villages under the Act	27	41.5
New colonies brought under the Act	8	12.3
	65	100.0

It can be equally difficult when a land-holder in a Gramdan village also owns land in a neighbouring non-Gramdan village. The instance of a land-holder in one of the Gramdan villages in Nagaur District with 6 acres of land inside the village and 120 acres in a neighbouring village is illustrative. While he subscribes to the idea of Gramdan community life by donating the land in the village in which he lives, the land owned by him in the neighbouring villlages which are not in Gramdan is kept under private ownership. The situation can be true on a village level too. The people in one of the Gramdan villages in Jaipur District own 360 acres of land of which 185 acres are (over 51 per cent) in neighbouring villages which are not under Gramdan. Thus even if a village is brought under the fold of Gramdan this is not necessarily effective in transferring the individual ownership of land to the community, under the conditions in which the Gramdan villagers operate today.

Notes

1 As early as in 1947 a revolutionary peasant movement had slowly been forming, led by communist leaders in Telengana. Telengana was the eastern half of the princely State of Hyderabad, comprising 8 districts having an area of 44,000 sq miles, populated mainly by the Telugu-speaking people. Under the Nizam a notoriously semi-feudal agrarian system had been perpetuated and the peasantry was ripe for radical leadership. The communist set in motion an indigenous mass campaign against the landlords and the State autocracy and concentrated mainly in the districts of Nalgonda and Warangal. According to Communist claims a total of 3,000 villages had been sovietized, and one milion acres had been seized by the peasants during riot period. See Gene D Overstreet and Marshall Windmiller, "Communism in India", University of California Press, Barkeley 1959, especially pages 246, 266 — 67 and 300. Communist leaders have been very optimistic about the achievements of the peasant movement in Telengana. For instance G Adhikari in his "Resurgent India", claims that the movement shook for the first time the main bastions of the feudal orders in India to its very foundations" and "blazed the path of Indian people's Democratic Revolution." For an official version of the Communist party of India of the Telengana peasant riot see on "Telengana", Information Document No 7, 1950, (place not given) and "Zamendari — Police Terror in Andhra", (place and date not given).

2 For instance, (1) *Bhoodan Yajna* (in Hindi) started in 1954. Since 1956 *Bhoodan* is being published in English too. Both these publications are weeklies and are edited by Dhirendra Muzumdar. (2) *Gramdan*, started in 1957 and edited by A W Sahasrabudhe and Sachidanand. These publications are exclusively devoted to reporting the progress of the Bhoodan-gramdan movement; but publication like *Sarvodaya* and *Gandhi Marg* too publicise the activities of the movement.

3 The first *Bhoodan* (land-gift) of hundred acres was made on April 18, 1951 to Vinoba Bhave, the initiator of the movement. Later the donations widened out into Gramdan, donation of entire villages. The first Gramdan was made in May 1952 by the villagers of Mangrot in Hamirpur district of Uttar Pradesh.

4 The Akhil Bharat Sarva Seva Sangh, Kashi, works as the co-ordinating agency of the Sarva Seva Sanghs established on a State-wise basis. Several agencies like the Khadi and Village Industries Commission give priority to Gramdan villages in developmental programmes manned by them—for instance, in the establishment of Gram Ekais. In several States legislation encourages the spread of the movement by extending concessions like direct representation at the panchayat samiti level, etc.

5 The Rajasthan Gramdan Act 1960 is referred to as 'the Act' in this paper hereinafter, unless otherwise specified. The salient features of the Act are given below in order to facilitate the discussion that would follow in this paper.

6 See Brij Raj Chauhan, "Residential Concentrations and Caste Groupings in the Rural Setting in *Man in India*, Vol 44, No 2, 1964, pp 175-181.

(1) In order that a village may be brought under the Act the land donations should consti-

tute not less than 51 per cent of the total land under private ownership in that village.

(2) The number of persons who donate this 51 per cent of land should not be less than 80 per cent of the total number of persons owning land and residing in the village.

(3) The donors should not be less than 75 per cent of the adult persons residing in the village and should be prepared to participate in the Gramdan Community.

(4) Once the donations are confirmed by law the ownership of these land will vest in the gram sabha established for that Gramdan village. The ownership of all common lands in the village shall also be vest in the gram sabha.

(5) The gram sabha shall be responsible for the payment of land revenue and other cesses on the entire land in the village, including land under private ownership of non-donors. Non-donors in the village are to pay the cess and taxes to the gram sabha.

(6) The gram sabha shall consist of all adult persons who either are residents of the Gramdan village or own lands in it.

(7) The gram sabha shall be a body corporate having perpetual succession and a common seal with power to enter into contracts and to acquire, hold, administer and dispose of property, both movable and immovable.

(8) When the gram sabha is established in a Gramdan village it shall exercise such powers and discharge such duties and functions as done by the panchayat so far.

(9) The gram sabha shall have powers to borrow moneys on the security of Gram Nidhi (a fund raised through donations, bequests, gifts or loans from the central or the State Government or any local authority or any person) or any other property not being lands vested in the Gram Sabha.

[7] It is pertinent to note here the differences between the gram sabha under the panchayati raj set-up and the gramdan set-up. Under the former the gram sabha is convened only twice a year to be appraised of the activities of the panchayat. The gram sabha in a gramdan village is a very powerful body consisting of the entire adult population and combines in itself the powers of both the vikas panchayat and the nyaya panchayat and is convened at least once in a month.



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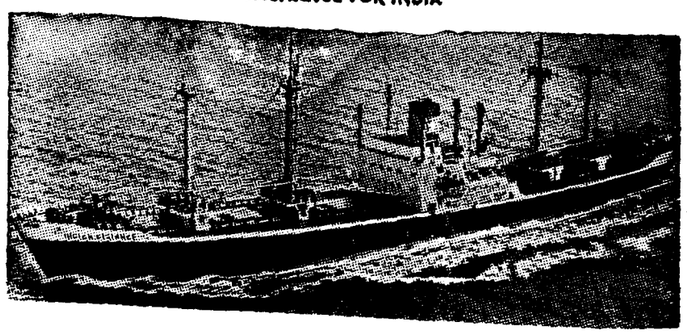
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FROM THE CHAIR

Alembic Chemical Works Company Ltd, Baroda

Speech of the Chairman, Shri R B Amin

THE following is the text of the speech of Shri R. B. Amin, Chairman, Alembic Chemical Works Company Limited, Baroda, at the 58th Annual General Meeting of the Company held on June 17, 1965 :

Ladies & Gentlemen,

I have great pleasure in welcoming you to the 58th Annual General Meeting of the Company. The Accounts for the year ended 31st December, 1964 and the Directors' Report have been circulated to you, and with your permission, I shall take them as read.

It may be recalled that during the last three years the Company had undertaken and completed various schemes of expansion. The more important amongst these were : the expansion of the Penicillin Plant, the Sulphuric Acid and Fertilizers Plants and the Distillery. I am glad to say that these expansions have contributed to the very satisfactory working results of the year under review.

The increase in the sales achieved in the year 1964, and expected in the current year, might make it necessary to undertake further expansion in the capacities of the Yeast Plant and the Fertilizers Plant. The use of better strain in the manufacture of Penicillin has improved its yield and with the expected higher yields we would be able to meet the continuously rising demand.

Some of the products of the new Hompro Division, like Rubex Ointment and Nasal Drops were introduced in the market in the current year. Tooth Paste and Shaving Cream will be in the market soon.

I had mentioned to you, when we met last, our intention to undertake the manufacture of two Antibiotics viz. Erythromycin and Kanamycin. We have secured the collaboration of reputed manufacturers of these products. It has, however, not been possible to get Government approval yet. It appears, Government was undecided about whether the manufacture of these and other new Antibiotics should be reserved for the Public Sector. There can be no discremination between the two sectors of our economy and there need not be any conflict between them also. Any manufacturing unit which has an immediate plan for the manufacture of a product, which it is desirable to manufacture in the country, should be allowed to do so. It would not be in the national interest to sell it on the ground that the public sector might like to undertake it at a later date.

A Letter of Intent for the manufacture of Hydroxocobalamin has been granted to us and the terms of collaboration are being negotiated with the Foreign Collaborators and the Government of India. We expect that the necessary industrial licence will be issued to us soon.

Availability of finance and the continuity of good management are perhaps the two most important requirements for the growth of Industry. They are more so in the conditions of India to-day when the country is striving for a rapid industrialisation. It is, therefore, unfortunate that measures are being taken by Government which tend to affect these adversely.

It may be necessary to take steps to discourage or restrict the flow of funds to unproductive or speculative purposes. But a blanket ban, like the one the Reserve Bank has placed, on the utilisation of the funds returned during the slack season would starve the Industry of the funds which they need and to which they look forward in this season.

The credit squeeze and the resultant high interest rate would make investment in shares and debentures less attractive and force a further recession in their prices. What is most necessary to be done is that wasteful and unproductive expenditure, both in Government and in the public sector undertakings must be stopped because that contributes to inflation. Any restrictions on the funds needed for Industry can only affect production adversely with the resultant pressure on prices.

In our country the traditional form of Management of joint—stock organisations has been the Managing Agency system. Managing Agents have pioneered many industries and have provided the necessary entrepreneurship and financial resources. They have also provided a firm and stable management. The Managing Agency system offers most of the advantages of group management under which comprehensive services are rendered to companies under their management, and in this respect may be said to have anticipated the recent trend in industrially advanced countries of a single company providing technical, managerial and expert personnel services to several companies in which it has a financial interest.

It is wrong to think that the institution of Managing Agency has outlived its useful purpose. Entrepreneurship is not restricted to the initial stages of the history of a concern. The need to be alert and inventive remains vital throughout. There are the almost never ending problems of expansion, innovation and replacements. In as much as, therefore, entrepreneurship persists at all stages of a concern, the need for a continuation of the management is clearly indicated. By providing risk and other capital to managed companies, both from their own resources and by attracting savings of others, the Managing Agents continue to help in the expansion of existing enterprises also.

If the institution of the Managing Agency has proved to be very useful in the past and is thus necessary for the present, it would not be wise to end it in the existing state of our economy. It has been mended several times in the past and the powers assumed by the Government under the existing provisions of the Company legislation are more than sufficient to prevent any mismanagement by a Managing Agency. There is no particular merit or advantage on the insistance of management of companies by Board of Directors alone. The form of management of a particular joint—stock company is a question of suitability and convenience to be decided by the shareholders of that Company. The Government can, and does, act as a reviewing authority and can prevent wrong people from taking over the management by unfair means. But a honest and competent Managing Agency House should be allowed to continue. That would be in the interest of the Company and of the rapid industrialisation of the country.

In a planned economy, it may be necessary to fix some priorities; it might also call for some amount of

control by Government. But these should be broad and general, and planning and control should not degenerate into a bureaucracy. That all things must be decided in accordance with the wishes of those that are most affected by it is a rule that must be allowed to operate subject only to the overall interest of the nation. But otherwise, there must be no restrictions and fetters on the initiative and the will of individuals and organisations. Only thus can institutions and nations make progress.

Before I conclude, I wish to thank all my colleagues on the Board as well as the Managing Agents, Staff and the Workers of the Company for their co-operation. I now commend the Annual Accounts and Directors' Report for your consideration.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

AROUND BOMBAY MARKETS

Dalal Street Forges Ahead

Wednesday, Morning

DALAL STREET did not pause for long to 'digest' the gains already made. It took a big leap forward last week and pushed its way into new high ground. Equities recorded impressive gains all-round. Rayons, Steels, Engineerings, Shippings and Dyes and Chemicals—all these vied with one another to steal the show. There was a marked improvement in turnover. Though activity continued to be mainly professional, interest broadened appreciably and quite a number of cash scrips received good attention and scored handsome gains.

In a matter of days Century improved from Rs 535 to Rs 552, National Rayon from Rs 388 to Rs 409, Tata Steel from Rs 153.75 to Rs 160, Tata Locomotive from Rs 233 to Rs 249.50, Scindia from Rs 14.24 to Rs 14.80, Indian Dyestuff from Rs 192 to Rs 208, Tata Chemicals from Rs 19 to Rs 19.56, SLM—Maneklal from Rs 116 to Rs 130.50, Tractors and Bulldozers from Rs 134 to Rs 157.50 and Baroda Rayon from Rs 67 to Rs 79—to mention some of the more important names.

Market psychology had for some time been veering round to the constructive side. Sentiment earlier in the week was aided by the absence of any adverse political news and the announcement of the British and U S loans for Rs 6.6 crores and Rs 92.3 crores respectively. But the spurt in prices which occured mostly after the turn of the settlement on June 18 was caused essentially by the marked decline in the carry-forward charges in certain popular counters, reflecting serious shortage of floating stocks resulting from the massive purchases by the Life Insurance Corporation over the past several weeks. Despite the closure of transfer books, the carry-forward charges in Tata Locomotive were on the low side and the 'budli' actually turned against the sellers in the case of Tata Steel — an extraordinary situation, never noticed in this scrip for years.

The manner in which the stock market made its upward thrust after the turn of the settlement suggested that it had simply been waiting for an opportunity which was provided by the low carry-forward charges. In its constructive mood, the market took very little notice of the higher rates of interest offered on the two new loans, which, of course, merely reflect the existing money market pattern. Sentiment was considerably helped by renewed optimism about an early agreement on cease-fire in Kutch and the restoration of the 16 per cent power cut enforced during the second week of June. Reports suggesting a big World Bank loan for maintenance imports during the current year had also a steadying effect on the market.

The market has changed and it does not seem to be simply due to the magic of fluctuations—trading sentiment steadies up with the rise in prices which in turn causes a further rise in prices. Apart from technical factors, the turn in market sentiment is attributable to improved prospects of a negotiated settlement of the Kutch border dispute. Improvement in the political situation can have a significant impact on the general market psychology. But since any further big rise is likely to focus attention on the yield on equities, the market will find it difficult to sustain an upward trend for long. Credit squeeze is unlikely to be relaxed and interest rates are not expected to come down in the foreseeable future. Production costs continue to rise and with the foreign exchange position being what it is, import policy will continue to be extremely restrictive and it might well adversely affect industrial production. The economic prospect is not conducive to the revival of investors' confidence without which the current recovery cannot be transformed into a major upward movement. Dalal Street's recent behaviour, however, holds out the hope that the current recovery phase will be extended further.

COTTON

Premiums Harden Further

COTTON prices have been quoted well above the statutory ceilings for quite some time. The premiums continued to harden week by week but the authorities seem altogether unconcerned about it. If price control is to make any sense, those who contravene the control order must be punished severely and the authorities entrusted with administering price control must also be made to explain their conduct (misconduct will perhaps be more appropriate). Market men reported fairly good demand for cotton used for coarser counts and the prices of Kalagin and Wagad rose by about Rs 25 to Rs 50 per candy last week. Strangely enough, mills which seem to be greatly worried over the accumulation of stocks of both cloth and yarn and the consequent financial strain, have not raised any cry against soaring cotton prices. The Indian Cotton Mills' Federation does not talk any more of self-discipline in respect of cotton purchases. This is perhaps because the Federation feels that any such talk is likely to displease the State Government (or Governments) which does not really pay in the long run.

June is nearing end but the Government of India has still to make up its mind on the cotton policy for the 1965-66 season. The policy announcement does not really count for much. There is hardly any evidence to show that sowings of cotton are in any way guided by the Government's price policy; nor has the price policy any important bearing on the marketing of the produce because business is transacted freely above the statutory ceilings whenever the demand and supply equation pushes prices beyond the ceilings. It is perhaps time that the Government of India gave up all pretence of controlling prices if it does not have the willingness and/or administrative ability to enforce strictly the price control order. Partial control over cloth prices is not a sufficient cause for maintaining control over cotton prices—control which in any case is reduced to a farce almost every year.

Market men do not seem happy with the progress of the monsoon. It if of course a little too premature to feel uneasy because of insufficient rains. Only if the cotton producing areas do not get enough rains in the next fortnight or so will there be some cause for worry. Of course, it will need ideal weather conditions throughout the season to have a crop which will be large enough to meet the cotton textile industry's growing requirements at reasonable prices. The prospects of securing large quantities of cotton from abroad every year being none-too-promising, the gap between demand and supply will need to be bridged through larger use of man-made fibres. The Government has done well to allow an excise duty refund of 50 paise per kilogram of staple fibre that the mills will be using for blending it with cotton. This will make blending of staple fibre with cotton profitable to the mills.

There is very little to mention about futures trading in cotton during the week. The August contract fluctuated between Rs 776 and Rs 777.50 per 3 quintals and the total turnover put through the week did not perhaps exceed a thousand bales. The penal margin of Rs 10,000 per 100 bales has brought futures trading to a standstill. Except those who live on fluctuations, nobody need feel really sorry for the virtual closure of the futures market. But the Forward Markets Commission need take no credit for having enforced any kind of discipline on the futures market.

OILSEEDS

Still Firm

THE oilseeds market displayed very little of its previous week's excitement caused essentially by strong bull manipulation in the maturing contracts in castor as well as linseed. While the June contract continued distinctly firm without much business, the distant contracts gradually drifted lower due to lack of fresh support and scattered bear pressure induced by ideas of monsoon. Castor September eased from Rs 81.50 to Rs 80.65 and linseed September moved down from Rs 101.55 to Rs 100.25 (both per quintal). Cottonseed September hovered around Rs 53.50 with nominal turnover.

Conditions in the spot market were not very different. The turnover was restricted and prices generally displayed a firm tendency, with sentiment guided mainly by the remarkable strength in mustard oil and linseed oil; linseed oil has simply been following the trend in mustard oil. Mustard oil prices have been moving up because of the large-scale smuggling into East Pakistan where this oil is reported to be quoted around Rs 5,000 to Rs 5,500 per tonne. In Calcutta, mustard oil is being sold around Rs 3,300 per tonne. The sustained demand for linseed oil, which is currently quoted around Rs 2100 per tonne, is mainly for the purpose of mixing it with the high-priced mustard oil. Groundnut oil ready has been steady between Rs 24.30 and Rs 25 (per 10 kgs) for the past several weeks. Castor oil also has been steady around Rs 16.85 to Rs 17 per 10 kgs.

The trend of oilseeds and oil prices in the near future is likely to be governed mainly by the progress of the monsoon. Reports from the groundnut producing area indicate insufficient rains so far with the result that sowings have already been delayed by ten days or so. Weather in the next fortnight or so will be crucial for sowing operations. Since we have had reasonably good weather over the past three years, the country will need to have real luck to have favourable weather this year as well. Considering that prices have continued to remain very high despite fairly good harvests in recent years, the prospect of bad weather is frightening.

Export houses did not report any important business last week. Russia was said to have purchased about 1,500 tons of castor oil recently. Fresh business in groundnut extractions and cottonseed cake was limited. Reports from New Delhi indicate the possibility of the export trade in groundnut extractions being taken up by the State Trading Corporation in

GOVERNMENT OF INDIA

4½ PER CENT LOAN 1971

ISSUE PRICE RS 99.50 PER RS 100 (NOMINAL) REDEEMABLE AT PAR ON 1ST OF JULY 1971

5½ PER CENT LOAN 1990

ISSUE PRICE RS 100.00 PER RS 100 (NOMINAL) REDEEMABLE AT PAR ON 1ST OF JULY 1990

Subscriptions to the above 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 National Plan Bonds—Second Series (3½ per cent 1965) which will be accepted for conversion at par.

Interest on the securities tendered for conversion will be paid upto and inclusive of 30th June 1965.

The new loans will bear interest from the 1st of July 1965. Interest will be paid half-yearly on the 1st of January and 1st of July and will be subject to tax under the Income-tax Act, 1961.

Subscription lists will open on the 1st of July 1965 and close on 3rd of July 1965 or earlier without notice.

Applications for the new loans will be received at:—

(a) Offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), 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.

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

the not-to-distant future. It is said that all export sales have to be routed through the Corporation. This step is perhaps designed to check the leakage of foreign exchange through under-invoicing. While there is a great deal to be said in favour of canalisation of exports through centralised agencies, the country's interest will be better served only if the agency conducting export business is both honest and efficient. Export of groundnut extractions is a specialised trade and since it is already earning large amounts of valuable foreign exchange—about Rs 35 crores—the Government will be well advised to consider the matter carefully before taking a final decision on it. India's difficult foreign exchange position does not permit taking of big risks.

Money and Banking

Thursday Morning:

CREDIT conditions in the Bombay short-term money market were fairly comfortable during the week to June 23. Demands for funds was maintained around the previous week's level and the inflow of funds, though slow, was higher. Interest rates during the earlier part of the week to June 18 were maintained at between 7.75 per cent and 7.50 per cent. Later a declining trend was evident and on Wednesday evening the rate stood at 6.75 per cent. Marketmen, however, feel that this is a passing phase and that the rates would firm up again when the government loans enter the market on July 1.

Scheduled bank returns for the week to June 11 show that the return flow of credit into the banking system has been distinctly slow this year. There was a substantial increase in the volume of advances from Rs 1757.80 crores to Rs 1774.31 crores, the outcome of a marked expansion in loans, cash credits and overdrafts. Credit expansion during the week was placed at about Rs 1.35 crores taking total credit at the end of the week to Rs 2094.59 crores. This was accompanied by an increase in borrowings from the Reserve Bank by Rs 1.36 crores to Rs 107.75 crores. Aggregate deposits were higher by Rs 9.38 crores at Rs 2670.17 crores; the rise was Rs 9.30 crores to Rs 1422.54 crores in time deposits and Rs 8 lakhs to Rs 1247.36 crores in demand deposits. Money at call and short notice advanced to Rs 50.53 crores against Rs 47.89 crores at the end of the previous week. Cash with the banks rose modestly by Rs 46 lakhs while balances held with the Reserve Bank increased by Rs 1.88 crores to Rs 93.68 crores. Investment in government securities was placed at Rs 722.90 crores against Rs 721.85 crores during the previous week.

During the week to June 18 a substantial increase was recorded in balances held abroad from Rs 2.67 to Rs 9.47 crores, according to the Statement of Affairs of the Reserve Bank of India. Foreign securities, however, remained stagnant at Rs 70 crores. Notes in circulation were lower by Rs 28 crores at Rs 2,706.40 crores. Central government deposits declined by Rs 52.99 crores while deposits of State governments recorded a modest increase of Rs 63 lakhs. Scheduled bank deposits were higher by Rs 3.33 crores at Rs 98.28 crores. There was also an increase of Rs 40.78 crores in investments at Rs 199.25 crores.

BUSINESS NOTES

Textile Machinery Corporation

IN the next few months the Textile Machinery Corporation intends to deliver to the market most modern textile machines with a number of new features. Besides the regular machines, the manufacture of high quality ring frames in collaboration with Zinser Textilmaschinen of West Germany is proceeding according to schedule, and these machines are expected to be put on the market in the first quarter of the next year. The company has received an industrial licence to expand installed capacity of textile machinery, and the expansion programme is progressing satisfactorily. In the machine tool division the company has already achieved 75 per cent indigenous content, and almost all major parts of the machine are expected to be made indigenously by the end of this year. The project for the manufacture of No 7 combination turret lathes has, however, not made satisfactory progress because of difficulty in getting foreign exchange. The expansion of the steel foundry from the existing capacity of 3,600 tons to 9,600 tones is proceeding well, and production is expected to begin before the end of the year.

The 1964 results of the company reflect the cumulative effect of occasional labour troubles, difficulties in the procurement of certain raw materials and components and a large increase in wages due to enhancement of dearness allowance. The increase of ten per cent in customs duty has also added to the cost of production, and its effect will be felt after the stock of previous supplies has been exhausted. During the year to December last, sales were slightly lower at Rs 11.62 crores (Rs 11.85 crores) and gross profit a little higher at Rs 2.37 crores (Rs 2.31 crores). After setting aside Rs 29.71 lakhs (Rs 26.29 lakhs) for depreciation, Rs 119.60 lakhs (Rs 123.75 lakhs) for taxation and Rs 5.40 lakhs (Rs 4.87 lakhs) for development rebate reserve, Rs 45 lakhs (Rs 42 lakhs) have been allocated to general reserve. Preferential dividends require Rs 11.36 lakhs (same), and the equity dividend raised by 25 P to Rs 1.75 a share demands Rs 26.25 lakhs (Rs 22.50 lakhs). The dividends are amply protected by earnings.

Simtools

SCOTTISH Indian Machine Tools, a new company promoted jointly by Scottish Machine Tool Corporation of Glasgow and Voltas of Bombay for the manufacture of plate and bar working machine tools, is shortly entering the capital market with a public issue of 19,200 equity shares of Rs 100 each. The authorised capital of the company is Rs 1 crore and issued capital Rs 64 lakhs. The paid-up capital is Rs 44.80 lakhs whereof the Glassgow firm, through their wholly-owned subsidiary, Scottish Machine Tool (Overseas), hold Rs 25.60 lakhs and Voltas, together with their associates and friends, Rs 19.20 lakhs. The balance of Rs 19.20 lakhs will be offered for public subscription at par.

The company will manufacture at its factory at Thana, near Bombay, guillotine shears, plate bending rolls, single ended punching machines, punching shear and bar cropping machines, power presses, press brakes and beam bending machines of heavier types. The construction of the factory is nearing completion. The bulk of the plant and machinery is already at the site, and is being erected. The capital outlay on the project is estimated at Rs 1.05 crores of which Rs 64 lakhs will be met by share capital, Rs 26 lakhs by term loan from I F C and Rs 15 lakhs by bank borrowings. Voltas will be appointed sole distributor for the products to be manufactured by the company.

Travancore Rayon

THE heavy burden of excise duty on rayon yarn and the consequent dull market conditions in the last five months of 1964 are reflected in the year's working results of Travancore Rayon. The company's production of rayon and cellulose film has been satisfactory though owing to accumulation of stocks, production in the rayon division had to be stopped for over 1½ months by announcing a lay-off. Production of rayon grade pulp from cotton linters reached the rated capacity of ten tonnes a day. Installation of the six tube spinning machines in the rayon division has been completed; four went into production in the latter half of 1964 and two early in 1965. The quality of yarn from these machines has been found quite satisfactory. Erection of a steam raising boiler at an estimated cost of Rs 15 lakhs is expected to be completed by the end of this year or early next year.

The company's sales during 1964 increased from Rs 3.43 crores to Rs 4.06 crores but profits were only a shade better at Rs 58.46 lakhs compared to previous year's Rs 58.06 lakhs, reflecting contraction in margins. Of the profit, depreciation charge has taken up Rs 42.40 lakhs (Rs 32.20 lakhs) and development rebate reserve Rs 6.05 lakhs (Rs 8.50 lakhs). There is no tax liability for which Rs 4.60 lakhs were provided last year. After taking credit for Rs 0.72 lakh, being refund of income-tax, Rs 3.91 lakhs written back from previous years' provisions for taxation and transfer of Rs 1 lakh from dividend equalisation reserve, provision is made for payment of unchanged dividends on preference and ordinary shares, together requiring Rs 15.75 lakhs.

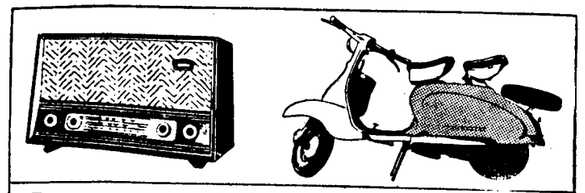
Elphinstone Mills

SPEAKING to shareholders of Elphinstone Spinning and Weaving Mills at their annual general meeting in Bombay recently, N K Jalan, Chairman, once again, as invariably year after year in the past, expressed his anxiety over the ever-rising costs of cotton textile industry. He apprehended that in the background of unceasing and relentless increases all round in the shape of continuously mounting cost of wages, social benefits and fringe benefit to workers, increasing prices of cotton fresh levies like the Bombay Municipal octroi, the proposed exorbitant and stores, chemical and colours, rates of inspection fees made payable compulsorily by mills on all cloth produced by them with effect from March last might only prove the last straw on the camel's back. Jalan complained that the textile industry was being treated like the proverbial milch cow and if the powers-that-be did not take the remedial measures in time, they would soon kill the goose that laid the golden eggs. He said that the absence of any provision for more flexibility in the fixation of cotton cloth prices had been a great deterrent factor. If no latitude was allowed to the cotton textile industry to make adjustment in prices of controlled cloth to cover the rising cost of production and raw materials, it was bound to have great adverse effect on the production of all cotton mills.

Lufthansa

Net profits of Lufthansa have increased during 1964 to 9.2 million U S dollars according to a press note issued by the company. The profit will be used as follows: 8.2 million dollars have been alloted to various reserves, 0.75 million dollars have been set aside as special reserves; and the pilots' training school at Brehmen is to receive .25 million dollars.

The encouraging results produced by the company during the last year were largely due to reduction in operation costs and increase in overall load factor from 57 to 61 per cent in 1964.



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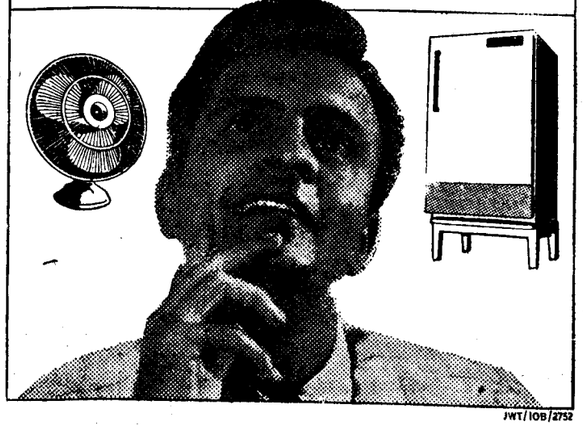
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Production and Stocks

INDEX OF INDUSTRIAL PRODUCTION

Base: 1956=100

GENERAL INDEX	Jan '65	Dec '64	Nov '64	Jan '64
Seasonally adjusted	**185.9**	**184.5**	**182.3**	**175.5**
Crude	**188.5**	**191.9**	**178.5**	**177.9**
Mining and quarrying	177.7	180.4	152.0	182.5
Coal	167.4	170.1	151.3	173.2
Manufacturing industries	184.2	187.6	175.1	172.8
Food manufacturing	157.2	156.5	164.7	156.4
Wheat flour	353.8	353.6	352.5	339.1
Sugar	373.0	330.0	176.8	370.0
Tea	21.7	50.3	163.2	19.5
Salt	45.1	25.1	34.6	48.0
Cigarettes	211.9	211.1	188.1	178.8
Textiles	133.6	137.1	125.1	128.8
Cotton textiles	129.0	134.3	120.4	124.3
Mill sector	97.5	99.3	188.9	196.1
Decentralised sector	192.8	207.2	185.6	184.2
Woollen textiles	120.6	120.6	119.3	142.4
Silk and synthetic textiles	202.9	202.9	192.9	117.6
Jute textiles	126.2	124.0	117.3	115.9
Made-up textile goods	243.3	155.4	125.0	158.3
Wood and cork	211.4	242.6	219.5	214.2
Paper and paper products	249.7	249.7	229.4	240.0
Leather and fur products	141.7	158.7	139.7	131.7
Rubber products	218.7	236.0	207.6	190.0
Chemicals and chemical products	240.4	248.6	221.7	258.0
Basic industrial chemicals	387.2	400.5	342.6	511.0
Heavy organic chemicals	472.5	497.3	337.1	409.2
Heavy inorganic chemicals	415.1	424.3	389.7	646.6
Synthetic resins and plastics	633.4	196.0	162.0	129.1
Dyestuffs	182.5	196.0	162.0	129.1
Fertilisers	265.9	270.5	255.7	226.5
Paints, varnishes and lacquer	181.2	189.1	186.3	164.3
Soap	150.0	147.3	130.5	156.7
Matches	136.8	145.4	130.0	92.9
Petroleum products	219.8	235.3	218.9	209.9
Non-metallic mineral products	238.8	235.3	218.9	209.0
Structural clay products	268.5	234.3	206.3	215.2
Glass and glass products	188.5	194.0	177.6	178.2
Pottery, china and earthenware	331.4	288.2	261.2	281.7
Cement,	206.3	214.5	202.9	189.3
Basic metal	284.9	287.8	272.2	270.4
Iron and steel	297.0	301.8	283.0	282.3
Pig iron	365.0	371.7	355.6	351.2
Finished steel	337.4	345.2	320.0	319.2
Copper smelting and rolling mill products	83.8	146.1	141.3	126.0
Aluminium	422.6	380.0	391.8	390.4
Brass	243.6	244.9	216.5	220.7
Metal products	245.1	254.2	242.4	201.2
Bolts, nuts, screws, nails, springs, etc	193.1	172.9	163.3	159.3
Hand tools and small tools	607.9	615.5	633.5	428.2
Metal products, n e c	214.2	224.7	210.1	182.3
Machinery, except electrical machines	466.8	500.4	424.1	390.5
Internal combustion engines	471.1	484.9	416.8	410.3
Industrial machinery	520.9	572.4	454.5	444.2
Commercial office and household machines	359.5	370.0	365.1	257.2
Sewing machines	322.5	331.3	288.7	74.1
Electrical machinery	333.5	350.5	301.0	231.3
Power transformers	482.9	466.8	409.0	413.7
Electric motors	417.7	447.2	378.9	301.0
Electric cables and wires	375.6	383.1	330.4	226.3
Batteries	209.6	226.6	210.7	169.5
Electric lamps	282.4	314.0	208.4	281.9
Electric fans	451.8	528.4	421.3	278.4
Radio receivers	330.1	399.2	320.8	220.2
Transport equipment	220.8	204.3	184.1	183.7
Railway wagons	164.0	145.0	138.1	152.9
Motor vehicles	251.5	224.9	202.7	199.4
Motor cycles and scooters	760.2	974.9	883.9	406.1
Bicycles	217.8	260.2	219.6	207.7
Electricity, gas and steam				
Electricity	313.0	318.9	295.1	290.8

STOCKS OF RAW MATERIALS AND MANUFACTURED GOODS

(at or about the end of each year)

Raw Material	Unit	1964	1963	1962	1961
Cotton					
Indian	000 bales	1333	1579	1217	1413
Foreign	000 bales	340	212	242	397
Jute	000 bales	1917	2321	2245	1240
Rubber	000 m Tons	19.11	18.31	16.33	13.36
Coal	000 M Tons				
Pit Head	000 m Tons	5006	4720	3483	3290
With Industries	000 m Tons	3251	4418	2899	2273
Iron Ore	000 m Tons	1404	2089	2516	3378
Manufactured Goods					
Sugar	000 m Tons	658	540	1169	1328
Salt	000 m Tons	2431	1820	1269	1317
Vegetable oil products (Vanaspati)	000 m Tons	6.6	10.9	8.8	8.9
Cotton yarn	m kg	12.4	9.2	10.1	7.4
Cotton piece goods	m Metres	224	186	432	292
Jute hessian cloth	M Metres	122	128	77	52
Jute hessian bags	000 M Tons	38	39	23	16
Jute sacking cloth	m Metres	83	105	104	60
Jute sacking bags	000 m Tons	37	47	47	29
Paper and paper boards	000 m Tons	25.3	25.9	15.8	16.8
Sulphuric acid	000 m Tons	22.8	22.8	24.2	13.8
Caustic soda	000 m Tons	3.8	3.0	3.1	4.2
Super-phosphates	000 m Tons	6.8	11.6	11.6	7.8
Paints and varnishes	000 m Tons	6.3	5.9	4.1	5.6
Matches	000 Cases	47.5	24.6	14.4	3.4
Soaps	000 m Tons	4.0	5.1	5.5	5.6
Sheet glass	000 sq Metres	1427	1116	840	305
Cement	000 m Tons	146	122	148	169
Refractorise	000 m Tons	143	104.3	96.5	115.5
Pig iron	000 m Tons	61	71	54	68
Finished steel	000 m Tons	167	161	187	208
Diesel engines	Nos.	2087	3305	2922	3678
Sewing machines	000 m No	17.7	21.9	5.6	—
Machine tools	000 m No	—	12.6	14.5	11.4
Dry cells	Lakh Nos	62.1	45.4	37.8	46.9
Storage batteries	000 Nos.	29.4	26.6	25.4	24.5
Electric lamps	000 Nos	2257	2175	1570	1303
Electric fans	000 Nos	148.9	153.3	69.9	81.5
Automobiles	Nos	2942	2570	2515	1505
Bicycles	000 Nos	60.0	97.2	71.3	1087

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Source: Central Statistical Organisation, Government of India, New Delhi.

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